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Finance for Europe

Association for Financial Markets in Europe

AFME feedback to the EFRAG draft European Sustainability Reporting Standards

8 August 2022

AFME welcomes the progress made by EFRAG in developing comprehensive European sustainability reporting standards (ESRS) under the proposed Corporate Sustainability Reporting Directive (CSRD).

AFME continues to strongly support efforts at EU and international level to enhance the availability, reliability and comparability of sustainability data. This is essential for investors and for our members as users of sustainability data, for example when developing and working with clients on investment products, for risk management purposes, and for the purposes of their own disclosure requirements under the CSRD, but also other regulatory requirements such as Pillar 3 disclosures, disclosures under Article 8 of the Taxonomy Regulation, and the Sustainable Finance Disclosures Regulation (SFDR). As has been widely recognized, this is an essential enabler to directing capital to in support of sustainability objectives and to ensuring that sustainability risks are taken into account.

Our members are pleased to provide feedback on the exposure draft ESRS from their perspective of both users and preparers of sustainability disclosures. While we welcome the progress and the importance of introducing comprehensive sustainability disclosure standards, the implementation challenge for preparers should not be underestimated.

We note that the very significant amount of detail contained in the thirteen exposure drafts has provided our members with a significant challenge in reviewing the detail and comparing it with other initiatives such as the ISSB standards in a short space of time. We have therefore focused our response on the general standards and climate standards but have had insufficient time to fully assess the other sustainability standards. We expect that our members are not unique in this respect and this is one further reason to support an appropriate phasing in of requirements where we suggest prioritizing the general framework in ESRS 1 and 2, the climate change standard in ESRS E1, and the disclosure requirements necessary for SFDR PAI from ESRS E2-E5, and providing further time to finalise and implement the remainder of the standards which relate to other environmental, social and governance matters.

Interoperability of EU and international standards

As recognised by the G20[1] and G7[2], in order to have an effective framework for sustainability reporting, it is essential to maximise the interoperability of international reporting standards. This should avoid fragmentation, promote greater consistency and comparability of disclosures, and reduce reporting costs.

International standards are important to provide an effective international baseline framework for sustainability reporting, enhance the comparability of sustainability credentials globally, and minimize fragmentation and overlap of requirements for internationally active companies.

We welcome the conviction of the European Commission that "it is clearly in the interests of the EU and European companies and investors to have standards that are globally aligned. EU standards should aim to incorporate the essential elements of globally accepted standards currently being developed."[3] This is also reflected in the text of the CSRD itself. [4]

AFME therefore supports ensuring the interoperability and compatibility of the EFRAG standards with the common baseline standards being developed by the International Sustainability Standards Board (ISSB). We

[1] See G20 Finance Ministers and Central Bank Governors Meeting Communique, 9-10 July 2021; G20 Leaders Declaration 30-31 October 2021
[2] G7 Finance Ministers and Central Bank Governers' Petersberg Communiqué, 20 May 2022
[3] Q&A on the CSRD proposal available here
[4] Directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting

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strongly encourage the EU and EFRAG to continue their dialogue with other jurisdictions, including the US, in support of maximizing the consistency and coordination of the development and implementation of sustainability disclosure requirements to avoid fragmentation, including through the jurisdictional working group established by the ISSB.

While we understand, and support, the desire for the EU to build upon the ISSB international baseline, for example providing a double materiality perspective, supplementing it with broader aspects of sustainability beyond climate change and reflecting EU regulatory requirements, it is important that EFRAG and the ISSB work hand in hand to ensure the compatibility and interoperability of EU and international standards.

It is essential to avoid fragmentation and ensure consistency of key concepts, terminology and metrics. Currently there are a number of differences in these areas amongst the ISSB, SEC and EFRAG proposals and we urge EFRAG to continue to work with the ISSB and its international counterparts to provide an interoperable approach. Through the Global Financial Markets Association (GFMA), we are also encouraging the ISSB to continue to work with EFRAG and other jurisdictions as it finalizes a common baseline approach which can facilitate interoperability.[5]

We welcome Appendix V mapping the EFRAG proposals with the draft ISSB standards and we would welcome this mapping being extended to include the draft SEC standards. In particular, as EFRAG, the SEC and the ISSB move to finalise their respective standards, and while noting clear differences in scope as highlighted above, we strongly encourage EFRAG to continue to focus on comparability during the remaining drafting process and also to continue to publicly highlight and explain the rationale for any points of difference between standards to help all users understand and effectively compare disclosures, help preparers with international businesses, and to support the interoperability of the standards.

As a general observation, feedback from members' comparisons of the ESRS exposure drafts with the draft ISSB and SEC standards suggests that overall EFRAG's standards have more prescriptive requirements, which could give rise to challenges, especially where organisations may have to report under multiple frameworks.

A further area where there is currently a different approach between the EFRAG, SEC and ISSB standards is the definition of financial materiality. Given the importance of this concept, we recommend that, at a minimum, the definitions of financial materiality should be aligned, as this is a common component in both standards, acknowledging that EFRAG standards will also apply impact materiality.

We would also recommend that consideration is given to legal liability and the availability of safe harbours on an interim basis while companies begin to disclose information under the new ESRS, in recognition of both a) current data and methodology limitations and b) the forward-looking nature of climate-related information.

Finally, beyond interoperability with the ISSB standards, it is also important to foster international consistency of requirements for transition plans. There are numerous initiatives under development (for example, GFANZ and the UK Transition Plan Taskforce) and also numerous references to transition plans in different aspects of regulation such as the proposed Corporate Sustainability Due Diligence Directive, Capital Requirements Directive VI, and potentially introduced by the European Parliament in the EU Green Bond Standard. It is important to agree an internationally consistent approach to the content of transition plans to avoid internationally active companies having to comply with multiple different requirements.

See also our responses to questions 2, 3, 22, 39 and 40.

Information needs for banks as users of sustainability reporting

From the perspective of our members as users of sustainability information, it is important that the ESRS cover the data required for financial institutions to meet their regulatory obligations. We welcome that the exposure

[5] GFMA and BPI response to Exposure Drafts of IFRS S1 and IFRS S2

drafts contain relevant information and metrics for the purposes of banks meeting their disclosure requirements under EU regulation.

However, the volume and complexity of the proposed disclosure requirements may create significant challenges for policymakers, industry and investors alike. The draft ESRS request the disclosure of six- to seven-hundred different metrics. Of these, only a small proportion can be readily and comparably disclosed in a quantitative manner. Simplified, less granular standards would ease the reporting burden and improve the cost/benefit profile of the ESRS, and we have provided in the survey recommendations on how to achieve more efficient requirements.

At the same time, the draft ESRS do not provide all data needed for banks to meet their disclosures specified in the ESG risks Pillar 3 reporting obligation. While we note that sector-specific standards will be produced in due course, a sector-specific approach is necessary to ensure that the necessary data is available to banks, and we provide detailed recommendations in our reply to Question 4.

Besides fulfilling the Pillar 3 reporting obligations, the ESRS should also ensure companies report the data needed by banks to report under Article 8 of the Taxonomy Regulation, SFDR, MiFID delegated regulation and the Low Carbon Benchmarks Regulation. Examples of the necessary data points include environmental disclosures needed to perform the Substantial Contribution and Do No Significant Harm tests under the Taxonomy, life-cycle GHG emissions and carbon intensity data consistent on EU ETS methodologies, and consistent definitions across the ESRS and SFDR.

See also our answers to questions 4 to 7.

Approach to value chain reporting

It is essential that EFRAG reflects upon the approach to the value chain reporting, as emphasized in the final CSRD text, including the following requirements:

> "Standards shall specify disclosures on value chains that are proportionate and relevant to the scale and complexity of the activities, and the capacities and characteristics of undertakings in value chains, especially those of undertakings that are not subject to the sustainability reporting obligations pursuant to this Directive";[6] and
>
> "Standards shall not specify disclosures that would require undertakings to obtain information from small and medium-sized undertakings in their value chain that exceeds the information to be disclosed according to the sustainability reporting standards for small and medium-sized undertakings." [7]

This is particularly important with respect to the value chain of financial institutions. The greatest challenge for banks relates to the proposed definition and boundaries of the value chain and this needs to be carefully considered to ensure a proportionate approach. Material sustainability impacts, risks and opportunities are predominantly indirect in banks' downstream value chain, at the level of the companies they are financing. However, the levels at which banks are expected to identify and understand where the material impacts, risks and opportunities are located in their downstream, value chain are not clear in the draft transversal ESRS and might be interpreted too broadly.

It is therefore important that EFRAG takes account of the final provisions in recital 46 and article 29b (2b) and 29b (3) CSRD and reflects this in clear and actionable provisions in the ESRS.

We note that there is already an existing acknowledgement at the EU level that a separate approach to determining the value chain for banks can be appropriate, including in the Corporate Sustainability Due Diligence Directive proposal. As such, we would recommend clarifying that the downstream value chain of

[6] See recital 46 CSRD
[7] See Article 29a (2b) CSRD

credit institutions includes corporate clients with whom they have a direct business relationship and that the materiality assessment should be realized in the downstream value chain only with regard to these clients' own operations. The clients' upstream and downstream value chains should be excluded.

In addition, asset class and value chain emissions that are material or influence an institution's long-term Net Zero strategy should be prioritised for disclosure. Institutions should justify their approach and retain the flexibility to determine the prioritisation.

See also our answers to questions 19, 28 and 29.

Proportionality, transitional arrangements and phasing in of the requirements

We welcome EFRAG's acknowledgement that the vision of a comprehensive sustainability reporting framework will be challenging to implement and that EFRAG will consider using some prioritisation or phasing-in levers to facilitate implementation. We also welcome the plan for SME standards to be developed in tandem with the sector-specific standards at a later date.

The implementation challenge for companies of the current proposals should certainly not be underestimated. We propose that the general framework standards (ESRS1 General Principles and ESRS2 General, strategy, governance and materiality assessment) and the climate change standard (ESRS E1) should be prioritised as a first step. For environmental standards beyond ESRS E1, we would suggest keeping all the disclosure requirements necessary for SFDR PAI (as tagged as such by EFRAG) from ESRS E2-E5 and either postponing the other disclosure requirements, from these topical standards or moving them to the sector-specific standards which are to be drafted at a later stage.

This proportionate phased approach would allow preparers to focus on effective implementation of the general framework and the climate change disclosure standards in the first phase. This would reflect that many companies are more advanced with climate change disclosures than in other aspects of sustainability, the relevant metrics are better developed and more widely understood, and also reflect the urgency of moving forward with climate change disclosures. It would also be aligned with the prioritisation of the ISSB and could provide additional time to seek a global baseline standard on other aspects of sustainability which is interoperable with the EU approach.

We also support the need for the proposed Application Provision AP1 which exempts undertakings from reporting comparative data for the first reporting period.

See also our answers to questions 51-57 of the survey.

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About AFME

AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.[8]

[8] AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia. AFME is registered on the EU Transparency Register, registration number 65110063986-76.

CONSULTATION SURVEY

DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS

1A. Overall ESRS exposure Drafts relevance

- Architecture

April 2022

Open for comments until 8 August 2022

PTF-ESRS

Project Task Force on European sustainability reporting standards

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:

  i) Establish the general principles to be followed when preparing sustainability reporting in line with the CSRD provisions;

  ii) 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:

  i) Provide topic-specific application guidance in relation to the cross-cutting DRs on strategy and business model, governance, materiality assessment;

  ii) 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);

  iii) 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?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

The draft standards support the coverage of CSRD topics and reporting areas more than sufficiently, with the exception of performance measurement (see also reply to questions 27-28). We find, however, that the topical standards can either contain too many individual disclosure items, and will thus prove too complex for reporting entities, or do not meet financial institutions' need for sustainability-related information to fulfil their disclosure requirements.

Throughout the development of the CSRD, AFME has also highlighted the importance to consider sustainability reporting in an international context and identified the challenges international companies will face when reporting on their global activities and exposures.

The draft ESRS are also likely to require companies to report commercially sensitive business information, raising critical liability issues and unilaterally allowing non-EU competitors to gain valuable insights into strategic data (for example, the *description of opportunities over the long term and their potential financial impact*), while the CSRD states that it does not aim to require undertakings to disclose intellectual capital, intellectual property, know-how or the results of innovation that would qualify as trade secrets. We, therefore, recommend removing these requirements, as well as the need for undertakings to disclose when and why they have used the option to omit disclosing information that would be seriously prejudicial to their commercial position, thus reflecting in the ESRS what is stated in recital 29a of the final CSRD text.

We propose that the balance between the topical standards and the sector-specific standards should be revisited. In our replies to questions 54-57, we recommend that priority disclosure items (e.g., climate, PAI indicators) are prioritized, and the most complex reporting areas (e.g., value chain) in the topical standards should be implemented at a later stage. The approach to phasing in the requirements on value chain reporting in the final text of the CSRD, whereby undertakings have three years from application to obtain the necessary information, should also apply to the ESRS S2 on the workers in the value chain and to the ESRS S3 on affected communities. We also propose that certain disclosure requirements within the topical ESRS should be moved to sector-specific standards. This would ease the implementation and operationalization of these new disclosure requirements for entities at a time when they also have to manage the implementation of the EU Taxonomy, SFDR and ESG Pillar 3 disclosures.

Alignment and interoperability with international standards and frameworks

CSRD Article 19b paragraph 3a 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 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?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

The reporting areas in the TCFD framework can be mapped across to the ESRS. However, the ESRS structure differs from the TCFD framework, while the ISSB and SEC proposed disclosure standards follow the TCFD framework's structure more closely.

A consistent structure of ESRS and TCFD framework would aid preparers who are already reporting under the TCFD framework and improve the international comparability of disclosures. We think that ESRS could be better aligned with the TCFD framework by considering the combination of ESRS 1, ESRS 2 and ESRG G1. If the current EFRAG structure is maintained, we support EFRAG mapping its requirements to the TCFD framework to aid comparability for users of the data.

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?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

We welcome that the draft ESRS and the IFRS Sustainability Exposure Drafts take a similar approach by referring to separate “general/cross-cutting requirements” and “topical standards”.

Less granular requirements and a simplified structure for the ESRS would further promote interoperability and comparability, for example by including General Principles and cross-cutting standards in a single document as with the IFRS S1 developed by the ISSB.

The ESRS exposure draft goes further than the ISSB exposure draft and we noted some differences, including the following:

- The description of the views, interests, and expectations of stakeholders
- The statement on due diligence
- The definition of materiality: the ISSB considers implicitly impact materiality, subject to jurisdictions' and entities' interpretation, whereas EFRAG considers it explicitly. Moreover, there is no materiality assessment and due diligence guidance in the ISSB ED.
- Objectives and audiences. The ISSB ED are solely aimed at helping users of general-purpose financial reporting to assess the effects of significant sustainability-related risks and opportunities on the entity's enterprise value. The ESRS ED are intended for a broader audience and to help investors, as well as any impacted stakeholders, assess these effects.
- The ESRS ED propose disclosures standards on topics such as biodiversity, governance or social aspects while the ISSB ED only proposes standards on climate (albeit the ISSB plans to issue further Eds in the future and IFRS S1 requires disclosures beyond climate, using existing frameworks)

We understand that those gaps are reflective of the framework established by the CSRD and the differences in approach between the EU and the IFRS Foundation, including the consideration by the IFRS of the users of financial reports only against EFRAG's consideration of all stakeholders. Other gaps arise from ISSB's focus on financial materiality and climate-related matters, while EFRAG builds on its mandate to capture double materiality. We thus recommend that, at a minimum, the definitions of financial materiality should be aligned, as this is a common component in both standards. See also our answer to question 22.

On the topical draft ESRS E1 and draft ISSB S2 on climate, we see good compatibility of approaches to structure the reporting. However, ESRS 1, ESRS 2 and ESRG G1 could be combined to promote interoperability with ISSB S1. In our opinion, this would also streamline the disclosure requirements.

In addition, we think that for better interoperability and comparability, EFRAG should align its chapter structures with ISSB and ensure they should have a very similar table of contents). EFRAG should implement this change so that companies do not have to undertake the onerous task to map out how exactly the disclosure standards of EFRAG and ISSB compare.

Please also see our general comments on the international interoperability of EU and international standards in our attached cover letter.

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:*

(a) *the information that financial market participants need to comply with their disclosure obligations laid down in Regulation (EU) 2019/2088 and the delegated acts adopted pursuant to that Regulation;* **Sustainable Finance Disclosure Requirements;**

(b) *the criteria set out in the delegated acts adopted pursuant to Regulation (EU) 2020/852;* **Taxonomy Regulation;**

(c) *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;**

(d) *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;**

(e) *Commission Recommendation 2013/179/EU;* **European Commission recommendation on the life cycle environmental performance of products and services;**

(f) *Directive 2003/87/EC of the European Parliament and of the Council;* ***GHG allowance Directive;***

(g) *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?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

From the perspective of our members as users of sustainability information, it is important that the ESRS cover the data required for financial institutions to meet their regulatory obligations. The draft ESRS already include the majority of data needed for financial institutions to comply with their disclosure obligations laid down in SFDR, the Taxonomy Regulation, the disclosures specified in the ESG risks Pillar 3 reporting obligation, the disclosure requirements applicable to benchmarks administrators in the benchmark statement, as well as in the benchmark methodology and the minimum standards for the construction of EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks in accordance with Benchmark Regulation.

However, the draft ESRS do not provide all data needed for banks to meet their disclosures specified in the ESG risks Pillar 3 reporting obligation and in the Benchmark Regulation. A sector-specific approach remains necessary to ensure that the necessary data is available, in particular:

1. GHG emissions of banks' non-financial corporate clients should be disclosed with a sufficient sectoral granularity depending on the nature of the sector;
2. The turnover segregation per sector, energy-related activities, and even products and services should follow the same granularity as described above;

3. The geographical locations where the undertakings operate should also be more precise depending on the sectors; and
4. Undertakings in certain sectors should disclose their GHG emission intensity per sector-specific production unit and not just per turnover as required under the ESRS E1 for banks to disclose the alignment of corporate credit portfolio with a 1.5°C trajectory.

We encourage the EFRAG to consider the current challenges associated with high-quality data and in particular the extreme difficulty for financial institutions to calculate Scope 3 emissions with a high degree of confidence given the reliance on corporate and counterparty data as well as the lack of methodology for certain sectors and asset classes for Scope 3 financed emissions.

Therefore, we recommend EFRAG introduces a phased roll-out to sectors which follows the phased roll-out to sectors in the PCAF methodology, and a materiality based approach for the disclosure of Scope 3 financed emissions.

In addition to the sector phase-in, we suggest the EFRAG introduce a reporting lag for data sources from the financial reporting year. In effect, this would mean the sustainability-related disclosure would be done at the same time as the financial statements while the data sources used as a basis for the sustainability-related disclosure would be from a previous period. Preparers should use the most recent data available to them that is both reliable and usable.

Notwithstanding the above, we recommend that the EFRAG should only consider introducing disclosure requirements for asset classes where there is existing industry guidance in place, for example through PCAF.

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

We believe that EFRAG should consider the ongoing political negotiations on the Commission's proposal to introduce a Corporate Sustainability Due Diligence Directive (CSDDD). The draft ESRS should leave room for the requirements and definitions contained in the future Directive, such as those related to value chain and due diligence, to be reflected in the reporting made under CSRD.

The final text of the CSRD agreed by the co-legislators allows three years for undertakings to obtain information about its value chain. We recommend a similar phase-in of the applicability of the Implementation pillar and any future Performance Measurement Metrics under ESRS S2 and S3 related to affected communities in the value chain.

We also note that Article 15 of the proposed CSDDD introduces the obligation for entities to adopt a "plan to ensure that the business model and strategy of the company are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5 °C in line with the Paris Agreement". We propose that the proposed CSDDD provisions should be aligned with the ESRS provisions on transition plans.

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.

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[1]
- 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:

(i) the two cross-cutting standards on General principles (ESRS 1) and on General, strategy, governance and materiality assessment (ESRS 2)

(ii) 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?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

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

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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:
    (i) General information;
    (ii) Environment;
    (iii) Social;
    (iv) 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?

1/ Yes 2/ No 3/ No opinion

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

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

We would welcome flexibility on the structuring of sustainable reporting with respects to 'E', 'S', and 'G'. This will help accommodate for different jurisdictional requirements. For instance, financial institutions with a global footprint will have to report under EFRAG's proposed structure, which may conflict with the proposed structure of the SEC's climate disclosures and / or the ISSB's proposed standards. To this end, a rigid set of proposed structures would become challenging to meet within the management report.

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?

1/ Not at all 2/ To a limited extent with strong reservations 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

We believe that the statement in paragraph 131 (c) should be amended to read "other regulated information provided that it addresses sustainability-related disclosures". For example, we would assume that not everyone would consider corporate governance disclosures required by jurisdictional authorities as sustainability-related information. In addition, we wonder if paragraph 131 (c) would allow for a reference only to other sections of the annual report which are neither the management report nor the financial statements or whether it could even be a reference to reports other than the annual report. In addition, paragraph 135 relating to incorporation by reference seems to be inconsistent with paragraph 131 (c) by saying that reference may only be to other management report sections. If paragraph 131 (c) were to take precedence over paragraph 135 (i.e., if only references would be allowed to other management report sections), we would not be supportive of this. We think that references to other sections of the Annual Report should be permitted, too and that paragraph 135 should be clarified.

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?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

We agree that the incorporation of information in the Sustainability section by reference to other parts of the management report supports cohesiveness throughout corporate reporting. It is very sensible that a disclosure can be incorporated by reference in the sustainability statements to another section of the management report, provided that such disclosure constitutes a separate element of information clearly identified in the other section of the management report.

As cohesiveness between the various parts of the management report and the sustainability section is key, we support the fact that:

- a disclosure can be incorporated by reference in the sustainability statements to another section of the management report, provided that such disclosure constitutes a separate element of information clearly identified in the other section of the management report
- when the undertaking uses incorporation by reference, it must include an index listing the relevant disclosure requirements of the ESRS

However, we question the prohibition on incorporating a reference in the sustainability section to reports other than the management report. We propose that banks should be able to reference their Pillar 3 report, for example, which will be covering information required under ESRS E1-5, as it is important to avoid duplicative reporting.

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?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

We stress that medium- and long-term projection regarding "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" may be difficult to realize and this is an area where the reconciliation with financial reporting at the reporting date will be very challenging.

Many different factors will influence financial indicators, and it is difficult to narrow down disclosures to the main drivers. We also note that these disclosures could be treated as a medium- and long-term profit forecast, leading to confidentiality and liability issue caused by a clash with existing EU rules. We thus suggest that the ESRS only require quantitative disclosures.

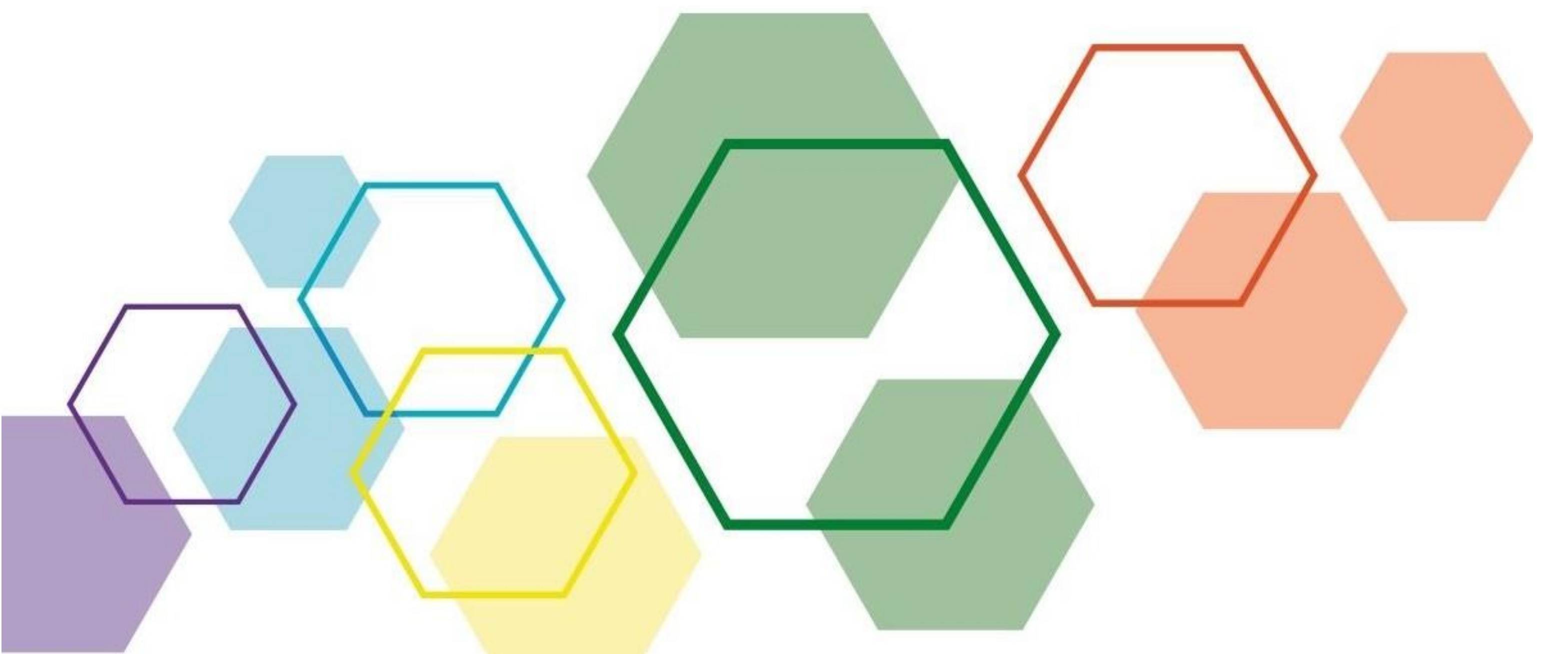
Finally, for credit institutions, the disclosures made under the proposed standards may overlap with those under Article 8 of the Taxonomy Regulation and under the EBA ITS on Pillar 3 ESG risks. However, we do not think that information should be reported twice and therefore think that ESRS 1, paragraph 138 should read "When the undertaking is already disclosing, pursuant to other disclosure requirements, monetary amounts or other quantitative data points that address the ESRS disclosure requirements, the undertaking shall include a reference to where the corresponding information can be found."

CONSULTATION SURVEY

DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS

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

April 2022



Open for comments until 8 August 2022

PTF-ESRS

Project Task Force on European sustainability reporting standards

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

Characteristics of information quality

Article 19a paragraph 2 of the CSRD proposal states that "t*he 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?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

The Performance Measurement Metrics under ESRS E2, E3, E4 and E5 are relevant only for a subset of sectors and may not be relevant for certain undertakings or activities. We thus recommend that for the environmental objectives, beyond climate mitigation and climate adaptation, these Performance Measurement Metrics are presumed material at the sector-specific level (when these materials are developed) and not at the sector-agnostic level (e.g. in these topical standards).

We also think that the wording in ESRS 1 regarding relevance should be consistent with the language used by the ISSB in ED IFRS S1. In addition, we have noticed that the words used in paragraph 26 "Sustainability information is relevant when it has substantive influence […]" differ from the ones in paragraph 27 "Sustainability information can make a difference […]" and that the eventual wording should be aligned for internal consistency.

Please also see our comments below on value chain reporting and the effectiveness of the rebuttable presumption, where we elaborate on how detailed disclosures and lengthy explanations of non-materiality judgements are likely to dilute the relevance of sustainability information.

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

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

To meet the disclosure requirements in the draft ESRS, undertakings may have to rely extensively on proxies and estimates. The detailed provisions in the ESRS may therefore clash with the principle of faithful representation of sustainability information. To alleviate this problem, we suggest undertakings are allowed up to three years from the application of CSRD reporting requirements on value chains and performance indicators, in order to collect the necessary information to facilitate a faithful representation of sustainability information – which is in line with the final CSRD requirements on value chain reporting. Following this period, when companies may still have to rely on proxies and estimates, authorities can consider developing common sustainability-related proxies by sectors, geographies (for jurisdictions outside of the EU) and company size so that undertakings can use similar proxies. The wording in ESRS 1 regarding the faithful representation of sustainability information should be more consistent with the one used by the ISSB in ED S1.

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

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

It is unclear to what extent the concept of comparability is at odds with the concept of double materiality, which requires disclosure that meets the needs of the stakeholders of a particular company. Given that different companies will have different stakeholders, it is unclear how companies will provide disclosure that is comparable across different companies when their stakeholders are not necessarily comparable.

The comparability of sustainability information may benefit from EFRAG's guidance on the application of the materiality assessment, to ensure a consistent interpretation across reporting entities. We further believe that the wording in ESRS 1 regarding comparability should be consistent with the one used by the ISSB in ED S1.

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

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

We think that the wording in ESRS 1 regarding verifiability should be consistent with the one used by the ISSB in ED IFRS S1. We also believe that the second sentence in paragraph 36 should read: "~~Reliability~~ Verifiability is when different independent observers with reasonable expertise would be able to reach a similar conclusion […]."

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

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

We believe that the wording in ESRS 1 regarding understandability should be consistent with the

one used by the ISSB in ED S1. We also think that the last sentence in paragraph 40 "Any immaterial information […] shall be provided in a way that avoids obscuring material information" should lead to a reconsideration of the rebuttable presumption concept in paragraphs 57 to 62 (including the requirement to include statements of non materiality).
As indicated in our reply to question 24 to 27 below, the rebuttable presumption will impair the readability of sustainability reporting and obscure material financial information with lengthy explanations dedicated to non-material information.

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?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

EFRAG's broader definition of materiality, capturing the company's impact on people and the environment, supports the identification of sustainability information meeting the needs of a wide range of stakeholders. The materiality assessment, however, would benefit from more clarity on how companies should prioritize stakeholders and what information to disclose.

With regards to the financial materiality, it is very challenging to make clear medium- and long-term projection regarding "significant financial effects" of specific sustainability-related impacts, risks and opportunities which influence or are likely to influence the future cash flows and therefore the enterprise value". We expect companies will experience even greater challenges in applying double materiality over mid-term and longer-term time horizons.

As indicated in the reply to question 22 below, we also recommend that, at a minimum, the definitions of financial materiality should be aligned across the ESRS and the ISSB frameworks, as this is a common component in both standards.

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?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some

reservations 4/ Fully 5/ No opinion

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

The draft ESRS would require undertakings to include explanations related to its organization and processes to assess the materiality of its sustainability-related impacts, risks and opportunities. The materiality assessment, according to the ESRS, is based on four key principles:

1. The double materiality approach.
2. The due diligence on negative impacts taking into consideration the interests of all stakeholders.
3. The value chain including the undertaking's own activities and its upstream and downstream value chain, with all its direct and indirect business relationships across its operations and value chain .
4. The short, medium and long term horizon.

The proposed implementation of double materiality requires the undertaking to identify any material sustainability impacts, risks and opportunities directly linked to its own operations, actions and decisions as well as those linked to operations, products, or services of its business relationships in its upstream and downstream value chain.

It is essential that EFRAG reflects upon the approach to the value chain, as emphasized in the final CSRD text, including the following requirements:

- "*Standards shall specify disclosures on value chains that are proportionate and relevant to the scale and complexity of the activities, and the capacities and characteristics of undertakings in value chains, especially those of undertakings that are not subject to the sustainability reporting obligations pursuant to this Directive*"; and
- "*Standards shall not specify disclosures that would require undertakings to obtain information from small and medium-sized undertakings in their value chain that exceeds the information to be disclosed according to the sustainability reporting standards for small and medium-sized undertakings.*"

This is particularly important with respect to the value chain of financial institutions. The greatest challenge for banks relates to the definition of the value chain and this needs to be carefully considered to ensure a proportionate approach. Material sustainability impacts, risks and opportunities are predominantly indirect in banks' downstream value chain, at the level of the companies they are financing. However, the levels at which banks are expected to identify and understand where the material impacts, risks and opportunities are located in their downstream, value chain are not clear in the draft transversal ESRS.

It is unclear on which part of banks' clients' value chain banks will be expected to perform the materiality assessment. This is also a topic which is currently being discussed at the political level on the proposed Directive on corporate sustainability due diligence (CSDDD). The European Commission's proposal on the CSDDD recognizes the need to carefully define the value chain for financial institutions and considers the downstream value chain for financial institutions should only "include the activities of the clients receiving such loan, credit, and other financial services".

If banks were required to take a different approach, for example one similar to the obligation to publish financed emissions scope 1, scope 2 and scope 3 GHG emissions, this would result in a disproportionate obligation for banks to identify material issues and publish related information on their clients' upstream and downstream value chain, meaning on their clients' providers and their clients' clients. This is not operationally realistic and would not be consistent with the final text of the CSRD.

It will first be challenging to identify all the main providers of all clients and of all the clients of all banks' clients and if such is the case, it will result in an extremely burdensome work to collect

from all these entities the necessary relevant information for us to identify whether there is any material sustainability risks, impacts and opportunities. Entities are also unlikely to have direct business relationships with many entities in order to "take actions to address those adverse impact". It is therefore important that EFRAG takes account of the final provisions in recital 46 and article 29b (2b) and 29b (3)of the CSRD in the ESRS.

We thus recommend clarifying that the downstream value chain of credit institutions includes corporate clients that they have a direct business relationship with and that the materiality assessment should be realized in the downstream value chain only with regards to these clients' own operations. The clients' upstream and downstream value chain should be excluded.

We also recommend that EFRAG puts in place a safe harbour for financial institutions to limit potential liability with disclosing such information, considering that, even excluding clients' upstream and downstream value chain from the definition, applying the four principles of double materiality presents a new and highly complicated consideration for undertakings to apply.

Furthermore, on the materiality assessment, we would ask EFRAG to offer application guidance as well as detailed examples. This would help defining consistent materiality assessment processes across companies and therefore promote comparability.

For financial institutions, it is necessary that topical standards are accompanied by specific application guidelines, in particular for Performance Measurement Metrics, clarifying whether the information is required at the level of banks' own operations, as an entity, or at the level of their whole value chain, including their financing operations, in their downstream value chain.

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?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

The definition of impact materiality in the draft ESRS is broader than the concept of materiality in the ISSB draft standards and that adopted by other jurisdictions. Entities reporting under ISSB ED will not have to report their impact on the environment if it does not affect "the entity's performance or prospects, create or erode the value of the enterprise and the financial returns to providers of financial capital, and the assessment of enterprise value by the primary user". Entities will have to report these impacts under the EFRAG standard.

The measurement of the impacts on the planet and society would be greatly facilitated if policies at national/international levels could be taken to enhance the protection of the environment and the workforce. Laws should embed those concepts in all jurisdictions. For the time being, impact assessment is a challenge especially given the lack of methodologies and the lack of international standards make it less efficient when comparing peers within a sector or the same location. From

what we can see all the jurisdictions that are considering sustainability-related disclosures do not have the same definition of "materiality" nor the same approach (single versus double).

We also think that the interoperability of the concept of impact materiality with ISSB S1 should be defined more concretely with the help of examples. It is valuable that the development provides the basis to move from an assessment based on perception towards an assessment that is based on impacts. To ensure that "impacts" are clearly understood as such (and not just as output or outcome), a principles-based guidance would be appreciated.

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?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

Performing the impact assessment currently represents a challenge and, given the lack of methodologies on some ESG topics, materiality assessments rely on the entity's judgement. Severity of impact (scale, scope, and irremediable character) will be interpreted differently by each undertaking, leading to a flood of immaterial disclosure of non-comparable information that will not achieve the CSRD's objectives of comparability or relevance. The existing explanations are unclear and ensuring the coverage of the entire value chain is practically unfeasible. In order to aid comparability and improve the relevance of information, we recommend that EFRAG provides some guidance and examples as to how to consistently assess impact materiality.

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?

For feedback: 1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

The definitions of financial materiality in the ESRS and ISSB standards should be better aligned, as this is a common component in both standards. Despite some common elements, the definitions provided respectively by the EFRAG and ISSB are different and make use of different notions. For instance, EFRAG refers to, but does not define, enterprise value and requires entities to report on sustainability matters that trigger or may trigger significant financial effects on enterprise value, while the ISSB refers to factors that could reasonably be expected to influence primary users' assessment of an entity's enterprise value. EFRAG's definition is otherwise more detailed and refers to notions not used in the ISSB definition, such as the reference to "frameworks promoting

a "multi- capital approach", which should be spelled out clearly and consistently across the two standards. Through GFMA we have also provided feedback to the ISSB on their ED.

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?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

With regards to financial materiality, it is very challenging to make clear medium- and long-term projections regarding the "significant financial effects" of specific sustainability-related impacts, risks and opportunities which influence or are likely to influence the future cash flows and therefore the enterprise value".

Any materiality determination could be theoretically forecasted as potentially resulting in some financial impact over a longer time horizon, and the references to longer time horizons require issuers to make significant speculative judgments that are not likely to be helpful to users of sustainability reporting.

Additionally, it is difficult, if not impossible, to tie past events and future events to future cash flows in regards to sustainability matters with any degree of certainty that could be audited.

(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 only 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 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:

(a) all of the mandatory disclosures of an entire ESRS or

(b) 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:

(a) the ESRS or

(b) 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?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

While allowing companies to rebut the materiality presumption at a very granular level (from topic and sub-topic to sub-sub topics and even specific disclosure requirements) the rebuttable presumption means that by default all ESRS are material and that the burden of the proof falls on the company. While we agree that the justification of non-materiality is necessary for the verifiability of the information disclosed by companies, we are concerned that such systematic justification of non-materiality would be a burdensome process, could increase the risk of liability for preparers and may impair the readability of sustainability reporting.

The principles of sustainability reporting should be consistent with financial reporting in that only disclosures relevant and significant to the reporting entity should be included and there should be no requirement for a reporting entity to have to explain why they have not disclosed information. Reporting entities, along with their auditors, agree materiality thresholds and provide disclosures in compliance with these thresholds. We do not think that describing why certain disclosures have not been included adds any value for stakeholders because this will obscure the relevant information. We therefore propose that the rebuttable presumption of materiality should be removed. If it is retained, the process should be made the least burdensome possible for preparers and we make some recommendations under question 27 below.

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

While we acknowledge that the (materiality) rebuttable presumption would still enable preparers to only disclose material information, we do not see particular advantages over a simple materiality requirement without a rebuttable presumption.

If retained, it is important to maintain the possibility for companies to rebut the materiality presumption at a very granular level, from topic and sub-topic to sub-sub topics and even specific disclosure requirements. This will allow companies to disclose information on sustainability issues which are material for them and give relevant information to stakeholders.

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

The fact that the burden of the proof of non-materiality falls on the company is the main disadvantage. Such systematic justification would be a burdensome process and could increase the risk of liability for preparers and may impair the readability of sustainability reporting as it would provide too much information for users.

Q27: how would you suggest it can be improved?

Our preference would be to remove the rebuttable presumption for materiality for the above reasons. If it is retained, consideration should be given to ensuring that it is the least burdensome as possible and does not impair the readability of reporting.

One option is to move part of the disclosure requirements currently set into ESRS E2, E3, E4 and E5 into the sector specific ESRS as proposed into our response to Question 1. In such case, the requirements would be targeted only to those companies that deem the performance measurement to be material. In addition, we suggest limiting the disclosure to information that the company deemed material without adding proof that the other information was considered not material. This would improve the readability of reporting.

Reporting boundary and value chain

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

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

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

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

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

The standards' approach to defining the value chain for financial institutions does not contribute to the reporting of understandable, relevant, verifiable, comparable, and faithfully represented sustainability information. The need for approximation of information mainly arises from the possible need for financial institutions to look through their clients' value chain, leading to the challenges, described above, with carrying out a materiality assessment and collecting relevant, accurate information. It is therefore essential that EFRAG reflects upon the approach to the value chain, as emphasized in the final CSRD text as well as in our reply to Question 19, where we offer recommendations on how to define banks' upstream and downstream value chain.

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

We recommend clarifying that the downstream value chain of credit institutions includes corporate clients they have a direct business relationship with and that the materiality assessment should be realized in the downstream value chain only with regards to these clients' own

operations. The clients' upstream and downstream value chain should be excluded.

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?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

We emphasise that it is necessary to find the right balance on the level of granularity of disaggregation of the data. Indeed, in order to provide useful disclosure and transparency and at the same time not releasing sensitive information, the right level of granularity and disaggregation of the data needs to be carefully considered by the competent authorities to ensure a level playing field. We think that the provisions in respect of the level of disaggregation are too detailed and that the pronouncements should be aligned with the ones in ISSB ED IFRS S1, paragraph 49. In the meantime, we propose a safe harbour provision in case corporates do not have that level of disaggregated data or for competitive reasons.

The sustainability reporting that an entity will publish will overlap with financial institutions' other reporting obligations, in particular under SFDR and the ESG risks Pillar III reporting. It is then necessary that the level of disaggregation to adopt does not only depend on the entity consideration but is also aligned with the information financial institutions need from their counterparties to meet these requirements. For example, financial institutions will need information on biodiversity, as it is a principal adverse impact listed in the SFDR regulation. If the information is only published at country level and does not take into account, the specific location of some of the entity's production site (for example next to a high biodiversity area) then the financial institution may not be able to use the information to meet its own reporting obligations under SFDR. Another example relates to physical risks where, under Pillar III, financial institutions will have to assess the physical risks their counterparties are exposed to and the country level disclosure may not be sufficient.

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?

1/ Yes 2/ No 3/ I do not know Please explain why

The appropriate time horizon will differ by industry (e.g. technology vs. finance) and we therefore consider that a principles-based approach should be adopted similar to that proposed by the ISSB.

Undertakings should be allowed to adopt their definition of short, medium, and long-term time horizons rather than use the definitions provided in ESRS 1 paragraph 83 when conducting a materiality assessment of impacts, risks and opportunities.

This would be more consistent with financial materiality applied across the majority of

jurisdictions, where a company determines what time horizons to consider material as per their company and investors and would improve connectivity with financial reporting.

A less prescriptive approach can also help companies deal better with the collection of forward-looking information and aid the materiality assessment by allowing undertakings to focus on the impacts, risk and opportunities occurring during the most appropriate time-horizon.

The current one year for short term, two to five years for medium-term, and more than five years for long-term is arbitrary and does not allow companies the flexibility needed to make materiality determinations within the context of their particular sector and business model in a manner that will result in useful information for users of sustainability reports.

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

1/ Yes 2/ No 3/ I do not know Please explain why

N/A

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

Whilst the ISSB and SEC proposed standards do not define time horizons, and financial institutions prefer to delineate their time horizons based on their strategy and objectives, a consistent long-term time horizon for climate change could aid comparability, which should be longer than 5 years. Companies may set out strategies and objectives for up to 30 years ahead, which would be a more appropriate time horizon.

We encourage regional and international standard setters to collaborate on whether to define and prescribe suitable time horizons for climate change to ensure a consistent approach to this reporting parameter with a view to facilitate comparability of reporting for investors and other interested stakeholders. EFRAG could usefully encourage such initiative.

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:

(i) when the undertaking is required to describe policies, targets, actions and action plans, and resources in relation to sustainability matters and

(ii) 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?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

We think that further work is needed to find the right balance between principles-based requirements and prescriptive single disclosures. We are of the opinion that the single disclosure requirements in respect of DP 1-1 are too extensive and that the costs outweigh the benefits.

The disclosure of the description of the scope of the policy, allocation of resources, a description of third-party standards of conduct we believe are too prescriptive and should be removed. Further, in paragraph 98, the requirement to disclose why an undertaking cannot disclose the required information in paragraph 97 does not provide an investor with material information to assess how material sustainability matters impact the enterprise value of the undertaking.

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?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

We think that further work is needed to find the right balance between principles-based requirements and prescriptive single disclosures. We are of the opinion that the single disclosure requirements in respect of DP 1-2 are too extensive and that the costs outweigh the benefits.

We therefore recommend removing paragraph 101 and 102 from the final standard. In line with our comments on rebuttable presumptions more broadly, we also do not believe the undertaking should be required to explain why it has not adopted any measurable outcome-oriented target in line with paragraph 99.

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?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

We believe that DP 1-3 is clear and will contribute to the reporting of understandable, relevant, verifiable, comparable, and faithfully information on sustainability-related action plans and allocated resources.

Nevertheless, we believe that the information that entities will have to disclose may be too sensitive and could be detrimental vis a vis other non-EU companies that will not be within the scope of the CSRD. European entities should not become less competitive because they disclose

more sustainability information. Paragraph 105 may be the most problematic as it may require entities to disclose information such as its R&D or investment plans. As provided under recital 29a of the CSRD, Reporting requirements defined by this Directive are without prejudice to Directive (EU) 2016/943 of the European Parliament and of the Council of 8 June 2016 on the protection of undisclosed know-how and business information. Therefore, we recommend that this provision is removed.

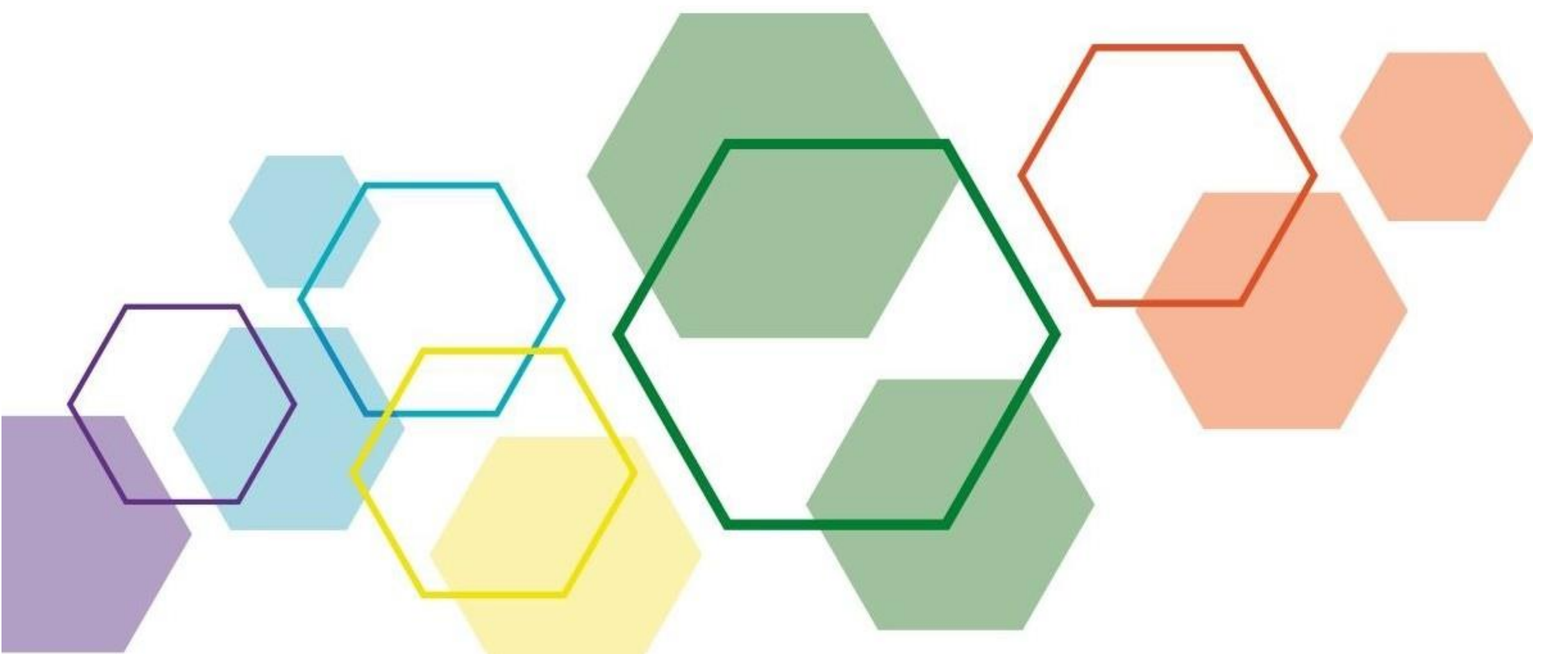
CONSULTATION SURVEY

DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS

1C. Overall ESRS Exposure Drafts relevance

- Exposure Drafts content

April 2022



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PTF-ESRS

Project Task Force on European sustainability reporting standards

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:

(a) when reporting under European Sustainability Reporting Standards;

(b) on how to apply CSRD concepts;

(c) when disclosing policies, targets, actions and action plans, and resources;

(d) when preparing and presenting sustainability information;

(e) on how sustainability reporting is linked to other parts of corporate reporting; and

(f) 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)?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

We see many compatibilities between the general principles under ESRS 1 and the IFRS S1. These include:

- The characteristics of the information of quality to be published: relevant, comparable, verifiable, understandable, and faithful
- The identification of material sustainability-related impacts, risks and opportunities on the short, medium and long term on the whole value chain, even if:
    - ISSB endorses implicitly the double materiality while the CSRD and EFRAG are

endorsing it explicitly

  - the definition of value chain from the ISSB seems more limited than the CSRD's definition and EFRAG's detailed interpretation (also incorporating indirect business relationships)
  - ISSB's definition of sustainability is less detailed and more flexible (incl. local communities, own workers, water and biodiversity on top of climate) compared to that provided by the CSRD and the ESRS.
  - ISSB does not prescribe time horizons whereas EFRAG does (1 year for short term, 2-5 years for medium term and from 5 years for long term)
  - ISSB does not prescribe the description of the materiality assessment
- The description of policies, targets, actions, action plans and resources
- Consistency and connectivity with other parts of corporate reporting

The identified gaps include three of the key CSRD concepts:

- The description of the views, interests, and expectation of stakeholders
- The statement on due diligence
- The description of the materiality assessment and its outcomes in terms of materiality or non-materiality (subject to the rebuttable presumption process) sustainability impacts, risks and opportunities
- The standards have different objectives and audiences. The ISSB ED are solely aimed at helping users of general purpose financial reporting to assess the effects of significant climate-related risks and opportunities on the entity's enterprise value. The ESRS ED are intended for a broader audience and to help investors as well as any impacted stakeholders assess these effects.

We understand that those gaps are reflective of the framework established by the CSRD and the differences in approach between the EU and the IFRS Foundation, including the consideration by the IFRS of the users of financial reports only against EFRAG's consideration of all stakeholders. Other gaps arise from ISSB's focus on financial materiality and climate-related matters, while EFRAG builds on its mandate to capture double materiality considerations. Nevertheless, we recommend that, at a minimum, the definitions of financial materiality should be aligned, as this is a common component in both 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:

(a) of a general nature;

(b) on the strategy and business model of the undertaking;

(c) on its governance in relation to sustainability; and

(d) 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

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

	1	2	3	4	5
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)				x	
B. Supports the production of relevant information about the sustainability matter covered			x		
C. Fosters comparability across sectors				x	
D. Covers information necessary for a faithful representation from an impact perspective		x			
E. Covers information necessary for a faithful representation from a financial perspective			x		
F. Prescribes information that can be verified / assured		x			
G. Meets the other objectives of the CSRD in term of quality of information			x		
H. Reaches a reasonable cost / benefit balance		x			
I. Is sufficiently consistent with relevant EU policies and other EU legislation			x		
J. Is as aligned as possible to international sustainability standards given the CSRD requirements		x			

For part H, please explain why costs would be unreasonable and / or what particular benefit ESRS 2 offers

A cost/benefit analysis should be conducted to assess the impact of the granular requirements introduced by the ESRS and, in particular, the value chain reporting. As noted throughout the response, simpler reporting standards would mitigate costs, facilitate the materiality assessment process, and simplify the engagement with stakeholders in financial institutions' value chain to gather information. As drafted, the standards require extensive analysis to understand what needs to be disclosed before considering how to obtain the information. We think that the costs of implementing such granular disclosures outweigh their benefits when considering data availability, data quality, costs of data collection and aggregations/ consolidation, as well as tagging assurance effort.

For part I, please specify what European law or initiative you think is insufficiently considered

We still consider that the draft ESRS do not adequately consider the data that banks will need from corporates to fulfill the requirements of ESG risks Pillar 3 reporting. These include disclosures of GHG emissions with a sufficient sectoral granularity, turn-over segregation per sectors and even NACE codes in certain cases as well as countries of location to allow credit institutions to report on their exposure to companies vulnerable to physical risks with a sectoral granularity.

We think that the already existing corporate governance disclosure rules do not appear to have been sufficiently considered which may create overlaps, meaning that the same information may have to be reported more than once.

Since sustainability EU policies and legislation are fast evolving, EFRAG should consider this evolution when developing ESRSs. For example, we believe the following European legislation should be considered, such as, among others, the Article 8 Taxonomy Regulation disclosures, Pillar 3 disclosures and the Corporate Sustainability Due Diligence Directive (CSDDD).

ESRS E2 – Pollution

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

ESRS E2 offers clear guidelines on how pollution should be addressed with a definition of indicators for air, water, and soil pollution. We have however some reservations on the cost/benefit balance because the implementation of compliant measuring, due diligence, reporting across the business will have a low return on investment due to the lack of taxes on the topics and it might be difficult to justify such costs.

For financial institutions, costs might be unreasonable if they have to consider and evaluate all their investments and purchases. More clarification on the banking/financial sector is needed to ensure sector specific relevance.

It would be beneficial to create a weighting matrix with pollution type, stages (pollution, pollution prevention and control measures) and timeline impact (short, medium, long term) to compare all type of industries and to help organization to prioritize their investment and effort.

ESRS E5 – Resource use and Circular Economy

	Not at all	To a limited extent	To a large extent	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			X		
C. Fosters comparability across sectors		X			
D. Covers information necessary for a faithful representation from an impact perspective			X		
E. Covers information necessary for a faithful representation from a financial perspective		X			
F. Prescribes information that can be verified / assured				X	
G. Meets the other objectives of the CSRD in term of quality of information					X
H. Reaches a reasonable cost / benefit balance		X			
I. Is sufficiently consistent with relevant EU policies and other EU legislation					X
J. Is as aligned as possible to international sustainability standards given the CSRD requirements					

Any requirements you would consider not appropriate for the purpose of sustainability reporting?

Some mandatory requirements are not appropriate for specific sectors and the sector-specific guidance should ensure this information is only asked if it is going to have a material impact on the impact of the sector. For a bank to report on all of the Circular economy requirements when its products are in a large part virtual does not meet the balance between a reasonable cost/benefit ratio.

CONSULTATION SURVEY

DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS

2. ESRS implementation prioritisation / phasing-in

April 2022

Open for comments until 8 August 2022

PTF-ESRS

Project Task Force on European sustainability reporting standards

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?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

Please explain why

We believe that a staggered approach towards adoption should be considered for those disclosures needing more time to implement. In addition, in the early periods of adoption, qualitative disclosures should be deemed sufficient in the absence of quantitative data.

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?

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

We consider that the ESRS should prioritize the collection of climate-related information, in line with ISSB draft standards, as well as sustainability disclosures made in accordance with the PAI indicators under SFDR. This should take account of the relative increased existing disclosures on climate change under frameworks such as TCFD whereas disclosures on other aspects of sustainability are generally at a less advanced stage and would therefore be likely to give rise to greater implementation challenges. As illustrated in our reply to question 28, the obligation for entities to collect information on their entire value chain is also particularly burdensome and requires addressing in the final standards. We also recommend phasing-in by three years the application of ESRS S2 on the workers in the value chain and of ESRS S3 on affected communities for undertakings where the current or potential impact, risks and opportunities are entirely located at the level of their value chain and not of their own operations.

To reflect this prioritization, certain disclosure requirements within the topical ESRS should be phased in or at a minimum moved to the sector-specific standards. This would ease the implementation and operationalization of these new disclosure requirements for entities at a time when they also have to manage the implementation of the taxonomy, SFDR and ESG pillar 3 disclosures. Moreover, the lack of a one-year delay between the reporting non-financial institutions and that of financial institutions in the Level 1 text complicates further its implementation from the perspective of data collection as their disclosures are largely dependent upon the underlying data available from their clients. Generally, we think that qualitative information should be prioritized in those instances in which quantitative disclosures would not be initially feasible when considering the maturity of underlying data and methodologies.

In order to achieve an appropriate balance while appreciating the need for financial institutions to have access to certain data for the purposes of meeting their regulatory obligations, entities should nevertheless report on those data that are needed for financial institutions' reporting requirements, while the remainder would be phased-in. They include for example some of the indicators contained in the ESRS S4 - Consumers and end-users Disclosure Requirements (Processes for engaging with consumers and end-users about impacts, Channels for consumers and end-users to raise concerns or Targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities.

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

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

3 years, consistent with the revised CSRD timeline for value chain reporting.

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

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

The prioritization/phasing- in should also take account of the data needed for financial institutions to meet their regulatory obligations, for example under the Taxonomy Regulation, SFDR and ESG pillar 3 disclosures.

Consideration should also be given to the international progress in implementing sustainability reporting requirements as EU companies with international businesses will need to rely on data from corporates in their value chains which are not themselves subject to the CSRD for the purposes of their own consolidated reporting.

Q57: please share any other comments you might have regarding ESRS implementation

We welcome EFRAG's acknowledgment that the vision of a comprehensive sustainability reporting framework will be challenging to implement and that EFRAG will consider using some prioritisation / phasing-in levers to facilitate implementation.

The implementation challenge for companies should certainly not be underestimated. We propose that the general framework (ESRS1 General Principles and ESRS2 General, strategy, governance and materiality assessment) and the climate change standards (ESRS E1) should be prioritised as a first step. For environmental standards beyond ESRS E1, we would suggest keeping all the disclosure requirements necessary for SFDR PAI (as tagged as such by EFRAG) from ESRS E2-E5 and either postponing the other disclosure requirements, or moving them to the sector-specific standards.

This would allow preparers to focus on effective implementation of the general framework and the climate change disclosure standards in a first phase. This would reflect that many companies are more advanced with climate change disclosures than in other aspects of sustainability, the relevant metrics are better developed and more widely understood, and also reflect the urgency of moving forward with climate change disclosures. It would also be aligned with the prioritisation of the ISSB and could provide additional time to seek a global baseline standard on other aspects of sustainability which is interoperable with the EU approach.

We also support the need for the proposed Application Provision AP1 which exempts undertakings from reporting comparative data for the first reporting period.

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