European Banking Federation
Response to the EFRAG consultation survey
1B. Overall ESRS Exposure Drafts
relevance – Implementation of CSRD principles

5 August 2022

CONSULTATION SURVEY

DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS

1B. Overall ESRS Exposure Drafts relevance
- Implementation of CSRD principles

April 2022

Open for comments until 8 August 2022

PTF-ESRS
Project Task Force on European sustainability reporting standards

EFRAG

1B. Overall ESRS Exposure Drafts relevance – Implementation of CSRD principles

Characteristics of information quality

Article 19a paragraph 2 of the CSRD proposal states that "t*he sustainability reporting standards referred to in paragraph 1 shall require that the information to be reported is understandable, relevant, representative, verifiable, comparable, and is represented in a faithful manner."*

As a consequence, ESRS 1 – General principles defines how such qualities of information shall be met:

- Relevance is defined in paragraphs 26 to 28
- Faithful representation is defined in paragraphs 29 to 32
- Comparability is defined in paragraphs 33 and 34
- Verifiability is defined in paragraphs 35 to 37
- Understandability is defined in paragraphs 38 to 41

Q13: to what extent do you think that the principle of relevance of sustainability information is adequately defined and prescribed?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

Guidance on the methodology for conducting an impact materiality analysis would be appreciated as this is a new concept. In particular, the methodology which should be used to define the scale of positive or negative impact should be clarified. There is, moreover, a lack of clarity concerning the scope of "actual or potential significant impacts by the undertaking on people or the environment". Without a clear definition, the impact analysis will potentially be extremely broad (e.g., in the case of financial institutions, the actual or potential impact is considerably extensive when considering the entire value chain).

Q14: to what extent do you think that the principle of faithful representation of sustainability information is adequately defined and prescribed?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

We find benefit in the fact that the definitions provided by the EFRAG and the ISSB for "faithful representation" appear to be closely aligned, requiring that the information be i) complete, ii) neutral and iii) accurate. We would, however, like to highlight that total alignment between the definitions provided by the two bodies (both in terms of wording and meaning) is crucial as to avoid possible misinterpretations and to the end of fostering comparability.

Moreover, exercising prudence should not lead to asymmetry. Prudence in our view means not “overstating” but also not “understating” information. Furthermore, we would also suggest strengthening alignment with responsibility under OECD Guidelines.

Finally, it is worth noting that it will be difficult to provide “accurate” data in the first years of reporting and that it will be necessary to rely on proxies.

Q15: to what extent do you think that the principle of comparability of sustainability information is adequately defined and prescribed?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

The EFRAG and ISSB definitions appear to be very closely aligned:

- according to the EFRAG, sustainability information is comparable when it is consistent over time and, to the greatest extent possible, presented in a way that enables comparisons between undertakings.
- according to the ISSB, information is more useful to investors and creditors if it is also comparable, that is, if it can be compared with: (a) information provided by the entity in previous periods; and (b) information provided by other entities, in particular those with similar activities or operating within the same industry.

As mentioned in Q14, we would like to highlight the need for complete and total alignment between the definitions provided by EFRAG and ISSB (both in terms of wording and meaning) as to avoid possible misinterpretations and to foster comparability.

Q16: to what extent do you think that the principle of verifiability of sustainability information is adequately defined and prescribed?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

We welcome the EFRAG and ISSB's use of the same definition: "Sustainability information is verifiable if it is possible to corroborate such information itself or the inputs used to derive it".

Q17: to what extent do you think that the principle of understandability of sustainability information is adequately defined and prescribed?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

Double materiality

Double materiality is a principle that is central to the CSRD proposal and is represented accordingly in the ESRS materiality assessment approach that sustains the definition of mandatory requirements by the cross-cutting and topical standards. This is also true of the materiality assessment any undertaking is expected to perform, per ESRS 2 – General, strategy, governance and materiality assessment, to identify its principal sustainability risks, impacts and opportunities. This in turn, defines what sustainability information must be reported by the undertaking.

Double materiality assessment supports the determination of whether information on a sustainability matter has to be included in the undertaking's sustainability report. ESRS 1 paragraph 46 states that "a sustainability matter meets the criteria of double materiality if it is material from an impact perspective or from a financial perspective or from both." Further indications as to how to implement double materiality is given by ESRS 2 Disclosure Requirement 2-IRO 1, paragraph 74b(iii) and AG 68.

While recognising that both perspectives are intertwined the Exposure Drafts contain provisions about how to implement the two perspectives in their own rights.

Q18: 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?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

Downstream value chains of the financial industry can be very extensive and specific guidance would be appreciated to clarify the definition of value chain applicable to the financial sector. The definition of value chain should, moreover, be streamlined for cohesion with the upcoming corporate sustainability due diligence Directive.

As the CSRD already identifies the scope and extent of sustainability reporting for companies in the EU, the financial sector should not, as a general rule, have to report on its clients or investees (other than controlled investments and joint ventures/associates), unless there is a specific need (as in. Scope 3 GHG emission reporting). This need should be specified under the specific disclosure requirement and allow for a time lag in reporting (e.g., 12 months), as the financial industry needs to collect the data from its clients for its own reporting.

In addition, a common level of materiality (based on the NACE code and the location of an entity), with thresholds and methodologies for each topic could be useful.

Finally, the definition of double materiality fosters the identification of sustainability information that is relevant for stakeholders. Nevertheless, more guidance would be appreciated to support the impact materiality assessment and foster comparability amongst companies.

Q19: 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?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

In order to ensure conciseness and efficiency, there would be immense benefit in having further guidance on the definitions connected to double materiality and the methodology for conducting a double materiality analysis (e.g., the definition of potential impact and its scope – also see response to Q13). Guidance on how to conduct materiality assessments would increase the comparability between undertakings' reporting under the CSRD. In particular, the following are reason for concern:

- A definition of "resources" (para.74, ESRS 2) is needed (whether it refers to work hours, FTE, invested capital, etc.).
- A definition of "boundaries and value chain" is needed. The financial industry will need a separate definition for boundaries and value chain. In exact, the definition of "boundaries and value chain" provided in paragraph 63 to 70 are not suited to the specificities of credit institutions and would be too broad given the inclusion of indirect business relationships on top of direct business relationships. In the case of credit institutions, material sustainability impacts, risks and opportunities are predominantly indirect in the mainstream value chain, at the level of the companies being financed or invested in. However, the levels at which financial institutions are expected to identify and understand where the material impacts, risks and opportunities are located in the downstream value chain are not clear in the cross-cutting ESRS. It is unclear which part of the clients' value chain financial institutions will be expected to perform the materiality assessment on. This is also a topic which is currently being discussed at the political level on the future Directive on corporate sustainability due diligence (CSDDD). The European Commission's proposal on the CSDDD considers that the mainstream value chain for financial institutions should only "include the activities of the clients receiving such loan, credit, and other financial services". If we take a different approach, i.e., similar to financial institutions' obligation to publish scope 1, scope 2 and scope 3 GHG emissions, this would result in an obligation to identify material issues and publish related information on clients' upstream and downstream value chain, meaning the clients' providers and of the clients of clients. This is not operationally realistic. It will first be challenging to access the identity of all the main providers of the clients and then the identity of the clients of all clients. But even if this were to be achieved, it entails a significant burden resulting from the need to collect the necessary relevant information from all these undertakings in order to be able to identify whether there is any material sustainability risks, impacts and opportunities. Facing this reality, we would recommend clarifying that the mainstream value chain of credit institutions includes corporate clients the financial entity has a contractual relationship with and should not include retail and SME clients. The materiality assessment should include the mainstream value chain only with regards to these clients' own operations. The clients' upstream and downstream value chain should instead be excluded.

In addition, the due diligence process as proposed by the CSRD level one text and recalled in paragraphs 85 to 91 (ESRS1), may be difficult to implement in practice. Engaging with stakeholders that have no contractual relation with the entity in order to "take actions to address those adverse impact" [paragraph 86 (a)] would likely be unfeasible.

Impact materiality:

- A definition of impact materiality is given by ESRS 1 paragraph 49: "a sustainability matter is material from an impact perspective if the undertaking is connected to actual or potential significant impacts on people or the environment over the short, medium or long term. This includes impacts directly caused or contributed to by the undertaking and impacts which are otherwise directly linked to the undertaking's upstream and downstream value chain."
- A description of how to determine impact materiality and implement impact materiality assessment can be found in ESRS 1 paragraph 51 and is complemented by ESRS 2 Disclosure Requirement 2-IRO 1, paragraph 74b(iii), AG 64 and AG 68.

Q20: in your opinion, to what extent is the definition of impact materiality (as per ESRS 1 paragraph 49) aligned with that of international standards?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

While we support the approach adopted by the EFRAG, it is relevant to address the differences between the European and international approach. The definition of impact materiality (as per the ESRS) likely goes beyond what is outlined in the exposure draft published by the ISSB. The ISSB states that: "*An entity's sustainability-related risks and opportunities arise from its dependencies on resources and its impacts on resources, and from the relationships it maintains that may be positively or negatively affected by those impacts and dependencies. When such impacts, dependencies and relationships create risks or opportunities for an entity, they can affect the entity's performance or prospects, create or erode the value of the enterprise and the financial returns to providers of financial capital, and the assessment of enterprise value by the primary user*".

We do understand that if an undertaking reports under ISSB standards it will not have to report its impact on the environment if it does not affect "the entity's performance or prospects, create or erode the value of the enterprise and the financial returns to providers of financial capital, and the assessment of enterprise value by the primary user". This does not align with the ESRS under which an undertaking will have to report such impacts.

Nevertheless, the EBF supports EFRAG's approach and level of ambition.

Q21: to what extent do your think that the determination and implementation of impact materiality (as proposed by ESRS 1 paragraph 51) is practically feasible?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

Clarification would be appreciated with regards to the methodology to be used to conduct an impact materiality analysis in line with the ESRS (see also Q13). A clear line should also be drawn between negative impact and negative risk. Generally, a positive or negative impact leads to a positive or negative risk. These can be hard to separate, so further guidance would be appreciated in this respect.

The scope of impact materiality extends throughout an entity's value chain, for banks this not only scopes in direct clients, but also their suppliers' suppliers. While this is a comprehensive model in theory, we strongly recommend clarifying that the mainstream value chain of credit institutions includes corporate clients with which there is a contractual relationship and that the impact materiality assessment should be conducted in the mainstream value chain only with regards to these clients' own operations. The clients' upstream and downstream value chain should not be included.

Financial materiality:

- A definition of financial materiality is given by ESRS 1 paragraph 53: "a matter is material from a financial perspective if it triggers or may trigger significant financial effects on the undertaking, i.e., it generates risks or opportunities that influence or are likely to influence the future cash flows and therefore the enterprise value of the undertaking in the short-, medium- or long- term, but it is not captured or not yet fully captured by financial reporting at the reporting date."
- A description of how to determine financial materiality and implement financial materiality assessment can be found in ESRS 1 paragraphs 54 to 56 and is complemented by ESRS 2 Disclosure Requirement 2-IRO 1, paragraph 74b(iii), AG 65 and AG 69.

Q22: in your opinion, to what extent is the definition of financial materiality (as per ESRS 1 paragraph 53) aligned with that of international standards?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

The definition proposed by the EFRAG and ISSB are, in our view, closely aligned. The only difference we perceive lies in the additional granularity and prescriptive nature of the definition provided under the ESRS which ideally will foster comparability between the disclosures of different entities.

Q23: 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?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

Currently, a limited number of methodologies provide sufficient clarity on the evaluation of financial materiality when it comes to sustainability matters. It would be beneficial to have further guidance on which methodology could and should be used to this end and, more precisely, on how to integrate future cash flows and enterprise values to coming climate or human right related risks. Medium- and long-term timeframes will prove to be challenging, not cash flows or enterprise values specifically.

The effects of sustainability risks and opportunities on medium- and long-term future cash flows may be difficult to measure. The difficulty stems from the fact that undertakings will have to identify a sustainability risk or opportunity in their entire value chain and estimate its financial impact on their own cash flow.

This is an area where the reconciliation with financial reporting at the reporting date will be very challenging.

Further guidance would especially be appreciated because undertakings will have to perform two different materiality assessments (both for financial and impact materiality).

Finally, the materiality assessment is performed by the entity and consequently the outcome is only dependent on the entity’s interpretation of what a material impact, risk, and opportunity is. As there are no materiality threshold or common methodologies, an entity can choose to not report on some of the disclosure requirements even if it can have a negative impact on the environment. We believe that even if entities will have to explain why they did not report some information, the lack of prescription risks jeopardizing the exhaustivity of the standards and the comparability between one entity and another.

(Materiality) Rebuttable presumption

Central to the ESRS is the critical combination of two key elements:

- the mandatory nature of disclosure requirements prescribed by ESRS, and
- the pivotal importance of the assessment by the undertaking of its material impacts, risks and opportunities.

The combination of the two is designed to make sure that the entity will report only on its material impacts, risks and opportunities, but on all of them.

The assessment of materiality applies not just to a given sustainability matter covered by a given ESRS (like ESRS E3 on biodiversity for example), but to each one of the specific disclosure requirements included in that ESRS. However, this excludes the cross-cutting standards and related disclosure requirements, which are always material and must be reported in all cases.

When a sustainability matter is deemed material as a result of its materiality assessment, the undertaking must apply the requirements in ESRS related to these material matters (except for the few optional requirements identified as such in ESRS). Conversely, disclosure requirements in ESRS that relate to matters that are not material for the undertaking are not to be reported.

The (materiality) rebuttable presumption mechanism described in ESRS 1 paragraphs 57 to 62 aims at supporting the implementation and documentation of the materiality assessment of the undertaking at a granular level.

ESRS 1 paragraphs 58 to 62 describe how to implement the rebuttable presumption principles. In particular, “The undertaking shall therefore assess for each ESRS and, when relevant, for a group of disclosure requirements related to a specific aspect covered by an ESRS if the presumption is rebutted for:

(a) all of the mandatory disclosures of an entire ESRS or

(b) a group of DR related to a specific aspect covered by an ESRS,

Based on reasonable and supportable evidence, in which case it is deemed to be complied with through a statement that:

(a) the ESRS or

(b) the group of DR is “not material for the undertaking”.

Q24: 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?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

The concept of rebuttable presumption may lead to a checklist exercise. It could also lead to an abundance of information, which may make it more difficult for the users of the report to understand/filter which elements are most relevant to the undertaking. Moreover, even when material, some elements may be less material than others.

Nevertheless, paragraph 59 of ESRS 1 states that "based on reasonable and supportable evidence, in which case it is deemed to be complied with through an explicit statement that: (a) the ESRS or (b) the group of disclosure requirements is 'not material for the undertaking". This implies that by default all ESRS are material and that the burden of proving that the ESRS is not material falls on the company. A systematic need for justification of non-materiality could be quite a burdensome process and may impair the readability of sustainability reporting. A possible solution could be to limit the disclosure to information that the company deems material without additionally having to provide the proof that the other information was considered non-material.

We would, moreover, propose that EFRAG attribute the Performance Measurement Metrics only to sectors for which EFRAG can presume materiality, at the level of the sector specific ESRS including the metrics needed for compliance with the SFDR Principal Adverse Indicators. We also believe that undertakings should not list all requirements considered non-material (cf. DR2-IRO2).

Q25: what would you say are the advantages of the (materiality) rebuttable presumption and its proposed implementation?

Although we have some reservations with regards to the principle of rebuttable presumption (see Q24), we would like to also highlight its potential benefits. The main advantage of the rebuttable presumption is that it would increase the likeliness that undertakings will assess and include all relevant risks. Without the rebuttable presumption undertakings might (whether accidently or purposely) misclassify certain risks as 'not material' without proper evidencing. It should be reserved, however, for highly material items (e.g., fraud risk in financial audit), as otherwise, the efforts necessary for a rebuttal would go directly against the improvements in relevance and efficiency offered by the concept in general.

Moreover, rebuttable presumption allows entities to limit disclosures to information on sustainability issues deemed material for them, which would allow sustainability reporting to be more adjusted/adapted to each entity and their respective stakeholders' expectations.

Q26: what would you say are the disadvantages of the (materiality) rebuttable presumption and its proposed implementation?

As highlighted under Q24, some of the possible consequences of the concept of rebuttable presumption are:

- inviting a checklist mentality
- shifting the focus from material matters to non-material matters
- jeopardising conciseness of disclosures

Finally, in our view, the main disadvantage is the burden associated to providing proof for those disclosure requirements which are considered non-material. This requirement will lead to reporting on everything, including what is not material for the undertaking, consequently bearing the risk of lengthening and complicating sustainability reporting. This could lead to the accumulation of additional information that would hamper the readability of the report as well as its understandability. To avoid such a circumstance, limiting disclosures to material information would be a preferable approach.

The process of rebuttable presumption should be made the least burdensome possible for preparers. As mentioned, one solution is that EFRAG could attribute the Performance Measurement Metrics only to sectors for which EFRAG can presume materiality, at the level of the sector-specific ESRS including the metrics needed for compliance with the SFDR Principal Adverse Indicators.

Moreover, for each topic there should be a common level of materiality by sector (based on the NACE code), with relevant thresholds, and methodologies available. For some topics a geographical variable should also be added (for example biodiversity).

Q27: how would you suggest it can be improved?

A solution similar to the one adopted under the SASB standard should be considered. More precisely, the SASB approach includes a materiality assessment per sector (e.g., with thresholds for the most emitting sectors) and entities, therefore, do not have to provide proof that their impacts are non-material.

Another option would be to replace the rebuttable presumption with a statement that ESRSs are applied in all material respects and reserve the rebuttable presumption for highly material items.

Reporting boundary and value chain

ESRS 1 paragraphs 63 to 65 define the reporting boundary of the undertaking and how and when it is expanded when relevant for the identification and assessment of principal impacts, risks and opportunities upstream and downstream its value chain – as the financial and/or impact materiality of a sustainability matter is not constrained to matters that are within the control of the undertaking.

Paragraphs 67 and 68 address the situation when collecting the information about the upstream and downstream value chain may be impracticable, i.e. the undertaking cannot collect the necessary information after making every reasonable effort, and allows approximation based on the use of all reasonable and supportable information, including peer group or sector data.

Due to the dynamics and causal connections between levels within the undertaking's reporting boundary, material information is not constrained to one particular level. Paragraphs 72 to 77 prescribe how the undertaking shall consider the appropriate level of disaggregation of information to ensure it represents the undertaking's principal impacts, risks and opportunities in a relevant and faithful manner.

Q28: 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?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

Proxies provide an alternative to not reporting and are therefore a welcome proposal. However, it would be useful to separate the disclosures based on approximations from other disclosures based on data to avoid the merging of the two. Following that we feel there should not be leniency for global multinationals on this, but there should be proportionality applied for non-multinationals.

When introducing the approximation of information, you should take into account that it introduces challenges in terms of both data quality and comparability. The further down the value chain one goes, the more difficult information it is to reliably source as transparency decreases. By using approximations in this context, we will have less relevant, verifiable, and comparable information given that this is not a field where approximations can practicably be made.

As stated before, it is in practice unlikely feasible for a financial institution to collect information on its entire value chain as defined in the CSRD. As a result, the "reporting boundaries" defined by the EFRAG (paragraph 63) are too broad (for further detail see response to Q19).

Separately, we welcome that the use of proxies and estimates is made possible under the ESRS. However, it is necessary to use the same proxies and have common methodology amongst undertakings in the same sectors, for example for climate to calculate the carbon footprint of a value chain. Otherwise, the comparability of information will be impaired.

The PCAF initiative could be a source of guidance as it helps financial institutions assess and disclose greenhouse gas emissions of loans and investments.

Q29: what other alternative to approximation would you recommend in cases where collecting information is impracticable?

Strong qualitative disclosures that explain the challenges and risks where this information cannot practically be sourced, which also gives context to the user. When risks are identified, it would also be useful to foresee the description of safeguards in place to mitigate these risks and where applicable the disclosure of a roadmap of how this information can be sourced in the future by the entity/ applicable sector.

Q30: 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?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

Under the ESRS ED, we understand that it is possible for entities to aggregate information when deemed useful (e.g., to enhance clarity or limit the quantity of information).

We would like to recall that the sustainability reporting that non-financial entities will publish will be used by financial institutions to comply with their other reporting obligation, in particular under the SFDR and the EBA's Pillar 3 ITS.

It is then necessary that the level of disaggregation to be adopted does not only depend on the entity's considerations, but is also aligned with the information financial institutions need from their counterparties to comply with their own disclosure requirements.

For example, financial institutions will need information on biodiversity, as it is a principle adverse impact listed under the SFDR regulation. If the information is only published at country level and does not take into account the specific location of some of the entity's production sites (for example next to a high biodiversity area), then the information won't be useful for the financial institution.

Time horizon

ESRS 1 paragraph 83 defines short-, medium- and long-term for reporting purposes, as

- One year for short term
- Two to five years for medium term
- More than five years for long-term.

Q31: do you think it is relevant to define short-, medium- and long-term horizon for sustainability reporting purposes?

1/ Yes 2/ No 3/ I do not know

Please explain why

Yes, we agree with having a clear definition of short-, medium-, and long-term horizons, which will foster comparability between the information reported by different entities in their sustainability reports. From the financial industry perspective, this will be particularly useful for reporting on the physical and transition risks of their counterparties (under the EBA's Pillar 3 ITS). We also recognise that some flexibility should be foreseen to cater to industry specificities and, therefore, welcome paragraph 84, according to which "the undertaking shall adopt time horizons that reflect its strategic planning horizons and resource allocation plans" within the a predefined "time bucket" specified under paragraph 83.

Q32: if yes, do you agree with the proposed time horizons?

1/ Yes 2/ No 3/ I do not know

Please explain why

Q33: if you disagree with the proposed time horizons, what other suggestion would you make? And why?

Disclosure principles for implementation of Policies, targets, action and action plans, and resources

In order to harmonise disclosures prescribed by topical standards, ESRS 1 provides disclosure principles (DP) to specify, from a generic perspective, the key aspects to disclose:

(i) when the undertaking is required to describe policies, targets, actions and action plans, and resources in relation to sustainability matters and

(ii) when the undertaking decides to describe policies, targets, actions and action plans, and resources in relation to entity-specific sustainability matters.

DP 1-1 on policies adopted to manage material sustainability matters describes (paragraphs 96 to 98) the aspects that are to be reported for the relevant policies related to sustainability matters identified as material following the materiality assessment performed by the undertaking.

DP 1-2 on targets, progress and tracking effectiveness defines (paragraphs 99 to 102) how the undertaking is to report measurable outcome-oriented targets set to meet the objectives of policies, progress against these targets and if non-measurable outcome-oriented targets have been set, how effectiveness is monitored.

DP 1-3 on actions, action plans and resources in relation to policies and targets defines (paragraphs 103 to 106) the aspects that are to be reported by the undertaking relating to actions, action plans and resources in relation to policies and targets adopted to address material impacts, risks and opportunities.

Q34: 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?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

Further clarity would be appreciated on what is meant with “key policies”.

Q35: 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?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

Reporting on DP1-2 100 (f) for each target could be burdensome, although it will contribute to the understanding of the context for each target.

Q36: 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?

1/ Not at all 2/ To a limited extent with strong reservations, 3/ To a large extent with some reservations 4/ Fully 5/ No opinion

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

We believe that DP 1-3 is clear and will contribute to the reporting of understandable, relevant, verifiable, comparable, and faithful information on sustainability-related action plans and allocated resources.

Nevertheless, we believe that the information entities will have to disclose may be too sensitive and could be detrimental vis a vis other non-EU companies that will not be in the scope of the CSRD. EU undertakings should not be disadvantaged because they disclose more sustainability information. In this regard, paragraph 105 may be the most likely to lead to this risk as it requires entities to disclose information such as its R&D or investment plans. As provided under recital 29a of the CSRD, reporting requirements defined by this Directive are without prejudice to Directive (EU) 2016/943 of the European Parliament and of the Council of 8 June 2016 on the protection of undisclosed know-how and business information. Therefore, we welcome that Member States have the power to exempt undertakings from disclosing certain information when commercially sensitive.

In addition, paragraph 105 requires the disclosure of the type and amount of current and future financial and other resources allocated to the plans. In our view, this is neither feasible nor desirable for the same reasons mentioned above.

Bases for preparation

Chapter 4 of ESRS 1 provides for principles to be applied when preparing and presenting sustainability information covering general situations and specific circumstances. Aspects covered include:

- general presentation principles (paragraphs 108 and 109);
- presenting comparative information (paragraphs 110 and 111);
- estimating under conditions of uncertainty (paragraphs 112 and 113);
- updating disclosures about events after the end of the reporting period (paragraphs 114 to 116);
- changes in preparing or presenting sustainability information (paragraphs 117 and 118);
- reporting errors in prior periods (paragraphs 119 to 124);
- adverse impacts and financial risks (paragraphs 125 and 126);
- optional disclosures (paragraph 127);
- consolidated reporting and subsidiary exemption (paragraphs 128 and 129);
- stating relationship and compatibility with other sustainability reporting frameworks (paragraph 130).

Q37: is anything important missing in the aspects covered by the bases for preparation?

1/ Yes 2/No 3/ I do not know

If yes, please indicate which one(s).

It is important to specify the scope of reporting, in particular in the case of consolidation at group level.

For financial institutions, there may be a discrepancy between, on the one hand the consolidation scope applicable for the Taxonomy Regulation and Pillar 3 ITS disclosures (scope as reported in FINREP), and on the other hand the applicable scope of the ESRS (statutory basis).

That may impede consistency between credit institutions' financial statements and sustainability reporting.

Please share any comment you might have on the aspects already covered (make sure to indicate which one you are referring to)

Further clarity would be appreciated on:

- What is meant by machine-readable format when it comes to reading sustainability information (e.g., a lot of sustainability information is of qualitative nature and could therefore be more difficult to tag). It may be useful to start with certain metrics (e.g., emissions, climate risks, climate impacts, human rights risks, human rights impacts, location of complaints mechanism)

- what is meant by "a clear distinction between information resulting from the implementation and ESRS and other information in the management report" (e.g., a lot of sustainability information is tightly linked to rest of the financial report)

- some unclear wording, such as what is meant by "impracticable", "practicable" and "appropriate manner" as these are subjective. The less subjective these are the more comparable reports will be

- under paragraph 113, “future events that have sustainability impacts” is very broad. A definition of “full range of possible outcomes” would be appreciated. In addition, it is unclear what the scope is. A list of possible outcomes for all future events that have sustainability impacts could be extremely extensive. Clearly defined methods for the analysis of future sustainability impacts and their probability would also be beneficial. Without guidance, to comply with said paragraph many estimates with no underlying scientific methods would be needed

- paragraph 115 may be difficult to apply in practice. It would be particularly difficult to include further sustainability data received after year end.