Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

DRSC

DRSC • Joachimsthaler Str. 34 • 10719 Berlin

Kristian Koktvedgaard
Chair – EFRAG Sustainability Reporting Board
Chiara Del Prete
Chair – EFRAG Sustainability Reporting TEG

35 Square de Meeûs
1000 Brussels

Sustainability Reporting Technical Committee
Phone: +49 (0)30 206412-12
E-Mail: lanfermann@drsc.de

Berlin, 30 October 2026

Exposure Draft: ESRS for Certain Non-EU Undertakings in Accordance with Article 40a of the Accounting Directive

Dear Kristian, dear Chiara,

On behalf of the Deutsches Rechnungslegungs Standards Committee (DRSC) I am writing to comment on the Exposure Draft *ESRS for Certain Non-EU Undertakings in Accordance with Article 40a of the Accounting Directive* (ED ESRS-40a) issued for public consultation by EFRAG on 23 July 2026. Please note that, in addition to this comment letter, we have submitted our responses on the dedicated questions raised by EFRAG via the online questionnaire provided through EFRAG's website.

The DRSC's Sustainability Reporting Technical Committee strongly supports EFRAG's work on the sustainability reporting standards for third-country undertakings, enabling them to meet the reporting obligations laid down in Article 40a of Directive 2013/34/EU (Accounting Directive). We further acknowledge that the ED ESRS-40a marks an important step toward holding third-country undertakings accountable for their EU-related impacts, as well as fostering parity and fair competition among undertakings operating in the EU market.

That said, the DRSC is convinced that there is a need for worldwide mutual acceptance of national, supranational or international standards to jointly promote high-quality sustainability reporting. While we acknowledge the call for a level playing field between third-country undertakings and EU undertakings (for example, in recital 20 of the CSRD), we believe that the final ESRS-40a need to be significantly less complex than the present ED ESRS-40a in order to facilitate the mutual acceptance of various sustainability reporting standards. In our view, such a simplification will foster worldwide sustainability reporting, and in particular the acceptance and implementation of the ESRS-40a.

This is an essential prerequisite as the regulatory mechanics governing third-country undertakings under Article 40a of the Accounting Directive differ significantly from the framework

applicable to EU undertakings. Specifically, unlike their EU peers, third-country undertakings are not directly targeted by the reporting obligations set out in Article 40a of the Accounting Directive, which instead apply indirectly by holding their EU subsidiaries or EU branches accountable.

Consequently, as provided in Article 40a (2) of the Accounting Directive, third-country undertakings can refrain from reporting under this reporting regime by failing to provide their in-scope EU subsidiaries or EU branches with all information necessary to meet the reporting obligations. Given these diverging Level 1 provisions, we recommend that EFRAG avoid seeking to impose a level playing field through Level 2 reporting standards. Instead, we argue that the ESRS-40a must feature proportionate disclosure requirements to ensure buy-in and acceptance from third-country undertakings, and we strongly encourage EFRAG to reflect this balance in its forthcoming technical advice to the European Commission.

Having considered and thoroughly discussed the direction of EFRAG's draft standards, we conclude that the current proposal to apply either the global approach or the 'mixed approach option' in ED ESRS-40a 1.28 raises complexity for sustainability reporting requirements for third-country undertakings. We further believe that the condition set out in ED ESRS-40a 1.29 would rarely allow third-country undertakings to apply the mixed approach option. Combined with the subsequent disclosure requirements that would apply under both ED ESRS-40a 2 and the draft topical standards, which are very complex to apply in practice, the mixed approach option does not seem an adequate approach to proportionate requirements.

Instead, in order to effectively streamline the reporting process and thereby ensure the necessary buy-in and acceptance, we propose a 'staggered approach' for the global approach. While we acknowledge that ultimately the global approach should include all aspects of ESRS sustainability reports, we suggest at this point that the ESRS-40a's global approach requires third-country undertakings to report only in accordance with ESRS-40a 2 ('General Disclosures') together with the topical standards ESRS-40a E1 ('Climate Change'), ESRS-40a S1 ('Own Workforce'), and ESRS-40a G1 ('Business Conduct'). Other environmental or social topics would not fall within the scope of the ESRS-40a at this stage but should be subject to the regular review process.

To this end, we encourage EFRAG not to pre-empt the decision on further sustainability topics, if any, within the current draft standards, but rather to postpone such a decision until the completion of a later review followed by a careful post-implementation assessment. We argue that such a staggered approach would fully meet the requirements of Article 40a of the Accounting Directive to provide a sustainability report covering the information specified in points (a)(iii) to (a)(v), points (b) to (f) and, where appropriate, point (h) of Article 29a (2) of the Accounting Directive. At the same time, we believe that it offers a viable bridge for third-country undertakings that would be widely accepted within the international community, as it represents a conceptual and practical simplification compared to a full-scope global approach covering all sustainability topics.

In the event that the ESRS-40a retains a mixed approach option in EFRAG's technical advice to the European Commission, we call for a more straightforward provision. While we

acknowledge the effort to include all EU-related impacts, we believe that the current approach to determine all EU-related impacts lacks practical feasibility. In particular, the 'customer component' of EU-related impacts as currently defined in ED ESRS-40a 1.28(a) is hardly practical due to numerous application issues, ambiguous requirements and unresolved questions. While we also acknowledge that a customer component could, in principle, provide valuable information as well, it seems too complex at this point to yield meaningful or comparable information. Therefore, we advocate for a mixed approach option based only on the 'location-based component' of EU-related impacts as set out in ED ESRS-40a 1.28(b). This would ensure that all impacts of third-country undertakings' EU activities (own operations and value chain) are covered, while at the same time enabling actual implementation.

As a final remark, we encourage EFRAG to reconsider the design of feedback templates for future consultations. The 300-word limit for responses to individual consultation questions seems inappropriate if stakeholders are expected to provide substantive feedback. The ED ESRS-40a introduces novel concepts, such as the mixed approach option, and contains numerous complex requirements that require thorough deliberation. Against this backdrop, we believe that a blanket 300-word restriction per response is neither adequate nor fit for purpose.

Beyond our remarks on the ED ESRS-40a, we would like to emphasise that several open questions remain regarding the underlying Level 1 provisions, which need to be clarified by the European Commission on a timely basis. Examples include how the €450 million threshold of 'net turnover in the Union' in Article 40a (1) of the Accounting Directive is to be determined in order to identify in-scope third-country undertakings, and the treatment of diverging fiscal years between third-country parent undertakings and their EU subsidiaries.

Our detailed responses to the questions raised by EFRAG are laid out in the appendix to this letter. If you would like to discuss our comments further, please do not hesitate to contact me or the responsible DRSC project manager, Dr. Denny Kutter (kutter@drsc.de).

Yours sincerely

Georg Lanfermann

APPENDIX: Answers to the questions raised in the ED ESRS-40a

PART 1 – SURVEY PARTICIPANT INFORMATION

Question 1

First Name:

Denny

Question 2

Last Name:

Kutter

Question 3

Name of the organisation:

Deutsches Rechnungslegungs Standards Committee (DRSC)

Question 4

Country of headquarters:

Germany

Question 5

Sector:

	Accommodation and food service activities
	Activities of extraterritorial organisations and bodies
	Administrative and support service activities
	Agriculture, forestry and fishing
	Arts, sports and recreation
	Construction
	Electricity, gas, steam and air conditioning supply
	Financial and insurance activities
	Human health and social work activities
	Manufacturing
	Mining and quarrying
	Other service activities
X	Professional, scientific and technical activities
	Publishing, broadcasting, and content
	Real estate activities
	Telecommunication, computer programming, consulting, […]
	Transportation and storage
	Water supply; sewerage; waste management and remediation […]
	Wholesale and retail trade

Question 6

Please enter your email:

kutter@drsc.de

Question 7

Which of the following stakeholder types do you represent?

Company (Preparers)	
	Preparer (financial or non-financial undertaking)
	Business association (financial or non-financial institution)
Users	
	Investor
	National supervisory authority or regulator
	User (analyst, data provider, rating agency, etc.)
	User association
Financial institutions	
	Bank
	Asset manager/Investor
	Insurance
	Association of financial institutions
Other stakeholders	
	Consultant (including software vendor)
	Assurance provider
X	(National/Jurisdictional) standard setter, regulator or supervisory […]
	NGO
	Trade unions
	Academia
	Other (please specify):

Question 17

Do you/does your (or will by FY2028) ultimate parent group report in accordance with jurisdictional standards based on ISSB standards on a group level?

	Yes
X	No

Question 19

Do you/does your (or will by FY2028) ultimate parent group report voluntarily on a group level?

	Yes
X	No

PART 2 – SURVEY QUESTIONS – HIGH LEVEL FEEDBACK

TOPIC 1: Revised ESRS as basis for ESRS-40a ED; approach to deleting datapoints or reformulating paragraphs as required by CSRD

Question 21

Do you agree with the way EFRAG has implemented the provisions of the Accounting Directive (Articles 40a–40d), particularly in deleting RORD-related disclosures and financial effects, as well as maintaining financial information that provides useful contextual information to understand impacts and how they are managed?

X	Yes
	No

Question 24

If yes, please specify why.

DRSC's Response:

In principle, we agree with EFRAG's approach to developing the ED ESRS-40a, where the revised ESRS are used as a starting point but requirements related to risks, opportunities, resilience and dependencies, as well as financial effects, are generally excluded in order to align with the underlying Level 1 provisions under Article 40a of the Accounting Directive. However, we believe that both the practical feasibility and acceptance of the resulting disclosure requirements must remain a core objective in developing the ED ESRS-40a.

That said, we argue that the approach chosen by EFRAG should not be applied as a 'one-size-fits-all' model across all requirements, as the current ED ESRS-40a, particularly in view of the proposed mixed approach option, sets out numerous disclosure requirements that lack practical purpose from both the preparer and user perspectives. To give an example, ED ESRS-40a 2.GOV-1, paragraph 15(b) refers to 'the expertise and skills [...] in relation to supervising and managing material impacts', which not only entails too granular disclosures but also unduly narrows down the requirements of administrative, management and supervisory bodies instead of referring to broader sustainability topics. ED ESRS-40a 2.GOV-2, paragraph 17 requires reporting on certain 'incentive schemes […] linked to sustainability topics', where AR 12 further narrows the disclosures to EU-related impacts if the mixed approach option is applied. Other examples can be found in ED ESRS-40a 2.SBM-1, paragraph 23, which refers to the undertaking's 'strategy […] that relate[s] to, or affect[s], the topics associated with its material impacts', and across the draft topical standards (e.g., ED ESRS-40a S1.28, AR 20; ED ESRS-40a G1.14, 15, AR 11(b)).

TOPIC 2: Mixed approach: option to limit the ESRS-40a sustainability report transparency to EU-related impacts only (paragraphs 28–30 of the ESRS-40a 1 ED)

Question 25

Do you support the inclusion of a 'mixed approach' option in the ESRS-40a ED, which allows limiting disclosures to EU-related impacts only for some topics?

	Yes
X	No

Question 27

Please select from this list of reasons (choose one or more):

	It fails to secure level-playing field for EU companies.
	Despite the condition in AR 6 for paragraph 29 (ESRS-40a 1 ED), it does not result in relevant and complete information, or it conflicts with faithful representation of impacts.
	It results in mixed scopes in the same report (global for climate, EU-related for one or more groups of impacts/sub-topics/topics), making it difficult for users to understand and use the information.
X	The condition in AR 6 for paragraph 29 (ESRS-40a 1 ED) is too narrow and will have narrow application.
	The flexibility in paragraph 30 (ESRS-40a 1 ED) is too broad, as impacts are managed consistently at topical level.
	The flexibility in paragraph 30 (ESRS-40a 1) is too broad, and it will result in lack of comparability across companies.
X	Reporting on EU-related impacts raises significant practical challenges.
X	Other reasons (please specify): The current proposal for the mixed approach option in ED ESRS-40a 1.28-30 is too complex and lacks practical feasibility due to numerous application issues, ambiguous requirements and unresolved questions; in addition, many disclosures will be expedient from neither a preparer's nor a user's perspective as they are too granular and do not adequately reflect how undertakings are governed (e.g., ED ESRS-40a S1.28, AR 20; ED ESRS-40a G1.14, 15, AR 11(b)).

Question 28

Please explain your reasoning behind selecting 'the condition in AR 6 for paragraph 29 (ESRS-40a 1 ED) is too narrow and will have narrow application' and, if applicable, provide suggested improvements.

DRSC's Response:

While we acknowledge that the mixed approach option cannot be implemented without defining proper conditions for a meaningful identification and separation of EU-related impacts, we argue that the conditions currently set out in ED ESRS-40a 1.29, AR 6 are too restrictive to be met in practice. Particularly, the factors outlined under AR 6 seem artificial and fail to reflect both corporate governance and the underlying economics of many undertakings (e.g., 'separate business segment, 'products or services specifically designed for the EU-market'; 'separate management of EU-related impacts'). Meeting these factors ultimately requires a distinct EU business, which appears unusual for a wide range of industries. Hence, third-country undertakings could rarely, if ever, make use of the mixed approach option. Instead, as provided in Article 40a (2) of the Accounting Directive, third-country undertakings could rather choose to refrain from ESRS-40a reporting by failing to provide their EU subsidiaries or EU branches with all information necessary to meet the reporting obligations.

Against this backdrop, to ensure the necessary buy-in and acceptance, we propose a 'staggered approach' for the global approach where third-country undertakings start their ESRS-40a reporting only in accordance with ESRS-40a 2 together with ESRS-40a E1, ESRS-40a S1 and ESRS-40a G1, while other environmental or social topics could be introduced following a careful post-implementation review. We argue that such a staggered approach would fully meet the requirements of Article 40a of the Accounting Directive to provide a sustainability report covering the information specified in points (a)(iii) to (a)(v), points (b) to (f) and, where appropriate, point (h) of Article 29a (2). Moreover, we believe that it offers a viable bridge for third-country undertakings that would be widely accepted in practice, as it represents a conceptual and practical simplification compared to a full-scope global approach covering all sustainability topics.

Question 29

Please explain your reasoning behind selecting 'reporting on EU-related impacts raises significant practical challenges' and specify which challenges you anticipate.

DRSC's Response:

We propose a staggered approach for the global approach where third-country undertakings start their ESRS-40a reporting only in accordance with ESRS-40a 2, ESRS-40a E1, ESRS-40a S1 and ESRS-40a G1 as described above. Following this approach, there would be no need for a burdensome identification and separation of EU-related impacts.

However, if EFRAG decides to retain a mixed approach option in its technical advice to the European Commission, we strongly encourage EFRAG to streamline the provision in ED ESRS-40a 1.28. Specifically, EU-related impacts as currently defined include a 'customer component' and a 'location-based component', where particularly the customer component in ED ESRS-40a 1.28(a) is associated with significant practical challenges due to ambiguous requirements and unresolved questions. For example, it remains unclear how to identify 'products and services that were or can be reasonably assumed to be sold or provided in the EU market'. Moreover, the customer component involves a materiality assessment for third-country undertakings' impacts, followed by an allocation of these impacts to the EU and non-EU. Here, selecting the 'allocation key that best supports a faithful representation of the EU-related impacts' is by no means a trivial exercise for most metrics, especially when no further guidance is provided beyond the generic provisions in ED ESRS-40a 2.GDR-M.

That said, while we acknowledge that a customer component could, in principle, provide valuable information as well, it seems too complex at this point to yield meaningful or comparable information. Therefore, we advocate for a mixed approach option based only on the location-based component of EU-related impacts as set out in ED ESRS-40a 1.28(b). This would ensure that all impacts of third-country undertakings' EU activities, including own operations and their value chains, are covered, while at the same time enabling actual implementation instead of resulting in numerous missing or incomplete ESRS-40a reports.

Question 31

Definition of EU-related impacts. Paragraph 28(a) of the ESRS-40a 1 ED refers to EU-related impacts (customer component) as: 'impacts that arise from products and services that were or can be reasonably assumed to be sold or provided in the EU market, including by third parties (downstream value chain actors such as distributors and traders)'.

Do you agree with this formulation, which remains at the principles-based level?

	Yes
X	No

Question 32

Please recommend alternative factors to be considered by the undertaking that could be included in the Standard.

DRSC's Response:

As outlined above, we recommend a staggered approach for the global approach under which third-country undertakings would initially base their ESRS-40a reporting only on

ESRS-40a 2, ESRS-40a E1, ESRS-40a S1 and ESRS-40a G1. However, should EFRAG decide to maintain a mixed approach option in its technical advice to the European Commission, we call for a streamlined and more robust mixed approach building only on the location-based component of EU-related impacts as currently set out in ED ESRS-40a 1.28(b). As previously stated, the customer component in ED ESRS-40a 1.28(a) is too complex to yield meaningful or comparable information.

At a minimum, to provide some relief, the customer component should be confined to impacts connected to products and services actually sold or provided in the EU market. However, other conceptual issues and practical challenges would remain unresolved (e.g., proper identification of EU-related impacts or choosing an allocation mechanism 'that best supports a faithful representation of the EU-related impacts'), and many disclosures would still be expedient from neither a preparer's nor a user's perspective as they are too granular and do not adequately reflect how undertakings are governed (e.g., ED ESRS-40a S1.28, AR 20; ED ESRS-40a G1.14, 15, AR 11(b)).

PART 3 – SURVEY QUESTIONS – DETAILED FEEDBACK

TOPIC 1: Revised ESRS as the basis for the ESRS-40a ED and approach to deleting datapoints or reformulating paragraphs as required by the CSRD

Question 39

Despite the focus on impacts and the deletion of RORD, do you agree with the reference to fair presentation in the reporting objective of the ESRS-40a ED in paragraph 5 of the ESRS-40a 1 ED: 'the objective of the ESRS-40a ED sustainability report, taken as a whole, is to present fairly (see Chapter 2) all the undertaking's material sustainability-related impacts and how the undertaking manages them'? For further considerations, please refer to the Basis for Conclusions (BC87–BC90).

X	Yes
	No

TOPIC 2: Mixed approach: option to limit the ESRS-40a ED sustainability report transparency to EU-related impacts only (paragraphs 28–30 of the ESRS-40a 1 ED)

Question 41

Under the ED, companies can also apply the mixed approach option when reporting about human rights impacts. This means that they can restrict reporting to EU-related human rights impacts. Do you think human rights impacts should be excluded from the mixed approach and reported globally, regardless of where they occur or whether they are connected to products and services sold to the EU? (see the Basis for Conclusions, sub-chapter detailed discussions of key topics, BC46–BC61)

	Yes, human rights impacts should be reported on a global scope.
X	No, reporting can be limited to EU-related impacts.

Question 42

Please explain, also with reference to the specific circumstances you have in mind.

DRSC's Response:

We propose a staggered approach for the global approach where third-country undertakings start their ESRS-40a reporting only in accordance with ESRS-40a 2, ESRS-40a E1, ESRS-40a S1 and ESRS-40a G1 as described above. Following this approach, disclosures on human rights, such as those required under ESRS-40a 2 and ESRS-40a S1, would not be limited to third-country undertakings' EU-related impacts but would instead be reported on a global scope.

However, in the event that EFRAG chooses to retain a mixed approach option in its technical advice to the European Commission, we argue that, from a purely technical perspective, the mixed approach option could apply to human rights impacts in the same manner as to other sustainability topics. As noted in BC47, the rationale for exempting climate-related impacts under ED ESRS-40a E1 from the mixed approach option was not a political 'climate-first' argument; rather, it derives from acknowledging that in many third-country jurisdictions standards based on IFRS S2 ('Climate-related Disclosures') are being or are already adopted. Furthermore, GHG emissions inherently impact the EU regardless of where they are emitted. By contrast, again from a purely technical standpoint, human rights impacts can often be localised and do not necessarily exhibit a direct link to the EU.

Question 43

Under the ED, companies can limit the disclosure to EU-related impacts without considering whether the impacts can be geographically contained (both in terms of where the impacts occur and where their effects are experienced). Do you agree with this approach? (see the Basis for Conclusions, sub-chapter detailed discussions of key topics, BC46–BC61)

X	Yes
	No

Question 44

Please explain, also with reference to the specific circumstances you have in mind.

DRSC's Response:

As outlined above, we recommend a staggered approach for the global approach under which third-country undertakings would initially base their ESRS-40a reporting only on ESRS-40a 2, ESRS-40a E1, ESRS-40a S1 and ESRS-40a G1. Following this approach, regardless of whether a given impact can be geographically contained or not, disclosures would not be limited to third-country undertakings' EU-related impacts.

However, should EFRAG decide to maintain a mixed approach option in its technical advice to the European Commission, we call for a streamlined and less complex mixed approach building only on the location-based component of EU-related impacts as currently set out in ED ESRS-40a 1.28(b). Accordingly, we would refrain from supporting the introduction of an additional condition based on the nature of an impact for the application of the mixed approach option, as this would further hinder its practical applicability and increase the complexity of ESRS-40a reporting. Here, without prejudice to the reservations expressed above, we believe that the conditions set out in ED ESRS-40a 1.29, AR 6 already provide sufficient safeguards with regard to the identification and separation of EU-related.

Question 45

Do you think that fair presentation can be achieved under the mixed approach? (see Basis for Conclusions, sub-chapter detailed discussions of key topics, BC46–BC61)

X	Yes
	No

Question 46

Please explain.

DRSC's Response:

In general, we argue that the concept of 'fair presentation' should also apply to sustainability reporting for third-country undertakings, as it is currently set out in ED ESRS-40a 1.5. That said, we maintain that our staggered approach for the global approach as proposed above would be more effective in enabling third-country undertakings to actually achieve fair

presentation than what is possible under the mixed approach option envisaged in the ED ESRS-40a.

Ultimately, the assessment of a fair presentation must be guided by the objective of ESRS-40a reporting. If the objective is to disclose information on EU-related impacts, then, in principle, fair presentation can also be achieved under the mixed approach option, provided that it maintains a consistent focus on these EU-related impacts. However, given the current ED ESRS-40a requirements, we seriously question if, and how, a fair presentation can effectively be achieved in practice. Here, challenges and application issues stem from, for example, the fallback to the global approach in a 'non-containment' scenario where a clear identification and separation of EU-related impacts is hardly possible (e.g., pollution of a transboundary river between the EU and a third country), different reporting boundaries resulting from the option to choose between a global and an EU perspective at sub-topic level under ED ESRS-40a 1.30, or the general exemption of climate-related impacts under ED ESRS-40a E1 from the mixed approach option, to name but a few.

More generally, given the overarching Level 1 provisions in Article 40a (2) of the Accounting Directive, it remains unclear how fair presentation can be achieved if the third-country undertaking fails to provide all information necessary to fully meet the reporting obligations and in-scope EU subsidiaries or EU branches instead shall draw up, publish and make accessible an incomplete ESRS-40a report.

Question 47

Do you agree with the flexible formulation of the option, which allows companies to choose the scope of reporting (global or EU-related impacts) at topic, sub-topic or group-of-impacts level, irrespective of how other topics, sub-topics or groups of impacts within the same topic are treated?

X	Yes
	No

Question 48

Please explain.

DRSC's Response:

As outlined above, we recommend a staggered approach for the global approach under which third-country undertakings would initially base their ESRS-40a reporting only on ESRS-40a 2, ESRS-40a E1, ESRS-40a S1 and ESRS-40a G1. However, should EFRAG decide to maintain a mixed approach option in its technical advice to the European

Commission, we generally agree with the flexible formulation of the mixed approach option, as currently set out in ED ESRS-40a 1.30.

Given the heterogeneity of disclosure requirements in the ED ESRS-40a, as well as third-country undertakings' business models with varying impact exposures, such flexibility could, in practice, enable third-country undertakings to choose a reporting approach tailored to their specific facts and circumstances. However, as noted above, such flexibility could also, for instance, compromise fair presentation.

Question 55

ESRS-40a 2 ED BP-1, paragraph 4(a), requires the undertaking to disclose whether the sustainability report has been prepared using the mixed approach and, if so, to explain – per topic, sub-topic, or group of impacts – how EU-related impacts were determined and how the conditions set out in the ESRS-40a 1 ED, paragraphs 29 and 30, and AR 6 have been met. Do you consider these requirements to be clear, feasible and sufficient to ensure proper understanding of when and how the mixed approach is applied?

	Yes
X	No

Question 56

Please include your suggestions, if any, on how these requirements can be improved.

DRSC's Response:

We propose a staggered approach for the global approach where third-country undertakings start their ESRS-40a reporting only in accordance with ESRS-40a 2, ESRS-40a E1, ESRS-40a S1 and ESRS-40a G1 as described above. Following this approach, an extensive and granular explanation at a sub-topic level, as currently included under ED ESRS-40a 2.BP-1, paragraph 4(a), would not be required.

However, if EFRAG decides to retain a mixed approach option in its technical advice to the European Commission, we strongly encourage EFRAG to streamline the applicable provisions. Specifically, we argue that the disclosure requirement in ED ESRS-40a 2.BP-1, paragraph 4(a) lacks practical feasibility and imposes a disproportionate reporting burden on third-country undertakings, especially since similar disclosures are required under the draft topical standards and for each metric, as set out in ED ESRS-40a 2.GDR-M, paragraph 43.

Question 57

Do you agree with the specifications in the ESRS-40a 2 ED that provide guidance on how to apply this Standard when reporting on EU-related impacts?

	Yes
X	No

Question 58

If 'No' to the previous question, please select one or more of the specifications below with which you disagree:

X	GOV-1 (AR 11)
X	GOV-2 (AR 12)
	GOV-3
	GOV-4
X	SBM-1
	SBM-2 (AR 19)
	SBM-3 (AR 21)
	I-1 (AR 23)
	I-2 (AR 27)
	GDR-P (AR 34)
	GDR-A (AR 36)
X	GDR-M (AR 44 to AR 47)
	GDR-T (AR 52)

Question 60

Do you agree with the specifications in the ESRS-40a ED topical standards that provide guidance on how to apply this Standard when reporting on EU-related impacts?

	Yes
X	No

Question 61

If 'No' to the previous question, please select the specifications below with which you disagree:

X	ESRS-40a E2 ED AR 4 (primary microplastics)
X	ESRS-40a E2 ED AR 9 and 10 (SoC and SVHC)
X	No specifications in ESRS-40a E3 ED (specification in GDR-M applies)
X	No specifications in ESRS-40a E4 ED (specification in GDR-M applies)
X	No specifications in ESRS-40a E5 ED (specification in GDR-M applies)
X	ESRS-40a S1 ED (paragraph 8, AR 1, AR 2, AR 20, AR 39)
X	ESRS-40a S2 ED (paragraph 8)
X	ESRS-40a S3 ED (paragraph 7)
X	ESRS-40a S4 ED (paragraph 7)
X	ESRS-40a G1 ED (paragraph AR 7 metric for corruption and bribery)
X	ESRS-40a G1 ED (paragraph AR 11 metric for political influence)
X	ESRS-40a G1 ED (paragraph AR 13 metric for payment practices)

Question 62 (i)

Please explain why you selected ESRS-40a E2 ED AR 4 (primary microplastics) and, if applicable, provide suggestions for improvement.

DRSC's Response:

As outlined above, we propose a staggered approach for the global approach under which third-country undertakings would initially base their ESRS-40a reporting only on ESRS-40a 2, ESRS-40a E1, ESRS-40a S1 and ESRS-40a G1. Following this approach, there would be no need to introduce any complexity-adding specifications across the topical standards.

However, should EFRAG decide to maintain a mixed approach option in its technical advice to the European Commission, we advocate for a streamlined and less complex mixed approach building only on the location-based component of EU-related impacts as currently set out in ED ESRS-40a 1.28(b). That said, the conceptual issues and practical challenges associated with the mixed approach option as currently envisaged in the ED ESRS-40a—e.g., the inherent complexity of the customer component and selecting the allocation mechanism 'that best supports a faithful representation of the EU-related impacts'—carry over to the proposed specifications in the draft topical standards.

For example, referring to ED ESRS-40a E2.16, AR 4 requires disaggregating the amounts of primary microplastics into a location-based and a customer component if the mixed approach option is applied, where, in particular, disclosures on primary microplastics directly released into the environment call for an appropriate allocation mechanism. Given that no further guidance is provided beyond the generic provisions in ED ESRS-40a 2.GDR-M, AR 46 and AR 47, finding the 'allocation key that best supports a faithful representation of the EU-related impacts' is by no means a trivial task, and third-country undertakings may choose among several equally valid allocation mechanisms (e.g., based on mass, quantities, or revenue). As a result, the specification proposed in ED ESRS-40a E2.AR 4 seems expedient from neither a preparer's nor a user's perspective as it entails too granular disclosures and fails to provide meaningful or comparable information.

Question 62 (ii)

Please explain why you selected ESRS-40a E2 ED AR 9 and 10 (SoC and SVHC) and, if applicable, provide suggestions for improvement.

DRSC's Response:

We refer to our response above regarding ESRS-40a E2 ED AR 4 (primary microplastics).

Question 62 (iii)

Please explain why you selected 'No specifications in ESRS-40a E3 ED (specification in GDR-M applies)' and, if applicable, provide suggestions for improvement.

DRSC's Response:

We propose a staggered approach for the global approach where third-country undertakings start their ESRS-40a reporting only in accordance with ESRS-40a 2, ESRS-40a E1, ESRS-40a S1 and ESRS-40a G1 as described above. Following this approach, there would be no need for any identification or separation of EU-related impacts, or for calculating and disclosing metrics solely reflecting EU-related impacts.

However, if EFRAG decides to retain a mixed approach option in its technical advice to the European Commission, we call for a streamlined and more robust mixed approach building only on the location-based component of EU-related impacts since, in particular, the customer component as currently envisaged in ED ESRS-40a 1.28(a) is too complex to yield meaningful or comparable information. That said, notwithstanding the lack of specifications in ED ESRS-40a E3, third-country undertakings would still be required to choose among several equally valid allocation mechanisms. Given that the generic provisions in ED ESRS-40a 2.GDR-M, AR 46 and AR 47 fail to provide adequate guidance, determining the 'allocation key that best supports a faithful representation of the EU-related impacts', if any, will remain a highly challenging exercise for most metrics.

Question 62 (iv)

Please explain why you selected 'No specifications in ESRS-40a E4 ED (specification in GDR-M applies)' and, if applicable, provide suggestions for improvement.

DRSC's Response:

We refer to our response above regarding 'No specifications in ESRS-40a E3 ED (specification in GDR-M applies)'.

Question 62 (v)

Please explain why you selected "No specifications in ESRS-40a E5 ED (specification in GDR-M applies)' and, if applicable, provide suggestions for improvement.

DRSC's Response:

We refer to our response above regarding 'No specifications in ESRS-40a E3 ED (specification in GDR-M applies)'.

Question 62 (vi)

Please explain why you selected ESRS-40a S1 ED (paragraph 8, AR 1, AR 2, AR 20, AR 39) and, if applicable, provide suggestions for improvement.

DRSC's Response:

As outlined above, we propose a staggered approach for the global approach under which third-country undertakings would initially base their ESRS-40a reporting only on ESRS-40a 2, ESRS-40a E1, ESRS-40a S1 and ESRS-40a G1. Following this approach, there would be no need to add any complexity-driving specifications across the topical standards.

However, should EFRAG decide to maintain a mixed approach option in its technical advice to the European Commission, we advocate for a streamlined and less complex mixed approach building only on the location-based component of EU-related impacts. That said, the conceptual issues and practical challenges associated with the mixed approach option as currently envisaged in the ED ESRS-40a directly translate into the proposed specifications in the draft topical standards.

To give an example, ED ESRS-40a S1.8 and AR 1 generally define a third-country undertaking's 'own workforce' to include both a location-based and a customer component if the mixed approach option is applied, where, in particular, the customer component in ED ESRS-40a S1.8(b) is associated with significant practical challenges due to ambiguous requirements and unresolved questions. Specifically, it remains unclear how to identify 'products or services that were or can be reasonably assumed to be sold or provided on the EU market', as well as how to allocate employees and non-employees to those products or services. Another example can be found in ED ESRS-40a S1.28 and AR 20, referring to the top management level responsible for EU-related impacts in case of the mixed approach option, which not only entails too granular disclosures but also fails to reflect corporate governance.

Question 62 (vii)

Please explain why you selected ESRS-40a S2 ED (paragraph 8) and, if applicable, provide suggestions for improvement.

DRSC's Response:

We refer to our response above regarding ESRS-40a S1 ED (paragraph 8, AR 1, AR 2, AR 20, AR 39).

Question 62 (viii)

Please explain why you selected ESRS-40a S3 ED (paragraph 7) and, if applicable, provide suggestions for improvement.

DRSC's Response:

We refer to our response above regarding ESRS-40a S1 ED (paragraph 8, AR 1, AR 2, AR 20, AR 39).

Question 62 (ix)

Please explain why you selected ESRS-40a S4 ED (paragraph 7) and, if applicable, provide suggestions for improvement.

DRSC's Response:

We refer to our response above regarding ESRS-40a S1 ED (paragraph 8, AR 1, AR 2, AR 20, AR 39).

Question 62 (x)

Please explain why you selected ESRS-40a G1 ED (paragraph AR 7 metric for corruption and bribery) and, if applicable, provide suggestions for improvement.

DRSC's Response:

We refer to our response below regarding ESRS-40a G1 ED (paragraph AR 11 metric for political influence).

Question 62 (xi)

Please explain why you selected ESRS-40a G1 ED (paragraph AR 11 metric for political influence) and, if applicable, provide suggestions for improvement.

DRSC's Response:

We propose a staggered approach for the global approach where third-country undertakings start their ESRS-40a reporting only in accordance with ESRS-40a 2, ESRS-40a E1, ESRS-40a S1 and ESRS-40a G1 as described above. Following this approach, there would be no need to include any complexity-adding specifications across the topical standards.

However, if EFRAG decides to retain a mixed approach option in its technical advice to the European Commission, we call for a streamlined and more robust mixed approach building only on the location-based component of EU-related impacts. That said, the conceptual issues and practical challenges associated with the mixed approach option as currently envisaged in the ED ESRS-40a carry over to the proposed specifications in the draft topical standards.

For example, referring to ED ESRS-40a G1.14 and 15, AR 11 requires separating a third-country undertaking's political influence and lobbying activities into a location-based and a customer component if the mixed approach option is applied. From a preparer's perspective, such disclosure requirements lack practical purpose as they do not adequately reflect how undertakings are governed and fail to align with the nature of political influence and lobbying, given that such activities are rarely, if ever, carried out at a product level. Similarly, from a user's perspective, the resulting disclosures lack decision-usefulness, as they are too granular and fail to provide meaningful or comparable information.

Question 62 (xii)

Please explain why you selected ESRS-40a G1 ED (paragraph AR 13 metric for payment practices) and, if applicable, provide suggestions for improvement.

DRSC's Response:

We refer to our response above regarding ESRS-40a G1 ED (paragraph AR 11 metric for political influence).

Question 63

Breakdown for own workforce. Do you think it would be useful for users of sustainability reports if companies that opt for the mixed approach were required to disaggregate the quantitative metrics in Disclosure Requirements S1-6 to S1-16 – e.g. health and safety metrics such as number and rate of work accidents – by workforce inside and outside the EU? (A company's workforce includes employees and non-employees.)

	Yes
X	No

TOPIC 3: Interoperability, presentation and incorporation by reference

Question 66

Do you agree with the presentation requirements in ESRS-40a ED?

X	Yes
	No

Question 69

Do you agree with the provisions in Chapter 9.3 on incorporation by reference, including as a possible way to achieve efficient reporting and to deal with double reporting when the group prepares a sustainability report in accordance with jurisdictional requirements based on IFRS S1 and IFRS S2, or in accordance with IFRS S1 and IFRS S2?

X	Yes
	No

Question 76

Do you find the requirements for incorporation by reference sufficient to lead to an understandable and auditable report?

X	Yes
	No

TOPIC 4: References to EU laws and regulations and their feasibility

Question 80

ESRS-40a 2 ED BP-1, paragraph 7, requires undertakings to disclose, where EU-derived concepts are applied to third-country operations using approximations or estimations, which disclosures are affected, how the information was prepared, what limitations arise, and which parts of the reporting boundary are concerned. Do you consider these requirements to be clear, feasible and sufficient to ensure proper understanding of how the undertaking treats differences between EU-derived concepts and other third-country concepts?

X	Yes
	No

TOPIC 5: Any other comment

Question 82

Please provide any other comments or suggested improvements on ESRS-40a ED not covered in the questions above.

DRSC's Response:

As a final note, we would like to emphasise that there is an urgent need for worldwide mutual acceptance of national, supranational or international standards to jointly promote high-quality sustainability reporting. Against this backdrop, to ensure the necessary buy-in and acceptance from third-country undertakings, we believe that the final ESRS-40a need to be significantly less complex than EFRAG's draft standards. In our view, such a simplified

approach to ESRS-40a reporting will foster worldwide sustainability reporting, and in particular the acceptance and implementation of the ESRS-40a.