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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

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**Respondent Profile**

**1. Personal details**

* Organisation name

*50 character(s) maximum*

Accountancy Europe

* First name

*50 character(s) maximum*

Jona

* Surname

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Basha

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jona@accountancyeurope.eu

* 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

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**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

- 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

> We agree that the ESRS address all the CSRD topics and reporting areas.
>
> However, we regret the missed opportunity to align the structure of the standards with the ISSB standards structure, which uses the TCFD pillars as the core content. It would have also simplified alignment with the ISSB standards and other international initiatives that use the same structure of standards.

## 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
- (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

As per our comments to Q1, we think that it would have been possible to use the four pillars of the TCFD architecture in ESRS. TCFD-based disclosures have been broadly accepted and even mandated in different jurisdictions (e.g. UK, Switzerland, Japan, etc) and was even used as the basis for the architecture for ISSB standards.

We believe it was possible to translate the CSRD topics and reporting areas in the TCFD pillars. For example, items in article 19a of the CSRD could have been considered differently:
- (iv) and (v) of (a) as part of the “governance” pillar rather than separate standalone disclosure requirements
- elements in (b) and (d) could have been included in the “metrics and targets” pillars as disclosures instead of being principles in ESRS 1.

Similarly, the items in c) of article 19b, could have been part of the “governance pillar” rather than in two separate ESRS governance standards.

In addition, TCFD (and ISSB which based their standards on TCFD), equally focus on risks and opportunities as part of the pillar with the same name. We noted that this is less clear and a bit confusing on the ESRS side: ESRS 1 addresses “risks” broadly, but not so much “opportunities”; whereas ESRS 2 requires disclosing the assessment for impacts, risks and opportunities.

A TCFD approach would have saved costs for preparers which may have already adopted the framework either voluntarily or because it was mandated in their jurisdiction. The ISSB as well as the US SEC’s proposed rules on climate disclosures both build on the TCFD. European companies listed in the US and/or that will voluntary adopt ISSB standards will face additional costs due to having to report under ESRS as a different set of standard. Similarly, foreign companies that will need to report under ESRS (which may already be reporting under the ISSB or US SEC) may end up reconsidering their operations in Europe due to the additional reporting burden. This situation does not contribute to strengthening European capital markets.

Last, but not least, a similar structure would have also simplified alignment with the ISSB standards.

**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
- ◉ 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

Whilst there are similarities on disclosure requirements, we note that the different architecture, objectives of disclosure requirements, different terminology and definitions (e.g. enterprise value, reporting entity /boundaries, materiality, quality of information) make it very difficult for the standards to be interoperable.

We regret EFRAG missed this opportunity and did not better recognise the IFRS Sustainability Exposure Drafts proposals developed by the ISSB. The ISSB's work was even recognised by the US SEC's proposed rule on climate-disclosures.

As per our comments to Q1 and Q2, we note that an aligned structure would have improved alignment between these standards, improved resources efficiency and enable interoperability between these 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 - **Su stainable Finance Disclosure Requirements**;
2. the criteria set out in the delegated acts adopted pursuant to Regulation (EU) 2020/852 - **Taxonomy Regulation**;
3. the disclosure requirements applicable to benchmarks administrators in the benchmark statement and in the benchmark methodology and the minimum standards for the construction of EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks in accordance with Commission Delegated Regulations (EU) 2020/1816*8, (EU) 2020/1817 and (EU) 2020/1818 - **Benchmark Regulation**;
4. the disclosures specified in the implementing acts adopted pursuant to Article 434a of Regulation (EU) No 575/2013; **Prudential requirements for Credit Institutions and Investment Firms**;
5. Commission Recommendation 2013/179/EU; **European Commission recommendation on the life cycle environmental performance of products and services**;
6. Directive 2003/87/EC of the European Parliament and of the Council; **GHG allowance Directive**;
7. Regulation (EC) No 1221/2009 of the European Parliament and of the Council; **EMAS regulation**.

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

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

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

No comments provided

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

Accountancy Europe opted for ‘no opinion’ for all our replies on consistency with relevant EU policies and other EU legislation. We believe that such assessment should have been done by the EFRAG PTF-ESRS as part of the due process in developing ESRS, and should be made available to EFRAG SR TEG & SRB. The EFRAG SR TEG and SRB should then ensure that their due process in finalising this set of ESRSs and developing other ESRSs duly considers appropriate EU legislations.
Whilst it is important to understand how stakeholders, who are providing feedback, believe these EU policies and legislation have been addressed, we point out that responsibility and confirmation of this work should not be shifted to them. Respondents may not be the right experts to assess all this, especially considering the limited consultation timing provided.
As noted before, considering and incorporating EU policies and legislation in ESRSs is EFRAG’s job. Feedback from stakeholders should only focus on how this has been done and in any suggestions for improvements- responsibility should in no case be shifted to them.

## 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.

> We believe that the CSRD sustainability topics have been well addressed in this set of standards. However, we reiterate our view that the CSRD topics could have been adapted to a structure that would have better facilitated alignment with international initiatives, such as the ISSB, and jurisdictional requirements such as the US SEC's proposed rules approach as well as other jurisdictions which mandated TCFD disclosures.

**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

> Accountancy Europe suggests that all disclosure requirements should be placed in the main body of the standard. We note that  some disclosures in ESRS addressing SFDR reporting obligations are placed in Application Guidance. For example, PAI-indicators 1-3 in table 2 of the RTS are addressed by AG16a-c DR E2-4, cf. Appendix III to the Cover Note for the consultation.

## Sustainability statements and the links with other parts of corporate reporting

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

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

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

- one separately identifiable part per ESRS in the MR.

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

- prescribes that the undertaking adopts presentation practices that promote cohesiveness between its sustainability reporting and: (a) the information provided in the other parts of the management report, (b) its financial statements (FS), and (c) other sustainability-related regulated information (paragraphs 131 to 134)
- promotes the incorporation of information by reference to other parts of the corporate reporting in order to avoid redundancy (paragraphs 135 and 136)
- organises connectivity with the financial statements by prescribing how to include monetary amounts or other quantitative data points directly presented in the financial statements (paragraphs 137 to 143).

**Q8: Do you agree with the proposed three options?**

- ( ) Yes
- (•) No
- ( ) No opinion

**Q9: would you recommend any other option(s)?**
If so, please describe the proposed alternative option(s)

> Accountancy Europe suggests not limiting the options for the presentation to sustainability statements. The structure of the sustainability statements should allow companies to tell their specific stories and journey on sustainability, including linking with strategy and governance as well as including the policies and metrics addressed by each ESRS. This flexibility in the "paper" reports would be useful, whilst the forthcoming XBRL-structure would provide a fixed structure either ways, ensuring comparability.
> Companies which apply real integrated reporting and have made sustainability an integral part of their strategy would face difficulties in telling their story clearly under the proposed structures.
> Therefore, we suggest another option which would be to report the information requested in a sufficiently identifiable manner in the sustainability statement (part of the management report) and referencing the information reported by means of a reference table, similar to what Global Reporting Initiative allows and requests for. This would improve the flow of disclosures and allow companies to link them and understand the context of these reports. In addition, this option would also allow entities in particular sectors (e.g. financial institutions) to structure information differently than entities in other sectors, in order to focus on the respective industry.

**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
- (•) 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

Accountancy Europe believes that the current proposals on connectivity in ESRS are not sufficient as they currently are limited to referencing and reconciling information and that EFRAG should invest considerably more time into developing this concept.

We particularly believe that ESRS 1 ED should have better addressed the principles of connectivity, which should be an overarching concept in all ESRS standards. This should include guidance and requirements that promote integrated thinking in preparing the sustainability statements: disclosures should not be given in silos or as part of a checklist exercise, but instead they should serve the company's strategy towards transforming its operations.

In addition, ESRS 1 ED only addresses connectivity between the financial statements, which is a very narrow interpretation of connectivity. This should have least been extended to other parts of the management report.

Moreover, we note that there are impacts and dependencies between sustainability topics themselves. For example, the necessary changes needed as a result of climate change could have social impacts. Therefore, there are also areas of connectivity between topic standards that should have been better addressed. This too should have been addressed in ESRS 1 as an overarching concept when applying ESRS.

Lastly, we suggest EFRAG invests more in aligning the connectivity approach with that that will result from the ISSB standards, as well as ensures coordination with the outcome of other projects, such as EFRAG's 'Better Information on Intangibles'.

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

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

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

We understand that paragraph 135 of ESRS 1 ED limits incorporating information by reference only within the management report and does not extend it to financial reporting due to the different levels of assurance initially (i.e. reasonable assurance for financial reporting and initially limited assurance for the sustainability statements).
However, we note that there could be information on financial statements too, which will be available at the same time as the sustainability statement as per the CSRD and will eventually be subject to reasonable assurance as per the CSRD proposals. Therefore, we encourage EFRAG to also allow reference from financial statements, under the condition that the two reports are subject to the same level of assurance and issued at the same time. This would avoid information overload as well as also serve connectivity.

**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

Accountancy Europe notes that the current proposals are very general and do not address the broader issue of connectivity, which should focus more on enabling integrated thinking.
However, focusing only on this requirement, we wonder whether reconciliations are really useful and relevant information.
We believe that more useful information would have been connecting information on financial materiality, boundaries, timeframes between the financial statements and sustainability statements. Both these statements address these elements, but in different scopes. Therefore, we believe that it would have been useful for users to understand the bigger picture, impacts, risks and opportunities shared and build on each of these statements.

# 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

> We appreciate the definition and description of “relevance” – these are the same ideas recognised by the financial reporting community, included in the IFRS Conceptual Framework and in Appendix C of the ISSB S1 ED.
> However, we note that the explanations in paragraphs 26 – 28 of the ESRS 1 ED are different than those in paragraph C4-C7 of the ISSB S1 ED, even though the intention is to mean the same thing.
> We suggest EFRAG and the ISSB collaborate to align to a maximum extent possible on shared concepts. EFRAG would then add elements to the concepts that account for double materiality and broader stakeholders, where necessary.
> For example, we find the wording in paragraphs C4 – C7 of ISSB S1 ED very concise. EFRAG could use those descriptions and:
> - change the users from the ‘primary users’ of the ISSB to ‘users’ which encompass broader stakeholders for ESRS purposes
> - replace “sustainability-related financial information” with “sustainability information”
> - potentially add examples that would also address the “impact” aspect of the double materiality.
>
> In addition, we note that it is important for “relevance” to distinguish between affected stakeholders and users in the ESRS. Pa.28 of ESRS 1 ED states that materiality is an enabling factor of relevance, and that relevance is linked to decision-useful information for stakeholders that are users of sustainability reports. However, we suggest EFRAG clarifies and uses consistently the terms of “users” and “stakeholders” as not all users of sustainability statements are affected stakeholders.
>
> On another note, we understand that ESRS 1 ED does not include “timeliness” as a characteristic of information quality as the times of providing sustainability information would be embedded in the CSRD. Nonetheless, we suggest EFRAG also includes “timeliness” as an enhancing quality of information as this characteristic further enforces “relevance” and helps users make timely decisions. In addition, we believe it is important to comprehensively address all the necessary elements of a “conceptual framework”, including on the characteristic quality of information as these elements underpin standard-setting. It would also provide a necessary characteristic of information quality for companies outside the EU that may want to report under the ESRS. Lastly, a complete set of elements that correspond to a “conceptual framework” would facilitate collaboration with other standard setters when aligning standards.

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

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

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

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

We appreciate the definition and description of “faithful representation” – these are the same ideas recognised by the financial reporting community, included in the IFRS Conceptual Framework and in Appendix C of the ISSB S1 ED.
However, we note that the explanations in paragraphs 29 – 32 of the ESRS 1 ED are different than those in paragraph C9-C15 of the ISSB S1 ED even though the intention is to mean the same thing.
We suggest EFRAG and the ISSB collaborate to align to a maximum extent possible on shared concepts. EFRAG would then add elements to the concepts that account for double materiality and broader stakeholders, where necessary.
For example, we find the wording in paragraphs C9 – C15 of ISSB S1 ED very concise whilst providing useful guidance. EFRAG could use those descriptions and:
- change the users from the ‘primary users’ of the ISSB to ‘users’ which encompass broader stakeholders for ESRS purposes
- replace “sustainability-related financial information” with “sustainability information”
- extend the guidance in pa.C11 to address the “impact” aspect of double materiality.

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

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

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

We appreciate the definition and description of “comparability” – these are the same ideas recognised by the financial reporting community, included in the IFRS Conceptual Framework and in Appendix C of the ISSB S1 ED.
However, we note that the explanations in paragraphs 33 – 34 of the ESRS 1 ED are different than those in paragraph C17-C20 of the ISSB S1 ED even though the intention is to mean the same thing.
Particularly, we found that “consistency” as per paragraph 34 could have been better explained and better linked with the main enhancing quality of “comparability”.
We suggest EFRAG and the ISSB collaborate to align to a maximum extent possible on shared concepts. EFRAG would then add elements to the concepts that account for double materiality and broader stakeholders, where necessary.
For example, we find the wording in paragraphs C17 – C20 of ISSB S1 ED very concise whilst providing useful guidance. EFRAG could use those descriptions and:
- firstly, indicate that the remaining characteristic of information quality are enhancing
- change the users from the ‘primary users’ of the ISSB to ‘users’ which encompass broader stakeholders for ESRS purposes
- replace “sustainability-related financial information” with “sustainability information”
- include guidance on “consistency” as per paragraphs C19-C20, which clarify the relationships between the two concepts.

**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

We appreciate the definition and description of “verifiability” – these are the same ideas recognised by the financial reporting community, included in the IFRS Conceptual Framework and in Appendix C of the ISSB S1 ED.
However, we note that the explanations in paragraphs 35 – 37 of the ESRS 1 ED are different than those in paragraph C21-C24 of the ISSB S1 ED even though the intention is to mean the same thing.
Particularly, we would have welcomed linking “verifiability” with the elements of “faithful representation”, i.e. complete, neutral, accurate, similarly to the ISSB S1 ED, pa.C21. In addition, we note that the broader guidance in the ISSB S1 ED is useful and could have been brough forward by ESRS 1 ED too. For example, the guidance in pa.C22 – C24 of IFRS S1 ED could have adapted to address the broader scope and double materiality of ESRS.
Therefore, we suggest EFRAG and the ISSB collaborate to align to a maximum extent possible on shared concepts. EFRAG would then add elements to the concepts that account for double materiality and broader stakeholders, where necessary.

**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

> We appreciate the definition and description of "understandability" – these are the same ideas recognised by the financial reporting community, included in the IFRS Conceptual Framework and in Appendix C of the ISSB S1 ED.
> However, we suggest EFRAG uses the same wording to a maximum extent possible with the ISSB whilst adding elements that account for double materiality and broader stakeholders.

## 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?**

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

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

We appreciate the definition and guidance in paragraphs 46 – 48 of the ESRS 1 ED and find that it is clear as to what “double materiality” contains. However, we do not think that such guidance on its own fosters the identification of sustainability information that would meet the needs of all stakeholders. Preparers would need to refer to the respective guidance on “impact materiality” and “financial materiality” to understand the components of double materiality. Even there, it is not clear what the starting point for the materiality assessment is.

In addition, we strongly suggest EFRAG to:
- better align the “financial materiality” aspect with materiality as per Appendix C of the ISSB S1 ED,
- clarify that materiality is an entity-specific aspect of “relevance”
- avoid using “material” and “significant” interchangeably as suggested in paragraph 48 of ESRS 1 ED: avoid using any other synonyms for “material” all together.

On another note, we draw attention on paragraph 43 of the ESRS 1 ED where it is noted that materiality reflects, among other, “(iii) the needs for transparency corresponding to the European public good”. Whilst we appreciate that ESRS will primarily focus on the European public good, we suggest EFRAG does not unnecessarily scope this element: transparency benefits the public good overall and we believe that ESRS have the potential to provide that broader benefit.

**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?**

- (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

Accountancy Europe has always supported the 'double materiality' approach, therefore, we welcome the proposed implementation of double materiality contained in ESRS 2. However, we suggest that the materiality assessment be performed at the topic, or sub-topic level rather than at individual impacts of disclosure requirements – this will provide more useful information on the overall impact rather than isolate it at disclosure level.
In addition, we would like to point out the complexity of the prioritisation of negative impacts set out in paragraph 74b(iii)(2) according to severity and likelihood parameters.
Besides, we strongly call on EFRAG to define and clarify the concepts of 'severity' and 'likelihood' in paragraph 50 of the ESRS 1 ED, which are essential notions in the impact materiality assessment.
We believe that preparers would appreciate further clarification of these concepts and how they are interrelated when making materiality judgements.

On another note, we would strongly recommend the ESRSs incorporate the "enterprise value" terminology, explanations and guidance as per the provisions of ISSB S1 ED, particularly when explaining "materiality" from the financial perspective.

We strongly suggest EFRAG improves the implementation guidance for double materiality. Whilst we understand that the EFRAG-PTF ESRS Working Paper on materiality provided guidance for the standard setter, we believe that guidance can also be adapted for preparers. This could be in the form of a "practice statement" on double materiality, similarly to what the IFRS Foundation and IASB have done with "materiality" on the financial aspect. Ideally, it would cover a step-by-step guidance on how to perform the materiality assessment as well as clarify how these concepts should be applied in practice.

## Impact materiality

- A definition of impact materiality is given by ESRS 1 paragraph 49: "a sustainability matter is material from an impact perspective if the undertaking is connected to actual or potential significant impacts on people or the environment over the short, medium or long term. This includes impacts directly caused or contributed to by the undertaking and impacts which are otherwise directly linked to the undertaking's upstream and downstream value chain."
- A description of how to determine impact materiality and implement impact materiality assessment can be found in ESRS 1 *paragraph 51* and is complemented by ESRS 2 *Disclosure Requirement* 2-IRO 1, paragraph 74b(iii), AG 64 and AG 68.

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

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

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

Accountancy Europe appreciates that this definition is based on the GRI standards. However, we strongly suggest aligning language and definitions better with GRI, which is the most recognised global standard that addresses impact materiality.
Particularly, we suggest improving the “direct link” guidance in paragraph 49 and 50 of the ED, which as currently drafted is limited to an entity’s own operations. This is not aligned with the reporting boundaries in ESRS and will not provide useful information on material impacts on specific topics which may result from the supply chain rather than the entity’s own operations.

**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?**

- (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

Whilst we appreciate the guidance in paragraph 51 of ESRS 1 ED, we strongly suggest EFRAG further elaborates and expands on this paragraph in order to help preparers apply its provisions.
We suggest that the materiality assessment be performed at a topic or sub-topic level rather than at individual impacts of disclosure requirements – this will provide more useful information on the overall impact rather than isolate it at disclosure level.

We suggest EFRAG provides definitions (missing in Appendix A) and more guidance on "severity" and its elements: scale, scope and irremediable character, as well as on "likelihood". Providing examples in the application guidance of this standard could also help better understand these elements.

In addition, we suggest EFRAG defines whether "impact" includes positive and negative impacts to people and the environment. As currently worded (e.g. pa51), it may be interpreted as referring to negative impacts only. However, this does not align with paragraph AG64 c-ii in ESRS 2.
When editing this element, EFRAG should always consider the requirements and framing of the CSRD. Should there be a need to amend or add, EFRAG should consider how best to help catalyse the objectives of the European Green Deal.

Furthermore, we strongly suggest "material" and "significant" not be used interchangeably in order to avoid confusion.

Moreover, we strongly suggest EFRAG includes implementation guidance and illustrative examples to help the assessment of impact materiality. Whilst we understand that the EFRAG-PTF ESRS Working Paper on materiality provided guidance for the standard setter, we believe that guidance can also be adapted for preparers. This could be in the form of a "practice statement" on double materiality, similarly to what the IFRS Foundation and IASB have done with "materiality" on the financial aspect. Ideally, it would cover a step-by-step guidance on how to perform the impact materiality assessment as well as clarify how these concepts should be adapted in practice.

Lastly, for clarity purposes, paragraph 51 may be split in 3 subparagraphs which address: (1) actual impacts (2) future impacts, (3) human rights impacts.

## 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?**

- (selected) Not at all
- To a limited extent with strong reservations
- To a large extent with some reservations

- Fully
- No opinion

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

We consider it is a missed opportunity not to align what EFRAG refers to as “financial materiality” and the ISSB refers to as “enterprise value materiality” as we think both standard setters mean to address the same scope when it comes to this element of double materiality.

In order to improve such alignment, we suggest:
- replacing the “financial materiality” terminology with “enterprise value”: this will better address the descriptions of the broader scope than simply the elements of the financial statements as well as the timeframes on assessments. It is our understanding that EFRAG’s intention for “financial materiality" too is to capture what impacts the ability of a company to create and maintain value.
In addition, it will not cause confusion with “financial materiality” as per the financial statements. As it currently stands, ESRS 1 ED has clarified that “financial materiality” of a sustainability matter is not the same as the one for financial statements. However, this still will cause confusion in practice as both the sustainability statements and financial statements are part of the same reporting package and will use the same terminology for different things
- bringing forward the useful provisions developed by the ISSB in its S1 ED, e.g. in paragraphs 5, 17, 57, definition of “enterprise value” and adapt them to include broader stakeholders as users of information.

**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?**

- [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

In addition to our comments in Q22 above relating to the lack of alignment with the IFRS S1 ED developed by the ISSB, we also note that the provisions of paragraphs 54 – 56 use terminology that is not defined in this ESRS, such as "enterprise value", "capitals", "resources", "relationships" "probability and magnitude of financial effects".
In addition, it would be useful to define or refer 'development', 'performance' and 'position', which stem from the CSRD, and how they link to financial materiality and/or enterprise value. This would help preparers understand what users want on 'development' and 'performance' in the context of sustainability reporting. We strongly suggest EFRAG defines all the terminology it uses.

Moreover, we found paragraph 54 confusing, particularly when it refers to "capitals" from other standard setters – without a clear reference to the standard or standard-setter, preparers may end up using different "capitals", which will not enable comparability. We believe that this aspect of materiality should be better linked with "enterprise value" as described by IFRS S1 ED which is easier to understand and apply than the general "value creation" and "capitals" approach.

Lastly, we strongly suggest EFRAG includes illustrative examples to help the assessment of this aspect of double materiality. Ideally, examples could be linked to the ones for "impacts materiality" as this would help in the overall assessment of double materiality.

## (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

Accountancy Europe strongly disagrees with the rebuttable presumption approach as we believe it does not help provide reliable or relevant information. It also raises the following issues:
- undermines the materiality assessment, which should suffice on its own, with no need of an additional layer
- is costly to prepare and document: how will companies support what has been rebutted, if they even can?
- disagreements between preparers, auditors and enforcers on what has been rebutted and why, particularly considering the difficulties in documenting and proving the rebuttable presumption
- risks obscuring information: preparers may altogether avoid using the rebuttable presumptions due to the additional burden and disclose all what is required by ESRS. This will not result in useful information as it will not be supported by a robust materiality judgement
- is not consistent throughout ESRS EDs: e.g., it is not applicable for ESRS 2 but it is for all other ESRS standards.

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

Accountancy Europe believes that the costs and risks of this approach significantly outweigh any benefits.

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

As per our feedback to Q24, Accountancy Europe lists the following disadvantages of the rebuttable presumption:
- undermines the materiality assessment, which should suffice on its own, with no need of an additional layer
- is costly to prepare and document: how will companies support what has been rebutted, if they even can?
- disagreements between preparers, auditors and enforcers on what has been rebutted and why, particularly considering the difficulties in documenting and proving the rebuttable presumption
- risks obscuring information: preparers may altogether avoid using the rebuttable presumptions due to the additional burden and disclose all what is required by ESRS. This will not result in useful information as it will not be supported by a robust materiality judgement

- is not consistent throughout ESRS EDs: e.g., it is not applicable for ESRS 2 but it is for all other ESRS standards.

**Q27: how would you suggest it can be improved?**

We suggest EFRAG not to include the rebuttable presumption in its ESRS. We strongly believe that the rebuttable presumption tries to solve an issue on materiality judgements that would have been best addressed by further clarification and guidance.

As per our feedback to the questions on materiality, we suggest EFRAG includes implementation guidance and illustrative examples to help the assessment of double materiality. Whilst we understand that the EFRAG-PTF ESRS Working Paper on materiality provided guidance for the standard setter, we believe that guidance can also be adapted for preparers. This could be in the form of a "practice statement" on double materiality, similarly to what the IFRS Foundation and IASB have done with "materiality" on the financial aspect. Ideally, it would cover a step-by-step guidance on how to perform the impact materiality assessment as well as clarify how these concepts should be adapted in practice.

## 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

Accountancy Europe understands the need for estimations, particularly due to the challenges in obtaining information over the value chain. We recognise the practical challenges and difficulties to get information over the value chain particularly the downstream value chain. However, we agree that these are necessary and that for sustainability information, approximations will always be needed as exact data may not be available or easy (cost effective) to collect. Therefore, we suggest EFRAG reconsiders the requirement in paragraph 68 of the ED, as we are sceptical that an entity will be able to fully replace such estimations with exact data.

It is necessary to be transparent and disclose the approximations used and the methodology applied in making these approximations. They need to be based on available data and an entity should disclose any level of uncertainties. In addition, should the entity have any plans to move from approximations to actual data, the entity should disclose so (in the spirit of paragraph 68 of the ED, and by editing the requirement to eventually replace approximations).

We strongly call for more guidance (e.g. on the principles, such as using information from scientific studies) on how to make reliable approximations in order not to impair comparability (between entities and in time for the same entity), ensure that the information disclosed is relevant and faithfully represented (particularly considering the high probability of errors in estimations) and does not result in undue costs (e.g, by determining the correct approximations and having enough backup to support this determination).

In addition, we noted that ESRS 1 ED does not define “upstream value chain” and “downstream value chain” – we invite EFRAG to define these terms (equally to other terms in all ESRS) as this would improve clarity.

Finally, we found pa64 of ESRS 1 ED confusing and potentially conflicting with the boundaries determined in pa63. We suggest EFRAG positively defines the reporting boundary (as it has done in pa63) and avoid prescribing within the body of the standard any cases which would contradict these boundaries. Such cases could be included as illustrative guidance in helping to determine the reporting boundary.

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

Accountancy Europe strongly suggests disclosing the approximations used, the methodology applied and the assumptions made in making these approximations. They need to be based on available data and an entity should disclose any level of uncertainties.

**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

Accountancy Europe calls for more guidance and illustrative examples on how to disaggregate information along the reporting boundaries. Particularly, we find paragraph 74 of the ED difficult to apply and would appreciate more guidance in order to end up with relevant information which does not overburden preparers. This would include considerations on the financial reporting definitions and principles (e.g. ‘group’ as per the Accounting Directive), which are also used for the taxonomy disclosures as per the Disclosure Delegated Act to the Taxonomy Regulation.

## Time horizon

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

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

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

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

Please explain why

Accountancy Europe agrees that information about what the company has classified as short-, medium- and long-term is relevant. Therefore, we support providing information on what the entity has classified under each of these timeframes. However, we disagree that it should be the standard setter that fixes these timeframes.

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

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

Please explain why

We do not support the standard-setter determining what the short-, medium- and long-term consist of as these determinations will vary from industry to industry and from which sustainability topics is being tackled.

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

As per above, we suggest the classification of short-, medium- and long-term be left to entities, which should then disclose how these timeframes have been determined.

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

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

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

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

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

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

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

> Accountancy Europe provides the below general comments on having principles in ESRS 1, which pertain to all three principles.
>
> We find it confusing having principles, particularly as they link to reporting areas (where they again come back). Therefore, we strongly suggest EFRAG addresses in the application guidance what is expected out of these principles. If they are intended as an application guidance, we suggest leaving them as such, rather than incorporating them in the main body of the standard. However, if they are intended to be overarching requirements, EFRAG should clarify that.
>
> We also note that these principles stem from GRI guidance and recommendations. We suggest EFRAG clarifies in the Basis for Conclusion the reason why the guidance of one standard setter become requirements in ESRS. This would help stakeholders confirm the relevance of such required information.

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

- ○ Not at all

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

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

Accountancy Europe provides the below general comments on having principles in ESRS 1, which pertain to all three principles.

We find it confusing having principles, particularly as they link to reporting areas (where they again come back). Therefore, we strongly suggest EFRAG addresses in the application guidance what is expected out of these principles. If they are intended as an application guidance, we suggest leaving them as such, rather than incorporating them in the main body of the standard. However, if they are intended to be overarching requirements, EFRAG should clarify that.

We also note that these principles stem from GRI guidance and recommendations. We suggest EFRAG clarifies in the Basis for Conclusion the reason why the guidance of one standard setter become requirements in ESRS. This would help stakeholders confirm the relevance of such required information.

**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
- [ ] 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

Accountancy Europe provides the below general comments on having principles in ESRS 1, which pertain to all three principles.

We find it confusing having principles, particularly as they link to reporting areas (where they again come back). Therefore, we strongly suggest EFRAG addresses in the application guidance what is expected out of these principles. If they are intended as an application guidance, we suggest leaving them as such, rather than incorporating them in the main body of the standard. However, if they are intended to be overarching requirements, EFRAG should clarify that.

We also note that these principles stem from GRI guidance and recommendations. We suggest EFRAG clarifies in the Basis for Conclusion the reason why the guidance of one standard setter become requirements in ESRS. This would help stakeholders confirm the relevance of such required information.

On a specific note on disclosure principle 1-3, we noted that pa103 – pa106 sometimes refer to “key” actions. This reads as another layer of judgement and may cause confusion between what actions are “key” and what actions are material to understanding the entity’s objectives and policies in managing impacts,

risks and opportunities.
Therefore, we invite EFRAG to clarify this element and potentially refrain from adding on another layer of judgement.

## 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)**

N/A

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

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

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

## ESRS 1 – General Principles

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

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

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

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

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

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

> Accountancy Europe notes that the different structure and architecture, terminology and definitions (e.g. enterprise value, reporting entity/boundaries, materiality, quality of information) impair alignment between ESRS 1 ED and IFRS S1 ED. In addition, we note that ESRS require significantly more disclosure requirements as well as are considerably more granular.
>
> We believe that using the same definitions (e.g. on characteristics of information quality), using the same terminology (e.g. financial materiality vs enterprise value materiality, or focusing on enterprise value rather than generally on value creation on the financial materiality aspect) would improve alignment between these two sets of standards.

## 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**

Regarding part A, B and G, we agree that the CSRD principles have been considered and that ESRS 2 disclosure requirements provide relevant information. However, as per our detailed response to section 3A, we have reservations about the granularity of some of the requirements which, when adding the Application Guidance requirements, may obscure relevant information, become a compliance exercise and make reporting redundant.
We strongly advise EFRAG to consider the necessary disclosures needed to meet the stated objective for each standard and disclosure requirement, and allow the companies to tell their own stories rather than mandate overly prescriptive disclosure requirements. In addition, we strongly suggest EFRAG transforms the Application Guidance section of ESRS 2 (and all ESRS) into guidance, rather than mandating further and more detailed disclosure requirements. We strongly believe that there is a need for guidance (e.g. on materiality, approximations, process for identifying the views and needs of stakeholders, due diligence), which should be done by transforming the Application Guidance section.
In addition, we think that EFRAG could additionally simplify its standards by merging the DRs related to governance in ESRS G1 ED and G2 ED to this ESRS. Governance is an overarching matter and we believe that all the respective disclosure requirements should be part of the overarching standard ESRS 2, rather than be split in separate standards and sections of the sustainability reports.

Regarding part C, comparability across sectors could be remedied by providing more guidance on how to apply the respective disclosure requirements, including the elements listed above.

Regarding part D and E, preparers will be challenged in providing information that is faithfully represented considering the too granular requirements, missing guidance and need for clarity in terminology, definitions and objectives. As per our feedback in section 3A and 1B, we have strong reservations about the materiality disclosures and call for more guidance to help preparers apply this crucial and overarching concept. Particularly, we do not support the rebuttable presumption in ESRS 1 as we believe it undermines materiality judgements by the company. We note that there will be operational challenges in implementing all the requirements in the first set of ESRSs.

Similarly, for part F, our rating reflects initially the challenges of applying these requirements from companies (including building their processes and procedures around collecting reliable information) which ultimately translate in assurance. For assurance it is important to consider not only the content of the disclosures, but also the underlying processes that support them. We fear that the sheer volume of disclosures may become a checklist exercise, rather than help them in their transformation journey. As a result, we fear that there will be challenges in assurance from both these perspectives.

Regarding part H, we reiterate that ESRS 2 ED disclosure requirements are too granular. Accountancy Europe is concerned about such extensive disclosure obligations, particularly due to the additional requirements in the Application Guidance, as it could prevent undertakings from fully implementing or adopting the ESRS. Some undertakings might be underprepared to comply with said disclosure obligations, as they require significant efforts.

Regarding part J, the requirements are generally aligned with the ISSB requirements. However, we would have appreciated better alignment of terminology, definitions and structure of standards per se, which would have enabled a higher degree of alignment, compatibility and comparability. The ISSB architecture has been widely welcomed by the international community as facilitating global integration due to its TCFD references, which are either already adopted in different jurisdictions or used as a basis in others such as in the US SEC proposed rule.

On a general note, we would like to point out that ESRS 2 ED has an inconsistent structure:
- section “Business card of the undertaking in relation to sustainability reporting” does not have an objective or principle that underpins and links the respective disclosure requirements. This is not the case for the other

sections “strategy and business model”, “governance” and “materiality assessment of sustainability impacts, risk and opportunities”
- whilst we understand that it is the intention that each disclosure requirement has an “objective”, in many cases that paragraph (in bold) actually provides a requirement rather than an objective
- similarly to the above, whilst we understand that it is the intention for every disclosure requirement to have a “principle”, in most cases these paragraphs read as overarching requirements that frame the more descriptive requirements that follow within that same disclosure requirement.

## 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**

We welcome EFRAG’s work and agree that companies of all sizes need to rapidly transform their business models if Europe is to become a climate neutral economy.

A. Nevertheless, we have strong concerns regarding the depth and granularity of the Disclosure Requirements as proposed by EFRAG. These requirements constitute an avalanche of new requirements that would hit stakeholders and in particular reporting entities within a very short timeframe. Even with a staggered transition, we expect these requirements to be challenging to apply by entities that have not been in scope of the Non-Financial Reporting Directive before, but also by companies with significant experience in reporting climate-related information. We acknowledge that tackling climate change is an urgent matter, but there is a risk that companies will put significant efforts into preparing sustainability information that is of no use to users. Too much granularity is likely to undermine the objective of reporting on climate, with a risk of low-quality implementation for the sake of compliance, in particular if limited relevance is attributed to the information for internal or external purposes. It can also decrease its effectiveness as it often obscures key information. We suggest EFRAG focus first on what is reasonably doable in a short timeframe and then expand later. We refer to our cover letter.

B: To ensure relevance and completeness of the reported information, it is important to specify:

- the value chain boundaries: it is not clear how far up and down of their value chain the reporting entities need to report on when assessing their significant sustainability-related risks and opportunities. For

example, when a reporting entity needs to disclose the effects of sustainability-related risks and opportunities relating to its customers' customers and/or its suppliers' suppliers and beyond
• the link between the value chain and the reporting entity's boundary. For example, when a reporting entity needs to consider the value chain of entities it does not control (associates and joint ventures) which would be outside the boundary of the financial reporting entity
• how to proceed when a reporting entity does not have access to all information across its value chain. For example, a reporting entity may not have access to information about customers and suppliers of an associate or joint venture if it does not control that entity from a financial reporting perspective.

E: Guidelines will be needed to help companies present a faithful information from financial perspective with regards to financial effect metrics. The requirements are indeed too generic to ensure faithful presentation.

F: Reporting on upstream and downstream value chain is a significant challenge both in terms of data collection and reliability of these collected data, especially for Scope 3 for which we believe there is a need for more explanation to ensure the same level of quality.

I: The question is very broad and makes it challenging to respond whether this is sufficiently consistent with EU policies and law. We opted for 'no opinion' for all our replies to rate the Disclosure Requirements' consistency with relevant EU policies. We believe that such assessment needs to be done by the EFRAG PTF-ESRS and should be made available to EFRAG TEG & SRB. We do not believe that stakeholders are the right experts to assess this, especially considering the limited consultation timing provided.

J: It is crucial to ensure alignment with international standards. We welcome the CSRD final agreement and refer to paragraph 37 of the Preamble where a clear mandate is provided to duly consider global standards as developed by the International Sustainability Standards Board (ISSB) and reduce the risk of inconsistent reporting requirements to the extent that the content of the ISSB baseline standards is consistent with the EU's legal framework and the objectives of the European Green Deal. We note that certain Disclosure Requirements aim to address EU specific needs, but we strongly believe that such EU specific disclosures should build on top of a global baseline using a building block approach. Electronic tagging requirements will help with the exercise of alignment with international standards.

## 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**

Accountancy Europe has only provided comments to the ESRS E2 in this section of the survey due to timing and resources constraints seen the short deadline of the ESRS consultation.
B. We believe that information concerning the pollution impact of an undertaking is relevant and sector-agnostic, as it is one of the main causes of global warming and environmental degradation.
However, we notice that paragraph 9 can be confusing to preparers as it covers a set of greenhouse gases (i.e., Climate change: carbon dioxide ($CO_2$), methane ($CH_4$), nitrous oxide ($N_2O$), hydrofluorocarbons (HFCs), perfluorocarbons (PCFs), sulphur hexafluoride ($SF_6$) and nitrogen trifluoride ($NF_3$) already covered in ESRS E1. It is not clear whether GHG gasses of the Kyoto protocol are to be covered in ESRS E2. Certain GHG (PCFs, $CH_4$. HFCs) have an impact not only on climate but on pollution. Therefore, we suggest clarifying paragraph 9 with regards to "but are covered" to specify that these pollutants are to be included in the performance indicators monitored for pollution.

C. We note that E2-2 on targets is clearly sector specific (e.g., references to sector regulation like IED, BREF, BAT, E-PRTR) and comparability will be challenged as many companies will not be able to set targets on pollution. Another challenge to sector-agnostic comparability is the fact that companies in different sectors emit different pollution levels. Comparability could be improved if the disclosure requirements were to provide clearer time-horizons when it comes to the targets described in ESRS E2-DR E2-2.

E. We believe that more guidance is needed to faithfully represent the financial effect described in ESRS E2-DR E2-7. In comparison with the thorough description of this same topic in ESRS E1 (DR-15, DR-16, DR-17), it is not clear here what the undertaking is expected to disclose, as only one paragraph on guidance is provided. More guidance would also improve the verifiability of information.

F. We would like to raise a concern on the existing difficulties to provide assurance on information regarding pollution, as this data is not easy to obtain even for large companies. EFRAG should provide further guidance on how to disclose the information required in this Standard. EFRAG should also establish clearer boundaries when reporting on the value chain, as it is one of the most demanding disclosure requirements for an undertaking. In this context, Paragraph 35 of the Exposure Draft (ED) establishes the scope of DR E2-4 regarding the list of pollutants to "operations, products and services all along the value chain and product-life cycle". We believe that such a DR would not be feasible for most undertakings given the efforts required to gather this information, the availability and quality of the information provided by the entities on the value chain. In addition, the approaches are different for dealing with emissions from own operations, the supply chain and the product use phase. EFRAG could require this DR only for own operations, with the other aspects being addressed in other requirements in the standard and through the materiality analysis.

H. although pollution related disclosures are relevant, we acknowledge the difficulty of measuring and disclosing such data. Therefore, we believe that it is necessary to apply a phasing-in when implementing those DRs that require to disclose the most demanding metrics. It could be useful here to apply the same

approach as the Global Reporting Initiative (GRI), where the core DRs are prioritised.
In addition, the Application Guidance further burdens with additional requirements rather than provide guidance. We suggest EFRAG transforms this section in real guidance.

J. We appreciate ESRS E2 is overall aligned with GRI. However, we point out that the DRs in ESRS E2 are more detailed and demanding than those of the GRI. For example, DR E2-3 requires reporting on budget allocation and more detailed information on the actions taken by the undertaking. Another significant difference can be spotted in DR E2-4, where the ESRS require the undertaking to report the amount of pollutants on air, water and soil in a single standard; while in GRI this information falls under separate standards.

I. The question is very broad and makes it challenging to respond. We opted for 'no opinion' as we believe that such assessment needed to be done by the EFRAG PTF-ESRS and should be made available to EFRAG TEG & SRB.

## 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**

Accountancy Europe has only provided comments to the ESRS E3 in this section of the survey due to timing and resources constraints seen the short deadline of the ESRS consultation.

A & B. Even though we believe that water and marine resources are essential topics in sustainability reporting, they are two different subjects and have different levels of reporting maturity. While water constitutes a relevant matter for all undertakings, marine resources may be more sector-specific. Undertakings with no obvious impact or dependencies to marine resources have to make use of the rebuttable presumption in each one of these DRs to prove that they are not material. In addition, the ED does not define “marine resources”, which we believe essential for the materiality assessment process. We suggest EFRAG considers making marine resources-related DRs sector-specific as this approach is more suited for the needs of undertakings and stakeholders. In addition, it would result in more relevant information.

C. Comparability across sectors could be increased if the ED included common methodologies and precise calculation rules for undertakings when reporting on this topic. Currently, companies use different methodologies for the calculation or water consumption, use and value. The harmonisation of methodologies would also better inform the processes within a company to collect and provide this data. We also suggest EFRAG to provide more guidance and examples on DR E3-4 (p.16 AG 24-29) and DR E3-6 (p.17 AG 34-36), as the definitions of the performance indicators are too generic as they stand – this further impairs comparability.

E. We call for more and clearer guidelines, methodologies and examples on the DRs regarding financial effects (D7 E3-7) which would enable undertakings to provide faithful information from the financial perspective (with regards to financial effect metrics).

F. We notice that the operationalisation and as a result the assurance regarding water and marine resources will prove difficult, given the lack of definitions, complexities and lack of a harmonised approach in calculating and measuring such data. We suggest EFRAG to provide more guidance and examples on this ESRS.

H. Our rating stems from the granularity of information in this ESRS, particularly the mandatory nature of the Application Guidance. We encourage EFRAG to allow the late implementation of the most demanding DRs so that undertakings will have more time to gather more reliable information and deliver more relevant and faithfully represented reports.

I. The question is very broad and makes it challenging to respond. We opted for ‘no opinion’ as we believe that such assessment needed to be done by the EFRAG PTF-ESRS and should be made available to EFRAG TEG & SRB

J. We appreciate that ESRS E3 is overall aligned with GRI. However, ESRS E3 contains more detailed and demanding DRs. In this context, DR E3-1 prescribes the areas that the policies set out by the undertaking should cover; DR E3-3 requires reporting on budget allocation; and DR E3-4, regarding water management performance, requires more detailed data.

## 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**

Accountancy Europe has only provided comments to the ESRS E4 in this section of the survey due to timing and resources constraints seen the short deadline of the ESRS consultation.

A & B. We agree that these topics are relevant and sector-agnostic as they are two of the most affected elements by climate change and environmental degradation. However, we point out that currently, no biodiversity scenarios exist and that the Task Force on Nature-related Financial Disclosures (TNFD) framework, will only be finalised in 2023.

C. We point out that until the aforementioned TNFD framework is finalised and provides the reference scenarios for biodiversity (similarly to the TCFD), it will be difficult for undertakings to disclose comparable information, given the complexity of the topic in question.

D & E. Following the same logic as above, faithful representation will only be completely possible with the support of the metrics and indicators that will be provided by the TNFD. Stakeholders agree on the fact that biodiversity is a topic which is still under development. Therefore, we suggest to EFRAG that until this topic is consolidated, the disclosure requirements on this ESRS focus on more qualitative and descriptive aspects. In addition, we call for more guidance (particularly on financial metrics) in the Application Guidance so reporting undertakings have a better understanding of the information to provide.

F & G. We reiterate our views in parts D & E above. In addition, regarding assurance and verifiability, while it is true that certain information can be assured, again the lack of common metrics and methodologies will hamper the degree of comparability on these topics. Clearer provisions and more guidance would also facilitate assurance.

H. We point out that undertakings might have to invest significant resources to meet the requirements without ensuring meaningful results. Undertakings are already on a steep learning curve for climate risk and partially frustrated by the lack of data. Creating requirements for biodiversity similar to climate but without providing infrastructure and Standards creates a motivation risk at the undertaking level. In this context, we consider that undertakings would be more efficient in focusing their efforts in providing qualitative and descriptive information, as this would lead to more relevant information on the first reports. We also suggest a phased-in implementation given the low degree of consolidation of the DRs contained in this ESRS.

I. The question is very broad and makes it challenging to respond. We opted for 'no opinion' as we believe that such assessment needed to be done by the EFRAG PTF-ESRS and should be made available to EFRAG TEG & SRB

J. International alignment is difficult to assess here as this topic does not count on a consolidated content for a global baseline. Both the TNFD framework and the GRI Standard for Biodiversity and Ecosystems are expected in 2023. However, we suggest EFRAG aligns the wording with that of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystems (IPBES, the Science Based Targets Network (SBTN) and the Drivers, Pressures, State, Impacts, Responses Framework (DPSIR).

## 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 | | 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 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**

Accountancy Europe has only provided comments to the ESRS E5 in this section of the survey due to timing and resources constraints seen the short deadline of the ESRS consultation.

B & G. Relevance, understandability and assurance would be improved if some of the DRs included the key technical aspects and the ESRS defined and framed many key terminology. Some examples of the missing key technical aspects are: virgin and non-virgin material inflows on DR E5-4; sustainable opposed to regenerative sources on DR E5-4; depletion of stock of renewable sources on AG 4(c); and intensity of materials and products use on DR E5-7, which could lead to disparities in data reporting and in the interpretation of the expectations. In addition, we suggest EFRAG provides more overall guidance on the DRs.

C. Following the above, disparities in the outcome could decrease comparability. Besides, given the relative novelty of these topics, which are still under development, it is still not possible for undertakings to provide completely accurate information.

D. We notice how some information regarding waste is already provided as part of the Scope 3 of the GHG protocol in ESRS E1. Therefore, we would like to suggest EFRAG to avoid duplication.

F. We agree that assurance can be provided on this topic. However, certain DRs concerning medium- and long-term foresights may be difficult to assure. Resource use and circular economy are goals to be achieved after the undertaking has put in place the necessary strategies and actions for that end.

H. Our concerns focus on paragraph 20 (DR E5-1), as it requires to report on the upstream and downstream value chain. Following the finalisation of the CSRD, this requirement should be phased-in so undertakings have more time to gather the great amount of information required, hence leading to more relevant and accurate reports. We point out that this is a relatively new topic and that first time application will be challenging. Companies that are well advanced in their circular economy journey may find it easier to provide such information than companies that are just starting in such a journey.

I. The question is very broad and makes it challenging to respond. We opted for 'no opinion' as we believe that such assessment needed to be done by the EFRAG PTF-ESRS and should be made available to EFRAG TEG & SRB.

J. We notice how ESRS E5 and the equivalent GRI Standards follow slightly different approaches when reporting on resource use and circular economy. In this context, DR E5-1 requires reporting separately policies regarding economic activity and resources-related policies. In addition, DR E5-2 and DR E5-3 require reporting the geographical scope of the targets and actions set out by the undertaking, while in the GRI Standards said information is optional; DR E5-2 also requires more information on the interaction between targets and material impacts. Another significant difference can be found in DR E5-4, DR E5-6 and DR E5-8, as their DRs require more detailed information on the materials used by the undertaking, how the data on waste has been complied, and specific information on engagement with suppliers, respectively.

## ESRS S1 – Own workforce

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

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

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

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

This draft standard derives from the [Draft] Corporate Sustainability Reporting Directive stating that the sustainability reporting standards shall specify the information that undertakings are to disclose regarding social factors.
This [draft] Standard covers an undertaking's "own workforce", which is understood to include both workers who are in an employment relationship with the undertaking ("employees") and non-employee workers who are either individuals with contracts with the undertaking to supply labour ('self-employed workers') or workers provided by undertakings primarily engaged in 'employment activities' (NACE Code N78). This [draft] Standard does not cover (i) workers in the upstream or downstream undertaking's value chain for whom neither work nor workplace are controlled by the undertaking; or (ii) workers whose work and/or workplace is controlled by the undertaking but are neither employees, nor individual contractors ("self-employed workers"), nor workers provided by undertakings primarily ,engaged in "employment activities" (NACE Code N78); these categories of workers are covered in ESRS S2 Workers in the Value Chain.

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

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

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

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

Part A: We believe ESRS S1 Own Workforce adequately covers the information required by the CSRD proposal apart from 'work-life balance.' The current specific disclosure requirement, DR S1-13, is limited to family leave - a small element of work-life balance. We propose some possible topics for future consideration in our comments on DR S1-13.
Parts B - E: Our view is that the ESRS S1 disclosures overall are of variable quality. Some are fit for purpose; some are inadequate, & others require some clarification. Consequently, their usefulness to stakeholders varies considerably.
We also have issues with using the Application Guidance (AG) (having the same authority as the main body of the draft standard) to mandate additional, very detailed, disclosures by the using the word 'shall'. If disclosures are essential, they should be in the main body of the text, with the AG used for additional explanation, examples, layout formats etc.
The high level of granularity makes ESRS S1 seem like a 'tick the box' exercise. This is particularly the case for DRs that require the disclosure of national legal requirements, such as DRs S1-20, 23 & 24. The huge amount of information that many Multi-National Entities (MNEs) would have to disclose for such requirements could lead them away from properly assessing what is material for them and their stakeholders; just reporting the required, but non-essential, narrative information.
There are instances of inconsistent terminology, definitions, & criteria between different disclosure requirements & between the main body of the draft standard & the AG - some are highlighted in our detailed responses to ESRS S1.
We have issues concerning the definition or boundary of 'own workforce', & of 'employees' & 'non-employees' & with the use of Full-time Equivalent Employees (FTEs). We believe 'headcount' is not comparable with the financial statements & reduces comparability across companies. The use of FTEs should be mandated, with the sole exception of DR S1-11 as headcount is a more appropriate basis for disclosing fatalities.
Part H: In respect of the cost/benefit, as a suite, these disclosures would be very difficult for companies to implement even for their own workforce- more so for their supply chain.
Stable information in respect of targets, action plans and resources should not be included in the annual management report. Changes to policies or legislation should be disclosed in the management report but otherwise companies should disclose only that policies exist & place a deep link direct to the detailed policy in question.
The cost\benefit issue is compounded by the structure of ESRS S1-S4 - currently based around stakeholder groups because EFRAG wishes to emphasise that the focus of 'Social' matters is people. This means that DR S1–S6 are largely identical between ESRS S1-4. We believe that this will lead to unnecessary disclosure of practically identical information - increasing the costs to preparers and obscuring material disclosures.
This structure results in too many topics being in ESRS S1. This makes the draft standard unwieldy & difficult to use and will not facilitate use by first time adopters & smaller entities.
We believe that a more logical structure would be to base all Social disclosures around themes–such as 'working conditions,' 'equal opportunities' etc. Specific stakeholder-based requirements would then be included as appropriate. As long as the detailed disclosure requirements are relevant, we believe that this would ensure that the Social standards are people-centric.
This approach would also reduce clutter, make it easier for companies to decide if the topic is material &

would more closely align the disclosures with how companies consider such issues in practice. It would also make the structure consistent with the approach taken for Environment & Governance matters.
The priority should be implementing the core metrics required by the CSRD proposal and/or the SFDR, with the less urgent requirements phased in. Our priority ratings for individual disclosure requirements follow this approach.
In respect of core metrics, there should be a minimum set of disclosures in respect of Social matters included in ESRS 2. We would include the key disclosure requirements (not the additional requirements imposed by the AG) of DR 1 to DR 6 among these, as well as such topics as workplace related deaths & breaches of fundamental human rights. Such an approach would also remove the issue of the 'orphan' disclosures in AG105 to 107, which derive from ESRS 2 GOV 2 & are not referred to in the main body of the draft standard.
Parts I & J: we have responded 'no opinion' in Q45, & in our responses to ESRS S1 (Q73 to Q98), to questions about compatibility with EU policies & regulations, international standards & the digital reporting taxonomy. Other organisations are better placed to make that assessment.

## 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**

Questions A to E:
We are not convinced that it was the correct decision to expose ESRS S2 for comments without the detailed disclosure requirements. Exposing for comment only the policies, targets and actions makes it very difficult to judge at this stage whether the final proposals will be relevant, necessary for a faithful representation and cost effective. For this reason, we have graded questions A. to E, as 1 'Not at all'.

As mentioned in our response to question 45, we are not convinced by the current structure of the (draft) Social disclosure requirements Currently, the structure is based around stakeholder groups because EFRAG wishes to emphasise that the focus of 'Social' matters is people. This means that DR S1–S6 are largely identical between ESRS S1-4. We believe that this will lead to unnecessary disclosure of practically identical information- increasing the costs to preparers and obscuring material disclosures.

We believe that a more logical structure would be to base all Social disclosures around themes –such as 'working conditions', 'equal opportunities' etc. Specific stakeholder-based requirements would then be included as appropriate. As long as the detailed disclosure requirements are relevant, we believe that this would be enough to ensure that the Social standards are people-centric.

This this approach would reduce clutter and makes it easier for companies to decide if the topic is material and would more closely align the disclosures with how companies consider such issues in practice. It would also make the structure consistent with the approach taken for Environment and Governance matters..

The high level of granularity makes ESRS S1 seem like a 'tick the box' exercise. This is particularly the case for DRs that require the disclosure of national legal requirements. The huge amount of information that many MNEs would have to disclose for such requirements could lead them away from properly assessing what is material for them and their stakeholders, just reporting the required, but non-essential, narrative information.

Consequently, when the additional detailed disclosure requirements for S2 are produced, we ask that EFRAG consider the need to manage excessive granularity before they are exposed for comments.

Question I: We opted for 'no opinion' for all our replies in S1 to S4 to rate the DRs' consistency with relevant EU policies and other EU legislation. Such detailed and neutral reconciliation between ESRS and EU policies & legislation needed to be done by the EFRAG PTF-ESRS to be able to prepare the ESRS EDs and should be made available to EFRAG SRB. We do not believe that stakeholders are the right experts to assess this, especially considering the limited consultation timing provided. We will not be responding to the detailed questions in respect of S2 DR1-6.

Should the existing structure be kept, we make the following comments:
• Information in respect of targets, action plans and resources should not be included in the annual management report if they remain stable. Any changes to policies or legislation should be disclosed in the management report but otherwise companies should just disclose (yes\no) that policies exist and provide a deep link in the management report that leads directly to the detailed policy in question.
• There are issues concerning the boundary between 'own workforce' and 'workers in the value chain'. We do not believe that the current definitions provide sufficient clarity to ensure the faithful representation and comparability of information. Consequently, we believe that it would be beneficial if practical examples were included in the Application Guidance of both ESRS S1 and S2, clearly demonstrating the scope of each (draft) standard.
• We note that it is not specified in the (draft) standard the depth into the supply chain that the reporting undertaking should report on. For example, does it cover immediate suppliers or is it necessary to consider the suppliers of immediate suppliers, and so on.

## 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 | 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 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**

Questions A to E:
We are not convinced that it was the correct decision to expose ESRS S3 for comments without the detailed disclosure requirements. Exposing for comment only the policies, targets and actions makes it very difficult to judge at this stage whether the final proposals will be relevant, necessary for a faithful representation and cost effective. For this reason, we have graded questions A. to E, as 1 ‘Not at all’.

As mentioned in our response to question 45, we are not convinced by the current structure of the (draft) Social disclosure requirements. Currently, the structure is based around stakeholder groups because EFRAG wishes to emphasise that the focus of ‘Social’ matters is people. This means that DR S1–S6 are largely identical between ESRS S1-4. We believe that this will lead to unnecessary disclosure of practically identical information- increasing the costs to preparers and obscuring material disclosures.

We believe that a more logical structure would be to base all Social disclosures around themes –such as ‘working conditions’, ‘equal opportunities’ etc. Specific stakeholder-based requirements would then be included as appropriate. As long as the detailed disclosure requirements are relevant, we believe that this would be enough to ensure that the Social standards are people-centric.

This this approach would reduce clutter and makes it easier for companies to decide if the topic is material and would more closely align the disclosures with how companies consider such issues in practice. It would also make the structure consistent with the approach taken for Environment and Governance matters.

The high level of granularity makes ESRS S1 seem like a 'tick the box' exercise. This is particularly the case for DRs that require the disclosure of national legal requirements. The huge amount of information that many MNEs would have to disclose for such requirements could lead them away from properly assessing what is material for them and their stakeholders, just reporting the required, but non-essential, narrative information.

Consequently, when the additional detailed disclosure requirements for S3 are produced, we ask that EFRAG consider the need to manage excessive granularity before they are exposed for comments.

Question I: We opted for 'no opinion' for all our replies in S1 to S4 to rate the DRs' consistency with relevant EU policies and other EU legislation. Such detailed and neutral reconciliation between ESRS and EU policies & legislation needed to be done by the EFRAG PTF-ESRS to be able to prepare the ESRS EDs and should be made available to EFRAG SRB. We do not believe that stakeholders are the right experts to assess this, especially considering the limited consultation timing provided. We will not be responding to the detailed questions in respect of S3 DR1-6.

Should the existing structure be kept, we make the following comments:
- Information in respect of targets, action plans and resources should not be included in the annual management report if they remain stable. Any changes to policies or legislation should be disclosed in the management report but otherwise companies should just disclose (yes\no) that policies exist and provide a deep link in the management report that leads directly to the detailed policy in question.
- It may be the case with Affected Communities that the sector agnostic disclosure requirements are mostly covered by disclosure of policies, communication processes and other matters dealt with in S2 – 1 to S2 – 6. We would ask that EFRAG considers in advance of issuing the detailed reporting requirements for Affected Communities the degree to which they could be included in sector specific standards only.

## 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**

Questions A to E:
We are not convinced that it was the correct decision to expose ESRS S4 for comments without the detailed disclosure requirements. Exposing for comment only the policies, targets and actions makes it very difficult to judge at this stage whether the final proposals will be relevant, necessary for a faithful representation and cost effective. For this reason, we have graded questions A. to E, as 1 'Not at all'.

As mentioned in our response to question 45, we are not convinced by the current structure of the (draft) Social disclosure requirements. Currently, the structure is based around stakeholder groups because EFRAG wishes to emphasise that the focus of 'Social' matters is people. This means that DR S1–S6 are largely identical between ESRS S1-4. We believe that this will lead to unnecessary disclosure of practically identical information- increasing the costs to preparers and obscuring material disclosures.

We believe that a more logical structure would be to base all Social disclosures around themes –such as 'working conditions', 'equal opportunities' etc. Specific stakeholder-based requirements would then be included as appropriate. As long as the detailed disclosure requirements are relevant, we believe that this would be enough to ensure that the Social standards are people-centric.

This this approach would reduce clutter and makes it easier for companies to decide if the topic is material and would more closely align the disclosures with how companies consider such issues in practice. It would also make the structure consistent with the approach taken for Environment and Governance matters.

The high level of granularity makes ESRS S1 seem like a 'tick the box' exercise. This is particularly the case for DRs that require the disclosure of national legal requirements. The huge amount of information that many MNEs would have to disclose for such requirements could lead them away from properly assessing what is material for them and their stakeholders, just reporting the required, but non-essential, narrative information. Consequently, when the additional detailed disclosure requirements for S4 are produced, we ask that EFRAG consider the need to manage excessive granularity before they are exposed for comments.

Question I: We opted for 'no opinion' for all our replies in S1 to S4 to rate the DRs' consistency with relevant EU policies and other EU legislation. Such detailed and neutral reconciliation between ESRS and EU policies & legislation needed to be done by the EFRAG PTF-ESRS to be able to prepare the ESRS EDs and should be made available to EFRAG SRB. We do not believe that stakeholders are the right experts to assess this, especially considering the limited consultation timing provided. We will not be responding to the detailed questions in respect of S4 DR1-6.

Should the existing structure be kept, we make the following comments:
- Information in respect of targets, action plans and resources should not be included in the annual management report if they remain stable. Any changes to policies or legislation should be disclosed in the management report but otherwise companies should just disclose (yes\no) that policies exist and provide a deep link in the management report that leads directly to the detailed policy in question.
- As with S3 Affected Communities, it may be the case that the sector agnostic disclosure requirements are mostly covered by disclosure of policies, communication processes and other matters dealt with in S4 DR 1 to DR 6. We would ask that EFRAG considers in advance of issuing the detailed reporting requirements for Consumer and End Users the degree to which they could be included in sector specific standards only.

## 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**

To support an effective transition to a sustainable economy, sustainability reporting standards should ensure users receive relevant, comparable, reliable, decision-useful information. To this end, standards need to be clear, purposeful and pragmatic.
We believe the proposed standard (G1) on governance is relevant and to some extent supporting the CSRD requirements. However, we have several reservations whether the standard as it stands now can support necessary transition. We invite EFRAG to read our ratings in light of the following I comments:

A, B, H: Standards lack proportionality/scalability
We are concerned that disclosure requirements (DRs) as currently drafted go significantly beyond the necessary level of detail to meet the CSRD requirements. The DRs often seek excessive information and quantitative data e.g. identity, age, gender, and processes. This approach may result in a compliance exercise and in less focused and relevant reporting.
EFRAG needs to ensure DRs remain fit for purpose and provide relevant information for investors and stakeholders about sustainability governance. The DRs on governance in ESRS 2 offer more useful insight on governance and sustainability. We recommend EFRAG adopts a similar approach for G1, which remains more qualitative and relevant.
We urge EFRAG to develop a phasing-in approach to standards application, in line with the final text of the CSRD. While we stand behind the urgency to implement the CSRD, this will allow companies to get systems and processes in place that are necessary for quality reporting.
DRs as they stand are overly prescriptive and lack the necessary scalability. EFRAG should align its standards with the final CSRD (as approved) text to reflect the Directive’s provisions on: i) transition period for companies (e.g. Art 1.3) (especially mid-size PIEs and non-PIEs) ii)scalability, proportionality considering the different types of companies within the CSRD scope (art 1.7(b)) e.g. in accordance with their activity, size, risk profile, legal form.

A, D, E, G: Lack of connection with the rest of EFRAG standards
The ESRS architecture is unnecessarily complex. Standards lack connectivity and a coherent structure. We took note of EFRAG’s indication that G1 needs to be read and applied in conjunction with the other relevant standards such as ESRS 2 (governance in relation to sustainability). However, this approach is not user-friendly and effective.
For example, DR1-3 does not consider whether/how sustainability criteria are considered in the governing bodies’ selection and nomination process. Similarly, the DR1-7 and DR1-8 do not reflect how ESG issues are integrated in risk management and internal controls.
We urge EFRAG to streamline and simplify this by merging the governance part in the ESRS 2 with G1.

J: Alignment with international sustainability standards
We considered the IFRS Sustainability Standards and the GRI standards to rate alignment with international standards (for all ratings of G1 and G2).

The key difference of misalignment lies within structure. The ESRS are rule-based, highly detailed and prescriptive. On the contrary, the IFRS standards are principle-based, focus on more targeted information, and leave sufficient room for preparers to decide how to comply with the DRs. The GRI standards are also less prescriptive and require more targeted information.

I: Consistency with relevant EU policies and other EU legislation
We opted for 'no opinion' for all our replies in G1 and G2 to rate the DRs' consistency with relevant EU policies . Such assessment needs to be done by the EFRAG PTF-ESRS and should be made available to EFRAG TEG & SRB. We do not believe that stakeholders are the right experts to assess this, especially considering the limited consultation timing provided.

Overlap with existing national requirements
We noted that EFRAG does not provide any clarifications on how the DRs will interact with existing national laws and governance systems. This may create redundancies and confusion for report preparers and users. EFRAG should clarify whether these DRs are expected to exist on a stand-alone basis, complement or supersede the existing obligations.

F: Reporting needs to reliable and effective
We urge EFRAG to ensure the reporting is reliable, relevant and respond to users' needs. This will be key to provide verification and assurance. In specific cases we expressed concerns regarding the following: The DRs as currently drafted may result in high divergencies in disclosures when it comes to form, type, content, structure (e.g. tables with factual information e.g. on emissions, description of governance procedures). This may cause difficulties in comparability and accordingly affect the quality of the assurance report.

## ESRS G2 – Business conduct

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

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

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

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

| | | | | | |
|---|---|---|---|---|---|

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

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

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

To support an effective transition to a sustainable economy, sustainability reporting standards should ensure users receive relevant and reliable information. To this end, standards need to be clear.The proposed draft standard (G2) on governance is relevant and to some extent serves the CSRD requirements. However, we have reservations whether the standard as it stands now can support the necessary transition.
We often experienced difficulties in rating the proposed disclosure requirements (DRs) due to the lack of clarity in the text and consistency of the used terminology. In specific:

B, F, G: Lack of clarity and definitions
We noted issues such as the lack of precision, definitions, consistent use of terminology both within the standard itself and, in comparison with the CSRD terminology. For example, concepts such as ‘business conduct’, ‘business conduct culture’ are not clearly defined in G2 and are used in different ways.
We recommend including clear definitions of the key terms used e.g. ‘business conduct’, ‘business conduct culture’, ‘bribery’ and ‘corruption’ in Appendix A. We also recommend EFRAG adheres as much as possible to the CSRD terminology (cf. article 19 (b)).

A, B, H: Level of detail and granularity
The information requested in the DRs is too detailed. G2 DRs are overly prescriptive and lack relevance in several instances. We are concerned that the G2 DRs (i) go beyond what listed entities will be required to disclose under CSRD, (ii) will not add value for the report user, (iii) may result in less focused and relevant reporting.

A, B, H: DRs need to be proportionate
We urge EFRAG to develop a phasing-in approach to standards' application, in line with the CSRD final text. While we stand behind the urgency to implement the CSRD, this will allow companies to get systems and processes in place necessary for quality reporting.
Standards need to be proportionate and scalable. We do not believe that materiality can resolve the issue of proportionality. Proportionate standards are standards that do not need a materiality analysis before assessing which information should be disclosed.
EFRAG should align its standards with the final CSRD (as approved) text to reflect the Directive’s provisions on i) transition period for companies (e.g. art1.3) (considering especially mid-size PIEs and non-PIEs ii) scalability and proportionality considering the different types of companies within the CSRD scope (art 1.7(b) e.g. in accordance with their activity, size, risk profile.

J: Alignment with international sustainability standards
We considered the IFRS Sustainability Standards and the GRI Standards to rate alignment with international standards (for all ratings across G1 and G2).
In most instances the IFRS standards do not yet address the topics covered in G2.
Regarding the alignment with the GRI standards, G2 often goes beyond what the GRI standards require.
In addition, many of the GRI guidance include voluntary and optional reporting, which have been made mandatory in the ESRS. For example, for political engagement, lobbying or advocacy activities (G2-9), the ESRS require mandatory reporting covered by such activities. GRI recommends, but does not require, reporting this information.
In many instances the draft G2 requires more detailed information than the GRI e.g. G2-2, G2-5. Further alignment between the ESRS and GRI could be achieved by better structuring the G2 content. Instead of detailed mandatory requirements, ESRS standards would benefit from a short and clear application guidance.

I: Consistency with relevant EU policies and other EU legislation
We have opted for ‘no opinion’ for all our replies in G1 and G2 to rate the DRs’ consistency with relevant EU policies as we believe such an assessment needs to be done by the EFRAG PTF-ESRS and should be made available to the EFRAG TEG & SRB. We do not believe that stakeholders are the right experts to assess this, especially considering the limited consultation timing provided.

Alignment with national legislation
We would like to point out that there is a great disparity in national anti-corruption legislative frameworks across the EU. EFRAG needs to add a general paragraph specifying how these obligations correspond with national laws.

A: Link with financial statements (FS)
A direct link to financial statements needs to be better reflected in G2. In specific, ‘provisions’ (both in the main FS and the notes) should reflect the impacts of these business misconducts. Especially in the case of litigation, risks could be accounted for as “provisions” if settlement is expected to result in payment. If payment is not probable, or it is dependent on uncertain future events, they could be disclosed as “contingent liabilities”.

# 2. ESRS implementation prioritisation / phasing-in

## Application provisions

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

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

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

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

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

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

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

We appreciate the CSRD’s proposal to phase-in the first-time application of ESRS based on the undertakings size. In addition, we support having a first set of ESRS that address all the topical standards covered in these EDs.

As per our statement (https://bit.ly/3O35fuT), we urge EFRAG to adopt a smart phasing-in approach which starts with the most important disclosure requirements for largest companies in all sectors to transition their business model and disclose company data. Gradually, disclosure requirements within each individual standard can be added and then sector-specific standards for relevant sectors. Only after that, value chain disclosures should be required. We build on this statement to propose the below application provisions.

1st proposal: focus on critical disclosure requirements needed to understand a company's progress towards sustainability.
It is important to always consider that standards should be a tool for the measurement of sustainability impacts, risks and opportunities and that they should capture the changes/transformations or plans/progress towards transformations of business models.
For this, EFRAG will first need to reassess all its granular requirements as we strongly believe that collectively they are not fit-for-purpose. In particular, EFRAG:
a) must review that the disclosure requirements of the first set are truly sector agnostic. We have noticed some sector-specific requirements in this first set (e.g. AG8 in ESRS 2, some disclosure requirements in ESRS E2, disclosure requirements in S1-23 are more sector specific KPIs than cross cutting ones, the disclosure requirements in ESRS S3 and S4 could be sector specific)
b) should review disclosure requirements for repetition and duplication between ESRSs. For example:
- materiality requirements in ESRS 1 and 2 should be aligned and not duplicate,
- DR G1-4 requires similar information with the AG 6 (which is part of DR G1-1)
- the structure of social disclosure requirements duplicate many such requirements. For example, DR S1 to DR S6 for S2, S3 & S4.
- ESRS G1 requirements could have been incorporated as part of ESRS 2
c) must transform the Application Guidance of ESRS into guidance. Currently, the Application Guidance of each ESRS provides more requirements that add to the ones in the main ESRS. We strongly disagree with this approach as it not only ends up in excessive requirements, but also replace very much needed guidance. On the latter, we strongly believe that many of the proposals in ESRS (particularly on materiality application, boundaries and estimations) need real application guidance, which must be included in this section.
d) re-confirm which ESRS disclosure requirements should be mandatory. We note that ESRS mandate many GRI voluntary disclosure and guidance. If these disclosure requirements are ultimately decided to be mandatory for ESRS, despite GRI's own due process having determined otherwise, EFRAG should explain the reasons for these differences in approaches in the Basis for Conclusion.

2nd proposal: focus on disclosure requirements that stem from existing EU legislation.
For this, EFRAG would focus on those DRs necessary to comply with the requirements of the CSRD, SFDR and other in force EU legislation. In this spirit, EFRAG could postpone requiring specific disclosures on elements such as due diligence, which will be dependent on the CSDDD.
When considering the requirements of the CSRD, EFRAG could try and align the financial materiality side with IFRS sustainability standards as much as possible. For example, ESRS 2 ED for the section on governance, on strategy and business model, as well as financial materiality provisions in ESRS 1 ED could be aligned with the proposals of IFRS S1 ED. This would enable convergence, as per the CSRD ambitions, as it would minimise the burden of compliance with two different sets of standards on this aspect and enable a building block approach.

Final proposal: phase-in the reporting boundary to start within a company's own operations and gradually move towards addressing the value chain.
Whist we completely support providing information across the value chain, we recognise that transformations of systems, data collection will be a challenge, particularly for companies not currently subject to the NFRD, when aiming to comply with the ESRS requirements. The latest version of the CSRD also allows for a phased-in approach for disclosures on the value chain.
Therefore, EFRAG should consider this and allow companies to first provide information within their operations, whilst allowing some time for them to put in place the necessary processes to collect reliable data or make appropriate estimations in relation to the value chain. However, for transparency and comparability purposes, EFRAG should require companies to disclose if they are taking this transitional measure.

**Please explain why**

See our rationale in the main body of Q53.

## 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?**

We believe that many ESRS will be difficult to implement due to their number of DRs, the excessive requirements added by the Application Guidance section, the lack of guidance and illustrative examples on how to implement materiality, and conceptual complexity. Also, there is not enough maturity in many sustainability topics, leading to lack of available data and recognised methodologies to make performance measurements consistently.

For example, financial institutions especially might face severe difficulties in implementing the DRs because of a lack of reliable data that needs to be collected from clients, investees, etc. In addition, entities currently not subject to the NFRD, and especially smaller entities may also find applying all the requirements in this first set challenging in practice, as they would be doing so for the first time.

Another implementation challenge (particularly for first time reporters under the CSRD) is to design and set-up systems to accommodate both the reporting dimensions of the EU Taxonomy regulation (activities-based NACE-codes) and a number of other dimensions needed for ESRS disclosures (e.g. on turnover-related disclosures). The latter are not dimensions already typically used by the preparer for the financial reporting or for internal reporting and would be produced just for ESRS purposes.

As per our feedback to Q53, we suggest EFRAG first and foremost focuses on disclosure requirements that will drive behavioural change and help understand companies' journeys in transiting to more sustainable business models. With this caveat, below we list some requirements in the ESRS EDs as currently drafted, which we believe will be challenging to apply. This is a non-exhaustive overview as for example, this list does not include the requirements in Application Guidance, which we strongly believe should not include further requirements and instead be transformed into guidance. EFRAG should analyse if there are

requirements in the Application Guidance that would be considered material from the standard setter and should instead make it to the main body of the standards.
- ESRS 1 the double materiality principle, particularly impact materiality: need further guidance.
- ESRS 1 reporting boundary and approximations: need more application guidance.
- ESRS 1 time horizons: should not be constrained to the determination of the standard setter but EFRAG should help companies in determining these timeframes.
- ESRS 2 DR 2-GR 2, will be confusing due to missing ESRS sector determinations
- ESRS 2 DR 2-GR 9: we do not believe this is needed following the CSRD requirements.
- ESRS 2 DR 2-GOV 4, assumes companies already have in place incentive schemes. EFRAG should clarify the expectation to disclose such schemes when they are in place, and if not, preparers should disclose so, or disclose whether such schemes are being developed.
- ESRS 2 DR 2-GOV 5, will be incomplete due to the status of the CSDDD, which frames and informs this disclosure requirement. In the meantime, EFRAG should provide more guidance.
- ESRS 2 disclosure requirements on the materiality assessment (DR 2-IRO 1, DR 2-IRO 2 and DR 2-IRO 3) due to lack of guidance on how to perform a materiality exercise.
- DR E1-1: due to the fact that reporting on transition plans for climate change mitigation requires a level of maturity that smaller companies may not have right now.
(please refer to the next part of the question, where the list continues)

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

In this part of Q54 we continue the list from the first part of question Q54 to list some DRs for which we think that implementation will be challenging:
- DR E1-3: due to the lack of structure and granularity.
- DR E1-5: due to the lack of clarity in the usefulness of such information.
- DR E1-6: it is overly complicated as proposed and companies will not be able to be ready on time to comply.
- DR E1-7: due to the misalignment of the three boundary definitions set out in the GHG Protocol with the financial reporting boundaries and conflict with ESRS 1 paragraph 63.
- DR E1-9: as such reporting would imply far too many judgements and imprecisions, at least in the first years of application.
- DR E1-10: we do not support the Disclosure Requirement per country as proposed in AG 52 as for undertakings with cross border activities and emissions moving around, such split per country would bring confusion on how it should be done in practice.
- DR E1-12: it will be challenging for companies to report on such information in the first years of application.
- DR E1-15/16: it is not clear how such future potential financial impact is to be measured or evaluated if it does not meet the recognition criteria as per the accounting standards.
- ESRS E2 DR E2-4 and DR E2-5, due to the lack of guidance.
- ESRS E3 DR E3-4, DR E3-5, DR E3-6, DR E3-7, given the difficulty to calculate water-related metrics.
- ESRS E4 DR E4-5, DR E4-6, DR E4-7, DR E4-8, DR E4-9, DR E4-10: biodiversity related metrics are not mature yet globally.
- ESRS E5 DR E5-9: the transition towards a circular economy model is a longer-term process and journey, on which undertakings may not be able to report in the first years.
- ESRS S1 DR S1 and DR S1-8: determining the boundaries between own workforce and supply chain labour supplies and between ‘employees’ and ‘non-employees’.
- ESRS S1 S1-9: recording in house training, especially peer to peer and face to face training.
- ESRS S1 S1-12: establishing total working hours for salaried staff (who may not record hours or have time recording systems that prevent them from recording the full hours worked) and also issues around increased home working and where the boundary would be drawn.

- ESRS S1 S1-14: implementation could be difficult at a group level as payroll functions are usually localised (due to differing national rules) and may even be outsourced.
- ESRS S1 S1-17: for the same reason as above, this information will be hard to compile for many Multi-National Entities particularly as the use of a 'median' rather than an 'average' measure requires more data to be collated.
- ESRS G2 DR G2-10, may intervene between the payment practices decisions within the business. This could be remedied by deleting paragraph 53 (b) and (c).

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

We provide our view under the caveat that the resulting "challenging" DRs would be the ones resulting from EFRAG's work on avoiding duplications, cleaning up the Application Guidance, and aligning with EU legislation.

We believe the implementation of these requirements will depend on the availability of information (ability for companies to collect data) as well as the readiness to disclose this information (whether they have in place reliable processes that would support these disclosures). EFRAG's field-testing results may provide some facts about these challenges, which could then be considered by EFRAG in determining the phase-in period.

Nonetheless, if we were to provide a period, based on our experiences and in line with the CSRD, a minimum period of 3 years to phase-in the "challenging disclosures" could be appropriate. This would give time for preparers to get familiar with the proposals and understand the bottlenecks in their processes, work towards fixing them to ultimately provide reliable information.

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

See our responses to questions 53, 54 and 55.

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

As per our feedback to Q53, we suggest EFRAG first and foremost focuses on disclosure requirements that will drive behavioural change and help understand companies' journeys in transiting to more sustainable business models. With caveat of our view for the phased-in approach as per Q53 and following our feedback to the above questions, we provide 2 different sets of criteria (1) for the standard setter and (2) for preparers.

First, for the standard setter, we follow on from our comments to Q53 and suggest that EFRAG focuses on DRs that meet either of these criteria:
(a) do not repeat and duplicate
(b) are only incorporated in the main body of the standards after transforming the AG in guidance and determining whether there are any requirements currently there that absolutely need to be part of the main body of the standards.

Second, regarding preparers we follow on from our comments to Q55 and suggest that EFRAG considers the following criteria:

(a) availability of information for preparers, including the ability to collect the necessary data
(b) readiness to provide disclosures, including having in place the necessary processes to support such disclosures
(c) effectiveness of the disclosure requirements and ability of implementation for companies (i.e. the ability for a company to take actions)
(d) resources needed for transition, internal as well as external (i.e. burden of audit process on the company)
(e) readiness of regulators to accept any potential limitations on reporting, including the criteria noted here.

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

See our responses to questions 53, 54 and 55.

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

No further comments provided.

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

## Contact

Contact Form