Deutsches Rechnungslegungs Standards Committee e.V.
Accounting Standards Committee of Germany
DRSC

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Revision of ESRS Set 1: Preliminary comments on the first draft of ESRS 1

Dear Patrick, dear Chiara,

On behalf of the Deutsches Rechnungslegungs Standards Committee (DRSC) I am writing to draw your attention to the initial feedback from German constituents on the current discussion to revise ESRS Set 1 and the first drafts. We are aware that these drafts are working papers resulting from various work streams within EFRAG and are only now being discussed at EFRAG. Nevertheless, due to the short time frame we would like to inform you of the critical feedback as soon as possible in the ongoing process. We hope that this will contribute to a successful outcome of the simplification process and to the acceptance of the revised ESRS.

The general impression of the DRSC regarding the current revised ESRS discussion is that ESRS revision seems to be going in a wrong direction, a direction that is not in line with the objectives of the EU commission's omnibus project which is to simplify and clarify the ESRS. This is the result of the discussions we had with our Technical Committee as well as with preparers and auditors. We understand that there is already some frustration and the fear that EFRAG is running out of time for a convincing revision. The serious concern was raised that there will be a strong pushback against the revised ESRS if there will not be corrections in the current discussion.

We want to emphasise that the DRSC and all constituents acknowledge the efforts and the goal-oriented changes made so far. For example, the clarifications and strengthening of the DMA, the connection between material topics and IROs, the intention to strengthen the materiality of information concept, the reliefs that were introduced and of course deleting numerous data points.

At the same time, and this weighs much stronger in the feedback, constituents observe a "counter-movement" in the revision of the ESRS, which can be seen in a **higher level of granularity or additional disaggregation, new terminology** and **even new aspects** in the current draft version of the revised ESRS (as compared to the ED of the amended ESRS or compared to the Delegated Act). These changes increase uncertainty and result in the need for discussions with auditors about – possibly new – understanding of these concepts and terminology.

For example, the changes made to strengthen the DMA (e.g. taking into account processes within the undertaking) seem to be undermined by introducing a "location-dimension" throughout ESRS (at times breaking down the requirements to the level of "water basin"), predominantly in ESRS 1, E2, E3, E4. While undertakings will of course have to consider regional factors, it needs to be clear that the DMA and the sustainability report is prepared for the group and at the group level. In contrast, a purely bottom-up DMA is not realistic at all in practice and could even lead to a dilution of information due to the reported enormous data volume.

Furthermore, in order for the DMA and the materiality of information concept to effectively work there is an urgent need to clarify the "user" of the sustainability statement and the objective of sustainability statements (i.e., decision useful information). However, improvements on the one side (e.g. ESRS 1.AR 7, clarification of users that reports are directed at) are set off by extending the concept of decision usefulness (ESRS 1.24(b)) to "including informed assessment". The wording now refers to information being material if it could reasonably be expected to "influence decision and informed assessments". This does not effectively limit the expectation on information to be provided. The concept of materiality is thereby becoming meaningless as every information is potentially above the threshold. At the same time the sustainability statements explicitly aim at better holding undertakings accountable (ESRS 1.AR8) – an accountability which would be connected to an apparently unlimited obligation to provide information. Also, ESRS (e.g. in ESRS E1.AR 18 for para 32) establish requirements to provide information on the basis that "management concludes that users are interested in understanding". This is difficult to operationalise, especially in connection with the current wording of the "materiality of information" concept.

As a result, an undertaking could hardly ever conclusively determine that the information needs of users are met and that it has provided a fair presentation in line with ESRS if the objective and the users of the ESRS information are not clarified.

As also laid out in our letter to EFRAG of 17 October 2025, we support the clarification reflected in ESRS 1.AR7 (users that have a reasonable knowledge of the business, sustainability and economic activities and who review and analyse the information diligently) but suggest rephrasing ESRS 1.24(b) to focus on decision usefulness only. Furthermore, the discussion of users in ESRS 1 needs to reflect the stronger emphasis on the management considerations (in line with EFRAG's effort to better reflect in the managerial approach in ESRS, see BfC par. 35 for the consultation of the ED-ESRS).

Examples of the introduction of extended, new concepts and a higher level of granularity are (1) the complex living-wage-concept in ESRS S1 with reference to mandatory principles as laid out in ILO (see DRSC's letter to EFRAG of 11 November 2025), (2) new terminology regarding "human rights incidents" versus the previous wording of "severe incidents" in the S-ESRS, (3) the introduction of time bands (short-term, medium-term, long-term) for disclosures in E1, e.g., paras AR 2c, 24c, extending information for environmental metrics by "any information about environmental conditions and characteristics of the area… necessary to understand the metric" (ESRS 2.44(b)), (4) linking disclosure on sustainability related goals at the level of products / services (ESRS 2.18(a), or (5) new terminology such as "most significant potential losses" (ESRS E1.40(b)).

Furthermore, changes in the ESRS are perceived as not following the fundamental principle of EU legislation, when referring to (dynamic) external references, which are not under the scrutiny of the EU and might even result in additional costs for the undertaking to comply with EU legislation. For example, undertakings should not be referred to information which "can often be easily obtained from commercial tools" (E1-6.AR 7) or to third party-validations (E1-6.AR 16, with regard to 1.5°C compatibility).

We acknowledge that there are aspects that should be easy to fix within the next few weeks, like deleting a reference to commercial tools or allowing undertakings to decide on the units they are using for metrics as they see fit, e.g. "million metric tonnes" instead of "tonnes" (a minor aspect that many undertakings have often asked for and that increases understandability of the reports).

Other aspects are, however, more fundamental. These aspects include the requirements regarding Anticipated Financial Effects (AFE). In line with the feedback that EFRAG got from preparers, undertakings in Germany have consistently cautioned to include requirements asking for quantified anticipated financial effects. Some noted that even qualified information will be difficult to generate and to report. We perceive the lack of conceptual clarity in the ESRS and the lack of existing methodologies as being the cause for the persistent rejection. The current draft of the ESRS is not perceived as addressing or solving the underlying (conceptual) issues and the ESRS still do not seem to convey a consistent and understandable concept of what these AFE are and which specific disclosures ESRS require (e.g. ESRS 2.22 and AR 22 on par 24). Most relevant questions include:

- How are AFE defined in the context of the net or gross discussion (referring to effects before or after the implementation of (planned) mitigation measures)?
- Should AFE refer to an existing exposure (e.g., the assets reported at the end of the reporting period) or a future, planned exposure (e.g., integrated financial planning)?
- Do AFE or the “monetary amounts” that are to be disclosed refer to balance sheet risks, i.e., risks relating to changes in (forecast?) book values, or risks relating to changes in, for example, fair values, insurance premiums, or replacement costs?).

As long as these fundamental questions remain unresolved, the ESRS carry the risk of diversity in practice and not the least significantly limit the comparability and thus the usefulness of this information. Therefore, the current requirement (Option 1 with a phase-in if the quantification is "impracticable") is not appropriate and needs to be modified.

The other fundamental question touches the core of the DMA and the core question of which impacts, risks, and opportunities are required to being reported on. The wording in the current draft ESRS does not seem conceptually mature enough so far and is interpreted very differently across the constituents. As the DMA forms the basis of the entire ESRS reporting this basic concept needs to be clear. Some steps towards convincing concepts have been done, e.g. with the reference to impacts, risks and opportunities inherent to the undertaking’s business. Other suggestions in the draft imply a mix up of “materiality of matter” (according to the DMA) and “materiality of information” (e.g., inappropriately, ESRS 1 para 32 seems to imply that “materiality of information” prevails independent of the result of the DMA). In general, the overall concept of impact materiality and financial materiality still lacks consistency, stringent terminology and compatibility with financial reporting, e.g. by using risks and opportunities or gross and net as terminologies but with a different meaning. Suitable terminology based on clear concepts constitute an important prerequisite for a meaningful revision of the ESRS.

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

Yours sincerely

Georg Lanfermann