EFRAG-Konsultation „European Sustainability Reporting Standards“

Fragebogen

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

VORLÄUFIGER ARBEITSSTAND der BEURTEILUNG der ED ESRS durch das DRSC

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

- Not just for the principle of relevance but for all principles defining the qualities of information **we support** the general approach to **align the qualitative characteristics of sustainability information with characteristics in accordance with the IASB's Conceptual Framework and ED IFRS S1**. This will facilitate the understandability of the underlying concepts and will generally foster connectivity between financial and sustainability reporting (integrated reporting) as well as integrated auditing. It will also allow for a global baseline of sustainability reporting.
- EFRAG should **clarify the balance** that sustainability information should strike **between different qualitative characteristics** (meant to be the same or different compared to financial reporting and compared to the IASB Conceptual Framework?). For example, the IASB Framework (para 2.21 ff.) elaborates on the trade-off between relevant and faithful representation. In the example the trade-off refers to information being not sufficiently fair represented due to high uncertainty in which case the company should opt for a slightly less relevant information with a lower measurement uncertainty.
- In addition, while the same term "**relevance**" is used there are **different underlying concepts to relevance**: according to ESRS "materiality is an enabling factor of relevance", while according to the IASB Framework 2.11 and ED IFRS S1.58 "materiality is an entity-specific aspect of relevance". ESRS indicate an alignment with financial reporting requirements, when in fact, they are based on different concepts with regards to users of these statements and the materiality concept (financial vs. double materiality). Our main concern is that there is not a clear distinction between / definition of materiality on the one side and relevance on the other side.
- In addition, the implementation of the relevance principle throughout the Disclosure

Requirements in the ED ESRSs is insufficient. We agree with the approach described in the ESRS to determine relevant information and we are **in favor of a principle-based standard setting approach** to ensure that management reports the most relevant information used within the undertaking**. Added to the principles should be specific guidance**, e.g., with regard to how materiality is to be interpreted when reporting on social issues. Also, we support **additional guidance** to define sector-specific **KPIs**. This guidance within ESRS will enhance comparability across undertakings. But we would like to point out that this should not result in overly granular reporting requirements as currently proposed in some ESRS as these will lead to **information overload**; this reduces the understandability of material information and hence the relevance of the information provided. EFRAG should find an appropriate balance between principles and specific guidance. In any case, the requirements need to be based on evidence that decisions may be influenced. With regard to the multi-stakeholder approach of the ESRS, the need for decision usefulness raises the question of the scope of the decisions to be taken into account (i.e., *whose* decisions are to be considered when determining material sustainability information?).

- As for the overall concepts for the qualitative characteristics of sustainability information we ask EFRAG to **include the concept of timeliness**. We understand ESRS 1.BC31 stating that EU legislation governs reporting dates. However, in our view "timeliness" as an enhancing characteristic is not about specific reporting dates, but rather specifies the timing for an information to be included in the financial / sustainability report (if it is capable of influencing a decision) and that information is less useful the older it gets. This holds true for sustainability information and is just as important under the sustainability concept as it is in the financial reporting context.

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

- Again, the principle of faithful representation is based on the concept of faithful representation for financial information (used for decisions of investors) as laid out in the IASB's Conceptual Framework and ED IFRS S1.
- While we generally agree with this approach, clarification is needed for this principle in the context of sustainability information (see our comments to Q13).
- **Completeness** is an enhancing characteristic of faithful representation, and we agree with the understanding that a sustainability report shall include all material aspects to be complete. However, ESRS require numerous detailed disclosures for a sustainability report to be complete. In our view, expanding the information to non-material information (ED ESRS 1 paragraphs 57 to 62: materiality rebuttable presumption mechanism) does not add to, but rather reduces the quality of information. The reference to **immaterial information under the enhancing characteristic of understandability** seems to contradict the characteristic of "complete" (achieved by including all material information).

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

- The principle of comparability of sustainability information is adequately defined. However, its interpretation should not result in excessive granularity of the requirements in the ESRS and the detail in which the ESRS cover sustainability topics.
- However, to assure a certain level of comparability we are in favor of prescribing a core set of KPIs and disclosure requirements. These are necessary to achieve comparability across sectors and especially across undertakings within specific sectors. The conceptual approach should be as follows: whenever information is not disclosed it can be concluded that this aspect is not material to the undertaking. This needs to be made clear in the guidance.
- In defining this minimum, EFRAG should apply a focused approach, reflecting parallel requirements such as Taxonomy and SFDR.
- Furthermore, reporting requirements often comprise the whole value chain, potentially including the up- and downstream value chain of the entity as well as the value chains of suppliers, sub-contractors, and customers (see ED ESRS 2 AG13 et seq.); reporting undertakings will have to gather information from numerous undertakings, often SMEs, along the value chain who might not be able to provide the data (or the data quality) needed; this will impair comparability across sustainability reports (and even within sustainability reports of one undertaking).

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

- Verifiability is a core aspect of faithful representation; the IFRS Framework as well as ED IFRS S1 refer to the trade-off between the relevance and the verifiability (faithful representation) of information that is sometimes necessary to consider. EFRAG should clarify the balance the undertakings should try to strike between relevance and faithful representation for sustainability information and the emphasis that is to be put on the verifiability of the (forward looking) information. EFRAG should clarify whether that same trade-off as for financial information applies for sustainability information or whether there is – due to differences in the information (e.g. forward looking / time horizon / including of information along the value chain) – a different understanding of the trade off to be made. It should be avoided to create an expectation gap regarding the relevance / verifiability of information.
- ED ESRS E1 contains numerous references to other standards and frameworks, in part with requirements that are or can be relevant for the reporting entity, however, the degree of (expected) compliance has to be clarified (e.g. ED ESRS E1 AG 48 a): “consider the principles and provisions of the GHG Protocol Corporate Value Chain (Scope 3)”).
- Against the background of the external audit requirement (limited assurance), the expected degree of compliance with these (external) standards and frameworks should be made clear.
- It must be sufficiently explained to what extent which standards and frameworks shall be observed.
- Furthermore, the disclosure requirements regarding information about the value chain also pose great challenges for auditors. EFRAG should, in our opinion, focus more on the need for estimates that are comparable across undertakings.

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

- The principle of understandability of sustainability information is adequately defined. However, the implementation of this principle in the Disclosure Requirements of the ED ESRS is insufficient due to several reasons:
- The concept of understandability according to ED ESRS requires including immaterial information (but avoiding obscuring material information); EFRAG should explain in more detail how immaterial information will contribute to the objective of ESRS (and to the decision usefulness of the information), which we are not convinced of.
- Furthermore, the concept of understandability requires avoiding duplication (para 40) which we believe to be a very important principle. However, the ESRS itself generate redundancies (e.g. ESRS 2.GOV 1 – GOV5 on the one side and ESRS G1 on the other side, various overlapping impact information, various overlapping stakeholder information).
- These overlaps do not only exist within the sustainability report, but also with regard to the management report (e.g., risks and opportunities) and the financial report (e.g., information on revenue).
- To increase connectivity between sustainable and financial information: financial information already provided as well as links to financial information could be explored in more depth. What is meant, for example, by the requirement in ESRS that "if information is best understood in the context of financial statement that information should be included"? Is the requirement to include information from the financial report in the sustainability report and thereby expand/duplicate even more information?
- Clarification of the link to financial statements is necessary: for example, ED ESRS 2 requires various, detailed revenue disclosures; options should be explored as to how ED ESRS 2 could refer to relevant disclosures already available in financial reporting (e.g., IFRS 8, IFRS 15, IAS 1.13 with MC) thereby increasing link to financial information.
- **To connect the information**: sustainability reporting could refer to amounts presented on the primary financial statements *or* the management report. A comparable approach is proposed in ED ESRS E1, for example in DR E1-11 on GHG intensity per net turnover.

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

- The concept of double materiality in the proposals remains vague: ESRS 1 contains four definitions of materiality (information materiality, double materiality, impact and financial materiality), but there is no comprehensive clarification of the relationship between the different definitions. A clear distinction and the identification of overlapping areas is missing. There is no reference at all to the definition of "material" already contained in the Accounting Directive. The missing reference to the definition in the Accounting Directive is proof for the ESRS failing to provide a reasonable link to financial reporting.
- In ESRS 1, relevance refers to (double) materiality, but this reference does not make the necessary differentiation between concept, principle, characteristic or criterion. Is (double) materiality part of the qualitative characteristics or a separate concept? How does materiality interact with relevance and the other qualitative characteristics? In our view, relevant information is those mentioned in the ESRS; material information is those topics that have significance specifically for a particular undertaking (materiality is an entity-specific aspect of relevance).
- The conceptual weakness of the definition of double materiality is most apparent when it results in a different understanding of financial materiality for sustainability information on the one side and of financial materiality for financial information on the other side. It is crucial that EFRAG lays out a common understanding of financial materiality in line with IFRS and in line with a comprehensive corporate reporting.

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

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

- Due to the conceptual weakness outlined above (Q18), we find the implementation of double materiality is practically feasible only to a limited extent with strong reservations; clarification is needed. As currently drafted, the guidance will make the materiality assessment for preparers extremely difficult and similarly difficult to be assessed by auditors. Hence, it poses the risk of creating misinterpretations and expectation gaps with users, regulators and other stakeholders. It will also limit comparability across undertakings.
- In addition, we think implementation issues should be defined in ESRS 1. ESRS 2 should only contain requirements for reporting on the process for identification of relevant topics that are material and which material topics were identified.
- Further, we consider including examples for the implementation of double materiality as necessary.

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 <u>definition</u> of impact materiality (as per ESRS 1 paragraph 49) <u>aligned</u> 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

- ISSB will publish a global baseline for sustainability reporting; these standards do **not** include a concept for impact materiality. However, it is not clear how large the area of impact materiality is that is not covered by financial materiality.
- We agree, however, that impact materiality is an important underlying principle of the ESRS. Therefore, complete alignment of ESRS with the current ED IFRS is neither achievable nor desirable. But nevertheless, the alignment as far as possible for the financial materiality is of utmost importance; overlaps between financial and impact materiality (as a consequence of dynamic materiality) and the areas of impact materiality that go beyond financial materiality need to be clearly defined.
- This is a basic premise for the success of the global baseline and the building block approach. Due to the conceptual weaknesses mentioned above (Q18), this basic premise is not fulfilled.

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

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 existing overlap of impact and financial materiality and the correlation between these two materialities makes it difficult to focus independently on only impacts on the one hand and only risks and opportunities on the other.
- Further, the meaning of terms – like the determination of scale and scope – is not clarified in ESRS.
- There are a large number of practical implementation issues that ESRS should address in more clarity, e.g., value chain aspects are a huge challenge for determination and implementation of impact materiality.
- Further, we consider including examples for the implementation of impact materiality as necessary, as already suggested for the implementation of the double materiality (Q19).

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?

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

- ED ESRS 1 explicitly excludes from a financial materiality in the context of sustainability reporting the financial effects captured in financial reporting (ESRS 1 par. 52). Since these financial effects are both supposed to likely influence the future cash flows and therefore the enterprise value of the entities this differentiation seems artificial. EFRAG should clarify the understanding of financial materiality in order to have a common understanding of financial materiality in line with IFRS and in line with a comprehensive corporate reporting.
- In addition, this differentiation does not provide for an integrative approach to sustainability and financial reporting. Therefore, the understanding of financial materiality in ED ESRS 1 should be compatible with the current understanding in financial reporting.
- Particularly important is a global baseline as currently developed by the ISSB. EFRAG should build its activities and advice on this global baseline to achieve better compatibility with standards applied elsewhere in the world. This requires a uniform understanding of financial materiality. As mentioned before, the definition of financial materiality should be aligned with ED IFRS S1

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

- Due to the artificial differentiation between financial materiality in sustainability reporting and another financial materiality in financial reporting, we find the implementation of financial materiality is practically feasible only to a limited extent with strong reservations; clarification is needed.
- In this regard, we again refer to the conceptual weaknesses addressed in Q18.
- Also, we again encourage to include examples for the implementation of financial materiality as already suggested for the implementation of the double an impact materiality (Q19 and 21.)

(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

- We support that there are core key indicators and core disclosure requirements defined that are to be reported by all undertakings if they are material.
- However, the disclosure requirements in the Draft ESRS are not limited to that set of necessary core key indicators / disclosures but also include numerous disclosures which we identified as not being sector-agnostic, but sector-specific. Therefore, the

implementation of the rebuttable presumption concept within ESRS likely results in (long) lists of non-material items reducing relevance of information and causing information overload, tremendously increases burden on companies as the concept requires explanations of why items are non-material.

- With reference to the numerous detailed disclosure requirements, the already very large extent of disclosures is additionally greatly expanded by the information on non-material information (ED ESRS 1 paragraphs 57 to 62: materiality rebuttable presumption mechanism). Here, the problem of information overload can significantly limit the quality of reporting.

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

- This information seems particularly relevant for NGOs to evaluate which information undertakings did not consider material.
- Comparability is often seen as an advantage. However, a database would show non-material aspects as such with a corresponding "zero" entry.
- To give reasons for considering an information as not material could be considered to have a stewardship function.

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

- There is a great risk of information overload and reduced understandability of sustainability report.
- In addition, it requires burdensome explanations of non-material items and is not in line with an appropriate cost-benefit relation.

Q27: how would you suggest it can be improved?

- We do not consider a whole list of non-material items and explanation regarding the non-materiality to be useful. In our view the comprehensive disclosure requirements for the materiality assessment are already sufficient.

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

- Data are difficult to collect, even though this is not a criterion for a disclosure requirement we suggest a different approach altogether.
- **Suggestion:** risk-based-approach regarding information that should be collected throughout the value chain.
- To specify the approximation of information on the value chain that cannot (practically) be collected, it would be useful to give examples in the disclosure requirements.

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

- Alternative suggestion: allow for a risk-based-approach (e.g. country-specific risk, industry-specific-risk, company-size-specific risk…) for the process of collecting data along the value chain.

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

Our reservations regard the following aspects:

- Paragraph 74 requires “when relevant for a proper understanding…” that a disaggregation **shall** be adopted for: a) by country, b) relation to significant site or significant asset.
- Aggregation requirement (“avoid obscuring”) difficult as numbers are often not comparable
- Disaggregation of information in the sector-agnostic disclosure requirements seems to make sense in principle (e.g., physical climate risks for certain significant production halls according to ED ESRS E1). However, the different levels of reporting pose a great challenge for entities.
- Large number of individual disclosure requirements with different levels of consideration weakens the understandability, relevance, and comparability of the disclosures.

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

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

1/ Yes **2/ No** 3/ I do not know

Please explain why

- It is not appropriate that everything beyond five years is "long-term" and that only one year is considered as "short-term". Therefore, it should not be defined generally for all disclosures, but industry-specific or context-related.
- Time horizon requirements should be consistent with ISSB standards (global baseline), which will likely be less prescriptive.

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

- It should not be defined generally for all disclosures, but industry-specific or context-related
- Entities should be left to set their own time horizons for sustainability reporting purposes.
- These decisions would have to be disclosed / explained by the undertaking.

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

- Support for information on policies
- Important to keep an appropriate level of granularity
- Suggestion: include reference to **key** policies in line with ED ESRS 1 paragraph 104
- See our comments on topical standards (requirements on policies seems too detailed)

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

- Support for information on targets
- Important to keep an appropriate level of granularity
- Suggestion: include reference to **key** targets

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

- Support for information on key action plans and resources; nevertheless, this reporting requirement is about information that is highly sensitive for the undertaking (e.g. to avoid competitive disadvantages). Therefore, it is important to keep an appropriate level of granularity for reporting on (key) action plans and resources; information at action-level should be limited to information that is indeed decision-useful at that level.
- Questionable whether ED ESRS 1 paragraph 105 is practical; interaction with the EU-Taxonomy (Regulation (EU) 2020/852) remains undefined and causes uncertainties for preparers.

Bases for preparation

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

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

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

1/ Yes **2/No** 3/ I do not know

If yes, please indicate which one(s).

Please share any comment you might have on the aspects already covered (make sure to indicate which one you are referring to)