EUROSIF RESPONSE TO EFRAG PUBLIC CONSULTATION ON THE DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS (ESRS)

OVERALL ESRS EXPOSURE DRAFTS' RELEVANCE

Eurosif and its members are highly supportive of the mission given by the European Commission to the European Financial Reporting Advisory Group (EFRAG) to develop the European Sustainability Reporting Standards (ESRS). As a representative of sustainable investors, Eurosif can attest to the urgent need for comprehensive, accurate and publicly available sustainability-related data on the Environmental, Social & Governance (ESG) performance of companies in scope of the Corporate Sustainability Reporting Directive (CSRD).

Accordingly, we congratulate EFRAG for elaborating an ambitious and comprehensive reporting framework based on double materiality and encompassing the whole spectrum of Environmental, Social and Governance (ESG topics). The ESRS represent an important tool in the EU sustainable finance regulatory framework, as it is expected to promote significant improvements in reporting practices, thus providing investors with meaningful data for their analysis and investment decisions, and needed to comply with their regulatory requirements.

This document provides more detailed feedback and suggestions to EFRAG on the ESRS Exposure Drafts – specifically on the subjects of; (i) the general architecture of the standards, (ii) rebuttable presumption, and (iii) phase-in.

LIST OF THE QUESTIONS COMMENTED

1A. OVERALL ESRS EXPOSURE DRAFT'S RELEVANCE - ARCHITECTURE -

CROSS-CUTTING AND TOPICAL STANDARDS

Question answered – Question 1
In your opinion, to what extent do the structure and articulation of cross-cutting and topical standards adequately support the coverage of CSRD topics and reporting areas?

☐ Not at all
☐ To a limited extent with strong reservations
☐ To a large extent with some reservations
☒ Fully
☐ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

We support the proposed architecture articulated in the cross-cutting standards and topical standards for sector-agnostic information: all the reporting areas and topics mandated as per CSRD are adequately covered and structured appropriately. We support the logic underpinning this structure, distinguishing between Strategy, Implementation, and Performance measurements.

In particular:

- through the **cross-cutting standards, the approach ensures the cohesion** of the sustainability report by establishing disclosure requirements for information on the key reporting areas of the **Strategy** (i.e. **General, Strategy and Business Model; Governance and Organisation; and Materiality Assessment**);

- through the **topical standards, the framework provides clarifications on the specificities of each topic**.

Considering the articulation of topics between the cross-cutting and the topical standards, we just suggest EFRAG assess potential **overlaps/similarities** between the disclosure requirements contained in the **cross-cutting ESRS 2 under the Governance area**, and the disclosure requirements included in the topical standard on governance **ESRS G1 on Governance, risk management and internal control**.

From a more practical perspective, we note that **it could be challenging for users to understand how cross-cutting and topical standards interact with each other**. For instance, it might be difficult for users to understand where they can find information regarding the resilience of the strategy and business model to climate-related risks – which is detailed in the topical standard on climate change [ESRS E1-AG 7], but is expected to be disclosed among the general information on Strategy & Business Model, according to the cross-cutting standard ESRS 2. The same issue may arise with regard to transition plans for climate change mitigation, which must be described according to the disclosure requirement E1-1 included in the topical standard on climate change, but referring to the cross-cutting section of General, Strategy, Governance, and Materiality Assessment. In both cases, investors could become confused if information on climate change is scattered across multiple parts of the report, especially because it is not necessarily clear and straightforward to track down elements under the reporting areas set in the framework. This is further compounded by the fact that in the intersections between cross-cutting and topical standards there are frequent **repetitions**.

Preparers and users would benefit from **additional instructions and illustrative examples about how cross-cutting and topical standards interact and complement each other in the reports**.

Furthermore, **streamlining is necessary**.

- Through **eliminating repetitions** between the cross-cutting and the topical standards, if the latter do not add strictly necessary information to what is already explained in the corresponding cross-cutting standards.
- **Consolidation and rationalisation are also necessary between the disclosure requirements and the Application Guidance**, especially in the cross-cutting standards. The **Application Guidance could be reduced as much as possible**, and all necessary contents can be consolidated in the disclosure requirements: this would decrease significantly the need to switch from one part to the other of the standard. For instance, in the ESRS 2 the Application Guidance often repeats information that is already stipulated in the disclosure requirements, adding little detail that can be included directly in the text of the disclosure requirements. In the topical standard on climate change, all disclosure requirements could be displayed in the main body of the standard, while the guidelines on how to prepare the information, the calculation rules, and the indications on the connectivity with financial statements can be detailed in the Application Guidance.

We also suggest improving **the readability of the reports** compiled according to their requirements, for instance through **visuals and guiding instructions for preparers and users**. An **index of key terms & topics** with indications of the standard/standards and the section/sections where the respective disclosure requirements can be found would be helpful. A similar tool could be included also in the final report, allowing users to easily identify which is the section of the report where they can find a specific information.

ALIGNMENT AND INTEROPERABILITY WITH INTERNATIONAL STANDARDS AND FRAMEWORKS

Question answered – Question 2
In your opinion, to what extent is the TCFD framework of reporting areas (governance, strategy, risk management and metrics/targets) compatible with the structure of the ESRS?

☐ Not at all
☐ To a limited extent with strong reservations
☒ To a large extent with some reservations
☐ Fully
☐ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

The **structures of the TCFD and the ESRS differ significantly**. The TCFD is articulated into Governance - Strategy - Risk Management - Metrics & Targets. The ESRS, instead, is structured around: Strategy (General, Strategy and Business Model - Governance and Organisation - Materiality Assessment); Implementation (Policies - Targets - Actions & Action Plans - Resources Allocation); and Performance Measurements. In particular, the pieces of information falling under the "Strategy" and the "Risk Management" sections of the TCFD are organised according to a different rationale and disclosed in different sections of the cross-cutting and the topical standard on climate change in the ESRS. This difference might generate confusion among preparers and users, especially throughout the first years of implementation.

However, all the disclosure recommendations in the TCFD are covered in the ESRS, even if under different sections of the framework, as clearly demonstrated in Appendix IV. The ESRS, which are more granular and prescriptive in nature than the TCFD, require clarifications and additional disclosure in almost all sections and for almost all information, but this is not incompatible with the TCFD recommendations.

In general, the two frameworks are interoperable. That is to say, information disclosed according to the ESRS is fully adequate to satisfy all the recommendations of the TCFD. Vice versa, all information disclosed according to the TCFD, duly integrated, can be used to fulfil parts of the requirements of the ESRS. Hence, investors can use information disclosed according to the TCFD and the ESRS to satisfy the same information needs about climate-related risks and opportunities that can affect the enterprise value, without major discrepancies.

Considering the equivalence in content and the interoperability, **the challenges potentially arising from the differences between structures can be solved through reconciliation tables and detailed matching maps**.

In particular:

1. the sections about **Governance** are separate and identifiable in both structures;

2. the **Strategy** section in the TCFD contains recommendations that are addressed in: cross-cutting standard ESRS 1 on time horizon; cross-cutting standard ESRS 2 on the key features of the value chain, on the Assessment of Impacts, Risks and Opportunities and on the Strategy and Business Model; in the topical standard on climate change ESRS E1 on transition plans, policies, targets, action plans, resources, and metrics on the financial exposure to climate risks;
3. the **Risk Management** section in the TCFD contains recommendations that are addressed in the cross-cutting standard ESRS 2 on the Assessment of Impacts, Risks and Opportunities; in the topical standard on climate change ESRS E1 on policies, targets and action plans; and in the topical standard on governance, risk management and internal control ESRS G1;
4. **In terms of Metrics & Targets** in the TCFD, Metrics are aligned (i.e. the topical standard on climate change ESRS E1 has a separate and identifiable section dedicated to Performance Measurements), whereas the disclosure requirements about the targets in ESRS E1 are detailed in an individual disclosure requirements under the area Implementation.

The table provided in Annex IV is a good basis to develop more granular instructions (for instance, each line of the corresponding TCFD recommendations and ESRS disclosure requirements could be put next to each other, in addition to the regrouping per section). Moreover, it could be useful to provide a table with the ESRS disclosure requirements on the left-hand column, with the matching sections of the TCFD on the right.

Question answered – Question 3
In your opinion, to what extent does the approach taken to structure the reporting areas promote interoperability between the ESRS and the IFRS Sustainability Exposure Drafts?

☐ Not at all
☐ To a limited extent with strong reservations
☒ To a large extent with some reservations
☐ Fully
☐ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

The IFRS 2 on Climate-related Disclosures and parts of the IFRS 1 on General Requirements for Disclosure of Sustainability-related Financial Information [Paragraphs 12-35] build on the TCFD framework, therefore the comments provided in the answer to question Q2 on the compatibility between the TCFD and the ESRS apply also on the interoperability between the draft IFRS 2 and draft IFRS 1, and the ESRS. In brief, **the structure is different, but completely reconcilable through adequate instructions**.

More detailed comments on how to improve the alignment of the individual disclosure requirements on climate change are provided in our answer to the Part 3 of this consultation, regarding the adequacy of the disclosure requirements of the topical standard on climate change ESRS E1.

In terms of the interoperability between the IFRS 1 (part on General Features) and the ESRS, we support the efforts that EFRAG has already undertaken to improve the alignment of the terminology between the two standards, as described in Appendix V. In particular, we note the following methodological approaches and definitions where further alignment would be welcome.

Definition of "value chain" (IFRS 1 Appendix A - Defined terms; ESRS 2 Appendix A - Defined terms)

The definition of value chain in the two standards is not fully compatible. In the ESRS the definition includes "the full range of activities and processes to create a product or service", including direct and indirect relationships upstream and downstream. In the IFRS 1 the definition is broader, as it encompasses the "full range of activities, resources and relationships related to a reporting entity's business model and the external environment in which it operates".

From the perspective of investors, the data disclosed by companies that comply with one framework or the other might differ in terms of the perimeter considered for the materiality assessment and the identification of the risks and opportunities. Therefore, we suggest seeking closer alignment with the definition provided by the ISSB.

Definition of "time horizon" (IFRS 1 Paragraphs 16 and 18; ESRS 1 2.4 Paragraphs 83-84)

According to the IFRS 1, companies are required to provide a description of the time horizon (short, medium and long term) over which the identified risks and opportunities are expected to materialise and affect the business model, strategy, cash flows, access to finance, cost of capital. Companies must describe how they define short, medium and long term based on their strategic planning horizons and capital allocation plans. The standard clearly states that short, medium and long term time horizons can vary and depending on many factors, including industry-specific characteristics, and preference of the data users. On the contrary, the ESRS 1 establishes specific time intervals for the definition of short-term (1 year), medium-term (2-5 years), and long-term (more than 5 years). Companies must adhere to these criteria when drafting their reports, potentially adding breakdowns for long-term when necessary.

On this point, see our response to question Q31.

Definition of enterprise value (IFRS 1 Annex A - Defined terms; ESRS 1 Paragraph 53)

In the IFRS the notion of enterprise value is at the core of the materiality assessment and it is described as follows: "Enterprise value reflects expectations of the **amount, timing and certainty**

of future cash flows over the short, medium and long term and the value of those cash flows in the light of the entity's risk profile, and its access to finance and cost of capital". In the Annex A - Defined terms "enterprise value" is defined as "the total value of an entity. It is the sum of the value of the entity's equity (market capitalisation) and the value of the entity's net debt".

The ESRS 1 mentions the concept of enterprise value while describing the notion of financial materiality, and specifically referring to the **risks and opportunities that (can) influence the future cash flows**.

Considering the relevance of the concept of enterprise value in financial materiality, we suggest aligning the ESRS definition with the definition provided in the ISSB, both in the text of the cross-cutting standard, and in the Annex A - Defined terms.

Integration of the identification, assessment and management of sustainability-related risks and opportunities in the risk management process (IFRS 1 Paragraph 26(e)(f) and IFRS 2 Paragraph 17(f); ESRS G1)

The IFRS framework requires companies to explain the extent to which and how the sustainability-related risk and opportunities identification, assessment and management processes, are integrated into the entity's overall risk management process. This provision is included in IFRS 1 and 2. The corresponding requirement in the ESRS, instead, is in the topical standard on governance, risk management and internal control [ESRS G1]. We consider the solution adopted by the IFRS more appropriate to obtain a coherent description of the governance structure and the process to identify, assess and manage the impacts, risks and opportunities. Therefore, we suggest EFRAG to consider including this disclosure requirement in the cross-cutting standard ESRS 2.

Oversight of target-setting of the governance bodies (IFRS 1 Paragraph 13(f))

To further improve interoperability, we suggest including in the cross-cutting standard ESRS 2 in the Governance section a disclosure requirement regarding the role of the body and its committees in overseeing the setting of targets related to significant sustainability-related risks and opportunities, and in monitoring progress towards them, as explicitly required in the IFRS 1 (Paragraph 13(f)).

Finally, it could be useful to integrate in the cross-cutting standards a series of transparency requirements for metrics that the company has developed internally, as currently postulated in the IFRS 1 [Paragraph 31].

CONSIDERATION GIVEN TO EU POLICIES AND LEGISLATION

Question answered – Question 4
In your opinion, have these European legislation and initiatives been considered properly?

☐ Not at all
☐ To a limited extent with strong reservations
☒ To a large extent with some reservations
☐ Fully
☐ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

Our comments are focused on the analysis of points (a)-(c) of the question.

(a) <u>Sustainable Finance Disclosure Regulation (SFDR) & Principal Adverse Impact Indicators (PAIIs)</u>

The ESRS requires companies to report all the necessary information to enable Financial Market Participants (FMPs) to comply with their obligations to disclose at least the 14 mandatory PAIIs as per SFDR. The disclosure requirements are broadly aligned with the definitions and calculation formulas outlined in the Annex I of the Delegated Regulation (EU) 2022/2018. In our response to question Q7 we make some suggestions to simplify the access to these data points. Finally, considering the EU Commission's mandate to the ESAs to revise the PAIIs and to potentially extend the list of indicators by April 2023, we recommend EFRAG adapt the reporting requirements as appropriate, once the process is finalised.

(b) <u>Taxonomy Regulation & relative Delegated Regulation (EU) 2021/2178</u>

We welcome that the topical standard on climate change has a specific disclosure requirement dedicated to the disclosure of Taxonomy-aligned turnover, CapEx and OpEx (as per Article 8 of the Taxonomy Regulation and relative Delegated Regulation (EU) 2021/2178). Hence, FMPs can use these data points to calculate their Taxonomy-alignment ratio at entity level, and to calculate the share of Taxonomy-aligned investments in their products (as per Article 5 and 6 of the Taxonomy Regulation). Furthermore, we note that the cross-cutting standard ESRS 2 requires companies to publish information on the significant sectors in which they operate according to the NACE classification [Disclosure Requirement 2-GR2]. This would simplify the calculation of the KPIs for Taxonomy-alignment.

We appreciate that in the topical standard on climate change there are at least two references to the Taxonomy; (i) in the disclosure requirement about the transition plan for climate change mitigation [ESRS E1-1 Paragraph 15(e)], and (ii) in the disclosure requirement about action plans and resources [ESRS E1-4 AG 35]: this will strengthen the understanding and awareness of companies and investors about the role of the Taxonomy in the transition, and potentially promote the cohesion of the overall EU regulatory framework on sustainable finance.

To improve the standards further, we make the following observations:

- We suggest verifying the technical alignment of the definitions of "Greenhouse Gases (GHG)" provided in the Appendix A - Defined terms of the topical standard on climate change (whose source is the IPCC) with the definition provided in the Taxonomy Regulation [Article 1(7)], which is linked to Regulation (EU) No 525/2013.
- In the topical standard on climate change, the text of the disclosure requirement about the Taxonomy-related KPIs should include a reference to the recently adopted Delegated Regulation (EU) 2022/1214 (**"Complementary Delegated Act"**), which determines the technical screening criteria for classifying nuclear and natural gas activities as "transitional" for the objective of climate mitigation. The Complementary Delegated Act, indeed, establishes specific and additional transparency obligations for complying with Article 8 of the Taxonomy Regulation, which must be observed by all reporting companies in the scope of the CSRD.
- Finally, we appreciate that the topical standards corresponding to the other four environmental objectives of the Taxonomy have provisional disclosure requirements regarding the KPIs for Taxonomy-alignment, pending the adoption of the delegated act with the necessary technical screening criteria. When the delegated act is adopted, the environmental topical standards will ensure that FMPs get the necessary information to comply with their transparency obligations at entity and product level. At that point, **all the KPIs about the Taxonomy-alignment of the six environmental objectives will have to be disclosed into a single table format**, by using the template furnished in Annex II of the Delegated Regulation (EU) 2021/2178.

(c) <u>Benchmark Regulation (Delegated Regulation 2020/1816 on the explanation of how ESG factors are reflected in the benchmark statement) & EU Climate Benchmarks (Delegated Regulation 2020/1818 on the minimum standards for EU Transition Benchmarks and EU Paris-aligned Benchmarks)</u>

The ESRS are in large part aligned with the disclosure requirements set in the delegated regulations about the ESG statement for all benchmark administrators and about the minimum criteria for the EU Climate Benchmarks.

Regarding the **Delegated Regulation 2020/1818 on the minimum standards for the Climate Benchmarks** (henceforth "DR on EU Climate Benchmarks"):

- We suggest verifying the technical alignment of the definitions of "Greenhouse Gases (GHG)" provided in the Appendix A - Defined terms of the topical standard on climate change (whose source is the IPCC) and the definition of "GHG emissions" provided in the text of the Delegated Regulation [Article 1(a)], which is linked to the EU Regulation 2018/842 (and also used in the Annex I of the Delegated Regulation (EU) 2022/2018);
- we underline that the **topical standard on climate change and the DR on EU Climate Benchmarks consider a different denominator for calculating the GHG intensity**: in the topical standard on climate change GHG intensity is calculated per net turnover [ESRS

E1-11], whereas in the DR on EU Climate Benchmarks GHG intensity is calculated per enterprise value including cash (EVIC) [Article 1(c)(d)];

- according to the DR on EU Climate Benchmarks, benchmark administrators are required to use a 1.5°C scenario with no or limited overshoot, whereas the topical standard on climate change only mentions a 1.5°C scenario with no or limited overshoot in the disclosure requirement on materiality assessment of transitional risks; in our comments included in the response to the Part 3 of this consultation we suggested adopting a 1.5°C scenario with no or limited overshoot as reference for the transition plans and the analysis of transition risks).

Other pieces of information that benchmarks' administrators will need in order to comply with the requirements for the EU Climate Benchmarks are provided through the ESRS: for instance, data on absolute GHG emissions, including Scope 3 GHG emissions; GHG emissions reduction targets; involvement of the companies (i.e. the benchmark constituents) in certain sectors based on the NACE classification; violations of the UN Global Compact Principles and the OECD Guidelines for Multinational Enterprises; and all the data necessary to implement the exclusions established for the Paris-aligned Benchmarks. To simplify the procedure by which benchmarks' administrators can find the data on the involvement of the constituents in certain sectors – for instance in the cultivation and production of tobacco, or in the exploration, mining, extraction, distribution or refining of hard coal and lignite – the ESRS 2 might introduce additional disclosure requirements in AG (12), as already done for controversial weapons.

Regarding the **Delegated Regulation 2020/1816 on the explanation of how ESG factors are reflected in the benchmark statement** (henceforth, "DR on ESG benchmark statement"), most of the data necessary to disclose the ESG factors listed in the template of the DR are furnished through the ESRS cross-cutting and topical standards, and tend to correspond to the data points for the PAIIs, or to the information on the sectors of activity [ESRS 2 disclosure requirement 2-GR 2]. The pieces of information on which the ESRS might seek further alignment with the DR on ESG benchmark statement are: CapEx in renewable energy (as a share of total CapEx by energy companies); activities included in the environmental goods and services sector; companies without due diligence policies on issues addressed by the fundamental International Labor Organisation Conventions 1 to 8; ratio of accidents, injuries, fatalities.

Question answered – Question 5
Are there any other European policies and legislation you would suggest should be considered more fully?

While elaborating the ESRS, we consider it important that the EFRAG monitors the ongoing legislative processes concerning the **Corporate Sustainability Due Diligence Directive (CSDDD)**, and the **EU Green Bond Standard Regulation (EU GBS Regulation)**.

The CSDDD (and regulations adopted by Member States according to its guidelines) will be particularly important as it will establish due diligence requirements for companies by "setting out a horizontal framework to foster the contribution of businesses [...] to the respect of the human rights and environment in their own operations and through their value chains, by identifying, preventing, mitigating and accounting for their adverse human rights, and environmental impacts, and having adequate governance, management systems and measures in place to this end". We note that the Appendix C: Explanations on sustainability due diligence [ESRS 1] is based on the practice defined by international instruments: as soon as the CSDDD is adopted, the ESRS will have to review and update (if needed) this section in order to guarantee the coherence of the EU regulatory framework.

Therefore, we recommend the EFRAG to **monitor the evolution of the CSDDD so as to ensure that the disclosure requirements on due diligence across the whole ESRS reflect the practices that the companies will be required to adopt**.

Other important aspects where the ESRS should seek alignment with the CSDDD are the notion of **"value chain"** and **"business relationship"**.

In terms of the **EU GBS Regulation**, according to the latest position agreed by the EU Parliament (before entering negotiations with the EU Council and the EU Commission) issuers of environmentally sustainable and sustainability-linked bonds will have to publish some pieces of information at entity level, for instance a statement on due diligence policies with respect to principal adverse impacts of investment decisions on sustainability factors. In general, the role of the ESRS would be to ensure that companies disclose the necessary information to enable an effective application of the transparency/labelling framework created by the regulation.

COVERAGE OF SUSTAINABILITY TOPICS

Question answered – Question 6
In your opinion, to what extent does the proposed coverage of set 1 adequately address CSRD sustainability topics?

☐ Not at all
☐ To a limited extent with strong reservations
☐ To a large extent with some reservations
☒ Fully
☐ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

In general, the ESRS cover all the reporting areas and the sustainability topics indicated under the CSRD (Article 29b of the agreed text, or 19b of the Commission proposal), distributing them in the cross-cutting standards and in the eleven topical standards.

During the revision of the draft ESRS it will be necessary to adjust the disclosure requirements in order to include some sustainability topics that were added in the CSRD text after the negotiations between the EU policymakers.

It will also be important to ensure connectivity as well as avoid duplication of reporting between the first set of standards and the second set of standards covering sector-specific information.

Question answered – Question 7
In your opinion, to what extent does the proposed coverage of set 1 (see Appendix I) adequately address SFDR reporting obligations?

☐ Not at all
☐ To a limited extent with strong reservations
☒ To a large extent with some reservations
☐ Fully
☐ No opinion

If you think this coverage and its implementation could be improved in any way, please specify how and to what specific SFDR indicator your comment relates

As mentioned in our response to question Q4, the disclosure requirements corresponding to information that qualify as mandatory PAIIs are broadly aligned with definitions, metrics, and calculation formula established in the Annex I of the Delegated Regulation 2022/1288.

We note that regarding the **PAII #9 Hazardous waste and radioactive waste ratio**, it would be better to align the definition of “hazardous waste” furnished in the Appendix A - Defined Terms of the topical standard ESRS E5 to the definition included in the Annex I of the Delegated Regulation [Paragraph (15)]. The definition of “radioactive waste” is aligned, but we note that it is included directly in the text of the disclosure requirement: we suggest choosing a homogeneous solution for all the definitions regarding the PAIIs across the whole framework of the ESRS.

To simplify the access to these data points we make the following suggestions:

- some requirements are included in the Application Guidance (for instance, in the case of PAII #4 on exposure to companies active in the fossil fuel sector, #7 on biodiversity, and #8 on emissions to water): we suggest placing the requirements to report the data points corresponding to PAIIs in the disclosure requirements rather than in the Application Guidance, to render them more easily recognisable to FMPs.
- In addition to this, it would be helpful if companies **summarise in a table all the data points that constitute PAIIs**, linking each one to the corresponding parts of the report where FMPs can find more exhaustive explanations, e.g. on the calculation methodologies, context and background (similar to the table presented in the Appendix III).

- Regarding the **PAIIs #10 and #11** (i.e. the violations of the UN Global Compact Principles and the OECD Guidelines for Multinational Enterprises, and the existence of processes and compliance mechanisms to verify the compliance with those principles and guidelines), **the information provided by the ESRS might not be complete and/or easily identifiable**.
According to the assessment provided in Appendix III, the information that are supposed to satisfy the compliance needs of the FMPs are located across the four topical standards on social matters [ESRS S1, S2, S3, S4]. However, we note that the UN Global Compact Principles and the OECD Guidelines may cover other matters in addition to own workforce, workforce in the value chain, customers and end-users, and affected communities. For instance, the OECD Guidelines embrace also "combating bribery, bribe solicitation and extortion". The definition of "UN Global Compact Principles" given in the Annex I of the Delegated Regulation 2022/1288 specifies clearly that all the ten principles are included in the metric for the PAII (principles include also matters on anti-bribery). However, we are not able to find any reference to the OECD Guidelines of the UN Global Compact Principles in the topical standard on business conduct [ESRS G2], where bribery-related matters are covered.
Moreover, it would be complex for FMPs (and for data providers) to collect multiple data points in different parts of the report in order to elaborate the two metrics for PAIIs #10 and #11. Hence, we suggest introducing a **single disclosure requirement in which companies declare whether they comply with the UN Global Compact Principles and the OECD Guidelines for Multinational Enterprises**, register potential violations occurred during the reporting year, and clarify whether and how they have mechanisms in place to monitor compliance; companies should provide adequate evidence for these declarations, also by referencing data that are disclosed in different parts of the report, under topical standards. This information would be useful also to verify the Taxonomy-alignment of companies relative to the respect of minimum social safeguards (Article 18 of the Taxonomy Regulation).

SUSTAINABILITY STATEMENTS AND THE LINKS WITH OTHER PARTS OF CORPORATE REPORTING

Question answered – Question 8
Do you agree with the proposed three options?

☒ Yes
☐ No
☐ No opinion

Question answered – Question 9
Would you recommend any other option(s)?

We agree with the three proposed options, including the provision according to which companies should provide a location table to enable users to identify the sector-agnostic disclosures across the management report, if option (b) or (c) are chosen. We also support the clarification that Taxonomy-alignment disclosures should be located in a dedicated and identifiable part of the management report (ESRS 1 Par 152).

As suggested in our response to question Q7, it would be helpful if companies **summarise in a table all the data points that constitute PAIIs,** linking each one to the corresponding parts of the report where FMPs can find more exhaustive explanations, e.g. on the calculation methodologies, context and background (similar to the table presented in the Appendix III).

Question answered – Question 10
In your opinion, to what extent do you believe that connectivity between the sustainability reporting and other parts of the management report has been appropriately addressed?

☐ Not at all
☐ To a limited extent with strong reservations
☐ To a large extent with some reservations
☐ Fully
☒ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

No additional comments on this topic.

Question answered – Question 11
In your opinion, to what extent does the incorporation of information in the Sustainability section by reference to other parts of the management report support cohesiveness throughout corporate reporting?

☐ Not at all
☐ To a limited extent with strong reservations
☐ To a large extent with some reservations
☒ Fully
☐ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

We support the provision allowing companies to incorporate in the sustainability statement "separate element of information clearly identified in the other section of the management report" by reference, as this practice will improve the cohesiveness of the corporate statements, avoid repetitions, and simplify the readability of the sustainability statement.

Question answered – Question 12
In your opinion, to what extent do the requirements and provisions on how to include monetary amounts and other financial statement-related quantitative data into sustainability reporting support connectivity with the financial statements?

☐ Not at all
☐ To a limited extent with strong reservations
☐ To a large extent with some reservations
☐ Fully
☒ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

No additional comments on this topic.

1B. Overall ESRS Exposure Draft's relevance - Implementation of CSRD principles -

Characteristics of information quality

Question answered – Question 13
To what extent do you think that the principle of relevance of sustainability information is adequately defined and prescribed?

☐ Not at all
☐ To a limited extent with strong reservations
☐ To a large extent with some reservations
☒ Fully
☐ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

We welcome the proposed definition, and we note the substantial alignment with the notion of "relevance" in the IFRS 1 – Appendix C on the Qualitative characteristics of useful sustainability-related financial information, with regard to the capacity of influencing the decision of users, and the predictive/confirmatory value of information.

The only difference consists in the fact that the ESRS identifies double materiality as an enabling factor of relevance, whereas the IFRS 1 is based on financial materiality: this difference derives from the divergence of the objectives of the two standards and does not affect the substance of this definition.

Question answered – Question 14
To what extent do you think that the principle of faithful representation of sustainability information is adequately defined and prescribed?

☐ Not at all
☐ To a limited extent with strong reservations
☒ To a large extent with some reservations
☐ Fully
☐ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

We welcome the proposed definition, and we note the substantial alignment with the notion of "faithful representation" in the IFRS 1 – Appendix C, regarding the factors of "completeness", "neutrality", and "accuracy".

While the concept of neutrality is aligned between the two standards, we consider the example proposed by the IFRS 1 as very useful in conveying the substance (i.e. disclosures about targets should include both the actions that will allow the company to achieve them, but also the potential obstacles), thus we suggest the EFRAG to consider including it in the text of the ESRS.

The only observation that we have is on the element of accuracy. The ESRS is focused on the process and internal controls that are adopted to elaborate the information, especially when approximation or predictions are necessary. The IFRS 1 establishes that accuracy depends on the nature of the information and on the matters it addresses, including, but not limited to approximation and prediction. Therefore, the EFRAG might consider expanding its definition to improve alignment with the IFRS 1.

Question answered – Question 15
To what extent do you think that the principle of comparability of sustainability information is adequately defined and prescribed?

☐ Not at all
☐ To a limited extent with strong reservations
☐ To a large extent with some reservations
☒ Fully
☐ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

We welcome the proposed definition, and we note the substantial alignment with the notion of "comparability" in the IFRS 1 – Appendix C, regarding the factors of consistency over time in the company and enabling comparisons with other companies.

Interestingly, we note that the IFRS 1 clarifies that “comparability” is not synonym for “uniformity”, which we believe is useful to convey the wide heterogeneity of the ways in which sustainability-related matters are defined and measured.

Question answered – Question 16
To what extent do you think that the principle of verifiability of sustainability information is adequately defined and prescribed?

☐ Not at all
☐ To a limited extent with strong reservations
☐ To a large extent with some reservations
☒ Fully
☐ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

We welcome the proposed definition, and we note the substantial alignment with the notion of “verifiability” in the IFRS 1 – Appendix C.

Question answered – Question 17
To what extent do you think that the principle of understandability of sustainability information is adequately defined and prescribed?

☐ Not at all
☐ To a limited extent with strong reservations
☐ To a large extent with some reservations
☒ Fully
☐ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

We welcome the proposed definition, and we note the substantial alignment with the notion of “understandability” in the IFRS 1 – Appendix C, regarding the aspects of clarity and conciseness.

Interestingly, we note that the IFRS 1 stresses the importance of presenting sustainability-information as a coherent whole, thus explaining the context and the relationships between them: the EFRAG might consider including this item in its definition of understandability.

DOUBLE MATERIALITY

Question answered – Question 18
In your opinion, to what extent does the definition of double materiality (as per ESRS 1

paragraph 46) foster the identification of sustainability information that would meet the needs of all stakeholders?

☐ Not at all
☐ To a limited extent with strong reservations
☒ To a large extent with some reservations
☐ Fully
☐ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

We think that the definition of "double materiality" is adapted to satisfy the needs of the data users, as well as to provide adequate information on the impacts on affected stakeholders.

In particular, we welcome the clarification that "material information" under the double materiality lens should be considered as information that is:

- material from a financial materiality perspective only,
- material from an impact materiality perspective only,
- material from a financial materiality perspective and from an impact materiality perspective.

What is less clear is how this definition interacts with the notion of "information materiality" provided in Paragraph 43, as the latter includes in the equation the three following elements: significance in relation to the phenomenon considered, capacity to meet the interest of the stakeholders, and fulfil the need for transparency corresponding to the European public good. It is also unclear as to how these elements interact with the factors determining the assessment of materiality through the financial and the impact lens, which are described in the cross-cutting standards ESRS 1 and 2.

Question answered – Question 19
To what extent do you think that the proposed implementation of double materiality (as per ESRS 2-IRO 1, paragraph 74b(iii) and AG 61) is practically feasible?

☐ Not at all
☐ To a limited extent with strong reservations
☒ To a large extent with some reservations
☐ Fully
☐ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

Our comments relate to the relevance of the information disclosed through the description of the implementation of double materiality assessment (as per ESRS 2-IRO 1, paragraph 74b(iii) and AG 61). What investors need to understand from this description is: what process, methodology, criteria and thresholds have been considered to assess the identified risks, opportunities and impacts are material.

Accessing these pieces of information is important for investors to understand and evaluate the robustness of the overall materiality assessment, as well as to better compare the data disclosed across the report with those of other companies.

In general, the disclosure requirement and the relative Application Guidance indicated in the question address these information needs. However, clarifications in the form and content of the text are needed.

In ESRS 2-IRO 1, paragraph 74b(iii) we would suggest including a provision to disclose:

- how the prioritisation of positive impacts reflects their scale, scope and likelihood (as established in the AG 68 (c)(d));
- how the financial materiality and impact materiality are defined and determined by the undertaking.

Furthermore, we observe that the definition of "severity" is provided in the Application Guidance, thus there is no need to repeat this in the disclosure requirement.

Regarding the AG 61, we note that the consideration of how "the risk and opportunity are measured and monitored, including any uncertainties and assumptions connected to their measurement and monitoring" reads more like a disclosure requirement on the identification of risks and opportunities, rather than a group of elements that companies should consider while performing the materiality assessment [AG 61(b)(iv)]. If our reading is correct, we suggest moving this provision under the disclosure requirements on the identification of risks and opportunities.

AG 61(c) might need further clarification. According to what is stated in the text, the material impacts, risks and opportunities that have or will trigger reactions by the company (e.g. modification of the strategy and business model) "deserve a specific disclosure focus". In our view, it should be clarified: what "specific disclosure focus" means, and whether the unaddressed risks, opportunities and impacts – when material – deserve disclosure or not (in our view, it should be the case).

Further observations and comments on the materiality assessment and its description are provided in the responses to the specific questions on financial materiality and impact materiality (Q 20 - Q 23).

In general, we note that companies and investors need **more detailed guidance and methodology on the parameters, criteria, and thresholds to determine which risks,**

opportunities and impacts are material. The definitions of severity, scope, scale, likelihood, probability of occurrence and magnitude of financial effects are not enough substantiated with indications on the basis on which these concepts should be practically determined.

Finally, we note that the questions in the consultation are focused on the process to determine which impacts, risks and opportunities are material, and how this process should be disclosed. However, it is equally important for data users to know which is the perimeter, the process and the methodology considered to identify the risks, opportunities and impacts (thus, the step which precedes the materiality assessment). The topic is addressed in Paragraph 74(b)(i) and (ii) and in multiple Application Guidance, however the formulation and the distribution of the provisions renders often difficult to distinguish the two steps.

Overall on the materiality assessment process, the rationale of the distribution of the provisions among disclosure requirements and the Application Guidance is often difficult to follow. Moreover, the list of the Application Guidance alternates provisions on risks/opportunities, and provisions on impacts: this presentation might undermine the accessibility and comprehensibility of the information. Therefore, we suggest consolidating the disclosure requirements and the Application Guidance, and reconsider the order in which the provisions are displayed, to promote a more organic overview of the process to be followed, and the relative description that must be provided.

IMPACT MATERIALITY

Question answered – Question 20
In your opinion, to what extent is the definition of impact materiality (as per ESRS 1 paragraph 49) aligned with that of international standards?

☐ Not at all
☐ To a limited extent with strong reservations
☒ To a large extent with some reservations
☐ Fully
☐ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

We welcome the broad alignment of the definitions of "impact", "impact materiality" (provided in the ESRS 1 paragraphs 49-51 and in the Appendix A – Defined terms of ESRS 1 and ESRS 2) and the process to determine the "materiality" of impacts (described in the ESRS 2 Disclosure Requirement 2-IRO 1 and relative Application Guidance) with the notions of "impact" and "material topics" and the guidance to identify them provided by the GRI in its GRI 1 - Foundations 2021 and GRI 3: Material Topics 2021.

That said, on the definition of “impact” [ESRS 2 Appendix A – Defined terms] we underline the following aspects where EFRAG might consider additional analysis and further alignment:

- in the GRI standard the notion of impact refers also to the "effect an organization has or could have on the economy" (in addition to “people and environment”); the effect on the economy is defined as "the impacts on economic systems at local, national, and global levels. An organization can have an impact on the economy through, for example, its competition practices, its procurement practices, and its taxes and payments to governments";
- the GRI standard clarifies that the impacts on the economy, environment, and people are interrelated; moreover, it observes that the positive impacts in one area can result in negative impacts in one or both the other areas;
- regarding the time horizon, the GRI standard only mentions short-term and long-term, but EFRAG might want to keep the reference to medium-term for internal coherence: in that case, the definition in ESRS 2 Appendix A – Defined terms should be amended and aligned with the definition of “impact materiality” to include “medium-term”.

Regarding the definition of “impact materiality” in ESRS 1, the EFRAG might want to reassess its choices on the use of the expressions "directly caused" "contributed" and "directly linked" in relation to a company’s “own operations”, “products”, “services from business relationships”, in order to ensure a coherent adoption of terminology between the ESRS and the GRI Standards. At least, the ESRS 1 should furnish a definition for these expressions. This is a matter of interest for investors, and data users in general, to ensure that information reported based on different standards are enough comparable.

Question answered – Question 21
To what extent do your think that the determination and implementation of impact materiality (as proposed by ESRS 1 paragraph 51) is practically feasible?

☐ Not at all
☐ To a limited extent with strong reservations
☒ To a large extent with some reservations
☐ Fully
☐ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

Our comments relate to the relevance and accuracy of the information disclosed through the description of the implementation of impact materiality, as defined in ESRS 1 Paragraph 51, and further determined in the ESRS 2 Disclosure Requirement 2-IRO 1, paragraph 74b(iii), AG 64 and AG 68.

In general, the parameters that should be adopted to assess the materiality of impacts (severity, scope, scale) are clear in definition and aligned with those determined by the GRI.

To clarify the text of the ESRS, and increase the precision of the disclosures, we make the following suggestions.

- Regarding ESRS 1, we note that Paragraph 51 focuses on the definition of potential and current negative impacts, but it does not mention the parameters to determine positive impacts, which should be included. The same observation applies to the formulation of the Paragraph 74(b)(iii) in the ESRS 2.
- Regarding ESRS 2 AG 64, it might be appropriate to include in the "context" on impacts, risks and opportunities [AG 64 (a)] a reference to "own operations, products and services", as these are mentioned in the definition of impact materiality provided in ESRS 1 Paragraph 49. Moreover, a definition should be included on what "sustainability context" means, including how it should be described. Third point, we note that the concept of "likelihood" does not have a definition.
- Regarding AG 68, in addition to the information listed in the text, investors need to understand **what the exact criteria, parameters and thresholds are to determine severity, scale, scope and likelihood**, and the **prioritisation** among impacts.

FINANCIAL MATERIALITY

Question answered – Question 22
In your opinion, to what extent is the definition of financial materiality (as per ESRS 1 paragraph 53) aligned with that of international standards?

☐ Not at all
☐ To a limited extent with strong reservations
☒ To a large extent with some reservations
☐ Fully
☐ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

We assessed the alignment of the definition of "financial materiality" in the ESRS with the notion of "materiality" and the objective of the reporting standards provided by the ISSB in its draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information.

We welcome that both concepts refer to **the risks and the opportunities that can influence cashflows, hence the enterprise value**. Therefore, we consider the two definitions as substantially aligned and we believe they can be considered as broadly interoperable.

That said, we note some differences in the priorities and terminologies used in the two standards.

- **The IFRS 1's definition centres on the notion of influencing "the decisions that the primary users of general purpose financial reporting make on the basis of that reporting"**, where primary users are intended as existing and potential investors, lenders and other creditors. The ESRS, instead, determines the materiality of information based on its potential to meet the needs of both the affected stakeholders and the users of the sustainability reporting (which include investors, lenders and creditors, and other partners of the organisation). This difference is broadly explained by the fact that the IFRS 1 is based on financial materiality, whereas the ESRS is based on double materiality. More specifically on the financial materiality, in the ESRS's definition of financial materiality there is no mention to the needs of users, and the definition directly focuses on establishing information as material from a financial perspective if it triggers or may trigger financial consequences for the undertaking.
- The **IFRS 1 stresses more the fact that each company applies judgement** in the definition of the materiality.
- As for the parameters for assessing the materiality, both standards mention the concept of "**probability of occurrence**"; on the outcomes, the IFRS 1 explicitly mentions the notion of "**high-impact**", whereas the ESRS refer to "**magnitude of financial effects**". We see these terminologies as broadly aligned in substance.
- We welcome the fact that the ESRS provides more granular explanation about the **effects on future cash-flow**, which can be assets and liabilities already recognised in financial reporting (or that might be so in the future), as well as factors of enterprise value creation that do not meet the accounting definition of assets/liabilities ("capitals"). On "capitals" we note that companies and investors might need a more precise definition.
- Furthermore, we welcome the description of the **dependencies** where risks and opportunities can generate (i.e. availability of economic, natural and social resources at appropriate price and quality), and the **triggers that can produce risks and opportunities**, i.e. those that affect the access to- and use of resources, and those that affect the business relationships.
- What is missing in the ESRS is a **definition of "enterprise value"**, which should be aligned to the one provided in the IFRS 1 to allow full alignment between the two standards.
- Finally, we note that in the description of the process to identify risks and opportunities [ESRS 2 Disclosure Requirement 2-IRO 1 Paragraph 74(b)(ii)] companies are required to include risks and opportunities that can affect **"the development" of the company**, besides its performance and position, as per CSRD. The notion of development is not mentioned in the IFRS 1.

Question answered – Question 23
To what extent do you think that the determination and implementation of financial materiality (as proposed by ESRS 1 paragraphs 54 to 56) is practically feasible?

☐ Not at all
☐ To a limited extent with strong reservations
☒ To a large extent with some reservations
☐ Fully
☐ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

Our comments relate to the relevance and accuracy of the information disclosed through the description of the implementation of financial materiality, as per ESRS 1 Paragraphs 54 to 56 and ESRS 2 Disclosure Requirement 2-IRO 1, paragraph 74b(iii), AG 65 and AG 69.

As underlined also for the impact materiality, what lacks here is the **requirement for companies to disclose criteria and thresholds** adopted to determine the materiality of financial risks and opportunities. For instance, those that are implemented to analyse "the scenarios/forecasts that are deemed likely to materialise" [AG 69 (a)] and to determine the "more likely than not" threshold [AG 69 (b)]. The Application Guidance does not add much in terms of substance to what is already stated in the definition of "financial materiality". Quantitative definitions of "**probability of occurrence**" and "**magnitude of financial effects**" are needed as well [ESRS 1 Paragraph 56].

As observed also in our response to question Q21 on the impact materiality, more detailed guidance from the EFRAG would be welcome to support companies in the process, as well as to promote greater standardisation and comparability.

(MATERIALITY) REBUTTABLE PRESUMPTION

Question answered – Question 24
to what extent do you think that the (materiality) rebuttable presumption and its proposed implementation will support relevant, accurate and efficient documentation of the results of the materiality assessment?

☐ Not at all
☒ To a limited extent with strong reservations
☐ To a large extent with some reservations
☐ Fully
☐ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

See our following responses to questions Q25, Q26, and Q27.

Question answered – Question 25
What would you say are the advantages of the (materiality) rebuttable presumption and its proposed implementation?

The major advantage of the rebuttable presumption consists in ensuring full **transparency towards investors**.

From multiple conversations with practitioners, we understand that data users (including investors and data providers) generally find it useful to know the processes that a reporting company has adopted to assess the materiality of a sustainability topic, or a specific aspect of a sustainability topic. This is even more important when the outcome of the assessment is that the topic is not material

Moreover, the rebuttable presumption may **mitigate at least three risks** potentially associated with a condition where companies are not expected to mark the disclosure requirements that they decide not to fulfil, nor to provide any additional explanation for this. These risks are:

1. the **risk of having information hidden from investors' analysis** for reasons that are not associated to the materiality assessment;
2. the **risk of compromising the comparability of information**, because investors will be able to appreciate and evaluate similarities and differences in the materiality assessment choices of different companies (e.g. peers) for the same topic, especially when some comply and others not;
3. (some) **risks of creating market distortions**, as all companies will have to provide clarity (through disclosures of material information or through explanations for non-compliance), about the same number of topics. Please note that in the response to the following question Q26 we provided arguments on the potential risks of distortions originating from the rebuttable presumption.

Question answered – Question 26
What would you say are the disadvantages of the (materiality) rebuttable presumption and its proposed implementation?

Our first, general observation is that preparing and accessing sustainability reports that include detailed explanations on whether and why each topic, disclosure requirement, and/or group of disclosure requirements are not material would become extremely **burdensome for companies and investors**. This burden might not be offset by adequate advantages in terms of relevance and quality of the data produced.

First, the materiality assessment is the cornerstone of sustainability reporting, as it enables both companies and investors to focus *only* on information that are truly relevant – based on circumstances that are specific for each reporting company. **Hence, the materiality assessment is key for investors to obtain relevant and decision-useful information**.

While we appreciate the potential positive gains of **the rebuttable presumption** (as explained in our response to question Q25), we also note that it **might unintentionally undermine the role of the materiality assessment**, as well as its robust and efficient implementation by reporting companies.

If all disclosure requirements are considered as material by default, **companies might focus their efforts on complying with the highest number of provisions as possible,** without necessarily paying enough attention to the relevance of the data disclosed, thus limiting the materiality assessment to a box-ticking exercise. Were this outcome to occur, the reports would end up being longer and more complex than necessary, and potentially saturated with information that is not useful for investors and other users.

Another unintentional consequence of the rebuttable presumption may be **shifting the focus of sustainability reporting from the quality to the quantity of the data disclosed**. This, in turn, might generate distortions and increase asymmetries between companies. Indeed, companies that conduct an appropriate materiality assessment (and therefore, might disclose less), can get worse scores or considerations from data providers and investors than companies that produce longer, but less valuable reports. Moreover, companies with less resources to measure and report sustainability information might automatically face disadvantages, compared to companies that are able to produce longer and more detailed reports (this is what already happens, so the rebuttable presumption would worsen this situation).

In addition to these observations, we would caution against generating situations in which the resources of companies shift from providing quality data on material topics, towards crafting credible justifications for the disclosure requirements that are rebutted. If the report includes a proper description of the materiality assessment, with meaningful thresholds and criteria according to what prescribed in the ESRS 2 under the area Materiality assessment of sustainability impacts, risks and opportunities, and including clarifications for each topic as required in the topical standards, in theory it would be less necessary that companies publish additional explanations for each individual topic/group of disclosure requirements that are considered as “not material”. **Companies should focus on providing a proper description of the materiality assessment, rather than granular explanations for each topic/disclosure requirement**. To this end, we suggest including in ESRS 2 a more explicit provision that companies should describe the exact criteria and thresholds used to assess the materiality of impacts, risks and opportunities, as the guidelines indicated in the disclosure requirements and the application guidance leave too much room for vagueness.

Finally, we harbour concerns over the potential practical consequences of the situation described in **Paragraph 62** of the cross-cutting standard ESRS 2 [Section 2.2 Double materiality as the basis for sustainability disclosures], whereby **an individual data point that is required under a topical standard or a disclosure requirement considered as material can be omitted** and considered as implicitly “not material for the undertakings”. This provision might **pave the way to omissions of relevant information** for investors.

For instance, in the topical standard on climate change, when companies describe their GHG emissions reduction targets, one data point required is the methodology used to determine the alignment to the objective of limiting global warming to 1.5°C, including climate and policy scenarios. This explanation is absolutely necessary for investors to understand the target, evaluate its credibility, and compare it with the targets disclosed by other companies. However, from our reading of the provision in Paragraph 62, a company might avoid disclosing this piece of information, without stating that this is not material and explaining why.

While we acknowledge that in many circumstances this practice can simplify the process and render the report more concise and user-friendly, the example just described is also useful to consider the risks.

Question answered – Question 27
How would you suggest it can be improved?

First, we suggest EFRAG carefully considers the trade-off between advantages and disadvantages of the approach to rebuttable presumption. From the point of view of the investors, **the core interest is to access ONLY and ALL relevant, reliable and comparable information and data; relevant information can also include whether and why a company evaluates a topic as not material**.

Having this premise in mind, we provide some suggestions below to improve the approach to rebuttable presumption;

- The burden of rebuttable presumption can be alleviated through a **more efficient distribution of the disclosure requirements across sector-agnostic and sector-specific standards**. As an example, we can consider the topical standard on climate change, and the data point on locked-in emissions under the disclosure requirement on the transition plans [ESRS E1-1 Paragraph 15(d)]. If it is a sector-agnostic disclosure requirement, the rebuttable presumption would require most companies to dedicate time to explain why this information is not significant or does not serve the interest of stakeholders; in other cases, companies would feel obliged to disclose low-quality or meaningless data. If locked-in emissions are placed under the sector-specific standards (e.g. for high-impact sectors), in most cases this information would be deemed as material and appropriately disclosed.

- The **statement “not material for the undertaking”** does not require per se much effort from companies, and it is useful for investors as it implies a judgement from the company. We think it **should always be reported**, for topical standards, individual disclosure requirements, and individual data points that are not material. We welcome the instructions provided in the cross-cutting standard ESRS 2 [Disclosure Requirement 2-IRO 2, Paragraph 77(c)], according to which companies must disclose a list of all “non material information" in one single place, as this will simplify the report and render it more coherent.

- We suggest verifying the feasibility of a workstream aimed at **identifying, at the level of topical standards and at the level of sectors, a list of topics/disclosure requirements that are to be considered as "likely material"**. If companies consider these topics/disclosure requirements as not material, an explanation would need to be provided. For all other topics/disclosure requirements, the statement "not material information" would suffice. To explore the feasibility and opportunity of this option, we suggest seeking the collaboration with the GRI, which has adopted a similar approach.

- As mentioned in our response to the question Q26, the ESRS 2 should strengthen the requirements relative to the disclosure of methodologies and processes adopted to assess the materiality of impacts, risks and opportunities, and **demand companies to be as precise as possible in the description of criteria and thresholds**: the more the materiality assessment process is clear and detailed, the less the explanations for the "not material information" will be necessary for investors. More detailed guidance on how to conduct the materiality assessment would also be helpful.

- Finally, in the ESRS 1, Paragraph 61 we read that "The rebuttable presumption is not applicable to the Disclosure Requirements related to ESRS 2 Disclosure Requirements SBM, GOV and IRO". We consider appropriate that the text clarifies whether the disclosure requirements in the areas of SBM, GOV and IRO that are included in the topical standards are also not rebuttable. For instance, we expect the disclosure requirement on transition plans [ESRS E1-1] is not rebuttable, because it is an explicit obligation set in the CSRD.

In addition to these areas, we suggest stating that the **data and information corresponding to the PAIIs** (at least, the 14 that are mandatory) **cannot be rebutted** (i.e. must always be disclosed).

REPORTING BOUNDARY AND VALUE CHAIN

Question answered – Question 28
In your opinion, to what extent would approximation of information on the value chain that cannot (practically) be collected contribute to the reporting of understandable, relevant, verifiable, comparable, and faithfully represented sustainability information?

☐ Not at all
☐ To a limited extent with strong reservations
☒ To a large extent with some reservations
☐ Fully
☐ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

While not ideal, we consider that approximation as necessary when the reporting company is not able to get the necessary data from the entities in its upstream and downstream value chain.

This can regularly be the case, as the practice of measuring and reporting sustainability-related information is still evolving – especially on some topics (such as biodiversity and social matters).

Accordingly, we believe that allowing **approximation, with due process and transparency, is necessary to enable and foster sustainable investing**.

Full transparency is crucial to ensure that approximated information is understandable, relevant, verifiable and comparable. Therefore, **we recommend the EFRAG and the EU Commission introduce adequate provision**s about "Using approximation on the disclosure in relation to boundary and value chain" and "Disclosing on significant estimation uncertainty" [ESRS 2 Disclosure Requirements 2-GR 5 and GR-6].

In addition to the reporting requirements detailed in Paragraph 23, we suggest adding:

- efforts made and obstacles encountered to get data from the value chain;
- sources of approximation (e.g. publicly available databases, data providers, own analysis, etc.);
- calculation methodologies used (e.g. by reference to the documents published by public databases and/or external data providers);
- the exact share of approximation contained in a piece of information or data;
- the due diligence that the company has applied to ensure that the data used have reasonable quality and reliability, considering the uncertainty associated to approximation.

These clarifications are important for data users (investors and data providers) to verify and compare the data.

In addition to this, the cross-cutting standard ESRS 1 could introduce additional clarifications on **the ways in which companies can do the approximation**: for instance, using publicly available database with certain criteria, doing in-house projections using data disclosed by peers or available in public reports on sectors, using data from external data providers etc. The ESRS 1 could also provide examples on the types of proxies that can be useful in certain situations.

See also our comments on the necessity to align the definition of "value chain" between the ESRS and the IFRS 1, which are explained in on our response to question Q3.

Question answered – Question 29

What other alternative to approximation would you recommend in cases where collecting information is impracticable?

No additional comments on this topic.

Question answered – Question 30
In your opinion, to what extent will the choice of disaggregation level by the undertaking as per ESRS 1 paragraphs 72 to 77 contribute to the reporting of understandable, relevant, verifiable, comparable and faithfully represented sustainability information?

☐ Not at all
☐ To a limited extent with strong reservations
☒ To a large extent with some reservations
☐ Fully
☐ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

We support the elements described in the standards, however we recommend that EFRAG also include disclosure requirements, so as to demand companies to explain the rationale for their choices.

TIME HORIZON

Question answered – Question 31
Do you think it is relevant to define short-, medium- and long-term horizon for sustainability reporting purposes?

☐ Yes
☐ No
☐ I don't know

Please explain your reservations or your suggestions for improvement or any other comment you might have

We appreciate the EFRAG's efforts to define the timeframe for determining short-, medium-, and long-term, as we understand this might increase standardisation and comparability of data, which is desirable from the perspective of data users.

However, we also note that the definition of the time horizon can be a subject to the circumstances of each company, and can be influenced by sector considerations and/or entity-level considerations. Therefore, introducing standardised timeframes might involve companies using criteria that are not fully adapted to describe their sustainability performances, thus decreasing the quality of data.

Moreover, we note that the ISSB has chosen to allow maximum flexibility: companies that are not in the scope of the CSRD will continue to use their own consideration of timeframes, potentially having an indirect advantage with respect to companies which are scoped-in. Investors will continue to get incomparable data when they analyse EU and non-EU companies.

A possible intermediate solution could consist in testing the validity of the time intervals presented, by setting them as optional and observing whether and how they are implemented by companies in the first years of application of the standards. In addition to this, companies could be required to explain why they consider a different time horizon more appropriate to describe their sustainability profile. Companies operating in the same sectors could naturally tend to set similar timeframes and converge at international level.

These pieces of information could be useful for standard-setter to review the standards and/or to set appropriate guidance on time horizon, also at sector-level.

Question answered – Question 32
if yes, do you agree with the proposed time horizons?

- ☐ Yes
- ☐ No
- ☐ I don't know

Please explain why

No additional comments on this topic.

Question answered – Question 33
if you disagree with the proposed time horizons, what other suggestion would you make? And why?

No additional comments on this topic.

DISCLOSURE PRINCIPLES FOR IMPLEMENTATION OF POLICIES, TARGETS, ACTION AND ACTION PLANS, AND RESOURCES

Question answered – Question 34
in your opinion, to what extent will DP 1-1 contribute to the reporting of understandable, relevant, verifiable, comparable and faithfully represented information on sustainability related policies?

- ☐ Not at all

☐ To a limited extent with strong reservations
☒ To a large extent with some reservations
☐ Fully
☐ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

We welcome the objective and the main contents of this Disclosure Principle (DP)In general, we are of the opinion that the principles outlined in the main body of the DP and in the Application Guidance are adequate to support the disclosure of quality information.

In particular, we welcome the specification that the objective of reporting a policy is to enable users to understand how the company intends to address the risks, opportunities, and impacts identified through the materiality assessment. We also appreciate that the Application Guidance acknowledges the interactions between impacts, risks and opportunities under different topics, and therefore recognises the need to adequately explain these links when describing a policy, by cross-referencing and avoiding duplications [AG 2].

To further improve the text of the DP, we would suggest the following:

- we would explicitly state that the description of the policy should **refer the exact material impacts, risks and opportunities** that have been reported as a result of the materiality assessment;
- the DP might also strengthen the focus on **how** the company intends to address material matters, including an explanation of the **role and relevance of the scope selected**.

These clarifications would enable investors to better understand the rationale underpinning the policies and track useful references in the report to evaluate the reliability and robustness of the information provided.

In addition to this, we note that:

- paragraph 98 would require a better explanation of the circumstances in which this disclosure requirement generates: for instance, when the company reports material impacts, risks, and opportunities that are not addressed;
- regarding AG 4, we believe that the level of detail should be the most suitable to provide adequate information to users, rather than being necessarily dictated by the importance of the impact or the risk addressed;
- regarding AG 5, we note that **for investors it is very important to know whether the policies are result of internal decisions of the company, or they are mandated by a national regulation**: therefore, we would include this provision in the main body of the DP;

- regarding AG 8, we struggle to understand which are the types of "third-party standards of conduct" that the company must disclose, and the international frameworks that the company can not disclose here. Our reservation also stems from a conjunct reading of: the draft text of the DP ("Under this disclosure the undertaking should neither refer to international frameworks that are of a general nature nor to those with which undertakings are expected to comply by the governments and intergovernmental organisations, such as the UN Guiding Principles on Business and Human Rights or the OECD Guidelines for Multinational Enterprises"), and the text of the CSRD (finally agreed version), according to which "due diligence" processes should be described as part of the policies". Moreover, in ESRS 1 Appendix C it is clearly stated that the description of the steps of the due diligence is based on international frameworks, such as the UN Guiding Principles on Business and Human Rights, and the OECD Guidelines for Multinational Enterprises. We believe clearer explanations should be included in the ESRS about how the description of the due diligence should be embedded in the reporting practices.

As explained also for the other two DPs, since they are not disclosure requirements, we see merit in considering consolidating the main body of the DPs and the respective Application Guidance.

Question answered – Question 35
in your opinion, to what extent will DP 1-2 contribute to the reporting of understandable, relevant, verifiable, comparable, and faithfully represented information on sustainability-related targets and their monitoring?

☐ Not at all
☐ To a limited extent with strong reservations
☒ To a large extent with some reservations
☐ Fully
☐ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

We welcome the objective and the main contents of this Disclosure Principle (DP), as it aims at ensuring that companies consistently report information on their targets at a topical level

In particular, we appreciate the provisions intending to provide users with elements to understand and verify the assumptions, the measurability, and the expected/achieved outcomes of the target in terms of addressing impacts, risks and opportunities. We also welcome the principle according to which companies must explain how they measure progress when the policy objectives are not attached to measurable and outcome-oriented targets, as it informs investors on the performance of the company, and it improves comparability.

To improve the clarity of the text, EFRAG might consider the following three observations:

- the alignment with international, EU and/or national policies is included in the paragraph about the disclosure of the methodologies and assumptions adopted to set the target [Paragraph 100(f)]: in our view, this element is more directly linked to the objectives/outcomes of the target, therefore it could be moved in Paragraph 100(a), which is focused on the "relationship of the target to the policy objectives", or placed in a separate paragraph;
- regarding the changes on the target and relative assumptions, it would be important to include also any modification in the way in which the progress is measured and monitored [Paragraph 100(g)];
- regarding the disclosures on the progress, it would be relevant to include a mention to any Key Performance Indicator (KPI) that the company might have set, and the basis upon which that KPI has been adopted [Paragraph 100(h)].

As explained also for the other two DPs, since they are not disclosure requirements, we see merit in considering consolidating the main body of the DPs and the respective Application Guidance.

Question answered – Question 36
in your opinion, to what extent will DP 1-3 contribute to the reporting of understandable, relevant, verifiable, comparable, and faithfully represented information on sustainability-related action plans and allocated resources?

☐ Not at all
☐ To a limited extent with strong reservations
☒ To a large extent with some reservations
☐ Fully
☐ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

We appreciate the reference to scope, time horizon, planned investments, and the inclusion of backward-looking and forward-looking information, as these elements would support the verifiability and comparability of information, as well as provide investors with adequate tools to evaluate the ambition and the feasibility of the actions planned. Furthermore, we are glad to note the provision about the disclosure on the negative impacts that might stem from the actions: this is important, for instance, to describe how the actions undertaken to reduce GHG emissions might have negative and/or positive social impacts, and what the company plans to do about them.

To improve the cohesion of the information disclosed across the report, we suggest the EFRAG to consider the following points:

- to provide a more faithful picture of a company's operations, the list of disclosure principles might also include an explanation of how actions and actions plans interact with each other, even when they are connected with different policies and targets, and even if they are tackling different topics;

- regarding the description of the scope, companies might be requested to use the NACE classification on economic activities to report on the operations and business segments involved in the actions, in order to ease the calculation of the Taxonomy-aligned CapEx and OpEx;
- to improve the coherence of the overall report, companies can also report the share of Taxonomy-aligned CapEx and/or OpEx that each action plans covers (if applicable);
- regarding the disclosure of the resources, a reference to the financial reporting might be included.

Regarding AG 21 on the disclosure of backward-looking and forward-looking information, the explicit reference to climate change mitigation and adaptation might not be necessary.

Finally, as noted also for the DP on policies, paragraph 106 would require a better explanation of the circumstances in which this disclosure requirement generates: for instance, when the company reports material impacts, risks, and opportunities that are not addressed by any policies and targets.

As explained also for the other two DPs, since they are not disclosure requirements, we see merit in considering consolidating the main body of the DPs and the respective Application Guidance.

BASES FOR PREPARATION

Question answered – Question 37
Is anything important missing in the aspects covered by the bases for preparation?

☒ Yes
☐ No
☐ I don't know

If yes, please indicate which one(s).
Please share any comment you might have on the aspects already covered (make sure to indicate which one you are referring to)

To ensure understandability and verifiability of data, it is important that companies provide consistently and across the whole report information about the **calculation methodologies** that they have adopted to report data. This is particularly important for performance metrics and all information that imply the use of assumption and scenarios (e.g. resilience of the strategy and business model to sustainability risks). This chapter could include a paragraph establishing the principle that **companies should always disclose calculation methodologies**, when explicitly required by the standards, as well as when not explicitly required, but nevertheless relevant to enable users to better understand the data. The EFRAG might also ponder the opportunity to suggest companies to report the calculation methodologies in **separate / dedicated / recognisable parts of the report**.

To improve the cohesiveness of the ESRS framework, we make the following suggestions:

- (next to) **Section 4.3 Estimating under conditions of uncertainty** – to improve the connectivity with ESRS 2 [Disclosure Requirements 2-GR 5 and 6] this chapter could also include a principle on the use of approximation when data from the value chain are not available (thus considering moving here some of the guidance on the use of data, which are detailed in the section 2.3 on "Boundaries and value chain", e.g. Paragraphs 67 and 68);
- **Section 4.7 Adverse impacts and financial risks** – this section might be better placed under the Disclosure Principle 1-3 on Actions, actions plans and resources in relation to policies;
- **Section 4.9 Consolidated reporting and subsidiary exemption** – this section might be better placed in ESRS 2 in the area dedicated to the description of the process to identify material sustainability impacts, risks and opportunities [Disclosure Requirement 2-IRO 1].

1C. OVERALL ESRS EXPOSURE DRAFT'S RELEVANCE - EXPOSURE DRAFTS CONTENT -

ESRS 1 – GENERAL PRINCIPLES

Question answered – Question 38
in your opinion, to what extent can ESRS 1 – General principles foster alignment with international sustainability reporting standards (in particular IFRS Sustainability Reporting S1 Exposure draft)?

☐ Not at all
☐ To a limited extent with strong reservations
☒ To a large extent with some reservations
☐ Fully
☐ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

Overall, while we acknowledge that the structure of the ISSB and the ESRS differ significantly, and most differences in substance derive from a different objective (financial materiality focus vs. double materiality focus), we also are of the opinion that interoperability is largely feasible through adequate matching/reconciliation tools.

For further comments, see our responses to question Q 3 and Q 13- Q17.

Additionally, we note that the ISSB allows cross-referencing the financial statement [IFRS 1 Paragraph 75], while ESRS does not allow it [ESRS 1 Paragraph 135].

ESRS 2 – GENERAL, STRATEGY, GOVERNANCE AND MATERIALITY ASSESSMENT

Question answered – Question 39
Please, rate to what extent do you think ESRS 2 – General, strategy, governance and materiality assessment

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)	☐	☐	☐	☒	☐
B. Supports the production of relevant information about the sustainability matter Covered	☐	☐	☐	☒	☐
C. Fosters comparability across sectors	☐	☐	☒	☐	☐
D. Covers information necessary for a faithful representation from an impact perspective	☐	☐	☒	☐	☐
E. Covers information necessary for a faithful representation from a financial perspective	☐	☐	☒	☐	☐
F. Prescribes information that can be verified / assured	☐	☐	☒	☐	☐
G. Meets the other objectives of the CSRD in term of quality of information	☐	☐	☒	☐	☐
H. Reaches a reasonable cost / benefit balance	☐	☐	☐	☐	☒
I.Is sufficiently consistent with relevant EU policies and other EU legislation	☐	☐	☐	☒	☐
J. Is as aligned as possible to international sustainability standards given the CSRD requirements	☐	☐	☒	☐	☐

Please share any comments and suggestions for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment

For our comments on the financial and materiality assessments, see responses to question Q18 – Q23.

Considering the articulation of topics between the cross-cutting and the topical standards, we just suggest EFRAG to assess potential **overlaps/similarities** between the disclosure requirements contained in the **cross-cutting ESRS 2 under the Governance area**, and the disclosure requirements included in the topical standard on governance **ESRS G1 on Governance, risk management and internal control**.

ESRS E1 – CLIMATE CHANGE

Question answered – Question 40
Please, rate to what extent do you think ESRS E1 – Climate change

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)	☐	☐	☐	☒	☐
B. Supports the production of relevant information about the sustainability matter covered	☐	☐	☐	☒	☐
C. Fosters comparability across sectors	☐	☐	☒	☐	☐
D. Covers information necessary for a faithful representation from an impact perspective	☐	☐	☒	☐	☐
E. Covers information necessary for a faithful representation from a financial perspective	☐	☐	☒	☐	☐
F. Prescribes information that can be verified / assured	☐	☐	☒	☐	☐
G. Meets the other objectives of the CSRD in term of quality of information	☐	☐	☒	☐	☐
H. Reaches a reasonable cost / benefit balance	☐	☐	☐	☐	☒
I.Is sufficiently consistent with relevant EU policies and other EU legislation	☐	☐	☐	☒	☐
J. Is as aligned as possible to international sustainability standards given the CSRD requirements	☐	☐	☒	☐	☐

Please share any comments and suggestions for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment

See our comments on each Disclosure Requirement in the Section 3 of this consultation.

2. ESRS IMPLEMENTATION PRIORITIZATION / PHASING-IN

APPLICATION PROVISIONS

Question answered – Question 51
To what extent do you support the implementation of Application Provision AP1?

☐ Not at all
☐ To a limited extent with strong reservations
☐ To a large extent with some reservations
☒ Fully
☐ No opinion

Question answered – Question 52
To what extent do you support the implementation of Application Provision AP2?

☐ Not at all
☐ To a limited extent with strong reservations
☐ To a large extent with some reservations
☒ Fully
☐ No opinion

Question answered – Question 53
What other application provision facilitating first-time application would you suggest being considered? Please explain why

No additional comments on this topic.

ESRS IMPLEMENTATION PRIORITISATION / PHASING-IN OPTIONS

Question answered – Question 54
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

Any consideration and decision about the ESRS' implementation and phase-in must pivot around the observation that the **availability, quality and comparability of ESG data is a key driver of the sustainable investing industry**.

On the one hand, substantial improvements in this area are urgently needed by investors to operationalise their investment methodologies and comply with EU transparency regulation. Hence the ESRS must be implemented as soon as possible. The sooner the standards will start being used by companies and investors, the sooner all concerned will start improving their practices over time.

On the other hand, we are cognisant of the implementation challenges that companies will face in the first years of application; investors themselves will have to develop skills and resources to be able to process additional fluxes of ESG data. For companies to improve their measurement and reporting practices, and investors to upgrade their sustainability-related analytical methodologies and procedures, a proper timeframe should be given.

Therefore, prioritisation & phase-in options should be evaluated considering the **trade-offs associated with the urgency of disclosing data** on the one hand, and **the due process required to produce quality data**, on the other hand.

Another important aspect to take into account is that the first set of ESRS is expected to be published by mid-2023, and the first batch of companies scoped-in will have to provide the first report in 2025 (for the reporting year starting from January 2024). Therefore, companies will have at least 18 months to familiarise with the ESRS disclosure requirements and take the initial steps to build skills and capacities.

Having said that, we underline that investors need the information that constitute PAIIs as soon as possible, in order to comply with the disclosure requirements of the SFDR. Therefore, **all the disclosure requirements that are instrumental to produce PAIIs' metrics (at least the 14 that are mandatory) should be prioritised**.

Second, **the topical standard on climate change ESRS E1 (including the disclosure requirement on Scope 3 emissions** [ESRS E1-9]**) should be prioritised**, as the reporting practices and methodologies on climate-related topics are generally more mature, and in consideration of the urgency of achieving the international and EU climate mitigation objectives. The challenges associated with producing data on the financial effects of physical and transition risks and opportunities can be addressed by reporting qualitative rather than quantitative information in the first years of application, as appropriately underlined in the respective disclosure requirements [ESRS E1-15, E1-16, and EI-17]. We have provided other, more granular proposals for easing the implementation of the topical standards on climate change in our response to the Part 3 of this consultation.

Phase-in options could be considered per sector: for instance, topics/disclosure requirements that are particularly relevant in specific sectors could be prioritised only in those sectors; topics/disclosure requirements that are particularly challenging for some sectors due to the peculiarity of their business could be phased-in only in those sectors (e.g. environmental topics for the real estate sector).

Other phase-in solutions could be taken into consideration for:

- the **performance measurements in the environmental topical standards** on Pollution, Water and marine resources, Biodiversity and ecosystems, and Resource use and circular economy [ESRS E2, E3, E4, E5], especially the disclosure requirements about the calculation of the financial effects of environmental risks and opportunities, as methodologies might not be enough mature yet;

the disclosure requirements of the **social topical standard on Workers in the value chain** [ESRS S2], and in general all the disclosure requirements that explicitly include information on the value chain, as in the first years of application it might be particularly challenging for the reporting companies to obtain data.

Question answered – Question 55

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

No comment on this topic.

Question answered – Question 56

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

See the first paragraphs of our response to question Q54. In brief:

- Urgency of the policy objectives associated with the topic (e.g. international and EU climate mitigation objectives);
- Compliance needs of investors (e.g. SFDR/PAIIs);
- Maturity and reliability of the measuring and reporting practices;
- Possibility to verify and check the reliability of the information disclosed;
- Challenges and relevance associated with the peculiarity of each sector.

Question answered – Question 57

Please share any other comments you might have regarding ESRS implementation prioritisation / phasing-in

Additional measures could be taken into consideration to ease the implementation, beyond the phase-in. For instance:

- allow companies to provide qualitative descriptions and explanations, instead of quantitative information;

- allow companies to disclose the process, rather than the outcome: if the measuring methodologies adopted have not enabled companies to obtain a figure or a qualitative assessment yet, the ESRS could allow the disclosure of the process adopted, the progress made, the obstacle faced, the actions planned to improve, and projections about when the data could be produced;

- after the adoption of the ESRS, the EFRAG and the EU Commission could organise learning sessions, for instance: public hearings to answer questions from companies, data users, assurance service providers, and all other stakeholders involved; publish worked examples; organise working groups with mixed skills and competences from all the parts that are involved in the reporting process, etc.