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Berlin, 29 September 2025

Exposure drafts of July 2025 on revised ESRS

Dear Patrick, dear Chiara

On behalf of the Deutsches Rechnungslegungs Standards Committee (DRSC) I am writing to submit the position of the DRSC on the aforementioned Exposure drafts for revised ESRS (further referred to as "ED"). We have further posted our detailed comments on single paragraphs of the ED as well as on the dedicated questions raised by EFRAG by using the webform provided through EFRAG's website.

The DRSC has been involved in the technical work on the ESRS revision from the beginning through our involvement in EFRAG's technical group. Furthermore, the DRSC Sustainability Reporting Technical Committee discussed aspects of the revision early on and let EFRAG know about the results to inform the revision. The committee also discussed in detail the proposals of July 2025. The committee's work has also been informed by a group of experts established to analyse and discuss the drafts available on an ad hoc basis.

The DRSC acknowledges EFRAG's hard work under very restrictive time constraints and welcomes the work done by EFRAG so far. We clearly note that the ED constitutes a significant step to ease the application of ESRS when preparing sustainability reports under the EU legislative framework. In this context we would like to highlight the structural improvements (streamlining and reduction of redundancies), the simplification of certain requirements concerning the double materiality analyses, the clarifications on the interactions of topics and IROs, or added reliefs especially regarding primary data as well as acquisitions and disposals.

However, we also believe that in relevant core aspects, the simplifications do not go far enough, various requirements raise new questions due to new concepts and terms, and that some changes – deviating from the intent of the EU commission's mandate – include or are perceived to include new disclosure requirements and extensions to the Delegated Act. The current ED has several conceptual inconsistencies and not sufficiently mature description of core concepts which need to be addressed thoroughly in order to avoid adding additional complexity and the need for subsequent clarification, for example, via FAQs. In addition to comments on the level of the disclosure requirements and single paragraphs (EFRAG's excel file) we lay out the aspects that are most crucial in the view of the DRSC's technical committee below.

Fair presentation

EFRAG's proposal emphasises the principle of fair presentation in ESRS 1, Chapter 2. According to ED ESRS 1.17, the application of ESRS results in the sustainability report presenting a true and fair view of the material effects, risks, and opportunities of an entity (known as fair presentation).

The DRSC supports the explicit reference to the fair presentation concept. In its position paper of April 15, 2025, the DRSC already called for greater emphasis on the principle of fair presentation. While supporting the general concept, the concept as laid out in the ED does not represent a mature concept of fair presentation but could result in significant ambiguity.

We believe that the existing ESRS (Delegated Act) already contain elements of a fair presentation concept underlying the ESRS. These include the materiality concept, qualitative characteristics of information, and the potential relevance of entity-specific information because these elements support the presentation of a true and fair view of an undertaking's sustainability related impacts, risks and opportunities. However, we note the fair presentation concept is not made explicit in ESRS, and therefore the current ESRS leave room for different interpretations, which we observe in practice. Consequently, ESRS need clarification in this regard.

However, the ESRS need to be clearer on the intention of including an explicit reference to the fair presentation concept, clarify the expectations with regard to the fair presentation and consistently include this concept throughout the ESRS (see also "materiality of information"). The Basis for Conclusions and the consultation questionnaire state that emphasising the principle of fair presentation should contribute to strengthening the materiality principle and thus to a focus on the presentation of material information in the sustainability report. We believe that it needs to be clear that the proposed amendments to the ESRS *in general* will contribute to this objective, especially due to the emphasis on the materiality concept, the clarifications on the materiality of information, improvements in the structure or clarifications regarding the link between topics and IROs. Fair presentation on the other hand, as laid out in ESRS 1.17, will be achieved by applying all ESRS, including the consideration of the underlying concepts (of materiality, of entity specific information etc.).

Therefore, the DRSC believes that it is important to explain the principle of fair presentation in more detail and explain it in the context of other sustainability reporting principles. Of particular importance are the materiality principle, including the principle of materiality of information, compliance with the qualitative characteristics of sustainability information, and the obligation to report additional entity-specific disclosures where applicable. The objective of including the reference to fair presentation is – in our view – to connect these principles. The result of applying these ESRS will be sustainability reports that focus on material information and that take into consideration entity-specific aspects, where applicable.

<u>Materiality of information</u>

The ED places greater emphasis on the principle of materiality of information in order to highlight the importance of the materiality filter at this level and in order to obtain a sustainability report that is more focused on material information. Clarification on the materiality concept is crucial for undertakings to determining the scope of reporting. The DRSC therefore supports the proposed emphasis of this principle.

However, the DRSC believes that the wording of the principle as proposed in ED ESRS 1.21 contradicts the objective. The objective is to prevent disclosures that are unnecessarily granular or focused exclusively on a full disclosure of all requirements, but which are not material in the specific case of the undertaking.

ED ESRS 1 states, however, that information is material if it is necessary for users of sustainability reports to understand the undertaking's material impacts, risks, and opportunities (see ED ESRS 1.21(b)). In our view, the assumption that sustainability information is always material if a – which literally means "any" – user considers it necessary to understand the material impacts, risks, and opportunities does not lead to the desired focus of reporting requirements, but instead to a potentially unlimited requirement to provide further information. According to the ED, the materiality of information is linked to whether a user considers information necessary to understand the material impacts, risks, and opportunities of the undertaking. However, there are no specifications regarding the "user" (or user groups), such as a certain degree of their knowledge, nor criteria for when information is necessary for users. ED ESRS 1.21(b) is therefore too vague and may ultimately lead not to a focus but to an indefinite expansion of reporting requirements. This aspect becomes even more important as several newly introduced paragraphs suggest a very granular level of information.

The DRSC is of the opinion that the principle of materiality of information can be better defined by applying the concept of decision usefulness (known from financial reporting) equally to all users. The concept presented in ED ESRS 1.21(a), which previously only applied to users of financial reporting, should therefore be extended to all users. This will allow an equal, familiar concept for all users. The criterion set out in ED ESRS 1.21(b), according to which information is material (and therefore to be reported) merely because it is "necessary for users […] to understand", should be deleted. Furthermore, as currently provided for in ED ESRS 1.21(a) the user and the level of information that undertakings have to disclose need to be specified, for example, by referring to "users of general purpose sustainability reports".

General disclosure requirements (GDR) – Policies and actions

The DRSC supports EFRAG's efforts to streamline the requirements and offer a more concise language in the ESRS. However, the reworded general disclosure requirements for policies, actions, metrics and targets (GDRs, ESRS 2.29 – 2.44) have seem to cause various inconsistencies and conceptual gaps and therefore bear the risk of (unintended) additional requirements.

For example, the term "policy" is defined in the glossary as: *"A set or framework of general objectives and management principles that the undertaking uses for decision-making. A policy implements the undertaking's strategy or management decisions related to a material sustainability topic.* [Note: At the same time actions are also "decisions to support these with financial, human or technological resources" (ED ESRS Table 2 of Annex 2)] *Each policy is under the responsibility of defined person(s), specifies its perimeter of application, and includes one or more objectives (linked when applicable to measurable targets). A policy is validated and reviewed following the undertakings' applicable governance rules. A policy is implemented through actions or action plans."*

The current ESRS (Delegated Act) explicitly refer to those processes for managing and monitoring being part of the policies, i.e., they are not considered as a different aspect. With the rewording of GDR-P the reference to management processes was deleted. However, the definition of "policy" suggests to include any related "processes" (management principles) that an undertaking relies on for decision-making and implementing the strategy regarding material sustainability topics. In the specific disclosure requirements, it remains unclear where to report on processes related to the policies (e.g. an environmental management system) or whether this requirement has been dropped altogether. It is important to clarify the intention of the amendment. If such processes would be (mis)understood to be actions this could have unintended consequences, e.g. disclosures on financing "key actions".

Though the definition in the glossary remains that "actions" are *"undertaken to ensure that the undertaking delivers against targets set and through which the undertaking seeks to address material impacts, risks and opportunities"*, the unclear concept of policies (according to the glossary there is a wide understanding of policies as implementing measures whereas the GDR-P seem to be more focused on formal policies) seems to extend the scope of "actions".

In combination with ED ESRS 2.38a/b (financial resources and other resources) this could potentially lead to a de-facto requirement to quantify all relevant resources to manage IROs (total cost of sustainability). This could include costs for the compliance department as well as basic equipment in a health & safety management system.

Gross vs. net

The DRSC is very much in favour of the amended ESRS addressing the topic of "gross vs. net" in ESRS 1 as undertakings have had difficulties understanding the ESRS in this regard. The DRSC also welcomes EFRAG's further efforts on this topic, especially the field tests conducted in the past weeks.

However, ED ESRS 1 does still not sufficiently clarify the understanding and application of "gross vs. net" for the undertakings. In addition, the DRSC thinks that the ED still lacks a consistent concept applied throughout the standards with regard to the question of gross or net. Furthermore, ED ESRSs consistently ask for disclosures about financial effects without clarifying whether those are intended to depict the gross or net financial effects.

Specifically, on ED ESRS 1: consistency is needed between the requirements in ED ESRS 1.34 et seq. and the Appendix C. Currently, the examples in appendix C raise further questions regarding the application of the underlying principle in ESRS 1. Therefore, the DRSC suggests deleting the Appendix C. This would also allow undertakings to establish best practice independent of specific examples. If ESRS 1 does not provide further clarifications, undertakings will have to develop an understanding of "implemented mitigation measures" and resulting residual impacts as well as on "significant ongoing mitigation action". However, these will likely result in different interpretations across undertakings so that DRSC suggests clarification of paras 34 and 35. The DRSC believes that it is not necessary to address various constellations, but instead a clear understanding of the underlying principle as a basis for decisions of the undertakings that will result in material information in the sustainability reports.

As the Double Materiality Assessment is the fundament of the ESRS, the general concepts of impacts, risks and opportunities should be further elaborated in order to solve the gross-net-discussion already on a conceptual basis. We believe the following consideration could be a good starting point: Conceptually, potential impacts seem to be rather an abstract industry-inherent, business-model-inherent or geographical-footprint-relevant exposure (as suggested by the examples of ED ESRS 1.AR6). Subsequently, they seem to be neither gross or net but rather an abstract exposure. Actual impacts, though, literally need to consider everything relevant for the actual situation (as described in the GDRs) and therefore, every actual impact has always to be considered.

Anticipated financial effects (AFE)

The DRSC has requested changes to the AFE disclosure requirements already in its position paper dated April 15, 2025. We therefore welcome EFRAG’s considerations regarding disclosures on AFE. EFRAG is putting forward two options for consultation. The DRSC, after taking into account numerous feedback received on these proposals, strongly supports Option 2, which requires qualitative information on AFE while quantitative information is optional. Option 1 would require quantifications of future developments which are far the beyond the practice of financial reporting.

We acknowledge the need of investors and other stakeholders for financial figures in sustainability reporting expressed in the request to disclose information on AFE. Nevertheless, the basic concepts of AFE currently seem to be a variety of different demands under the umbrella of one terminology.

One concept of AFE in the ED follows the concept of financial materiality. AFEs could be understood as nothing else than the “financial effects” as defined in ED ESRS 1.39 and suggested by ED ESRS 1.AR15. Qualitatively describing these effects (Option 2) would subsequently result in a more detailed description of risks and opportunities (e.g. a description whether a risk is related to fines, loss of sales or valuation of assets). Applying quantification (Option 1) to this AFE concept is implicitly required by ED ESRS E1.41 which requires to report the “anticipated financial effects […] of assets at material transition risk before considering climate change mitigation actions”. In this case, the AFE concept predefines risks to be considered from a gross perspective (see contradiction regarding DMA). In any case this AFE concept would be applicable to risks only (which consider the financial implications) but would not be applicable for impacts.

Another concept found in the ED regarding AFE suggested e.g. by ED ESRS 2.AR16 (“announced investment and disposal plans”) is more linked to the concept of financial resources allocated to actions as defined in ED ESRS 2.38. Applying this concept would also make AFEs nothing else than reporting on these resources and thereby doubling a requirement.

Therefore, on a conceptual level, the ESRS do not yet provide a clear understanding of what AFE are meant to be – in contrast to information provided in the financial statements (and especially the risk report). It is also necessary to define, on a conceptual level, what AFEs are and how AFE are to be determined.

In addition, and independent from the conceptual difficulties, such information on AFEs needs to be reliable, meaningful and comparable to be of value. Undertakings numerously confirmed that the necessary maturity level is not yet reached and currently, quantitative information do not live up to the expectation of investors and other stakeholders. The reporting practice, including methodologies, still needs to develop in order to address the high uncertainty and to make information on AFE comparable and meaningful. Quantitative information on anticipated financial effects in relation to sustainability matters is often not available in undertakings and is usually not relevant for internal management purposes.

Due to the limitations mentioned above, e.g., with regard to the reliability of the information, it can be expected that Option 1 will also often amount to merely qualitative information due to the application of reliefs. However, undertakings would be asked for extensive documentation on why reliefs where appropriately considered. On the other hand, if quantified according to Option 1, for many companies AFE would constitute the single largest group of metrics as they have to be multiplied by the number of IROs (which might be 30, 50 or above 100). This would not be in line with the simplification mandate. Since qualitative information also represent useful information for decision-making and undertakings would still be allowed to move forward and provide quantitative information (especially in the case of future developments), the DRSC advocates Option 2.

The DRSC is nevertheless a strong supporter of interoperability. However, we believe that more work is needed on AFE on a general standardsetting level and that this work should be part of joint discussions and joint efforts of EFRAG and the ISSB. The disclosure requirements should be aligned while taking into consideration the current (limited) maturity level of the basic concept of AFEs for such disclosures.

Transition plan for climate change mitigation

The provisions of ESRS E1 (Delegated Act) regarding transition plans for climate change mitigation have often been criticised because they overlap significantly with the requirements for policies, actions and targets. Many also believe that a transition plan is the same as a combination of actions, targets and policies specifically designed to address the Paris climate goals.

This inevitably causes redundancy in reporting and avoidable controversy between undertakings and auditors. The granularity of the reporting requirements was also subject to strong reservations.

We welcome the fact that EFRAG has taken this feedback on board and now proposes in the ED to clarify that not all aspects of the transition plan need to be disclosed and that reference can be made to relevant information in other disclosures in order to reduce redundancy. We further believe that the structure and the design of the proposed disclosure requirement ES ESRS E1-1 are in principle compatible with the SBTi guidelines and the Transition Plan Taskforce Disclosure Framework. However, we believe that the proposed disclosure requirement contains additional data requirements that will make it considerably more difficult to apply the standard.

First, EFRAG proposes in paragraph 14 (a) of ED ESRS E1 to require an undertaking to describe the key features of the transition plan including a description of the "financial and investment planning". In contrast, ESRS E1 as adopted by the European Commission (delegated act) requires disclosing "the undertaking's investments and funding supporting the implementation" the transition plan (para 16(c)). In our understanding, "investments and funding" is a part of the "financial and investment planning" because the latter contains all elements of an undertaking's planning including forecasted balance sheets, income statements, cash flow statements, etc. In other words, the "investments and funding" is a part of the undertaking's financial planning but does not constitute the whole exercise.

Second, EFRAG proposes in paragraph AR 2 (c) of ED ESRS E1 to require an undertaking to disclose quantified short-, and mid-term CapEx and/or OpEx as well as long-term CapEx and/or OpEx ranges. In our view, this detailed disclosure is also not required by the delegated act.

<u>Climate scenario analysis</u>

Many stakeholders have been complaining about the ambiguity of ESRS E1 in relation to the climate scenario analysis because many felt that standard is not explicitly clear whether or not it requires undertakings to apply scenario analyses in assessing climate related physical and transitional risks and opportunities. The same observation was made by EFRAG according to paragraph 247 of the Basis for Conclusions attached to the ED. In contrast, the "Interoperability Guidance" issued jointly by EFRAG and the ISSB in May 2024 contains a statement that "ESRS E1 does not mandate the use of scenario analysis" (page 15 of this guidance). Notwithstanding the practical value of this statement, the Interoperability Guideline has no legal status in the EU.

We note that EFRAG proposes that the draft ESRS E1 should continue to cover the use of scenarios in assessing relevant climate risks and opportunities. However, the wording remains unclear as to whether the use of scenarios is mandatory. We further note that paragraph 247 of the ED's Basis for Conclusions states that "there is an expectation that undertakings report on key elements of the methodology to assess climate risks, but that scenario analysis is not required for all". This statement raises two questions, whether there are undertakings that will be required by ESRS to use scenario analysis, and, if yes, which ones.

Apart from the fact that this wording causes a high degree of uncertainty, the DRSC strongly believes that the ESRS should not include any obligation for undertakings to use scenario analyses. We acknowledge that scenario analysis is an important tool for accurately assessing climate risks, but we believe that its use should be left to undertakings, also because we observe it still is a very complex and costly exercise for many.

Additional requirements / additional datapoints

According to the European Commission's mandate of March 2025, one priority for simplifying the ESRS is to significantly reduce the number of data points. The importance of this aspect was emphasised once again in Commissioner Albuquerque's letter of July 2025. Against this background, the DRSC has – on several occasions (please see our letters of 18 June, and 20 July) – advised EFRAG that the introduction of new data points or additional should be avoided where possible.

Nevertheless, after reviewing the ED, we have found that it contains a number of new data points and expanded disclosure requirements, even though we do not wish to attribute any intention to this. We refer to the EXCEL file provided by EFRAG for the assessment of individual paragraphs in the ED. Among other serious concerns, all extensions to the delegated act are marked as 'red flags'.

If you would like to discuss our comments further, please do not hesitate to contact me.

Please, note the attached comments on the glossary which we could not include in EFRAG's questionnaire nor in the excel-file provided by EFRAG.

Yours sincerely

Georg Lanfermann

DRSC Comments on the draft glossary

Term	DRSC remark (Please note, the DRSC has not yet included a full analysis of the glossary)
actions	In the glossary "actions" can still be read as being necessarily connected to targets of the undertaking ("actions and action plans ... are undertaken to ensure that the undertaking delivers against targets set"); it is important to clarify that undertakings can disclose actions which are not connected to a specific target as actions can also be necessary to retain a (high) level that the undertaking has already achieved; in these cases there would be no targets, nevertheless actions would be required to maintain the level achieved (one could argue that the target is to maintain that level). Oftentimes these actions address fundamental aspects of the undertaking's business which are relevant for the ongoing business activities - if actions were necessarily connected to a target (i.e. improvement) than the glossary could be read as not allowing these actions to be disclosed / reported on
actual impacts	Impacts are explained in the glossary as "can be actual or potential, negative or positive, intended or unintended, and reversible or irreversible". It seems random to further define "actual" and "potential" impacts (new terms added in the glossary) but not any of the other dimensions of impacts. (see the same comment on "potential impact")
double materiality	Editorial: "Double materiality has two dimensions: impact materiality and materiality." (Include "financial")
family-related leave	The definition in the glossary seems to contradict the explanations provided in ESRS S1 AR 32 for para 42. The latter states that employees that are entitled to family-related leave can also be those that are covered by "organisational policies, agreements, contracts...". However, the glossary suggests that only those available under national law or collective agreements are to be considered. The AR 32 includes the appropriate (wider) understanding and should be mirrored in the Glossary.
human rights incidents	The glossary refers to human rights incidents as being "substantiated" in relation to non-respect of human rights. Does this wording intend a higher threshold for human rights incidents compared to other incidents (as also defined in the glossary)? (see the also the comment on "work-related incident")
impacts	Editorial: mark "actual" and "potential" as terms that is also explained in the glossary (i.e. bold letters)

Term	**DRSC remark** (Please note, the DRSC has not yet included a full analysis of the glossary)
key products	The definition that is introduced in the glossary currently attributes various characterstics to products being "key". Those characteristics include "primary goods", "central", "significant", "critical" and "essential". It would seem necessary to provide a clearer understanding of key products and its characteristics. Furthermore, the question arises whether these attributes should also be applicable for "key services" as usually ESRS refer to "products and services".
key services	Should be considered to provide definition in line with "key products" (as usually ESRS refer to "products and services").
lobbying activities	According to the log of amendments for G1, G1-5 aims at more clearly differentiating between lobbying activities and political influence; however the definition in the glossary for lobbying activities has not changed / political influence is not included in the glossary - if ESRS amend were to keep up the objective of a clearer differentiation that should also be depicted in the glossary:
location	Editorial: mark "site" as another term in the glossary (i.e., site should be in bold); in addition: are "locations" (i.e. geographical areas meant to be different from physical locations? (see remark re/ "sites")
microplastics	The definition of microplastics included in the ESRS in the context of the disclosure requirement E2-4 is not fit for purpose (i.e. "small pieces of plastics, usually smaller than 5mm"). Such a description could also capture the polymers manufactured by chemical companies, a high-quality intermediate for the production of final polymers that are placed in the market through downstream value chains. The production of such polymers is usually carried out under strict loss schemes (e.g. OCS principles).
physical risks	Editorial: mark "location" as another term in the glossary (i.e., location should be in bold letters)
potential impact	Impacts are explained in the glossary as "can be actual or potential, negative or positive, intended or unintended, and reversible or irreversible". It seems random to further define "actual" and "potential" impacts (new terms added in the glossary) but not any of the other dimensions of impacts. (see the same comment on "actual impact")
sites	Sites are explained as "physical locations" whereas "locations" are explained as "geographical areas". Are "physical loactions" meant to be different from "locations"? If so, how? If not, is this tautological?
stakeholders	ESRS 1 includes a slightly different definition of affected stakeholders by refering to "upstream and downstream value chain"; ESRS 1 also includes a slightly different definiton of users (including "such as" in reference to existing and potential investors, lenders.... - whereas the list in brackets in the glossary seems to be a concluding list):

Term	**DRSC remark** (Please note, the DRSC has not yet included a full analysis of the glossary)
strategic raw materials	Editorial: mark "critical raw materials" as another defined term (i.e. bold letters).
work-related incident	According to the log of amendments for S1 (pp. 47–48), the reference to “incidents” was adopted instead of “work-related incidents” to ensure consistency with existing glossary definitions and to avoid multiplying terminology within a single disclosure requirement (EFRAG decision). Consequently, the glossary definition of “work-related incident” should be deleted if the term is no longer used in the ESRS. Nonetheless, it should be noted that the glossary term “work-related incident” cannot be interpreted as a subcategory of the glossary term “incident”, given the way both are defined. The term “incident” is narrower, referring specifically to “a legal action or complaint registered with the undertaking or competent authorities through a formal process, or an instance of non-compliance identified by the undertaking through established procedures.” By contrast, “work-related incident” is broader, as it encompasses “occurrence(s) arising out of or in the course of work that could or does result in injury or ill health.” This distinction should also be borne in mind when applying the newly introduced term “human rights incidents.” It remains unclear whether “human rights incidents” are to be understood as a subcategory of “incidents”, or whether they should be treated as a distinct concept.