Name of respondent/responding organisation: The European Federation of Investors and Financial Services Users (BETTER FINANCE)

1. General comments

As an independent financial expertise centre to the direct benefit of European financial services users, BETTER FINANCE through its member organisations is the European-level dedicated representative organisation of the millions of individual investors in Europe and thereby a main potential beneficiary of the draft non-financial reporting Standards developed by EFRAG. As such, BETTER FINANCE welcomes the opportunity to comment on the draft Delegated Act (DA) prepared by the European Commission on the European Sustainability Reporting Standards (ESRS).

Investors, including individual investors, do not only need more data on climate- or sustainability-related risks and opportunities, they need better, more comparable, and comprehensible data to understand the risks and opportunities undertakings are exposed to. Undertakings, on the other hand, face a growing need to report in detail and comprehensively on their material, non-financial sustainability information. The requirements for undertakings on sustainability reporting are manifold (ESRS, CSDR, Taxonomy, MiFID sustainability preferences etc).

However, taking into account our initial responses to EFRAG's consultation on the ESRS and the final draft prepared by EFRAG whereby a number of disclosures were reduced significantly, BETTER FINANCE is of the view that the European Commission **should not further reduce the ambition of the ESRS**. At the very least by ensuring that **regardless of materiality assessments by undertakings, there is a core set of mandatory disclosure requirements** (GHG emissions, for example).

As a final general remark, BETTER FINANCE is concerned if the European Commission will have sufficient time to take into account consultation responses prior to adopting the final DA given the very compressed timeline. It is critically important that the Commission would consider the feedback of civil society organisations, investors and environmental groups carefully. Especially taking into account the significant changes between the draft ESRS and draft DA.

2. Specific comments on the main text of the draft delegated act

1. **Materiality**

BETTER FINANCE is concerned that the draft **Delegated Act goes against** the **advice** of EFRAG and others by making all standards and disclosure requirements (apart from General disclosures) **subject to materiality assessment**. Maintaining a **core set of mandatory disclosures** to be reported by all undertakings can **significantly improve investor decision-making** and provide the much-needed **transparency** for retail investors and others alike. It is also clear that with a set of mandatory disclosures, undertakings can better respond to various legislation, including under the requirements of the Sustainable Finance Disclosure Regulation (SFDR), specifically its Principal Adverse Impacts (PAI).

There are **certain topics that remain material for any undertaking**, such as the Greenhouse Gas Emissions (GHG) and therefore the delegated act must revise the current proposal, which implies that this is only material if the undertaking deems it as such. Academic research already demonstrates that companies are reporting more often on aims and intentions rather than on actual actions and performance.[1] Several studies have investigated how materiality in sustainability reporting influences analyst forecast accuracy, financial-performance, stock price informativeness and reveal the importance of identifying and disclosing material sustainability issues from the perspective of different stakeholder groups.[2] Research has also defined poor disclosure of the process of determining material sustainability issues and variation in the approach used by organisations that apply the voluntary GRI concept of materiality, despite the fact that GRI has pioneered and led the practice of sustainability reporting since 1997.[3] This may bring into question the **credibility** of sustainability reports and can lead to an **inaccurate portrayal of sustainability performance**.[4] To enhance standardised, comparable, neutral and accurate information, **a mandatory double materiality approach, coupled with mandatory disclosure** - at the very least on a core set of disclosures - would be welcomed from an **investor perspective**. This is especially important as the market of ESG investment products is growing significantly[5] and consequently investors and analysts need to understand both the risk and the opportunity of any

[1] K. Opferkuch, S. Caeiro, R. Salomone, T. B. Ramos (2021): “Circular economy in corporate sustainability reporting: A review of organisational approaches”, https://onlinelibrary.wiley.com/doi/pdfdirect/10.1002/bse.2854

[2] M. Khan, G. Serafeim, A. Yoon (2016), “Corporate sustainability: First evidence on materiality”: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2575912; J. Grewal, C. Hauptmann, G. Serafeim (2020), “Material sustainability information and stock price informativeness: https://link.springer.com/article/10.1007/s10551-020-04451-2; K.van Heijningen (2019), “The impact of ESG factor materiality on stock performance of firms”: https://www.rsm.nl/fileadmin/FacultyResearch/Centres/EPSVC/The_impact_of_ESG_factor_materiality_on_stock_performance_of_firms_Heijningen.pdf

[3] These findings are even worse taking into account that the GRI standards are the world’s most widely used standards for sustainability reporting.

[4] M. Guix, M.J. Bonilla-Priego, X. Font (2018), “The process of sustainability reporting in international hotel groups: An analysis of stakeholder inclusiveness, materiality and responsiveness: https://www.tandfonline.com/doi/abs/10.1080/09669582.2017.1410164?journalCode=rsus20; B.A.A. Machado, L.C.B. Dias, A. Fonseca (2020), “Transparency of materiality analysis in GRI-based sustainability reports”: https://onlinelibrary.wiley.com/doi/abs/10.1002/csr.2066

[5] Boffo, R., and R. Patalano (2020), “ESG Investing: Practices, Progress and Challenges”, OECD Paris, www.oecd.org/finance/ESG-Investing-Practices-Progress-and-Challenges.pdf

investment. Research suggests that information asymmetry of this kind impedes ESG labels from carrying substantive information to investors leading to situations where mainstream and sustainability indices contain, to a large extent, the same companies.[6] **Therefore, removing of the mandatory core set of disclosures and making them subject to materiality assessment undermines the quality of reporting, comparability and brings multiple challenges to preparers and users.**

2. **Phasing-in certain requirements**

Bearing in mind that sector-specific and SME-proportionate standards will be adopted in a second step, BETTER FINANCE considers that the **ESRS draft overall was able to strike the right balance** between the need to make significant progress in improving the quality of sustainability information and meeting the growing needs of users. However, the **draft DA** is introducing additional phase-ins and from an investor's point of view, **delayed and prolonged phasing-in should be avoided** as it will not be helpful nor beneficial in enabling investor decision-making and understanding of undertaking's impacts related to sustainability matters. The additional phase-in requirements may contribute to confusion among preparers and users, especially since the CSRD already stipulates a transitional phase-ins period.

3. **Making certain disclosures voluntary**

It is clear that the set of **disclosure requirements** is rather **comprehensive** and may overburden both undertakings and investors, especially in the first years of the application of the new standards. However, EFRAG's final draft had already **reduced** the disclosure requirements **significantly**. The use of voluntary disclosures could **decrease transparency** and provide a tool to **omit information**. If the DA keeps the voluntary disclosures, it should, at the very minimum, ensure that the future **sector-specific** standards **do not leave important disclosures voluntary**.

4. **Climate transition plans**

BETTER FINANCE is pleased to see that the Commission made only a few changes to the EFRAG's recommendation on the content of climate transition plans – requiring undertakings reporting under the Taxonomy Regulation to also include an explanation of objectives/plans and how they align this with economic activity – clarifying that such requirements are expected if the undertaking has such plans, targets or policies in place. We support the requirement for undertakings to indicate whether and when they plan to adopt a

[6] D. Brakman Reiser, A. Tucker (2020), „Buyer Beware: Variation and Opacity in ESG and ESG Index Funds": https://readingroom.law.gsu.edu/cgi/viewcontent.cgi?article=4011&context=faculty_pub

transition plan if they don't have one yet, but the DA should also provide a **more harmonised approach to such indication** for undertakings. This will also **enable retail investors** and other end-users to better inform their **investment decisions**.

3. Specific comments on Annex I

Standard	Paragraph or AR number or appendix	Comment
ESRS 1	Para 118	While, in principle, the incorporation of information in the sustainability section by reference to other parts of the management report does support cohesiveness, it is necessary to point out that a lack of standardisation would affect the way investors can access information and therefore impact the usefulness of sustainability data. A single format, **machine-readable approach** would enhance investor useability and enable them to make better-informed decisions. It should be considered how disclosed information can be more **accessible for digital consumption**, enabling broader spectrum of investors to understand the impacts of their current and future investment decisions (investors and other stakeholders, will benefit from greater accessibility of standards and disclosures through other media including smartphones for example).
ESRS 1	Para 88	This should be extended in order to request the provision of information about **inputs and methods of calculation** used to produce estimates or approximations to ensure the information's verifiability. Inputs and calculation methods can vary significantly, leading to different outcomes of estimations, therefore, this must be addressed to enable investors and others alike to verify the information provided by undertakings.
ESRS 1	Para 29	Extend as follows: Irrespective of the outcome of its materiality assessment, the undertaking shall always disclose the information required by ESRS 2 General Disclosures (i.e. all the Disclosure Requirements and data points specified in ESRS 2) **AND always disclose information required by ESRS E1.**
ESRS 1	Para 31	This sentence needs to be adapted from "may briefly explain the conclusions of its materiality" to "**shall** briefly explain the conclusions of its materiality".
ESRS 2	Para 57	The voluntary nature of the explanation regarding immaterial topics is strongly discouraged. Firstly, it should be changed to "**shall provide a brief explanation**". Secondly, the Commission should include a standard requirement for a qualitative explanation to ensure a consistent approach by undertakings and ease of access to information for end-users, auditors and others alike.
ESRS E1	Para 16 (j) & 17	These should be clarified in terms of content to harmonise the approach for undertakings and make it easier for end-users to access and understanding the information that will be shown in this section.

ESRS E1	Para 47	GHG emissions have a significant impact on society and the environment. Therefore, investors are increasingly interested in learning about a company's carbon/GHG footprint and how it is being managed. Climate change and its associated risks are **material** risks as well as financial risks and can have a corresponding impact on investment decisions. Therefore, it is unclear why the Commission is proposing such disclosure requirements to be subject to a materiality assessment by the undertaking. Climate-related disclosures must be a mandatory requirement from all undertakings.

4. Specific comments on Annex II

Defined term	**Comment**
Circular economy	The definition used in the ESRS seems to be narrower than that defined in Article 2 (9) of the Taxonomy Regulation. BETTER FINANCE recommends aligning the definitions used within the ESRS and extending the scope to that of the Taxonomy to avoid an unnecessary impairment of output convergence. If these key definitions are not aligned with the Taxonomy Regulation, this will unnecessarily impair reporting outputs' convergence by ending up in information overload for investors.
Own workforce	We recommend checking the definition of "own workforce" against the definitions included in the Whistleblower Directive (Article 4), which also include "persons belonging to the administrative, management or supervisory body of an undertaking, including non-executive members, as well as volunteers and paid or unpaid trainees" as well as "any persons working under the supervision and direction of contractors, subcontractors and suppliers". We ask the Commission to provide guidance that – in line with the Whistleblower Directive – these groups of persons are also covered by the ESRS.