

EFRAG-Konsultation „European Sustainability Reporting Standards“

Fragebogen

2. ESRS implementation prioritisation / phasing-in

**VORLÄUFIGER ARBEITSSTAND der BEURTEILUNG der ED ESRS
durch das DRSC**



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

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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

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

We propose to establish a procedure that allows for an easier transformation to the application of EFRS. This could include a general phase-in-approach. This could however, similar to a phase-in-approach also allow extensive simplifications for first time adopters. As a first step first time adopters would be required to disclose Principal Adverse Impact Indicators as required by SFDR as well as apply the general concept and disclose cross-cutting information according to ESRS 1, ESRS 2 and overall governance information of ESRS G1. In addition, first-time applicants would have to adhere to ESRS E1 *Climate change* as well as to ESRS S1 *Own workforce*. These disclosures would be a basis from which to expand the disclosures after the first-time application.

Please explain why

Article 19b paragraph 1(a) of the CSRD proposal requires the Commission to “at least” specify information corresponding to the needs of financial market participants subject to the disclosure obligations of SFDR ((EU) 2019/2088). This information is therefore critical and essential. However, disclosures with regard to climate change, to own workforce and to governance have been identified by stakeholders as critical to push the transformation towards a sustainable economy. Therefore, we urge EFRAG to give the highest priority to ESRS E1, ESRS S1 und ESRS G1 (under consideration of the global baseline being established by the ISSB). Furthermore, as the two cross-cutting standards (ESRS 1 and ESRS 2) are designed to provide the fundamentals for an undertaking’s sustainability reporting, we suggest giving them equal priority. The other standards should become subject to later steps of processing the ESRS.



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

Voluminous scope and granularity of the proposed ESRS disclosure requirements in conjunction with the very tight timeline for their application of this voluminous scope is challenging for all undertakings. Therefore, the new set of ESRS will be a huge challenge in general. Therefore, as already explained in our answer to question Q53, we are clearly in favour of a phasing-in approach that would give undertakings sufficient capacity and time to apply the new provisions: Disclosing Principal Adverse Impact Indicators as required by SFDR, ESRS 1, ESRS 2, ESRS E1, ESRS S1 and ESRS G1. In our understanding, this phasing-in approach would be consistent with the CSRD in the version of the compromise text of June 21, 2022.

This proposed phasing-in approach is not intended to be a prioritisation implying that the other topical ESRS are less acute in terms of their sustainability-related impacts. However, in some cases there are less robust processes and methods for data collection in place. These could be remedied in the next step. The proposed prioritization is therefore intended to give reporting entities some time to adjust to the new disclosure requirements in order to build internal resources and competencies and to disclose high-quality data. Companies should start developing reporting systems immediately so that reporting capability is in place as soon as possible.

We do not think that singling out a number of disclosure requirements that appear challenging is a preferable approach. Instead, we recommend following a broader concept to phase-in all the disclosure requirements in order to allow a smoother transition / high quality data for sustainability reports.

To give an example of challenges applying just one proposed ESRS, namely Draft ESRS E4 *Biodiversity and Ecosystems*:

Within the environmental standards, we see the biodiversity as the highly prioritised issue after climate change. A Standard for biodiversity is needed urgently as biodiversity breakdown looms and could lead to global food insecurity and political instability.

However we are of the view that disclosure requirements proposed in Draft ESRS E4 are challenging to meet as this standard requires (1) significant partially unavailable new data, (2) very limited knowledge on the topic available in financial sector and real economy, (3) wording taking nearly straight from climate regulation which took some time to develop but this also allowed capacity and data building which has not yet



happened for biodiversity (biodiversity is significantly more complex than climate), (4) assessment of the whole value chain is a huge effort.

While requirements are comprehensive, standards and guidelines on how to measure and what exactly to measure are vague. Application guidance refers to databases and tools that are not ready to use yet (e. g. AG 30). This can lead to enormous effort and frustration in the private sector, leading to unnecessary pushback that could be avoided if methodologies are more clearly defined.

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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

In addition to our proposal for phasing-in as explained in our answer on question Q54, we advocate for an extension of the process in terms of time – consultation period as well as analysing the consultation feedback and performing redeliberations by EFRAG - for the development of the standards, other than ESRS E1, ESRS S1 and ESRS G1 and the cross-cutting standards (ESRS 1 and ESRS 2). Ensuring high-quality ESRS should be the overall objective of EFRAG. To follow up on our example in Q54 regarding the Draft ESRS E4, we believe it is mandatory to give stakeholders enough time to respond with sufficient depth on the proposed disclosure requirements as well as to give EFRAG enough time for proper analysis of these responses. Only in this way the future standard will be able to meet the objectives defined in paragraph 1 of the Draft ESRS E4.

As step two of the phasing-in approach we recommend the following implementation of the topical standards ESRS E2-E5, ESRS S2-S4 and ESRS G2, depending on the final effective date of the SCR D:

- one year after the effective date of the CSRD, if staggered effective date will be adopted, or
- two years, if no staggered effective date will be adopted.



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

Please refer to our answer on question Q55.

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

Future amendments to ESRS should include clear transitional provisions, including presenting comparative information in respect of the preceding period to ensure comparability over time.

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