CONSULTATION SURVEY

DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS

1A. Overall ESRS exposure Drafts relevance

- Architecture

April 2022

Open for comments until 8 August 2022

PTF-ESRS

Project Task Force on European sustainability reporting standards

EFRAG

1A. Overall ESRS Exposure Drafts' relevance – Architecture

Cross-cutting and topical standards

To facilitate a coherent coverage of the CSRD topics and reporting areas (as per Article 19a paragraph 2 and Article 19b paragraph 2 – see Appendix II) the Exposure Drafts ("EDs") submitted for public consultation are based upon two categories of standards:

- **Cross-cutting ESRS** which:
  - i) Establish the general principles to be followed when preparing sustainability reporting in line with the CSRD provisions;
  - ii) Mandate disclosure requirements ("DRs") aimed at providing an understanding of (a) strategy and business model, (b) governance and organisation, and (c) materiality assessment, covering all topics.
- **Topical ESRS** which, from a sector-agnostic perspective:
  - i) Provide topic-specific application guidance in relation to the cross-cutting DRs on strategy and business model, governance, materiality assessment;
  - ii) Mandate DRs about the undertaking's implementation of its sustainability-related objectives (i.e. on its policies, targets, actions and action plans, and allocation of resources);
  - iii) Mandate performance measurement metrics.

A full list of standards and whether they are cross-cutting standards or topical standards can be found in Appendix I.

Q1: 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?

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

BETTER FINANCE as the dedicated EU level representative association of financial services users notes that the gap between users' information needs and the sustainability information reported by undertakings is growing. Academic research demonstrates however that companies are reporting more often on aims and intentions rather than on actual actions and performance.[1] Besides, there is a significant increase in demand for sustainability reporting information from undertakings which is driven by the changing nature of risks and opportunities to undertakings and growing investor awareness of the financial implications of non-financial risks and opportunities. BETTER FINANCE therefore welcomes the publication of the ESRS that provide key elements framing the architecture and clarifying key concepts and content of the CSRD proposal. The data is of tremendous importance for investors and the general public in line with the objective of the EU to "shift the trillions" towards a more sustainable economy.

Apart from the amendments introduced to CSRD in June 2022, we consider that the ESRS adequately supports the coverage of CSRD topics and reporting areas. In that regard, we would like to explicitly point to the introduction of a "limited assurance", a requirement to be adopted by the EU Commission before 1 October 2026 in order to set out the procedures that

[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

the auditor shall perform in order to draw its conclusions on the assurance of sustainability reporting, including engagement planning, risk consideration and response to risks and type of conclusions to be included in the audit report. BETTER FINANCE would have welcomed a "reasonable assurance" requirement to be immediately included in the CSRD, in order to avoid creating an unlevel playing field between financial and non-financial reporting. BETTER FINANCE therefore recommends that EFRAG, within its mandate, seeks to ensure the highest level of alignment possible between the audit assurance of financial and non-financial reporting standards.

Furthermore, BETTER FINANCE points to the need to provide guidance and clarification to certain terms within in the ESRS[2]. For example, we see a need to clarify the use of the words "shall" and "may". We would understand that "shall" has a stronger meaning than "may" and would be used for ESRS disclosure requirements while "may" would be used for optional disclosures. However, for example Optional Disclosure S1-12 also uses the word "shall" which seem to contradict our assessment. We would furthermore like to receive clarification, whether the description of "policies, targets, actions and action plans, and resources in relation to entity-specific sustainability matters" is optional or required. While ESRS 1 para. 23 (c) seems to require disclosure from undertakings ("When developing entity-specific disclosures the undertaking shall … provide information…"), ESRS 1 para. 93 seems to contradict this requirement ("when the undertaking decides to describe…").

BETTER FINANCE wishes to also underline that the standards are rather complex and detailed and will oblige undertakings to comply with more than 1,000 pages including 116 Disclosure Requirements, thereof 47 of qualitative and 69 of quantitative nature which will be a very challenging exercise, especially as data availability in certain areas is still scarce and a Taxonomy does currently only exist for environmental topics. Given that the global reporting landscape is particularly significant for large, multinational undertakings, it is important for them to understand the various proposals' similarities and differences.

While data availability is key for investors to make informed investment decisions, it must be ensured that this data can be provided by undertakings to avoid the risk of greenwashing. Furthermore, an overload reporting with unnecessary information generates more bureaucracy for companies and may make the sustainability report less easy to assess. In the opinion of BETTER FINANCE, the ambition should therefore be scalable to something that is at the same time in line with data asked from investors and feasible for undertakings. Already now, the cost-benefit analysis seems to be quite challenging, and undertakings need to know how far they should report the data.

BETTER FINANCE furthermore recommends consolidating all generic requirements for reporting on General, Strategy, Governance and Materiality Assessment and on Policies, targets, action plans and resources in the cross-cutting standards to reduce the unnecessary duplication and complexity introduced by the current structure. It should be noted that aspects like the assessment of double materiality and the way topical standards relate to one another is open for interpretation and more concrete guidance in that respect will benefit investors and all other stakeholders.

As a final general remark, BETTER FINANCE would like to stress that the scope of the public consultation is very detailed. The questionnaire extremely lengthy, very technical and only available in English, while at the same time the consultation period is rather short. All this makes it difficult for user representatives and impossible for end users themselves to reply to the whole set of questions, which could affect the conclusions. In that context, **BETTER FINANCE is of the opinion that the methodology of the analysis of the answers to the public consultation should be disclosed and explained, in particular how EFRAG and/or third-party contractors will handle the answers and attribute weight to the different contributions.**

[2] Further examples are provided further below in our feedback.

Alignment and interoperability with international standards and frameworks

CSRD Article 19b paragraph 3a requires that "When adopting delegated acts pursuant to paragraph 1, the Commission shall take account of the work of global standard-setting initiatives for sustainability reporting, and existing standards and frameworks for natural capital accounting, responsible business conduct, corporate social responsibility, and sustainable development."

ESRS EDs were drafted accordingly, with the objective of fostering as much alignment as possible considering the constraints imposed by other provisions included in articles 19a and 19b as per the CSRD proposal. Details of these provisions and how they are covered by the ESRS EDs can be found in Appendix I.

The structure and organisation of the reporting areas was one aspect of alignment to which particular attention was paid. Thus, the two categories of standards are organised to cover the reporting areas in relation to governance, strategy, assessment/management of impacts, risks and opportunities, and targets/metrics (as considered by the TCFD and source of inspiration for the IFRS Sustainability standards). A detailed mapping of the ESRS EDs disclosure requirements with TCFD recommendations and with IFRS Sustainability Exposure Drafts can be found in Appendices 5 and 6.

Q2: 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?

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

Investors including individual investors **do not only need more data on climate- or sustainability-related risks and opportunities,[3] 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).

EFRAG's proposed climate standard (ESRS E1) takes into consideration the EU Taxonomy. It has an architecture centered around three key elements: strategy, implementation, and performance measures. In our view, EFRAG incorporated most TCFD recommendations into its proposed ESRS E1 standard to ensure that they become disclosure requirements. Moreover, it is not only aligning with TCFD guidelines but significantly adding detail to TCFD's recommended disclosures, most notably to incorporate the EU double materiality framework into the rules.

One way through which the ESRS can ensure near full correspondence between the TCFD framework of reporting areas on governance, strategy, risk management and metrics/targets is by integrating the ESRS 1 Section 3.2 in ESRS 2 IRO.

Please also note that TCFD does not have any members representing individual ("retail") investors.

[3] According to a survey of PwC, more than three out of four investors state that they would be able to make better-informed decisions if companies applied uniform ESG standards in their reports and relied on a recognised framework: https://www.pwc.de/de/nachhaltigkeit/pwc-global-investor-survey-2021.pdf

Q3: 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?

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

As climate risk is a global theme, investors need regulators and standard setters to take a global and coordinated approach that paves the way for high-quality, distinct and comparable sustainability- and especially climate-related disclosures. Comparable and comprehensive disclosures will strengthen individual[4] investors' understanding of how the transition to a lower carbon economy is progressing across the entire economy. It is furthermore key to avoid unnecessary regulatory fragmentation that may have negative consequences for globally invested investors and globally operating companies. Diverging or – even worse - competing standards would have negative and significant consequences for investors and undertakings while a collaborative approach would create an effective regulatory model to support existing and future national, international, and inter-governmental policies, such as the Paris Agreement. Appropriate convergence and full compatibility are key to avoid "duplicative reporting" for EU undertakings operating globally, with ESRS inside the EU and non-EU local regimes inspired from the ISSB's global baseline standards outside the EU. In this regard, it is especially key to ensure that definitions are aligned to the maximum possible extent and BETTER FINANCE recommends that EFRAG, together with the ISSB, collaborates closely in that regard to **ensure maximum harmonization of definitions and metrics**.

The key difference between the ESRS and the ISSB standards obviously is the concept of materiality. BETTER FINANCE welcomes the approach of EFRAG, following the preconditions of the CSRD.

Financial materiality and the enterprise value are in our view interconnected with impact materiality, i.e., the impact an undertaking has on climate or any other dimension of sustainability. Material environmental impacts may also translate into financial risks. This would make disclosures more useful to the growing number of individual investors seeking to align their investment practices with climate or wider sustainability goals. And it will provide the information and level of transparency that is necessary for investors to get a full picture of an undertaking's sustainable performance.

An undertaking's financial sustainability is interdependent with the sustainability of the planet and the society. The undertakings' ability to address their negative externalities effectively and substantially is ultimately dependent on the transformation of their business model. There seems to be a dynamic nature of the two materiality perspectives. Very easily, sustainability matters can come to be considered as financial dependencies, risks, and opportunities over time.

We assume that the gap between both approaches will diminish in the future. Negative influence factors of the undertaking on the environment are being understood as a risk in the valuation of the undertaking. Especially from the perspective of institutional investors the undertaking's influence on climate change is already recognized and integrated as transitory risk.

Another difference is the scope of disclosure of GHG emissions. While ISSB standard S2 requires undertakings to disclose Scope 3 emissions, ESRS require such disclosure only for Scope 3 emissions from "significant Scope 3 categories" (ESRS E1 para. 45). Moreover, while ISSB requires the separate disclosure of Scope 1 and 2 emissions for consolidated accounting groups, associates, joint ventures, and subsidiaries/affiliates, the ESRS only require the disclosure of gross Scope 1 and 2 emissions. To identify where the major contributions to GHG emissions stem from within a group, BETTER FINANCE considers the ISSB approach to provide more meaningful information for investors in that respec**t. The different**

[4] In reference to "individual" investors the meaning and definition refers to "individual non-professional investors"

approaches between ESRS S1 and IFRS S2 could lead to confusion and impact the integrity of the reporting. For example, while both IFRS S2 and ESRS E1 require companies to report their gross GHG emissions, IFRS S2 permits companies to count offsets in achieving their GHG emission reduction targets which is not permitted in ESRS E1. This difference in the approach to targets could lead to differences in the information that users receive, and targets may appear more ambitious under one of standards than in the other. Thus, a collaborative approach between both EFRAG and the ISSB is crucial in ensuring that investors have adequate information about the role that offsetting plays in climate targets as it is the key to combat greenwashing.

Coverage of sustainability topics

Article 19b paragraph 2 of the CSRD proposal defines the sustainability subject matters (referred to as sustainability topics or subtopics in the ESRS) that the sustainability reporting standards shall address when defining the sustainability information required by article 19a paragraphs 1 and 2.

The ESRS architecture was designed to cover all the detailed subject matters listed in article 19b paragraph 2 for environment-, social- and governance-related matters and to ensure that sustainability information is reported in a carefully articulated manner.

In terms of timing of adoption of European sustainability reporting standards, article 19b paragraph 1 of the CSRD requires the Commission to adopt:

- a first set of sustainability standards covering the information required by article 19a and at least specifying information needed by financial market participants subject to the SFDR reporting obligations[1]
- a second set of standards covering information that is specific to the sector in which undertakings operate.

Also, article 19c of the CSRD proposal on sustainability reporting standards for SMEs requires the Commission to adopt SME-proportionate standards in a second set.

As a consequence, as per article 19b paragraph 1, are only included in this first set of ESRS Exposure Drafts:

(i) the two cross-cutting standards on General principles (ESRS 1) and on General, strategy, governance and materiality assessment (ESRS 2)

(ii) the eleven topical (sector-agnostic) standards covering environment- (ESRS E1 to E5), social- (ESRS S1 to S4) and governance-related (ESRS G1 and G2) sustainability topics.

A detailed list of ESRS EDs can be found in Appendix I. And the detailed provisions of the CSRD and how they are covered by the ESRS EDs can be found in Appendix II.

Q6: in your opinion, to what extent does the proposed coverage of set 1 adequately address CSRD sustainability topics?

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 final text of the CSRD[5] has been agreed upon in June 2022. Certain amendments to the draft text may not have been fully anticipated by EFRAG and revisions will be necessary. **BETTER FINANCE asks EFRAG to ensure that important reporting requirements will not be deleted. We point, as an example, to the amendment to Article 19b of CSRD**

[5] Article 19b (3) (a) of the Directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting: https://www.consilium.europa.eu/media/57644/st10835-xx22.pdf

dealing with disclosures on governance aspects.[6] Other cases also include strengthened requirements in the area of transition plans and climate change mitigation targets.

Sustainability statements and the links with other parts of corporate reporting

For clarity and ease of use, standardised sustainability reporting shall be easily identifiable within the management report (MR). To that effect, ESRS 1 – General principles (paragraphs 145 to 152) prescribes how to organise the information required by ESRS. It offers three options (paragraphs 148 and 149) for undertakings to consider when preparing their sustainability reporting:

– a single separately identifiable section of the MR;
– four separately identifiable parts of the MR:
    (i) General information;
    (ii) Environment;
    (iii) Social;
    (iv) Governance
– one separately identifiable part per ESRS in the MR.

The first option is the preferred option. When applying the other two options the entity shall report a location table to identify where disclosures are presented in the MR.

In order to foster linkage throughout the undertaking's corporate reporting, ESRS 1 also:

- prescribes that the undertaking adopts presentation practices that promote cohesiveness between its sustainability reporting and: (a) the information provided in the other parts of the management report, (b) its financial statements (FS), and (c) other sustainability-related regulated information (paragraphs 131 to 134)
- promotes the incorporation of information by reference to other parts of the corporate reporting in order to avoid redundancy (paragraphs 135 and 136)
- organises connectivity with the financial statements by prescribing how to include monetary amounts or other quantitative data points directly presented in the financial statements (paragraphs 137 to 143).

Q8: Do you agree with the proposed three options?

1/ Yes 2/ No 3/ No opinion

Q9: would you recommend any other option(s)?

If so, please describe the proposed alternative option(s)

We understand that the restricted mandate of EFRAG with regard to the audit assurance required a clear distinction between the financial and non-financial reporting. Art. 34 of the Accounting Directive provides that statutory auditors shall express an opinion on whether the management report is consistent with the financial statements for the same reporting year and whether the management report has been prepared in accordance with the applicable regulatory requirements. It was therefore needed to include the sustainability reporting, for which until 1 October 2026 only a limited assurance is required, as (a) separate identifiable section/s in the management report. BETTER FINANCE as the European organization of individual investors shares however a common interest in comparable, consistent, and reliable sustainability-related information on investment and stewardship decisions.

From the individual investors' point of view the objective is to link the sustainability reporting with the financial reporting and to publish a common management report as, consistency between financial and non-financial statements is key for investors. This

[6] See our respective remarks to questions 1, 13 and 18 in our response to the ESRS consultation paper.

can only work if the financial data in the sustainability part complies with the data and assumptions in the financial reporting part. Consequently, it is decisive that all information is based on the same requirements with respect to precision, quality, and comparability. This can best be achieved by requiring the same level of audit assurance as for financial statements and would ensure that sustainability- and climate-related reporting gains the same importance as financial reporting - also with respect to auditing.

BETTER FINANCE therefore strongly prefers that EFRAG proposes only one option which would have made the management reports more comparable across undertakings. Also, we would have preferred an integrated reporting of financial and non-financial information in the management report both subject to a full audit.

Similarly, 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 that lack of standardization 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.

BETTER FINANCE recommends that the key audit matters identified by the external auditors would also apply to sustainability reporting. Interestingly, the independence of the external statutory auditor is not tackled at all in the ESRS. **BETTER FINANCE strongly advises EFRAG to also add respective reporting requirements to help investors understand and verify if the statutory auditor can be considered being independent.**

Q10: 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?

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

As stated in Q9, we would have preferred a fully-fledged integrated reporting required by the ESRS but welcome that the ESRS aim at ensuring a high level of connectivity by requiring the undertaking to identify "anchor points" to create connectivity to financial reporting together with the necessary reconciliations or cross-references. BETTER FINANCE wishes to remind that EU Law rightly requires information provided to "individual" investors to be **CLEAR**, i.e. "*presented in a way that is **likely to be understood** by, the average member of the group to whom it is directed, or by whom it is likely to be received*"[7]. Thus, EFRAG should consider 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. Several sustainability frameworks such as SASB, GRI, and TCFD already enable digital consumption of sustainability-related financial information and have machine-readable versions or taxonomies, which enable easier extraction and comparison of information. However - as noted above - investors and in fact all stakeholders, will benefit from greater accessibility of standards and disclosures through other media including smartphones. Individual retail investors have a different level of knowledge and expertise, and the digital disclosures should serve in their interests and be accessible and inviting for a broad spectrum of investors. This will improve investor experience and help them make more informed investment decisions.

[7] Commission Delegated REGULATION Article 44, Fair, clear and not misleading information requirements (Article 24(3) of Directive 2014/65/EU), 2. (d)

Q11: 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?

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 in principle the incorporation of information in the Sustainability section by reference to other parts of the management report does support cohesiveness throughout corporate reporting to a large extent, it is necessary to point out that such reference will only be useful if the information is indeed relevant, reliable, understandable and comparable and thus not affecting the quality of information. It is necessary to point out that that lack of standardization 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.

More generally and importantly, EFRAG should consider reviewing the wording of the draft standards to comply with EU Law's requirement for clear and intelligible information to investors (Commission Delegated Regulation (EU) 2017/565, Article 44. 2d), or at least add 'Plain Language' summaries making these standards and reports actually accessible for EU citizens as investors and end users.

Q12: 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?

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.

It seems from the Basis of Conclusion (ESRS 1, BC139) that the ESRS prefer a narrative disclosure of monetary amounts/other financial statement-related quantitative data into sustainability reporting. While the management report of course is built on narrative disclosure, certain material information is regularly highlighted through tables by undertakings. This should also be required for sustainability-related information defined by the undertaking as material.

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DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS

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

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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

The ESRS consider sustainability information as relevant "when it has a substantive influence on the assessments and decisions of users of sustainability reports under a double materiality approach." (ESRS 1, para. 26). BETTER FINANCE in principle agrees with this approach but would like to point out that the relevance of information may diminish over time. The older an information is, the less useful it generally becomes. We therefore suggest that "timeliness of information" is included as a factor to the principle of relevance.

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

The ESRS prescribe that sustainable information is faithfully represented when the information included is complete, neutral and accurate (ESRS 1, para. 29). While BETTER FINANCE in principle agrees with this approach, we note that the ESRS allow for netting of information as long as any such presentation does not obscure relevant information and includes a clear explanation about the effects of the netting. **For investors, however, not only the effects of netting need to be explained to enable them assessing the sustainability information. Also, the reasons for an exceptional netting are needed** in order to understand why the undertaking exceptionally deviates from the general rule that information shall not be netted or compensated.

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 ESRS understand comparable sustainability information as being consistent over time and, to the greatest extent possible, presented in a way that enables comparisons between undertakings (across sectors and within a specific sector), ESRS 1, para. 33. BETTER FINANCE agrees with this approach.

It is important to note that lack of standardization regarding where to publish the relevant information in the management report for example, 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.

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

The ESRS define sustainability information as being verifiable if it is possible to corroborate such information itself or the inputs used to derive it (ESRS 1, para. 35). In line with EFRAG we consider that verifiability is about ensuring the reliability of the presented information and the process of its generation. **Nevertheless, we consider that further clarification is needed to enable undertakings and investors to understand what exactly should be understood by "reliability". According to the Standards, information is reliable when different independent observers with reasonable expertise would be able to reach a similar conclusion and consider that a particular disclosure conveys a faithful representation. This leaves a lot of room for interpretation.**

Moreover, to ensure understandability and comparability of information, guidance on specific methodologies should be provided for investors and other stakeholders. While not directly linked to the EFRAG consultation, the methodology behind ESG ratings is also very relevant to investors. Ensuring consistent and comparable metrics and methodologies among ESG rating providers are being used against the methodology of the ESRS will ultimately support all stakeholders with precise data.

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

The ESRS require sustainability information to be clear and concise to be understandable and continue that understandable information enables all (knowledgeable) intended users to readily comprehend the information being communicated (ESRS 1, para. 38 and 39). The restriction to knowledgeable users seems to contradict the General Principles, para. 24 (b), according to which the undertaking shall report material information necessary to allow users of its sustainability report to understand its impact on sustainability matters. BETTER

FINANCE recommends an alignment in line with the spirit of the Standards that information shall be understandable to all intended users. BETTER FINANCE wishes to remind that EU Law rightly requires information provided to "individual" investors to be **CLEAR**, i.e. "*presented in a way that is **likely to be understood** by, the average member of the group to whom it is directed, or by whom it is likely to be received*"[8]. Thus, EFRAG should consider reviewing the wording of the draft standards to comply with EU Law's requirement for clear and intelligible information to investors (Commission Delegated Regulation (EU) 2017/565, Article 44. 2d), or at least add 'Plain Language' summaries making these standards and reports accessible for EU citizens as investors and end users.

EFRAG should also consider 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. Several sustainability frameworks such as SASB, GRI, and TCFD already enable digital consumption of sustainability-related financial information and have machine-readable versions or taxonomies, which enable easier extraction and comparison of information. However - as noted above - investors and other stakeholders, will benefit from greater accessibility of reporting disclosures through other media including smartphones. "Individual" investors have different levels of knowledge and expertise, and the digital disclosures should serve in their interests and be accessible and inviting for a broad spectrum of investors.

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

BETTER FINANCE welcomes that the CSRD apply the principle of double materiality and considers that the ESRS definition fosters the identification of sustainability information to meet the needs of stakeholders. An undertaking's financial sustainability is interdependent with the sustainability of the planet and the society. The undertakings' ability to address negative externalities effectively and substantially is ultimately dependent on the

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[8] Commission Delegated REGULATION Article 44, Fair, clear and not misleading information requirements (Article 24(3) of Directive 2014/65/EU), 2. (d)

transformation of the business model. There seems to be a dynamic nature of the two materiality perspectives. Very easily, sustainability matters can come to be considered as financial dependencies, risks, and opportunities over time.

Financial materiality and the enterprise value are in our view interconnected with impact materiality, i.e. the impact an undertaking has on climate or any other dimension of sustainability. Material environmental impacts may also translate into financial risks. Reporting on both dimensions makes disclosures more useful to the growing number of individual investors seeking to align their investment practices with climate or wider sustainability goals. And it will provide the information and level of transparency that is necessary for investors to get a full picture of an undertaking's sustainable performance. BETTER FINANCE considers that more guidance on the definitions of double materiality and financial materiality needs to be provided to avoid a different understanding of financial materiality for sustainability information on the one side, and of financial materiality for financial information on the other.

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. They find that a narrow focus on investors may be detrimental to goals of enhancing investor returns.[9] It has to be noted, however, that research has also defined poor disclosure of the process of determining material sustainability issues and variation in the approach used by organizations to apply the voluntary GRI concept of materiality, despite the fact that GRI has pioneered and led the practice of sustainability reporting since 1997.[10] This may bring into question the credibility of sustainability reports and can lead to an inaccurate portrayal of sustainability performance.[11] To enhance standardized, comparable, neutral and accurate information, a mandatory double materiality approach is therefore welcomed from an investor perspective. This is especially important as the market of ESG investment products is growing significantly[12] and consequently investors and analysts need to understand both the risk and the opportunity of any investment. This is difficult to achieve when the information required to distinguish and assess various investment products is diffuse, disaggregated, and hard to interpret. 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.[13]

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[9] 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/Faculty-Research/Centres/EPSVC/The_impact_of_ESG_factor_materiality_on_stock_performance_of_firms_Heijningen.pdf

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

[11] 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

[12] 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

[13] 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

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

ESRS 1 consider that "an impact is 'directly' linked to the undertaking's operations, products or services, if it occurs in relation to any tier of the business relationships, provided in the value chain but notes that "GHG emissions of a business partner that are not connected to the undertaking's value chain, are neither 'directly linked' nor part of its Scope 3 emissions (ESRS 1, para. 50). While understanding that a further extension of the double materiality approach may not be feasible under a cost-benefit analysis at this stage, BETTER FINANCE would like to point out that undertakings' operations, products and services are more largely interconnected than only within the value chain. Value chain is defined in Appendix VI as the "full range of activities or processes needed <u>to create</u> a product or service. This includes entities with which the undertaking has a direct or indirect business relationship, both upstream and downstream of its own activities, which either (a) supply products or services that contribute to the organisation's own products or services, or (b) receive products or services from the organisation." This means, that, as an example, where raw materials are needed to produce the hardware or the cloud server on which for example Microsoft products are running, these do not seem to be captured by the ESRS definition of value chain. Consequently, these are also not captured by the materiality assessment and thereby its impact on the enterprise value of this specific undertaking, even though the Microsoft software is useless without the respective hardware. Undertakings in fact do not operate in silos but are part of an ecosystem that is interconnected whereby risks and opportunities of stakeholders, particularly those in the value chain closer to the undertaking, may eventually become risks and opportunities of the undertaking. Whilst it may be challenging in the beginning to collect information from the value chain, we believe it is necessary. BETTER FINANCE therefore advocates to review and enlarge the scope of the term "value chain" in the mid- to long-term.

In addition, from our viewpoint, the key issue with materiality is the lack of a standardized methodology. The guidance in the ESRS is rather high-level and directional, leaving undertakings with a lot of leeway in deciding on the severity of its positive and negative impacts on society or the environment. Here, GRI provides far more guidance by recommending to analyse the scale (how grave/beneficial the impact is), the scope (how widespread the impact is), the irremediable character and the likelihood of the potential impacts occurring. To ensure that the materiality concept is uniformly understood amongst users and preparers, BETTER FINANCE proposes to provide clear and detailed guidance on how to perform a materiality assessment. This will provide greater clarity around the concept and how to apply it in practice. Without clear process guidance, it will be difficult for undertakings to comply with the ESRS and may lead to inconsistent application.

In addition, more guidance on the disclosure of materiality evaluation processes is needed if the information is supposed to be verifiable for investors.

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

ESRS 1 underlines that the definition of financial materiality for sustainability reporting is different from the concept of materiality used in determining which information should be included in the undertaking's financial statements (ESRS 1, para. 52). This deviation is explained in the Basis of Conclusions (ESRS 1, BC 49 and 50): EFRAG sees a need to go beyond the boundaries defined by related conceptual frameworks (esp. IFRS) in order to provide meaningful information about environmental, social and governance-related value drivers that have – due to their more medium- or long-term nature – not yet materialized in financial reporting terms. Based on the double materiality approach, this is comprehensible. Nevertheless, this understanding may lead to diverging disclosures for investors (both for financial and sustainability reporting but also when comparing company disclosures) which will not be directly visible to them. BETTER FINANCE therefore recommends providing undertakings with guidance on how to properly address and disclose these limitations to comparability. In addition, BETTER FINANCE notes that a definition of the term "enterprise value" (sometimes also referred to as "enterprise value creation") is lacking in the ESRS. In the ISSB, "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)."[14] We recommend adding a definition of how the ESRS understand the term "enterprise value" and to align it as far as possible with the definition of the ISSB.

(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.

[14] See IFRS S 1, Appendix A, https://www.ifrs.org/content/dam/ifrs/project/general-sustainability-related-disclosures/exposure-draft-ifrs-s1-general-requirements-for-disclosure-of-sustainability-related-financial-information.pdf

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 approach of the ESRS mandates that all mandatory disclosure requirements established by ESRS are presumed to be material. This presumption can be rebutted based on reasonable and supportable evidence (ESRS 1, para. 57-62) – either in a group of disclosure requirements, or an entire ESRS. BETTER FINANCE supports this mechanism as it helps undertakings shaping and justifying the undertaking's materiality concept. We consider, though, that more guidance is needed for undertakings clarifying the concept.

In addition, BETTER FINANCE acknowledges that the set of disclosure requirements is rather comprehensive, hence, the rebutted disclosure requirements may form a significant part of the whole set of standards. Taking into account that presumptions can be rebutted for an entire ESRS, or a group of disclosure requirements related to a specific aspect covered by an ESRS we consider that the disclosure will not overburden undertakings or investors, though. Investors and other stakeholders alike will benefit from further guidance on how to apply the rebuttable presumption.

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

The rebuttable presumption mechanism would shift the burden of proof to the undertaking in case of material misstatements and will require a much higher degree of documentation which in turn will be helpful to investors but also to the external auditors of undertakings.

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

Under the current approach, undertakings have to document for each disclosure requirement its materiality. This exercise may, especially during the first years of application of the new standards, be costly and burdensome for undertakings.

Q27: how would you suggest it can be improved?

We can see two alternative approaches: One approach would be to combine a narrow set of sector agnostic-disclosure requirements for companies, which is mandatory (basic disclosures requirements especially for the environmental objectives other than climate-related which are required from all companies) with comprehensive and elaborated sector-specific standards set with tailored information. This could serve clarity and transparency of information on the market and comparability on capital markets.

Another approach would be to shift the sector-agnostic ESRS on environmental objectives other than climate mitigation and adaption to the sector-specific ESRS, so that the materiality presumption for those topics would be made at the sector-specific level. This would free companies in sectors for which such topics are not material from the obligation to justify their materiality assessment. It should, moreover, be clarified whether companies have to justify each time they use the presumption to waive a disclosure requirement.

It is worth mentioning that while another approach may be suggested with reference to “comply or explain”, which is a familiar approach for undertakings from their governance disclosures for example, it does leave a large margin for explanations and potential divergence from disclosures.

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

The use of approximations may be necessary to prepare sustainability-related information which are long-term and often forward-looking. Where `reliable information (practically) cannot be collected, a reasonable independent approximation seems to be the second-best option to inform investors about an undertaking’s material impacts. BETTER FINANCE however sees a need to inform users about the methodology used to arrive at approximations. For example, for a more reliable approximation, the use of an independent external consultant may be more appropriate than basing approximations on sampling data from suppliers, clients etc.

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

We believe in limiting options for approximation as it can cause a fragmented approach and thus lead to greenwashing practices, whether intended or not.

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

Our reservation is linked to ESRS 1 para. 74 (b) which requires that a disaggregation shall be adopted in relation to a significant site or a significant asset when relevant in respect of other EU regulations. We struggle to see the logic behind the restriction to disaggregate information only if considered relevant in respect of other EU regulations and would like to receive a clarification if for example a production site with significant GHG emissions could be aggregated e.g. with data from low GHG production sites in the same country. This may lead to a “greening” of an undertaking and would not be considered by BETTER FINANCE as a faithful representation of information.

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

Agreement over timeframes would be a crucial step towards enabling relevant insights into a company’s sustainability efforts and comparability when it comes to reporting. This is particularly relevant in the case of transition plans whereby for example agreed timeframes will allow for comparison of companies’ forward-looking plans.

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

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

Please explain why

We agree as far as the topical standards specify the time horizons for individual material matters where necessary, as is the case for certain climate change related disclosures in the ESRS E1. ESRS 1 should clearly explain that the undertakings should consult the topical standards to this end, when providing assessment of their impacts, risks and opportunities in accordance with the ESRS 2.

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.

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?

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

The ESRS require detailed information on actions, action plans and allocation of resources for example scope or time horizon or expected outcomes of actions, in relation to the contribution of the actions. What is lacking in our opinion is a requirement to report on actions to prevent, remediate or mitigate potential negative/adverse impacts.

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).

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

General presentation principles: As stated already, BETTER FINANCE prefers the fully, single audited integrated reporting approach while the general presentation principles (ESRS 1, para. 108) explicitly require a clear distinction between sustainability and financial information in the management report.

Updating disclosures: Undertakings are required to update disclosures in certain circumstances, see ESRS 1, para. 114 BETTER FINANCE notes that distinct disclosure requirements already exist under MAR/MAD and suggests ensuring that no contradiction to existing laws or regulations may occur.

Estimations: More guidance is needed on the methods used when estimating under certain conditions.

CONSULTATION SURVEY

DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS

1C. Overall ESRS Exposure Drafts relevance
- Exposure Drafts content

April 2022

Open for comments until 8 August 2022

PTF-ESRS
Project Task Force on European sustainability reporting standards

EFRAG

1C. Overall ESRS Exposure Drafts relevance – Exposure Drafts content

For the purpose of the questions included in this section, respondents are encouraged to consider the following:

- when sharing comments on a given ESRS Exposure Draft, and as much as possible, reference to the specific paragraphs being commented on should be included in the written comments,
- in the questions asked, for each ESRS, about the alignment with international sustainability standards, these include but are not limited to the IFRS Sustainability Standards and the Global Reporting Initiative Standards. Other relevant international initiatives may be considered by the respondents. When commenting on this particular question, respondents are encouraged to specify which international standards are being referred to.

ESRS 1 – General Principles

This [draft] Standard prescribes the mandatory concepts and principles to apply for preparation of sustainability reporting under the Corporate Sustainability Reporting Directive (CSRD) proposal.

It covers the applicable general principles:

(a) when reporting under European Sustainability Reporting Standards;

(b) on how to apply CSRD concepts;

(c) when disclosing policies, targets, actions and action plans, and resources;

(d) when preparing and presenting sustainability information;

(e) on how sustainability reporting is linked to other parts of corporate reporting; and

(f) specifying the structure of the sustainability statements building upon the disclosure requirements of all ESRS.

Most questions relevant for ESRS 1 are covered in the previous sections of the survey (section 1 Overall ESRS Exposure Drafts relevance – architecture and section 2 Overall ESRS Exposure Drafts relevance – implementation of CSRD principles).

Q38: 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)?

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

As climate risk is a global theme, investors need regulators and standard setters to take a global and coordinated approach that paves the way for high-quality, distinct and comparable sustainability- and especially climate-related disclosures. Comparable disclosures will strengthen “retail” investors’ understanding of how the transition to a lower carbon economy is progressing across the entire economy. It is furthermore key to avoid unnecessary regulatory fragmentation that may have negative consequences for globally invested investors and globally operating companies. Diverging or – even worse - competing standards would have negative and significant consequences for investors and undertakings while a collaborative approach would create an effective regulatory model to support existing and future national, international, and inter-governmental policies, such as the Paris Agreement. Appropriate convergence and full compatibility are key to avoid “duplicative reporting” for EU undertakings operating globally, with ESRS inside the EU and non-EU local regimes inspired from the ISSB's global baseline standards outside the EU. In this regard, it is especially key to ensure that definitions are aligned to the maximum possible extent and BETTER FINANCE recommends that EFRAG, together with the ISSB, collaborates closely in that regard to ensure maximum harmonization of definitions and metrics.

BETTER FINANCE welcomes that the ESRS and the ISSB standards seem to align with the TCFD standards which is a good basis for more harmonization. We note, however, that both ISSB and ESRS have added details to the disclosures recommended by the TCFD, for the ESRS most notably to incorporate the double materiality approach into the rules which is obviously the key difference between the ESRS and the ISSB standards. BETTER FINANCE welcomes the approach of EFRAG, following the preconditions of the CSRD. To enhance standardized, comparable, neutral and accurate information, a mandatory double materiality approach is welcomed from an investor perspective. This is especially important as the market of ESG financial products is growing significantly, and consequently, investors and analysts need to understand both the risks and the opportunities of any investment.

Financial materiality and the enterprise value are in our view interconnected with impact materiality, i.e., the impact an undertaking has on climate or any other dimension of sustainability. Material environmental impacts may also translate into financial risks. This would make disclosures more useful to the growing number of "retail" investors seeking to align their investment practices with climate or wider sustainability goals. And it will provide the information and level of transparency that is necessary for investors to get a full picture of an undertaking's sustainable performance.

An undertaking's financial sustainability is interdependent with the sustainability of the planet and the society. The undertakings' ability to address their negative externalities effectively and substantially is ultimately dependent on the transformation of their business model. There seems to be a dynamic nature of the two materiality perspectives. Very easily, sustainability matters can come to be considered as financial dependencies, risks, and opportunities over time.

We assume that the gap between both approaches will diminish in the future. Negative influence factors of the undertaking on the environment are being understood as a risk in the valuation of the undertaking. Especially from the perspective of institutional investors the undertaking's influence on climate change is already recognized and integrated as transitory risk.

Ensuring that investors have adequate information about the role that offsetting plays in climate targets is key to combat greenwashing. The different approaches between ESRS S1 and IFRS S2 could lead to confusion and impact the integrity of the reporting. For example, while both IFRS S2 and ESRS E1 require companies to report their gross GHG emissions (i.e., without any offset efforts), IFRS S2 permits companies to count offsets in achieving their GHG emission reduction targets which is not permitted in ESRS E1. This difference in the approach to targets could lead to differences in the information that users receive, and targets may appear more ambitious under one of standards than in the other.

Another difference is the scope of disclosure of GHG emissions. While ISSB standard S2 requires undertakings to disclose Scope 3 emissions, ESRS require such disclosure only for Scope 3 emissions from "significant Scope 3 categories" (ESRS E1 para. 45). Moreover, while ISSB requires the separate disclosure of Scope 1 and 2 emissions for consolidated accounting groups, associates, joint ventures, and subsidiaries/affiliates, the ESRS only require the disclosure of gross Scope 1 and 2 emissions. To identify where the major contributions to GHG emissions stem from within a group, BETTER FINANCE considers the ISSB approach to provide more meaningful information for investors in that respect.

ESRS 2 – General, strategy, governance and materiality assessment

This [draft] standard sets out the disclosure requirements of the undertaking's sustainability report that are of a cross-cutting nature. Those disclosures can be grouped into those that are:

(a) of a general nature;

(b) on the strategy and business model of the undertaking;

(c) on its governance in relation to sustainability; and

(d) on its materiality assessment of sustainability impacts, risks and opportunities.

Q39: Please, rate to what extent do you think ESRS 2 – General, strategy, governance and 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

	1	2	3	4	5
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)			X		
B. Supports the production of relevant information about the sustainability matter covered			X		
C. Fosters comparability across sectors		X			
D. Covers information necessary for a faithful representation from an impact perspective			X		
E. Covers information necessary for a faithful representation from a financial perspective			X		
F. Prescribes information that can be verified / assured		X			
G. Meets the other objectives of the CSRD in term of quality of information				X	
H. Reaches a reasonable cost / benefit balance					X
I. Is sufficiently consistent with relevant EU policies and other EU legislation					X
J. Is as aligned as possible to international sustainability standards given the CSRD requirements					X

For part H, please explain why costs would be unreasonable and / or what particular benefit ESRS 2 offers

For part I, please specify what European law or initiative you think is insufficiently considered

For part J, please explain how you think further alignment could be reached

ESRS E1 – Climate change

The objective of this [draft] standard is to specify Disclosure Requirements which will enable users of sustainability reporting to understand:

(a) how the undertaking affects climate change, in terms of positive and negative material actual or potential adverse impact;

(b) its past, current, and future mitigation efforts in line with the Paris Agreement (or an updated international agreement on climate change) and limiting global warming to 1.5°C;

(c) the plans and capacity of the undertaking to adapt its business model(s) and operations in line with the transition to a sustainable economy and to contribute to limiting global warming to 1.5°C;

(d) any other actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts;

(e) the nature, type and extent of the undertaking's material risks and opportunities related to the undertaking's impacts and dependencies on climate change, and how the undertaking manages them; and

(f) the effects of risks and opportunities, related to the undertaking's impacts and dependencies on climate change, on the undertaking's development, performance and position over the short-, medium- and long- term and therefore on its ability to create enterprise value .

This [draft] standard derives from the [Draft] Corporate Sustainability Reporting Directive stating that the sustainability reporting standards shall specify which information to disclose about climate change mitigation and climate change adaptation.

This [draft] standard covers Disclosure Requirements related to 'Climate change mitigation', 'Climate change adaptation' and 'Energy'.

Q40: Please, rate to what extent do you think ESRS E1 – Climate change

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

	1	2	3	4	5
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)			X		
B. Supports the production of relevant information against the intended objective of the sustainability matter covered			X		
C. Fosters comparability across sectors			X		
D. Covers information necessary for a faithful representation from an impact perspective			X		
E. Covers information necessary for a faithful representation from a financial perspective			X		
F. Prescribes information that can be verified and assured		X			
G. Meets the other objectives of the CSRD in term of quality of information			X		
H. Reaches a reasonable cost / benefit balance					X
I. Is sufficiently consistent with relevant EU policies and other EU legislation					X
J. Is as aligned as possible to international sustainability standards given the CSRD requirements					X

For part H, please explain why costs would be unreasonable and / or what particular benefit ESRS E1 offers

For part I, please specify what European law or initiative you think is insufficiently considered

For part J, please explain how you think further alignment could be reached

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

Requirements regarding transition plans and carbon offsetting need to be comparable across ESRS standards and others to enhance clarity and understanding for "individual" investors. Given the key role of transition plans in fighting climate change and helping investors navigate and understand their investment landscape, uncertainties around the content of transition plans will cause further divergence among entities and stakeholders. EFRAG collaborate closely with the ISSB on developing reporting requirements in the absence of transition plans as well as mid/long-term target dates, mid/long term reviews, GHG emissions in absolute terms and carbon offset alignment. The lack of appropriate guidance and level of detail under the requirements, could compromise the integrity of the information reported and thus increase greenwashing.

ESRS G1 – Governance, risk management and internal control

The objective of this [draft] standard is to specify disclosure requirements which will enable users of the undertaking's sustainability report to understand the governance structure of the undertaking, and its internal control and risk management systems.

This [draft] standard derives from the [Draft Corporate Sustainability Reporting Directive] stating that the sustainability reporting standards shall specify information to disclose information about governance factors, including:

(i) the role of the undertaking's administrative, management and supervisory bodies, including with regard to sustainability matters, and their composition, as well as a description of the diversity policy applied and its implementation;

(ii) the undertaking's internal control and risk management systems, including in relation to the undertaking's reporting process.

Q49: Please, rate to what extent do you think ESRS G1 – Governance, risk management and internal control

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

	1	2	3	4	5
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)				X	
B. Supports the production of relevant information about the sustainability matter covered			X		
C. Fosters comparability across sectors				X	
D. Covers information necessary for a faithful representation from an impact perspective			X		
E. Covers information necessary for a faithful representation from a financial perspective			X		
F. Prescribes information that can be verified and assured				X	
G. Meets the other objectives of the CSRD in term of quality of information				X	
H. Reaches a reasonable cost / benefit balance					X
I. Is sufficiently consistent with relevant EU policies and other EU legislation		X			
J. Is as aligned as possible to international sustainability standards given the CSRD requirements		X			

For part H, please explain why costs would be unreasonable and / or what particular benefit ESRS G1 offers

For part I, please specify what European law or initiative you think is insufficiently considered

International and national corporate governance rules (e.g EU SRD II) and standards go well beyond the requirements laid down in the ESRS G1 standard, which are therefore not considered to be sufficiently ambitious.

Especially DR G1-4 needs to be checked against national legal provisions. For example, in France providing information on minority/vulnerable groups is prohibited by law.

For part J, please explain how you think further alignment could be reached

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

ESRS G1 strictly follows the wording of CSRD. It describes for example the role of the undertaking's administrative, management and supervisory bodies, including with regard to sustainability matters, and their composition, or the undertaking's internal control and risk management systems. However, the standard seems to overlook the general concept of CSRD, i.e., that disclosures shall meet the characteristics of information quality (relevance and faithful representation as well as the enhancing qualities of information, i.e., comparability, verifiability and understandability). Especially with regard to the enhancing qualities of information, the G1 standard lacks ambition. Based on the information provided, investors will not be able to monitor and verify the actions of the governance bodies nor will they be able to assess and compare them against those of their peers.

Furthermore, an understanding of an entity's governance requires that investors are enabled to understand who is responsible for what, not only in abstract terms but also concretely. G1-1 however contains mainly requirements to publish general/generic information about the relevant governance body/committee. The same holds true for the information on the governance bodies' remuneration (GR1-6). In GR1-1, for example, there is no requirement to disclose who within the body has which skills, knowledge, and experience, or why a certain member of a governance body had been chosen for appointment nor is it required to disclose the identity of the members of the governance body's committees. GR 1-3 which deals with the nomination process only requires a description of the nomination process including the criteria used for nominating members of the governance bodies. Missing is, however, how these generic requirements have been put into action in the year under review, i.e., in how far the nomination process has been followed. Any nomination process requires a review of the status quo followed by an intense evaluation of all board members. BETTER FINANCE wonders how an investor or any other stakeholder should be able to understand the role of a governance body, its members' expertise and skills without being informed about the underlying nomination or evaluation process. In our view this would counteract the general ESRS concept of information quality.

G1-1 requires the disclosure of the independence of members. First of all, we consider it necessary to include a clarification that the independence criterion, which is a core element of good corporate governance, is required only for members of the supervisory/administrative body and not for management/executive board members. AG 5 (a) provides some guidance on the term "independence" which is however rather vague (" the absence of an interest, position, association or relationship which, when judged from the perspective of a reasonable and informed third party, is likely to influence unduly or cause bias in decision-making") and leaves too much room for interpretation. Moreover, independence criteria established in various markets may differ. BETTER FINANCE therefore considers it important to improve guidance to the term independence.

G1-4: BETTER FINANCE welcomes the reporting requirements on disclosure of the undertaking's diversity policy. As of today, there seems to be no EU-wide legal requirement to reporting in that respect. We note that the upcoming Directive on improving gender balance among non-executive board members[15] in its current version will require undertakings among others to report the reasons and the measures they are taking to address shortcomings with regard to the implementation of the Directive's requirements (among them being the requirement to have at least 40% of the underrepresented gender to be represented in non-executive boards of listed companies). We consider a harmonized reporting requirement on the undertaking's diversity policy which is extended to a report on the reasons and measures

[15] https://ec.europa.eu/commission/presscorner/detail/en/IP_22_3478

for non-implementation (i.e., on the outcomes) to be also stipulated in the ESRS as highly important as this Directive is not yet formally adopted nor published in the Official Journal and there will be a transposition period of two years for Member States after publication. G1-4 requires disclosure about the undertaking's diversity policy and how it has been implemented, which we welcome. We note that disclosure shall among others specify (GR1-4, para. 26 (b)) whether the diversity representation is over or above any relevant legal and regulatory requirements. To enable investors' understanding that there is a need for improvement regarding diversity, it would be more helpful if the Standard would require disclosure if diversity levels were below any relevant legal and regulatory requirements. Noting that a reference to ESRS 1, Disclosure Principle 1-2 is missing, we furthermore consider that the Standard should also require disclosure of timelines for achieving targets in para. 26 (c).

G1-6 does not include a requirement to disclose how remuneration during the year under review has actually matched sustainability- or climate-related metrics. Also, other (often regular) remuneration elements for executive board members, namely benefits in kind, remuneration from third parties, or payments agreed for post-contractual non-competition obligations are not mentioned in the draft, meaning that a full picture of the remuneration package may not necessarily be provided. Based on the disclosure foreseen by G1, even when read in conjunction with ESRS 2-GOV 4 para. 62-64, investors will therefore not be able to thoroughly assess the remuneration policy of board members from an impact or financial perspective.

We would furthermore welcome a clarification in the accompanying guidelines (G1-6, AG 14 (a) (ii) if indeed the remuneration of senior executives shall be described, as the DR itself (unlike ESRS 2-GOV 4) does not refer to senior executives at all but only to the governance body, defined as "administrative, management and supervisory bodies" in ESRS 2.

G1-7: Disclosure of processes or policies only focus on risk **management**; a disclosure of **identifying** significant risks and opportunities and materiality assessment is not required, which is key for investors' understanding. Also, we would consider it helpful if EFRAG would provide guidance whether compliance management is considered being part of risk management. There are different understandings in that regard in the market. Risk management processes do not necessarily include compliance management systems, on the contrary, there often is an inadequate linkage between risk and compliance, the risks of fraud are not captured by a risk management system because they are often "systemic" risks from a risk management perspective that defy formal capture (and evaluation even with simple value-at-risk methods) from a practical perspective. The Standards should therefore ensure that undertakings should also provide information on its compliance management or disclose, whether it is covered by the risk management.

G1-10 does not – despite its headline – require any disclosure on the attendance rate of individual members of governance bodies during the reporting year – anonymized information on the number of members having attended is considered sufficient by the Standard. We recommend requiring reporting on individualized disclosure of attendance rates of members of governance bodies.

An undertaking's governance forms the basis for its sustainable development. Good governance promotes accountability, transparency, efficiency and rule of law at all levels and allows efficient management of human, natural, economic and financial resources for equitable and sustainable development, guaranteeing civil society participation in decision-making processes.[16] For investors but also for other stakeholders, understanding the governance of a company is crucial as it provides the basis upon which sustainability activities are built and evaluated. Strong corporate governance indicates strong corporate culture, which in turn signals robust long-term resilience. BETTER FINANCE therefore strongly recommends consolidating all governance-related DR in ESRS 2 because governance-related issues are genuinely cross-cutting and material for all undertakings.

According to CSRD Article 19b para. 1 (a), the Commission shall adopt delegated acts that "at least" specify information corresponding to the needs of financial market participants subject

[16] M. Kardos, The reflection of good governance in sustainable development strategies (2012), https://www.sciencedirect.com/science/article/pii/S1877042812045600/pdf?md5=c0e7b3c9eed116ba2525973f65c054d0&pid=1-s2.0-S1877042812045600-main.pdf

to the disclosure obligations of Regulation (EU) 2019/2088.[17] This information is therefore considered essential. Especially disclosures with regard to climate change have been identified by stakeholders as critical to push the transformation towards a sustainable economy. The transformation of the economy needs to be encompassed by a robust governance of undertakings. We therefore urge EFRAG to give the highest priority to ESRS E1 and ESRS G1. In that context, BETTER FINANCE is very concerned that the G1 standard may be subject to revisions, because of amendments to the final version of Article 29b (2) (c) (i) CSRD, especially the deletion of the word “including” (“The reporting standards shall … specify the information that undertakings are to disclose about the following governance factors: (i) the role of the undertaking’s administrative, management and supervisory bodies, ~~including*~~with regard to sustainability matters, and their composition, and their expertise and skills to fulfil this role or access to such expertise and skills”). This may lead to a deletion of standards G3, G5, G6 and maybe also G4 while the remaining standards may be moved to ESRS 2 or left in G1. While we would – as stated above – welcome the integration of G1 into ESRS 2, we would consider the deletion of large parts of the G1 DR as a huge step backwards in the quality of governance reporting.

While disclosure is lacking on <u>outcomes</u>, the whole set of G1 provides a good picture about an undertaking’s governance <u>processes.</u> Furthermore, in its current form, ESRS would require undertakings to report on governance topics in the management report only. Such a consolidated reporting is needed, as a respective EU-wide requirement does currently not exist. In Germany, for example, the corporate governance report or the remuneration report do not necessarily have to be included in the management report, leaving the corporate governance information scattered, i.e., difficult to retrieve for investors.[18]

Last but not least, we would like to point to a further key element of good corporate governance which is the independence of the external statutory auditor. This topic is not tackled at all in the ESRS. BETTER FINANCE strongly advises EFRAG to also add respective reporting requirements to help investors understand and verify if the statutory auditor can be considered being independent.

ESRS G2 – Business conduct

The objective of this [draft] standard is to specify disclosure requirements for the undertaking to provide information about its strategy and approach, processes and procedures as well as its performance in respect of business conduct.

This [draft] standard derives from the [Draft Corporate Sustainability Reporting Directive] stating that the sustainability reporting standards shall specify information to disclose about business ethics and corporate culture, including anti-corruption and anti-bribery.

In general, business conduct covers a wide range of behaviours that support transparent and sustainable business practices to the benefit of all stakeholders. This [draft] standard focusses on a limited number of practices as follows:

(a) business conduct culture;

(b) avoiding corruption, bribery and other behaviours that often have been criminalised as they benefit some in positions of power with a detrimental impact on society; and

(c) transparency about anti-competitive behaviour and political engagement or lobbying.

This [draft] standard is addressing business conduct as a key element of the undertaking’s contribution to sustainable development. This [draft] standard requires the undertaking to report information about its overall policies and practices for business conduct, rather than information for specific material sustainability topics.

[17] CSRD Proposal, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52021PC0189

[18] Article 20 (2) of the Accounting Directive leaves it to Member States to permit the corporate governance statement to be set out either in a separate report published together with the management report OR in a document publicly available on the undertaking’s website, to which reference is made in the management report.

Q50: Please, rate to what extent do you think ESRS G2 – Business conduct

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

	1	2	3	4	5
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)			X		
B. Supports the production of relevant information about the sustainability matter covered			X		
C. Fosters comparability across sectors		X			
D. Covers information necessary for a faithful representation from an impact perspective		X			
E. Covers information necessary for a faithful representation from a financial perspective		X			
F. Prescribes information that can be verified and assured			X		
G. Meets the other objectives of the CSRD in term of quality of information			X		
H. Reaches a reasonable cost / benefit balance					X
I. Is sufficiently consistent with relevant EU policies and other EU legislation					X
J. Is as aligned as possible to international sustainability standards given the CSRD requirements					X

For part H, please explain why costs would be unreasonable and / or what particular benefit ESRS G2 offers

For part I, please specify what European law or initiative you think is insufficiently considered

For part J, please explain how you think further alignment could be reached

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

As stated in the Objective (para. 3.), business conduct covers "a wide range of behaviours that support transparent and sustainable business practices to the benefit of all stakeholders." G2, however, focuses on business conduct culture, anti-corruption, anti-bribery, anti-competitive behaviour, and political engagement only. This despite the fact that CSRD requires the Commission to take to the greatest extent possible - account of "the work of global standard-setting initiatives for sustainability reporting, and existing standards and frameworks for natural capital accounting and for greenhouse gas accounting, responsible business conduct, corporate social responsibility, and sustainable development;[19]

While BETTER FINANCE notes that the areas covered by the ESRS are of high importance for stakeholders, we are concerned that other, likewise important areas, are left out of this Standard. For example, we explicitly point out that transparency about taxation matters is not covered by the Standard. Taxes are however a key mechanism by which companies contribute to the economy of the countries in which they operate. Companies have an obligation to comply with tax legislation and a responsibility to their stakeholders to meet expectations of good tax governance. BETTER FINANCE considers that, in line with the double materiality approach, tax reporting should be part of the sustainability reporting as tax behavior of undertakings may severely impact various dimensions of sustainability, e.g., citizens, environment. Besides, tax reporting increases transparency and promotes trust and credibility in the tax practices of the

[19] Article 19b (3) (a) of the Directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting: https://www.consilium.europa.eu/media/57644/st10835-xx22.pdf

reporting companies with investors and other stakeholders. This understanding of business conduct is in line with for example the GRI Standards[20]. BETTER FINANCE recommends expanding the scope of business culture at least in the mid-term.

In addition, we consider that G2-1, G2-2, and G2-8 would be better placed in the cross-cutting standards (ESRS 2) as they should not be subject to a materiality assessment by undertakings and are transversal to all sustainability subject matters, as defined in Article 19b of CSRD.

[20] GRI 207 recommends companies to disclose their approach to tax; tax governance, control and risk management; stakeholder engagement and management of concerns related to tax, as well as country-by-country-reporting.

CONSULTATION SURVEY

DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS

2. ESRS implementation prioritisation / phasing-in

April 2022

Open for comments until 8 August 2022

PTF-ESRS
Project Task Force on European sustainability reporting standards

EFRAG

2. ESRS implementation prioritisation / phasing-in

Application provisions

In order to facilitate the first-time application of set 1, ESRS 1 includes two provisions:

Application Provision AP1 which exempts undertaking to reports comparatives for the first reporting period, and

Application Provision AP2 which proposes transitional measures for entity-specific disclosures which consists in allowing the undertaking to continue to use, for 2 years, disclosures it has consistently used in the past, providing certain conditions are met, as described in paragraph 154.

Q51: to what extent do you support the implementation of Application Provision AP1?

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

Q52: to what extent do you support the implementation of Application Provision AP2?

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

Q53: what other application provision facilitating first-time application would you suggest being considered?

None. In relation to AP1, the ESRS could benefit by clarifying that companies that do have the relevant data/information for the previous reporting period, should in fact be encouraged to report it.

Please explain why

See our comment to Q54

ESRS implementation prioritisation / phasing-in options

Set 1 proposes a comprehensive set of standards aimed at achieving the objectives of the CSRD proposal, with the exception of the standards to be included in Set 2.

Acknowledging the fact that the proposed vision of a comprehensive sustainability reporting might be challenging to implement in year one for the new preparers and potentially to some of the large preparers as well, EFRAG will consider using some prioritisation / phasing-in levers to smoothen out the implementation of the first set of standards.

The following questions aim at informing EFRAG's and ultimately the European Commission's decision as to what disclosure requirements should be considered for phasing-in, based on implementation feasibility / challenges and potentially other criteria, and over what period of time their implementation should be phased-in.

Q54: 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

Bearing in mind that sector-specific and SME-proportionate standards will be adopted in a second step, BETTER FINANCE considers that the ESRS are overall striking the right balance between the need to make significant progress in improving the quality of sustainability information and meeting the growing needs of users. Investors as primary user of sustainability-related financial reporting have different objectives and interests resulting from diversified and long-term portfolios, often representing global capital markets. They therefore need a broad, not narrow, set of sustainability reporting information from undertakings. We consequently welcome that EFRAG has decided to start with a broad range of sustainability information to be included in undertakings' sustainability reporting.

It needs to be ensured, though, that sustainability-related information will be well integrated in the financial disclosure and will not lead to an overload of information which would make the reports less easy to assess. BETTER FINANCE in addition notes that the deadline for the adoption of the Delegated Acts and the entry into force of the legislation is extremely challenging, especially as the ESRS' scope is very broad and there seems to be a gap of data that is not available yet. This combined with the mandatory approach prescribed by the CSRD will prove to be challenging for undertakings. This hints to a need for sufficient time and resources to allow undertakings to gather that information and implement the system to ensure that data provided to investors is reliable and faithfully presented. For example, the scope of the reporting requirements in the value chain as well as the definition of stakeholders and the scope of their expected level of implication in the different steps of the governance processes need to be clarified and better delimited.

From the investors' perspective there is need for clear and understandable information thereby avoiding an information overload. For example, regarding the value chain, there is uncertainty of what is being asked to be reported, particularly as some information to be reported will be new data for the undertakings. More in particular, the reporting boundary needs to be more clearly defined, better specifying the levels in companies of the value chain for which it is deemed useful to obtain disclosure. It may be premature to claim to obtain this large amount of information for the entire value chain. The broad definition of the value chain may create difficulties in reporting data outside the control of an undertaking (problems of verifiability, quality and control of the data). It may also be difficult to ask and perform an assurance activity for data that is not directly controlled by the undertaking, and this may also lead to potential duplication of information.

Q57: please share any other comments you might have regarding ESRS implementation prioritisation / phasing-in

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.

CONSULTATION SURVEY

DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS

3A. Adequacy of Disclosure Requirements

- Cross cutting standards

April 2022

Open for comments until 8 August 2022

PTF-ESRS

Project Task Force on European sustainability reporting standards

EFRAG

3A. Adequacy of Disclosure Requirements – Cross cutting standards

For the purpose of the questions included in this section, respondents are encouraged to consider the following:

- when sharing comments on a given Disclosure Requirement, and as much as possible, reference to the specific paragraphs being commented on should be included in the written comments,
- in the question asked, for each ESRS, about the alignment with international sustainability standards, these include but are not limited to the IFRS Sustainability Standards and the Global Reporting Initiative Standards. Other relevant international initiatives may be considered by the respondents. When commenting on this particular question, respondents are encouraged to specify which international standards are being referred to.

A complete index of Disclosure Requirements and their corresponding Application Guidance can be found in Appendix I – Navigating the ESRS.

DR 2-GR 1 – General characteristics of the sustainability reporting of the undertaking

The undertaking shall give general information about (i) its sustainability report, and (ii) the structure of its sustainability statement.

The principle to be followed under this disclosure requirement is to give the necessary context of the sustainability reporting of the undertaking.

Q1: Please, rate to what extent do you think DR 2-GR 1 – General characteristics of the sustainability reporting of the undertaking

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered		X				
B. Requires information that is relevant for all sectors (sector-agnostic only information)			X			
C. Can be verified / assured			X			
D. Meets the other objectives of the CSRD in term of quality of information		X				
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements		X				
H. Represent information that must be prioritised in first year of implementation			X			
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities		X				

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

We understand that the restricted mandate of EFRAG regarding the audit assurance required a clear distinction between the financial and non-financial reporting. Art. 34 of the Accounting Directive[21] provides that statutory auditors shall express an opinion on whether the management report is consistent with the financial statements for the same reporting year and whether the management report has been prepared in accordance with the applicable regulatory requirements. It was therefore necessary to include the sustainability reporting, for which until 1 October 2026 only a limited assurance is required, as (a) separate identifiable section/s in the management report (depending on the options proposed by the ESRS).

BETTER FINANCE as the leading European association of individual investors shares however a common interest in comparable, consistent, and reliable sustainability related information on investment and stewardship decisions. From the investors' point of view the objective is to link the sustainability reporting with the financial reporting in order to publish a common management report. So, consistency between financial and non-financial statements is key for investors. This can only work if the financial data in the sustainability part complies with the data and assumptions in the financial reporting part. Consequently, it is decisive that all information is based on the same requirements with respect to precision, quality, and comparability. This can best be achieved and supported by requiring the same level of audit assurance as for financial statements and will ensure that sustainability- and climate-related reporting gains the same importance as financial reporting - also with respect to auditing.

BETTER FINANCE therefore would have preferred if EFRAG on the one hand would have proposed only one option which would have made the management reports more comparable across undertakings. On the other hand, we would have preferred an integrated reporting of financial and non-financial information in the management report both being subject to a full audit.

Given the restrictive CSRD framework, though, we welcome that the current standards aim at ensuring a high level of connectivity. However, 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 that lack of standardization 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.

We also recommend that the key audit matters identified by the external auditors would also apply to sustainability reporting. Interestingly, the independence of the external statutory auditor is not tackled at all in the ESRS. Thus, it would be strongly advisable that EFRAG adds a respective reporting requirement to help investors understand and verify if the statutory auditor can be considered being independent.

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

DR2-GR1 prescribes that undertakings shall disclose location tables for the presentation of its sustainability statements (DR2-GR1, para. 7-9). Given that ESRS 1, para. 148, provides for three different options to report sector-agnostic sustainability information in the management report (single separately identifiable section, four separately identifiable sections, or aggregated disclosures reported as non-separate blocks) plus the need to include in the location tables also information on disclosures pursuant to Article 8 of the Taxonomy Regulation, we are concerned that these tables will become unreadable and incomprehensible to investors. We therefore recommend including a requirement to hyperlink the tables with the

[21] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32013L0034

respective sections in the report which would, at least for electronic reports, ease the access to specific sustainability information for investors.

DR 2-GR 2 – Sector(s) of activity

The undertaking shall provide a description of its significant activities, headcount and revenue.

The principle to be followed under this disclosure requirement is to allow an understanding of the distribution of the undertaking's activities by reference to a common sector definition.

Q2: Please, rate to what extent do you think DR 2-GR 2 – Sector(s) of activity

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered		X				
B. Requires information that is relevant for all sectors (sector-agnostic only information)			X			
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

BETTER FINANCE would like to receive guidance on who falls within the definition of "headcount". Does it only include employees or also workers? And why is a disclosure of headcounts required instead of full-time equivalents, a unit used in financial disclosure? As already stated above, BETTER FINANCE would like to underline again the urgent need for consistency between financial and sustainability-/climate-related disclosure.

DR 2-GR 3 – Key features of the value chain

The undertaking shall describe its value chain.

The principle to be followed under this disclosure requirement is to provide an understanding of the value chain in which the undertaking operates, from the initial inputs into a product or service, in the upstream supply chain, to its downstream delivery to end-users, including ultimate disposal, recycling or reuse for physical products.

Q3: Please, rate to what extent do you think DR 2-GR 3 – Key features of the value chain

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered		X				
B. Requires information that is relevant for all sectors (sector-agnostic only information)			X			
C. Can be verified / assured			X			
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements			X			
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

BETTER FINANCE would like to point out that undertakings' operations, products and services are more largely interconnected than only within the value chain. Value chain is defined in Appendix VI as the "full range of activities or processes needed to create a product or service. This includes entities with which the undertaking has a direct or indirect business relationship, both upstream and downstream of its own activities, which either (a) supply products or services that contribute to the organisation's own products or services, or (b) receive products or services from the organisation." This means, that, as an example, where raw materials are needed to produce the hardware or the cloud server on which for example Microsoft products are running, these do not seem to be captured by the value chain. Consequently, these are also not captured by the materiality assessment and thereby its impact on the value of this specific undertaking, even though the Microsoft software is useless without the respective hardware. Undertakings in fact do not operate in silos but are part of an ecosystem that is interconnected whereby risks and opportunities of stakeholders, particularly those in the value chain closer to the undertaking, may eventually become risks and opportunities of the undertaking. Whilst it may be challenging in the beginning to collect information from the value chain, we believe it is necessary. BETTER FINANCE therefore advocates to review and enlarge the scope of the term “value chain” in the mid- to long-term.

DR 2-GR 5 – Using approximations on the disclosure in relation to boundary and value chain

Following the principle on boundaries and value chain of ESRS 1 when the undertaking has used peer group information or sector data to approximate missing data due to impracticability, it shall disclose:

(a) Its basis for preparation for the relevant disclosure and indicators, including the scope for which an approximation has been used; and

(b) The planned actions to reduce missing data in the future.

Q5: Please, rate to what extent do you think DR 2-GR 5 – Using approximations on the disclosure in relation to boundary and value chain

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured			X			
D. Meets the other objectives of the CSRD in term of quality of information					X	
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements			X			
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities					X	

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

The ESRS require to identify metrics an undertaking has disclosed that have a significant estimation uncertainty, as well as to disclose the sources and nature of the estimation uncertainties and the factors affecting the uncertainties. The ISSB on the other hand require providing 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. BETTER FINANCE recommends that also the ESRS – within the limits of competitive law regulations – would require disclosure of methods and inputs.

DR 2-GR 6 – Disclosing on significant estimation uncertainty

Following the principle of estimating under conditions of uncertainty in ESRS 1, the undertaking shall:

(a) identify metrics it has disclosed that have a significant estimation uncertainty, disclose the sources and nature of the estimation uncertainties and the factors affecting the uncertainties, and
(b) identify and disclose the sources of significant uncertainty and the factors affecting these sources of uncertainty when explanations of possible effects of a sustainability factor relate to possible future events about which there is significant outcome uncertainty.

Q6: Please, rate to what extent do you think DR 2-GR 6 – Disclosing on significant estimation uncertainty

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 6/ Not applicable

	1	2	3	4	5	6
J. Requires relevant information about the sustainability matter covered		X				
K. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
L. Can be verified / assured		X				
M. Meets the other objectives of the CSRD in term of quality of information				X		
N. Reaches a reasonable cost / benefit balance					X	
O. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
P. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
Q. Represent information that must be prioritised in first year of implementation			X			
R. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities			X			

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

When metrics cannot be measured directly but can only be estimated, measurement uncertainty arises. From an investor's point of view, not only metrics that have a significant estimation uncertainty may have an impact on his/her own assessment of the value of an undertaking but also those with a reasonable level of uncertainty. We would therefore prefer that this information is already provided in case of a "reasonable level of uncertainty" and recommend changing the Standard in that respect. Like for assumptions, we consider it useful if undertakings were required to also disclose the inputs and methods used for arriving at estimates. This would enable verification by investors. BETTER FINANCE sees a need to inform users about the methodology used to arrive at estimates. It could be, for example, be a more reliable approximation to use an independent external consultant than basing approximations on sampling data from suppliers, clients etc. In any case, further clarity on the assumptions and guidance on the application could benefit investors and other stakeholders alike.

DR 2-GR 7 – Changes in preparation and presentation

Following the principle on changes in preparation or presentation of ESRS 1, the undertaking shall explain changes in preparation and presentation by disclosing:

(a) the description of the methodology used for the restatement,

(b) the difference between the amount reported in the previous period and the revised comparative amount in case of quantitative metrics,

(c) the reasons for the change in reporting policy, and

(d) if it is impracticable to adjust comparative information for one or more prior periods, the undertaking shall disclose this fact and the reason why.

Q7: Please, rate to what extent do you think DR 2-GR 7 – Changes in preparation and presentation

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements				X		
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

DR 2-GR 8 – Prior period errors

Following the principles on errors in ESRS 1, if applicable, the undertaking shall disclose the following for prior period errors:

(a) the nature of prior period errors,

(b) for each prior period disclosed, to the extent practicable, the amount of the corrections, and

(c) if retrospective restatement is impracticable for a particular period, the circumstances that led to the impracticability and a description of how and when the error was corrected.

Q8: Please, rate to what extent do you think DR 2-GR 8 – Prior period errors

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements			X			
H. Represent information that must be prioritised in first year of implementation			X			
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities			X			

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

BETTER FINANCE welcomes that the ESRS require the disclosure of material reporting errors discovered in subsequent periods (ESRS 1, DR 1-3, para. 4.6). This disclosure requirement seems to go beyond the ISSB requirements stipulated in ISSB S1 para. 34. From an investor's point of view, a material error in a previous period may still be an important piece of information especially as sustainability-related disclosure is often considered over a long-term for the investor's assessment of the enterprise value. Despite the lack of alignment, we applaud EFRAG in having included this requirement and consider it as important information that should be kept.

DR 2-GR 9 – On other sustainability reporting pronouncements

The undertaking shall disclose if it also reports in full or in part in accordance with generally accepted sustainability reporting pronouncements of other standard setting bodies and non-mandatory guidance including sector-specific, in addition to its report prepared according to ESRS. It shall disclose if such reporting is included in its sustainability statements.

Q9: Please, rate to what extent do you think DR 2-GR 9 – On other sustainability reporting pronouncements

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered			X			
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

We welcome the requirement for disclosure on the use of other sustainability standards, whether mandatory or non-binding. We however would like to ask EFRAG for guidance what exactly would need to be disclosed by undertakings. Would EFRAG consider it sufficient that the standards that are being used are named or would it be expected to also indicate which parts of the sustainability reporting clearly have been prepared according to other than ESRS standards?

Equally, while the ESRS are designed to meet EU policy objectives, this is not applicable with other reporting standards and initiatives. It would be useful if ESRS encourages explanations on how other disclosures relate with the ESRS as this will create a holistic overview of standards and their interoperability which in turn can better inform investor's decision-making processes and ultimately prevent greenwashing.

DR 2-GR 10 – General statement of compliance

The undertaking shall provide a statement of compliance with ESRS.

The principle to be followed under this disclosure requirement is to inform the users about the compliance with ESRS requirements, following mandated disclosure requirements complemented by entity-specific disclosures.

Q10: Please, rate to what extent do you think DR2-GR 10 – General statement of compliance

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements				X		
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

What is lacking is a statement of non-compliance of certain Disclosure Requirements, e.g. due to transitional exception rules or because disclosure may be considered as being voluntary (see e.g. ESRS 1 para. 93 "decides to disclose"). We consider this information as important for investors and other stakeholders to assess the Standard adherence and the status of the undertaking’s transformation progress.

DR 2-SBM 1 – Overview of strategy and business model

The undertaking shall provide a concise description of its strategy and business model as a context for its sustainability reporting.

The principle to be followed under this disclosure requirement is to provide relevant contextual information necessary to understanding the sustainability reporting of the undertaking. It is therefore a reference point for other disclosure requirements.

Q11: Please, rate to what extent do you think DR 2-SBM 1 – Overview of strategy and business model

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered			X			
B. Requires information that is relevant for all sectors (sector-agnostic only information)			X			
C. Can be verified / assured			X			
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

Alongside the description of a company's value chain, any details concerning the undertaking's strategy and business model would propel investor understanding regarding the company's exposure to any risks and their impacts.

DR 2-SBM 2 – Views, interests and expectations of stakeholders

An undertaking shall describe how the views, interests and expectations of its stakeholders inform the undertaking' strategy and business model.

The principle to be followed under this disclosure requirement is to provide an understanding of how stakeholders' views, interests and expectations are considered for the undertaking's decision and evolution of its strategy and business model.

Q12: Please, rate to what extent do you think DR 2-SBM 2 – Views, interests and expectations of 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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered		X				
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured		X				
D. Meets the other objectives of the CSRD in term of quality of information		X				
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation			X			
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities			X			

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

ESRS 2 requires undertakings to disclose a summary description of its key stakeholders and their views, interests and expectations (DR 2 SBM-2, para. 38). **However, the ESRS do not ask for a description of the stakeholder engagement process**. According to our understanding, this would mean that it is not required to disclose how stakeholders are identified and prioritized, for which areas and how regular stakeholder engagement has been performed, and for what purpose. Also lacking is a requirement to report on the outcome of the stakeholder engagement. Obtaining key stakeholder's opinions and focus areas is however an essential part of the double materiality approach the ESRS pursue as it could assist undertakings to establish the sustainability strategies that suit own development models based on stakeholders' expectations. We therefore see a need to also require undertakings disclosing the description of the stakeholder engagement process and its outcomes.

Currently, information about stakeholder engagement is required under DR S1-2, DR S2-2, DR S3-2 and DR S4-2, where it is subject to the rebuttable presumption approach and therefore not truly binding. The content of these DRs should be integrated into DR 2-SBM2 to make sure that companies really explain how they take stakeholders into account.

DR 2-SBM 3 – Interaction of impacts and the undertaking' strategy and business model

The undertaking shall describe the interaction between its material impacts and its strategy and business model.

The principle to be followed under this disclosure requirement is to provide an understanding of material impacts on people and the environment and the adaptation of its strategy and business model to such material sustainability impacts.

Q13: Please, rate to what extent do you think DR 2-SBM 3 – interaction of impacts and the undertaking' strategy and business model

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured					X	
D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities					X	

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

DR 2-SBM 4 – Interaction of risks and opportunities and the undertaking' strategy and business model

The undertaking shall describe the interaction between its material risks and opportunities and its strategy and business model.

The principle to be followed under this disclosure requirement is to provide an understanding of material risks and opportunities related to sustainability matters that originate from or are connected to the undertaking' strategy and business model and the adaptation of its strategy and business model to such material risks and opportunities.

Q14: Please, rate to what extent do you think DR 2-SBM 4 – interaction of risks and opportunities and the undertaking' strategy and business model

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

DR 2-GOV 1 – Roles and responsibilities of the administrative, management and supervisory bodies

The undertaking shall provide a description of the roles and responsibilities of its governance bodies and management levels with regard to sustainability matters.

The principle to be followed under this disclosure requirement is to provide an understanding of the distribution of sustainability-related roles and responsibilities throughout the undertaking's organisation, from its administrative, management and supervisory bodies to its executive and operational levels, the expertise of its governance bodies and management levels on sustainability matters, and the sustainability-related criteria applied for nominating and selecting their members.

Q15: Please, rate to what extent do you think DR 2-GOV 1 – Roles and responsibilities of the administrative, management and supervisory bodies

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered		X				
B. Requires information that is relevant for all sectors (sector-agnostic only information)		X				
C. Can be verified / assured				X		

D. Meets the other objectives of the CSRD in term of quality of information		X				
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

Undertakings will be required to provide a description of (a) the sustainability-related expertise of the governance body, (b) about training and other educational initiatives and (c) “how it relates to its material sustainability risks, opportunities and impacts.” We would like to receive a clarification of what is meant by (c).

Like standard G1, the standard seems to overlook the general concept of CSRD, i.e., that disclosures shall meet the characteristics of information quality (relevance and faithful representation as well as the enhancing qualities of information, i.e., comparability, verifiability, and understandability). Especially with regard to the enhancing qualities of information, the G1 standard lacks ambition. Based on the information provided, investors will not be able to monitor and verify the actions of the governance bodies nor will they be able to assess and compare them against those of their peers. Furthermore, an understanding of an entity’s governance requires that investors are enabled to understand who is responsible for what, not only in abstract terms but also concretely. DR 2 GOV-1 however contains mainly requirements to publish general/generic information about the relevant governance body/committee with regard to sustainability. In DR 2 GOV-1, for example, there is no distinct requirement to disclose who within the body has sustainability-related expertise, or why a certain member of a governance body had been chosen for appointment nor is it required to disclose the identity of the members of the governance body’s committees or the competence profile for each member. All information could be provided anonymised which would not be sufficiently helpful for investors to verify the information received.

DR 2 GOV-1 when dealing with the nomination process, only require a description of the criteria concerning sustainability applied by the undertaking for nominating and selecting members of its administrative, management and supervisory bodies and other key personnel like e.g., diversity or sustainability-related experience. Missing is, however, how these generic requirements have been put into action in the year under review, i.e., in how far the nomination process has been followed and who has been nominated for which expertise. Any nomination process requires a review of the status quo followed by an intense evaluation of all board members. BETTER FINANCE wonders how an investor or any other stakeholder should be able to understand the role of a governance body, its members’ expertise, and skills without being informed about the outcome of the underlying nomination process. In our view this counteracts the general ESRS concept of information quality.

BETTER FINANCE furthermore wants to reiterate its concerns raised in its answers to the G1 standard. An undertaking's governance forms the basis for its sustainable development. Good governance promotes accountability, transparency, efficiency and rule of law at all levels and allows efficient management of human, natural, economic and financial resources for equitable and sustainable development, guaranteeing civil society participation in decision-making processes.[22] For investors but also for other stakeholders, understanding the governance of a company is crucial as it provides the basis upon which sustainability activities are built and evaluated. Strong corporate governance indicates strong corporate culture, which in turn signals robust long-term resilience. BETTER FINANCE would therefore strongly recommend consolidating all governance-related DR in ESRS 2. Governance-related issues are genuinely cross-cutting and material for all undertakings.

According to CSRD Article 19b para. 1 (a), the Commission shall adopt delegated acts that "at least" specify information corresponding to the needs of financial market participants subject to the disclosure obligations of Regulation (EU) 2019/2088.[23] This information is therefore considered essential. Especially disclosures with regard to climate change have been identified by stakeholders as critical to push the transformation towards a sustainable economy. The transformation of the economy needs to be encompassed by a robust governance of undertakings. We therefore urge EFRAG to give the highest priority to ESRS E1 and ESRS G1. In that context, BETTER FINANCE is very concerned that the G1 standard may be subject to revisions, because of amendments to the final version of Article 29b (2) (c) (i) CSRD, especially the deletion of the word "including" ("The reporting standards shall … specify the information that undertakings are to disclose about the following governance factors: (i) the role of the undertaking's administrative, management and supervisory bodies, ~~including*~~with regard to sustainability matters, and their composition, and their expertise and skills to fulfil this role or access to such expertise and skills"). This may lead to a deletion of standards G3, G5, G6 and maybe also G4 while the remaining standards may be moved to ESRS 2 or left in G1. While we would – as stated above – welcome the integration of G1 into ESRS 2, we would consider the deletion of large parts of the G1 DR as a huge step backwards in the quality of governance reporting.

While disclosure is lacking on <u>outcomes</u>, the whole set of G1 provides a good picture about an undertaking's governance <u>processes.</u> Furthermore, in its current form, ESRS would require undertakings to report on governance topics in the management report only. Such a consolidated reporting is needed, as a respective EU-wide requirement does currently not exist. In Germany, for example, the corporate governance report or the remuneration report do not necessarily have to be included in the management report, leaving the corporate governance information scattered, i.e. difficult to retrieve for investors.[24]

DR 2 - GOV 2 – Information of administrative, management and supervisory bodies about sustainability matters

The undertaking shall describe how its governance bodies are informed about sustainability matters.

The principle to be followed under this disclosure requirement is to provide an understanding of how governance bodies and management level senior executives are informed about sustainability-related facts, decisions and/or concerns that are within their responsibility sio that they can effectively perform their duties in that respect.

Q16: Please, rate to what extent do you think DR 2- GOV 2 – Information of administrative, management and supervisory bodies about sustainability matters

[22] M. Kardos, The reflection of good governance in sustainable development strategies (2012), https://www.sciencedirect.com/science/article/pii/S1877042812045600/pdf?md5=c0e7b3c9eed116ba2525973f65c054d0&pid=1-s2.0-S1877042812045600-main.pdf

[23] CSRD Proposal, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52021PC0189

[24] Article 20 (2) of the Accounting Directive leaves it to Member States to permit the corporate governance statement to be set out either in a separate report published together with the management report OR in a document publicly available on the undertaking's website, to which reference is made in the management report.

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured			X			
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

DR 2 GOV-2 requires undertakings to disclose the process by which the governance bodies are informed about "the sustainability-related perspectives of stakeholders that have an interest in or are affected by the undertaking's activities;" We would like to receive more guidance on how this information shall be verified by investors if only processes are described.

DR 2-GOV 3 – Sustainability matters addressed by the undertaking's administrative, management and supervisory bodies

The undertaking shall provide a description of the sustainability matters that were addressed by its administrative, management and supervisory bodies during the reporting period.

The principle to be followed under this disclosure requirement is to provide information on whether the administrative, management and supervisory bodies were adequately informed of the material sustainability-related impacts, risks and opportunities arising or developing during the reporting period. Equally what information and matters it actually spent time addressing, and whether it was able to fulfil its roles and responsibilities, as defined in its mandate and described under DR 2-GOV 1.

Q17: Please, rate to what extent do you think DR 2- GOV 3 – Sustainability matters addressed by the undertaking's administrative, management and supervisory bodies

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured			X			
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation			X			
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities			X			

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

DR 2 GOV 3 requires undertakings to provide a list of the sustainability matters addressed by its governance bodies during the reporting period and a description of how they were dealt with by the administrative, management and supervisory bodies. BETTER FINANCE would consider it necessary to clarify that this reporting includes disclosure about the number and nature of critical concerns that have been communicated to the governance bodies during the year under review to ensure that the information provided is understandable and verifiable for investors.

DR 2-GOV 4 – Integration of sustainability strategies and performance in incentive schemes

The undertaking shall provide a description of the integration of sustainability strategies and performance in incentive schemes.

The principle to be followed under this disclosure requirement is to provide an understanding of how members of the administrative, management and supervisory bodies are incentivised to properly manage the undertaking' sustainability impacts, risks and opportunities and, along with other employees, to take steps towards implementing the sustainability strategy of the undertaking.

Q18: Please, rate to what extent do you think DR 2- GOV 4 – Integration of sustainability strategies and performance in incentive schemes

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

DR 2 GOV-4 does not include a requirement to disclose how remuneration during the year under review has actually matched sustainability- or climate-related metrics. Also, it would be helpful for investors if undertakings would be required to report on the proportion of variable compensation conditioned to sustainability KPIs in relation to the whole compensation paid or, in the absence of these variable parts, why it is not conditioned. Based on the current disclosure requirements, even when read in conjunction with G1, investors will not be able to thoroughly assess the remuneration policy of (non-executive) board members from an impact or financial perspective. We therefore ask EFRAG to review and amend DR 2 GOV-4 respectively.

DR 2-GOV 5 – Statement on due diligence

The undertaking shall disclose its general assessment regarding how it embeds the core elements of due diligence.

Q19: Please, rate to what extent do you think DR 2- GOV 4 – Integration of sustainability strategies and performance in incentive schemes

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		

D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities					X	

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

DR 2-IRO 1 – Description of the processes to identify material sustainability impacts, risks and opportunities

The undertaking shall provide a description of its processes to identify its sustainability impacts, risks and opportunities and assess which ones are material.

The principle to be followed under this disclosure requirement is to provide information on (i) how the undertaking is organising its identification and assessment and (ii) what is in the scope of its identification and assessment of sustainability matters.

Q20: Please, rate to what extent do you think DR 2-IRO 1 – Description of the processes to identify material sustainability impacts, risks and opportunities

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered			X			
B. Requires information that is relevant for all sectors (sector-agnostic only information)			X			
C. Can be verified / assured			X			
D. Meets the other objectives of the CSRD in term of quality of information		X				
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation			X			

I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities		X				

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

ESRS could benefit from consolidating information on the processes which identify material sustainability impacts. This will not only avoid duplication but also enable users in understanding how materiality assessment has been reflected.

CONSULTATION SURVEY

DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS

38. Adequacy of Disclosure Requirements
    - Environmental standards

April 2022

3B. Adequacy of Disclosure Requirements – Environmental standards

For the purpose of the questions included in this section, respondents are encouraged to consider the following:

- when sharing comments on a given Disclosure Requirement, and as much as possible, reference to the specific paragraphs being commented on should be included in the written comments,
- in the question asked, for each ESRS, about the alignment with international sustainability standards, these include but are not limited to the IFRS Sustainability Standards and the Global Reporting Initiative Standards. Other relevant international initiatives may be considered by the respondents. When commenting on this particular question, respondents are encouraged to specify which international standards are being referred to.

A complete index of Disclosure Requirements and their corresponding Application Guidance can be found in Appendix I – Navigating the ESRS.

DR E1-1 – Transition plan for climate change mitigation

The undertaking shall disclose its plans to ensure that its business model and strategy are compatible with the transition to a climate-neutral economy and with limiting global warming to 1.5 °C in line with the Paris Agreement.

The principle to be followed under this Disclosure Requirement is to provide an understanding of the transition plan of the undertaking and its compatibility with limiting global warming to 1.5°C.

Q23: Please, rate to what extent do you think DR E1-1 – Transition plan for climate change mitigation

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers
For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

We recommend that E1-1 and E1-4 are reviewed against each other as it seems they include partially the same requirements.

Clear requirements for climate transition plans will provide clarity to investors which will in turn help them to improve their decision-making processes. Clear information will help to limit the current widespread greenwashing, and thus provide considerable benefits to investors who integrate ESG considerations into their strategies. The lack of reliable information on climate transition plans, including targets and performance measurement KPIs, undermines the ability of investors to make an informed decision about their investments.

DR E1-2 – Policies implemented to manage climate change mitigation and adaptation

The undertaking shall disclose its policies related to climate change mitigation and its policies related to climate change adaptation.

The principle to be followed under this Disclosure Requirement is to provide an understanding of how the undertaking monitors and manages its GHG emissions, climate-related physical and transition risks and opportunities throughout the value chain.

Q24: Please, rate to what extent do you think DR E1-2 – Policies implemented to manage climate change mitigation and adaptation

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered			X			
B. Requires information that is relevant for all sectors (sector-agnostic only information)			X			
C. Can be verified / assured			X			
D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation			X			
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities			X			

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

DR E1-3 – Measurable targets for climate change mitigation and adaptation

The undertaking shall disclose the climate-related targets it has adopted.

The principle to be followed under this Disclosure Requirement is to provide an understanding of the targets the undertaking has adopted to support its climate change mitigation and adaptation policies and address its material climate-related impacts, risks and opportunities.

Q25: Please, rate to what extent do you think DR E1-3 – Measurable targets for climate change mitigation and adaptation

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements				X		
H. Represent information that must be prioritised in first year of implementation			X			
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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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 and/or financial risks and can have a corresponding impact on investment decisions. BETTER FINANCE therefore welcomes the requirements for the reduction of GHG emission targets which seem to be comprehensive to us. We welcome especially the supplementary information provided in the tables (E1-3, para. 24) as they will help undertakings to better understand the requirements for disclosure of GHG emission targets. BETTER FINANCE considers it very important that GHG targets are required to be science-based, in line with 1,5 C and need to be disclosed in absolute and relative (intensity) values for Scope 1-3 although we would favor if a separate disclosure per scope would be required by E1-3. Given that also Scope 3 emissions are required to be disclosed which may be difficult to retrieve for undertakings, we consider that at least for Scope 3 emissions a prioritization for the first reporting year is not necessary.

DR E1-4 – Climate change mitigation and adaptation action plans and resources

The undertaking shall disclose its climate change mitigation and adaption action plans and the resources allocated for their implementation.

The principle to be followed under this Disclosure Requirement is to provide transparency on the key actions taken and planned to achieve climate-related targets and to manage GHG emissions, transition and physical risks and opportunities, supporting the understanding of achieved performance improvements and the credibility of the undertaking's policies, strategy and business model with regards to climate change.

Q26: Please, rate to what extent do you think DR E1-4 – Climate change mitigation and adaptation action plans and 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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

We recommend that E1-1 and E1-4 are reviewed against each other as it seems they include partially the same requirements.

DR E1-7 – Scope 1 GHG emissions

The undertaking shall disclose its gross Scope 1 GHG emissions in metric tons of CO_2 equivalent.

Q29: Please, rate to what extent do you think DR E1-7 – Scope 1 GHG emissions

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements		X				
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

While ISSB standard S2 requires the separate disclosure of Scope 1 and 2 emissions for consolidated accounting groups, associates, joint ventures, and subsidiaries/affiliates, the ESRS only require the disclosure of gross Scope 1 and 2 emissions. To identify where the major contributions to GHG emissions stem from within a group, BETTER FINANCE considers the ISSB approach to provide more precise and meaningful information for investors.

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

DR E1-8 – Scope 2 GHG emissions

The undertaking shall disclose its gross indirect energy Scope 2 GHG emissions in metric tons of CO_2 equivalent.

The principle to be followed under this Disclosure Requirement is to provide an understanding of the indirect impacts on climate change caused by the undertaking's consumed energy whether externally purchased or acquired.

Q30: Please, rate to what extent do you think DR E1-8 – Scope 2 GHG emissions

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements		X				
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

While ISSB standard S2 requires the separate disclosure of Scope 1 and 2 emissions for consolidated accounting groups, associates, joint ventures, and subsidiaries/affiliates, the ESRS only require the disclosure of gross Scope 1 and 2 emissions. To identify where the major contributions to GHG emissions stem from within a group, BETTER FINANCE considers the ISSB approach to provide more precise and meaningful information for investors.

DR E1-9 – Scope 3 GHG emissions

The undertaking shall disclose its gross indirect Scope 3 GHG emissions in metric tons of CO_2 equivalent.

The principle to be followed under this Disclosure Requirement is to provide an understanding of the GHG emissions that occur in the undertaking's value chain beyond its Scope 1 and 2 GHG emissions. For many undertakings Scope 3 GHG emissions are the main component of the GHG inventory and an important driver of their transition risks.

Q31: Please, rate to what extent do you think DR E1-9 – Scope 3 GHG emissions

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured			X			

	1	2	3	4	5	6
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements			X			
H. Represent information that must be prioritised in first year of implementation			X			
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities			X			

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

While ISSB standard S2 requires undertakings to disclose Scope 3 emissions, ESRS require such disclosure only for Scope 3 emissions from “significant Scope 3 categories” (ESRS E1 para. 45). To identify where the major contributions to GHG emissions stem from within a group, BETTER FINANCE considers the ISSB approach to provide more precise and meaningful information for investors.

DR E1-10 – Total GHG emissions

The undertaking shall disclose its total GHG emissions in metric tons of CO_2 equivalent.

The principle to be followed under this Disclosure Requirement is to provide an overall understanding of the undertaking’s GHG emissions and whether they occur from its own operations or the value chain. The disclosure is a prerequisite for measuring progress towards reducing GHG emissions in accordance with the undertaking’s climate-related targets and EU policy goals as well as for the assessment of the undertaking’s transition risks.

Q32: Please, rate to what extent do you think DR E1-10 – Total GHG emissions

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered		X				
B. Requires information that is relevant for all sectors (sector-agnostic only information)		X				
C. Can be verified / assured		X				
D. Meets the other objectives of the CSRD in term of quality of information		X				
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation				X		

I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

We wonder why there is a separate disclosure requirement for the total GHG emissions while E1-7-9 require disclosure of Scope 1, 2 and 3 emissions separately and therefore recommend deleting E1-10.

While understanding that a further extension of the double materiality approach may not be feasible under a cost-benefit analysis at this stage, BETTER FINANCE would like to point out that undertakings' operations, products and services are more largely interconnected than only within the value chain. Value chain is defined in Appendix VI as the "full range of activities or processes needed to create a product or service. This includes entities with which the undertaking has a direct or indirect business relationship, both upstream and downstream of its own activities, which either (a) supply products or services that contribute to the organisation's own products or services, or (b) receive products or services from the organisation." This means, that, for example, where raw materials are needed to produce the hardware or the cloud server on which for example Microsoft products are running, these do not seem to be captured by the value chain. Consequently, these are also not captured by the materiality assessment and thereby its impact on the enterprise value of this specific undertaking, even though the Microsoft software is useless without the respective hardware. Undertakings in fact do not operate in silos but are part of an ecosystem that is interconnected whereby risks and opportunities of stakeholders, particularly those in the value chain closer to the undertaking, may eventually become risks and opportunities of the undertaking. Whilst it may be challenging in the beginning to collect information from the value chain, we believe it is necessary. BETTER FINANCE therefore advocates to review and enlarge the scope of the term "value chain" in the mid- to long-term.

DR E5-1 – Policies implemented to manage resource use and circular economy

The undertaking shall disclose separately its policies (i) to decouple economic activity from extraction of non-renewable resources and (ii) for regeneration of renewable resources and ecosystems.

The principle to be followed under this Disclosure Requirement is to provide an understanding of the undertaking's ability to transition away from extraction of virgin non-renewable resources and to implement practices that secure and contribute to the regeneration of the stock of renewable resources and the ecosystems they are part of.

Q64: Please, rate to what extent do you think DR E5-1 – Policies implemented to manage resource use and circular economy

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)			X			

C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation			X			
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

BETTER FINANCE strongly welcomes the inclusion of reporting obligations on policies for circular economy (CE) in the standards as there is still an absence of standardized reporting principles and procedures for publishing progress on circularity. As the EU Commission in its Circular Economy Action Plan (CEAP) 2020 rightly states, "There is only one planet Earth, yet by 2050, the world will be consuming as if there were three[25] . Global consumption of materials such as biomass, fossil fuels, metals and minerals is expected to double in the next forty years[26], while annual waste generation is projected to increase by 70% by 2050." Scaling up the circular economy is therefore needed to make a decisive contribution to achieving climate neutrality by 2050 and decoupling economic growth from resource use, while ensuring the long-term competitiveness of the EU and its companies. To that end, the growing demand from companies to implement CE strategies requires mandatory and standardized reporting standards.

Academic research stresses that "in order to monitor and prevent rebound effects from the implementation of CE strategies and subsequent greenwashing, it is imperative for companies to be transparent regarding the assessment and reporting of progress on circularity. This could be achieved through the use of quantitative metrics as well as qualitative evaluation approaches"[27]

Getting this standard right, however, starts with the definition of "circular economy". BETTER FINANCE notes that currently, the ESRS define "circular economy" in different ways.

- "Economic system that uses a systemic approach to maintain a circular flow of resources, by regenerating, retaining or adding to their value, while contributing to sustainable development" (Appendix VI, Glossary and ESRS E5, Appendix)
- "Circular economy is a restorative system in which waste and pollution are eliminated and resource use is minimised through systemic design, maintaining and improving the value of products and components and achieving a circular flow of resources, while regenerating natural ecosystems." (ESRS E5-Objective)

[25] EU Commission Circular Economy Action Plan 2020: https://eurlex.europa.eu/resource.html?uri=cellar:9903b325-6388-11ea-b73501aa75ed71a1.0017.02/DOC_1&format=PDF

[26] OECD (2018), Global Material Resources Outlook to 2060

[27] K. Opferkuch, S. Caeiro, R. Salomone T. B. Ramos (2020), "Circular economy in corporate sustainability reporting: A review of organisational approaches", https://onlinelibrary.wiley.com/doi/pdfdirect/10.1002/bse.2854

Apart from that, BETTER FINANCE notes that the definitions used in the ESRS seem to be narrower than that defined in Article 2 (9) of the Taxonomy Regulation:

- "'circular economy' means an economic system whereby the value of products, materials and other resources in the economy is maintained for as long as possible, enhancing their efficient use in production and consumption, thereby reducing the environmental impact of their use, minimising waste and the release of hazardous substances at all stages of their life cycle, including through the application of the waste hierarchy;"[28]

BETTER FINANCE recommends aligning the definitions used within the ESRS and extend 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.

[28] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32020R0852

CONSULTATION SURVEY

DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS

3C. Adequacy of Disclosure Requirements
- Social standards

April 2022

Open for comments until 8 August 2022

PTF-ESRS
Project Task Force on European sustainability reporting standards

EFRAG

3C. Adequacy of Disclosure Requirements – Social standards

For the purpose of the questions included in this section, respondents are encouraged to consider the following:

- when sharing comments on a given Disclosure Requirement, and as much as possible, reference to the specific paragraphs being commented on should be included in the written comments,
- in the question asked, for each ESRS, about the alignment with international sustainability standards, these include but are not limited to the IFRS Sustainability Standards and the Global Reporting Initiative Standards. Other relevant international initiatives may be considered by the respondents. When commenting on this particular question, respondents are encouraged to specify which international standards are being referred to.

A complete index of Disclosure Requirements and their corresponding Application Guidance can be found in Appendix I – Navigating the ESRS.

DR S1-1 – Policies relate to own workforce

The undertaking shall state its policies that address the management of its material impacts on own workforce, as well as associated material risks and opportunities; and provide a summary of the content of the policies and how they are communicated.

The principle to be followed under this Disclosure Requirement is to provide an understanding of the extent to which the undertaking has policies that address the identification, assessment, management and/or remediation of material impacts on the undertaking's own workforce specifically, as well as policies that cover impacts, risks and opportunities in one policy. It also aims to provide an understanding of how both the internal organisation, and the workers whose interests they address, are made aware of their existence and content.

Q73: Please, rate to what extent do you think S1-1 – Policies relate to own workforce

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information					X	
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation			X			
G. Is as aligned as possible to international sustainability standards given the CSRD requirements			X			
H. Represent information that must be prioritised in first year of implementation					X	
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities					X	

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

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 EFRAG to provide guidance that – in line with the Whistleblower Directive – these groups of persons are also covered by the ESRS.

For part G, please explain how you think further alignment could be reached

We note that while the GRI Standards have established a "control of work" concept, i.e., including all employees/workers whose work an undertaking controls, the ESRS cover employees/workers who are either individuals with contracts with the undertaking to supply labour ('self-employed workers') or workers provided by undertakings primarily engaged in 'employment activities'. This is a clear misalignment with GRI which may lead to reporting difficulties and inconsistencies of reporting among companies.

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

The Exposure Drafts on social aspects (S1-S7) cover a broad range of social responsibility and human rights issues including equality and non-discrimination, forced and child labor, collective bargaining and freedom of association, or grievance mechanisms for workers. The level of detail required in reporting will be granular, including, for example, information about non-employees/workers in the value chain (ESRS S2). We expect that many undertakings will have to establish new internal data collection and verification processes, and work closely with social audit firms, to ensure complete and accurate reporting on these issues as relevant facts for these disclosures may often lie outside of the EU and across companies' global operations. BETTER FINANCE wants, as a general remark, to point to the fact that there is not yet a Social Taxonomy in place on which ESRS could build.[29] Therefore we consider it of utmost importance that sufficient guidance is provided for undertakings to ensure that reporting quality remains high and comprehensive and represented in a fair way to investors.

In the Objective section 2 (b) (vii) we believe that access to equal opportunities shall include non-discrimination on the base of gender, racial or ethnic origin, nationality, religion or belief, disability, age or sexual orientation. We recommend adapting the wording accordingly.

DR S1-1, para. 18 requires reporting on the undertaking's human rights policy commitments that are relevant to own workforce. In going beyond this objective, undertakings shall state commitments that address respect for the human rights of all stakeholders (para. 18 (a)). We consider that this commitment is better placed in the cross-cutting standards ESRS 2[30] than in the standard covering own workforce. The main reason for this being is that this is key information which should not be subject to an undertaking's materiality assessment.

The very same paragraph 18 requires addressing engagement with affected stakeholders about the human rights policy. As we already pointed out in our reply to DR 2 SBM-2, para. 38, here, too, it is not required to disclose how stakeholders are identified and prioritized, for which areas or how regular stakeholder engagement has been performed, and for what purpose. Also lacking is a requirement to report on the outcome of the stakeholder engagement. Obtaining key stakeholder's opinions and focus areas is however an essential part of the double materiality approach the ESRS pursue as it could assist undertakings to establish the sustainability strategies that suit own development models based on stakeholders' expectations.

[29] The Platform for Sustainable Finance has published its Final Report on the Social Taxonomy on 23 February, https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/280222-sustainable-finance-platform-finance-report-social-taxonomy.pdf

[30] Cross cutting standards in ESRS 2, Disclosure Requirement 2-GOV 5 Statement on due diligence

DR S1-1 para. 22 relates to the disclosure about the lack of a human rights policy and states that an undertaking "may report a timeframe in which it aims to have such policy or objectives in place". All companies have a responsibility to respect human rights. BETTER FINANCE therefore deems it important that companies that have not yet developed a human rights policy are more strongly encouraged to do so. We therefore recommend replacing the word "may" by "should".

DR S1-7 – Characteristics of the undertaking's employees

The undertaking shall describe key characteristics of employees in its own workforce

The principle to be followed under this Disclosure Requirement is, in conjunction with Disclosure Requirement ESRS S1-8, to provide insight into the undertaking's approach to employment, including the scope and nature of impacts arising from its employment practices, to provide contextual information that aids an understanding of the information reported in other disclosures, and to serve as the basis for calculation for quantitative metrics to be disclosed under other Disclosure Requirements in this Standard, in particular on Working Conditions, Equal Opportunities and Other Work-Related Rights.

Q79: Please, rate to what extent do you think S1-7 – Characteristics of the undertaking's employees

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

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

We consider the application of two thresholds in ESRS S1-7, para. 51 (50 employees and 10% of employees) as confusing. Furthermore, guidance is needed to understand how the ESRS expect the 10% to be calculated and whether the breakdowns cover EU countries only or all countries.

DR S1-9 – Training and skills development indicators

The undertaking shall disclose the extent to which training and development is provided to its own workforce.

The principle to be followed under this Disclosure Requirement is to provide an understanding of the training and skills development-related activities that have been offered to own workers, within the context of continuous professional growth, to upgrade own workers' skills and facilitate continued employability.

Q81: Please, rate to what extent do you think S1-9 – Training and skills development indicators

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation			X			
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

S1-8 requires disclosure of the extent to which training, and development is provided to its own workforce. BETTER FINANCE recommends that breakdowns required by para. 57 (a) to (c) also include a breakdown by gender in line with the equal opportunities' objective of the ESRS. According to the 2022 report on gender equality in the EU[31], "women's representation in corporate leadership is improving, but progress remains painfully slow and there are notable differences between Member States." While the employment rate of women has decreased, under the impact of the COVID-19 crisis, slightly less than that of men, significant gender differences persist. In 2020, the employment rate of women (age 20-64) went down to 66.9%,

[31] https://ec.europa.eu/info/sites/default/files/aid_development_cooperation_fundamental_rights/2022_report_on_gender_equality_in_the_eu_en.pdf

0.5 pps lower than in 2019, while for men it decreased to 78%, 0.9 pps below its value in the previous year.[32] Disaggregating data by gender is therefore crucial to support closing the gender gap.

DR S1-13 – Work-life balance indicators

The undertaking shall disclose to which extent the employees are entitled to and make use of family-related leaves.

The principle to be followed under this Disclosure Requirement is to provide an understanding of the actual practices amongst the employees to take family-related leave in a gender equitable manner.

Q85: Please, rate to what extent do you think S1-13 – Work-life balance indicators

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation			X			
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation			X			
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities					X	

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

We consider it necessary to review this disclosure requirement against the Directive on work-life balance for parents and carers[33] as this Directive also seems to cover the right to request flexible working arrangements for workers who are parents or carers which in that case would be the minimum, the ESRS should also require to report on.

For part G, please explain how you think further alignment could be reached

[32] Proposal for a joint employment report from the Commission and the Council (2021), https://ec.europa.eu/info/sites/default/files/economy-finance/2022_european_semester_proposal_for_a_joint_employment_report_0.pdf

[33] Directive (EU) 2019/1158 of the European Parliament and of the Council of 20 June 2019 on work-life balance for parents and carers and repealing Council Directive 2010/18/EU, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32019L1158

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

Supplementing our comment on part F (above), BETTER FINANCE considers that the work-life balance concept of ESRS and that of the Directive on work-life balance are too narrow as both seem to focus only on the entitlement to family-related leaves. Other factors however may also impact the work-life balance, for example commuting time, ability to work remotely, night/weekend work. BETTER FINANCE understands, however, that the respective data may be hard to collect and to reconcile but considers it important to widen the concept at a later stage, when reporting disclosure has evolved among undertakings.

DR S1-14 – Fair remuneration

The undertaking shall disclose information on the remuneration of its lowest-paid own workers.

The principle to be followed under this Disclosure Requirement is to provide an understanding of whether all of an undertaking's own workers are earning a fair wage, and, if this is not the case, an understanding of what percentage of own workers are earning less than a fair wage.

Q86: Please, rate to what extent do you think S1-14 – Fair remuneration

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation					X	
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

See our comment to S1-9. Disaggregating data by gender is crucial to support closing the gender pay gap and would support the reporting requirement in S1-16.

DR S1-15 – Social security eligibility coverage

The undertaking shall disclose the percentage of its own workers eligible for social security.

The principle to be followed under this Disclosure Requirement is to understand whether there are own workers of the undertaking that are not eligible for social security and, as a result, are especially vulnerable to major social risks.

Q87: Please, rate to what extent do you think S1-15 – Social security eligibility coverage

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation					X	
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

See our comment to S1-9. Disaggregating data is important to support closing the gender gap.

DR S1-16 – Pay gap between women and men

The undertaking shall disclose the percentage gap in pay between women and men.

The principle to be followed under this Disclosure Requirement is to provide an understanding of the extent of any gap in the pay between women and men amongst the undertaking's employees.

Q88: Please, rate to what extent do you think S1-16 – Pay gap between women and men

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered			X			
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation			X			
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

To report a global figure on any gender pay gap does not seem to be meaningful as a potential pay gap may differ between countries the undertaking operates in and/or positions of workers/employees within the organization. BETTER FINANCE therefore argues for the disclosure of more granular data, for example by employee/workers category and country which will support closing the gender pay gap.

DR S1-17 – Annual total compensation ration

The undertaking shall disclose the ratio between the compensation of its highest paid individual and the median compensation for its employees.

The principle to be followed under this Disclosure Requirement is to provide an understanding of the level of compensation inequality inside the undertaking, whether wide pay disparities exist and how such disparities have evolved over time.

Q89: Please, rate to what extent do you think S1-17 – Annual total compensation ration

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered			X			
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation			X			
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

The calculation of executive compensation is a complex exercise. Regarding the total compensation ratio, it starts with the identification of the "median employee". Undertakings may choose statistical sampling, reasonable estimates or just use pieces of compensation that are easily identifiable (e.g., the payrolls). The calculation method in addition may change from year to year. From an investor's viewpoint, to make an assessment, the following information would be required to be reported by undertakings: Which calculation method has been chosen to calculate the total compensation ratio and is it substantially identical to the rules for calculating sums provided in director compensation disclosures? Have the underlying calculation methods changed compared to the previous year, and if so how and why? BETTER FINANCE furthermore wonders, why in S1-17 the remuneration to be reported is based on the median annual total compensation of all employees and why workers are excluded from this requirement. We recommend aligning this disclosure requirement with others in this draft.

DR S1-21 – Grievances and complaints related to other work-related rights

The undertaking shall state the number of grievances and complaints received and resolved relating to workers' other work-related rights.

The principle to be followed under this Disclosure Requirement is to provide an understanding of the undertaking's grievance mechanism or channel. This is the mechanism or channel through which those workers whose other work-related rights are impacted by the undertaking are able to lodge a concern or complaint, and that can provide access to remedy by resolving those complaints. Furthermore, it is to provide an understanding of the number of complaints raised and resolved at National Contact Points for OECD Multinationals.

Q93: Please, rate to what extent do you think S1-21 – Grievances and complaints related to other work-related rights

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation			X			
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

DR S1-3 requires undertakings to report about channels they have in place for own workers/workers' representatives to raise concerns or needs directly with the undertaking. This shall be disclosed in addition to any other mechanisms an undertaking may use to gain insight into the management of impacts on workers, such as compliance audits (AG 44) and it should be explained whether it operates the channels itself or participates in any third-party grievance mechanisms (AG 45). While internal reporting often is the best way to get information to people within an undertaking's organization that can contribute to an early and effective solution, sometimes there may be a need for affected persons to report concerns externally. Also, the Whistleblower Directive (WD) has acknowledged this concept and covers reporting also through external reporting channels. BETTER FINANCE therefore welcomes that DR S1-21 requires not only disclosure of the number of complaints and grievances filed through internal grievance mechanisms but also those raised to National Contact Points for the OECD Multinational Enterprises.

BETTER FINANCE however wonders why only complaints raised to such National Contact Points shall be reported, especially as not all EU Member States have adhered to the OECD National Contact Point Guidelines for Multinational Enterprises (yet). In addition to a potential restricted availability of such National Contact Points in certain Member States and also outside the EU, employees may use other external players (regulators, state prosecutors, trade unions…) to report complaints or grievances. We therefore recommend requiring undertakings to report the number of complaints raised/resolved to National Contact Points for the OECD Multinational Enterprises or to any other external party of which the undertaking was informed during the reporting year.

We also note that a comparable requirement is not included in ESRS S2 meaning that value chain workers' complaints or grievances would not have to be reported. We would like to suggest adding a respective reporting requirement at a later stage to the standards.

DR S2-1 - Policies related to value chain workers

The undertaking shall state its policies that address the management of its material impacts on value chain workers, as well as associated material risks and opportunities; and provide a summary of the content of the policies and how they are communicated.

The principle to be followed under this Disclosure Requirement is to provide an understanding of the extent to which the undertaking has policies that address the identification, assessment, management and/or remediation of material impacts on value chain workers specifically, as well as policies that cover material risks or opportunities related to value chain workers, or policies that cover impacts, risks and opportunities in one policy. It also aims to provide an understanding of how both the internal organisation, and the value chain workers whose interests they address, are made aware of their existence and content.

Q99: Please, rate to what extent do you think S2-1 – Policies related to value chain workers

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered		X				
B. Requires information that is relevant for all sectors (sector-agnostic only information)		X				
C. Can be verified / assured			X			
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation		X				
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities		X				

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached
Please share any comment and suggestion for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment to

The Exposure Drafts on social aspects (S1-S7) cover a broad range of social responsibility and human rights issues including equality and non-discrimination, forced and child labor, collective bargaining and freedom of association, or grievance mechanisms for workers. The level of detail required in reporting will be granular, including, for example, information about non-employees/workers in the value chain (ESRS S2). We expect that many undertakings will have to establish new internal data collection and verification processes, and work closely with social audit firms, to ensure complete and accurate reporting on these issues as relevant facts for these disclosures may often lie outside of the EU and across companies' global operations. BETTER FINANCE wants, as a general remark, to point to the fact that there is not yet a Social Taxonomy in place on which ESRS could build.[34] Therefore we consider it of utmost importance that sufficient guidance is provided to undertakings to ensure that reporting quality remains high and comprehensive and represented in a fair way to investors.

In the Objective section 2 (b) we believe that any material actual and potential impacts on value chain workers shall refer to non-discrimination. We recommend adapting the wording accordingly.

DR S2-1, para. 11 requires reporting on the undertaking's human rights policy commitments that are relevant to value chain workers. In going beyond this objective, undertakings shall state commitments that address respect for the human rights of all stakeholders (para. 18 (a)). We consider that this commitment is better placed in the cross-cutting standards ESRS 2[35] than in the standard covering value chain workers. The main reason for this being that this is key information which should not be subject to an undertaking's materiality assessment.

The very same paragraph 18 requires addressing engagement with affected stakeholders about the human rights policy. As we already pointed out in our replies to DR 2 SBM-2, para. 38 and DR S1-1, here, too, it is not required to disclose how stakeholders are identified and prioritized, for which areas or how regular stakeholder engagement has been performed, and for what purpose. Also lacking is a requirement to report on the outcome of the stakeholder engagement. Obtaining key stakeholder's opinions and focus areas is however an essential part of the double materiality approach the ESRS pursue as it could assist undertakings to establish the sustainability strategies that suit own development models based on stakeholders' expectations.

DR S2-1 para. 17 relates to the disclosure about the lack of a human rights policy or objectives and states that an undertaking "may report a timeframe in which it aims to have such policy or objectives in place". All companies have a responsibility to respect human rights. BETTER FINANCE therefore deems it important that companies that have not yet developed a human rights policy are encouraged to do so. We therefore recommend replacing the word "may" by "should".

DR S3-1 – Policies related to affected communities

The undertaking shall state its policies that address the management of its material impacts on communities, as well as associated material risks and opportunities; and provide a summary of the content of the policies and how they are communicated.

[34] The Platform for Sustainable Finance has published its Final Report on the Social Taxonomy on 23 February, https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/280222-sustainable-finance-platform-finance-report-social-taxonomy.pdf

[35] Cross cutting standards in ESRS 2, Disclosure Requirement 2-GOV 5 Statement on due diligence

The principle to be followed under this Disclosure Requirement is to provide an understanding of the extent to which the undertaking has policies that address the identification, assessment, management and/or remediation of material impacts on local communities specifically, as well as policies that cover material risks or opportunities related to affected communities, or policies that cover impacts, risks and opportunities in one policy. It also aims to provide an understanding of how both the internal organisation, and the local communities whose interests they address, are made aware of their existence and content.

Q105: Please, rate to what extent do you think S3-1 – Policies related to affected communities

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured			X			
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached
Please share any comment and suggestion for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment to

See out comment to S1-1.

DR S3-3 – Channels for affected communities to raise concerns

The undertaking shall describe:

(a) the channels it has in place for affected communities to raise their concerns or needs directly with the undertaking; and/or

(b) the processes through which the undertaking supports the availability of such channels by its business relationships; and

(c) how it monitors issues raised and addressed.

The principle to be followed under this Disclosure Requirement is to provide an understanding of the formal means by which affected communities can make their concerns and needs known directly to the undertaking, and/or through which the undertaking supports the availability of mechanisms by its business relationships, how there is follow up with these communities regarding the issues raised, and the effectiveness of these channels.

Q107: Please, rate to what extent do you think S3-3 – Channels for affected communities to raise concerns

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured			X			
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation			X			
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities			X			

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

See our comments to S1-1.

DR S4-1 – Policies related to consumers and end-users

The undertaking shall state its policies that address the management of its material impacts of its products and/or services on consumers and end-users, as well as associated material risks and opportunities; and provide a summary of the content of the policies and how they are communicated.

The principle to be followed under this Disclosure Requirement is to provide an understanding of the extent to which the undertaking has policies that address the identification, assessment, management and/or remediation of impacts on consumers and end-users specifically, as well as policies that cover material risks or opportunities related to consumers and end-users, or policies that cover impacts, risks and opportunities in one policy. It also aims to provide an understanding of how both the internal organisation, and the consumers and end-users whose interests they address, are made aware of their existence and content.

Q111: Please, rate to what extent do you think S4-1 – Policies related to consumers and end-users

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured			X			
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities			X			

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached
Please share any comment and suggestion for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment to

DR S4-3 – Channels for consumers and end-users to raise concerns

The undertaking shall describe:

(a) the channels it has in place for consumers and end-users to raise their concerns/complaints or needs directly with the undertaking; and/or

(b) the processes through which the undertaking supports the availability of mechanisms by its business relationships; and

(c) how it monitors issues raised and addressed.

The principle to be followed under this Disclosure Requirement is to provide an understanding of the formal means by which consumers and end-users can make their concerns and needs known directly to the undertaking and/or through which the undertaking supports the availability of mechanisms by its business relationships, how there is follow up with these consumers and end-users regarding the issues raised, and the effectiveness of these channels.

Q113: Please, rate to what extent do you think S4-3 – Channels for consumers and end-users to raise concerns

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured			X			
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation			X			
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities			X			

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

See our comments to S1-1.

CONSULTATION SURVEY

DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS

3D. Adequacy of Disclosure Requirements
- Governance standards

April 2022

Open for comments until 8 August 2022

PTF-ESRS
Project Task Force on European sustainability reporting standards

EFRAG

3D. Adequacy of Disclosure Requirements – Governance standards

For the purpose of the questions included in this section, respondents are encouraged to consider the following:

- when sharing comments on a given Disclosure Requirement, and as much as possible, reference to the specific paragraphs being commented on should be included in the written comments,
- in the question asked, for each ESRS, about the alignment with international sustainability standards, these include but are not limited to the IFRS Sustainability Standards and the Global Reporting Initiative Standards. Other relevant international initiatives may be considered by the respondents. When commenting on this particular question, respondents are encouraged to specify which international standards are being referred to.

A complete index of Disclosure Requirements and their corresponding Application Guidance can be found in Appendix I – Navigating the ESRS.

DR G1-1 – Governance structure and composition

The undertaking shall provide information on its governance structure and composition.

The principle to be followed under this Disclosure Requirement is to provide an understanding of the structure and composition of the governance and the distribution of roles and responsibilities throughout the undertaking's organisation, from its administrative, management and supervisory bodies to its executive and operational levels.

Q117: Please, rate to what extent do you think G1-1 – Governance structure and composition

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered		X				
B. Requires information that is relevant for all sectors (sector-agnostic only information)		X				
C. Can be verified / assured			X			
D. Meets the other objectives of the CSRD in term of quality of information		X				
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation			X			
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities			X			

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

An undertaking's governance forms the basis for its sustainable development. Good governance promotes accountability, transparency, efficiency and rule of law at all levels and allows efficient management of human, natural, economic and financial resources for equitable and sustainable development, guaranteeing civil society participation in decision-making processes.[36] For investors but also for other stakeholders, understanding the governance of a company is crucial as it provides the basis upon which sustainability activities are built and evaluated. Strong corporate governance indicates strong corporate culture, which in turn signals robust long-term resilience. BETTER FINANCE would therefore strongly recommend consolidating all governance-related DR in ESRS 2. Governance-related issues are genuinely cross-cutting and material for all undertakings.

According to CSRD Article 19b para. 1 (a), the Commission shall adopt delegated acts that "at least" specify information corresponding to the needs of financial market participants subject to the disclosure obligations of Regulation (EU) 2019/2088.[37] This information is therefore considered essential. Especially disclosures with regard to climate change have been identified by stakeholders as critical to push the transformation towards a sustainable economy. The transformation of the economy needs to be encompassed by a robust governance of undertakings. We therefore urge EFRAG to give the highest priority to ESRS E1 and ESRS G1. In that context, BETTER FINANCE is very concerned that the G1 standard may be subject to revisions, because of amendments to the final version of Article 29b (2) (c) (i) CSRD, especially the deletion of the word "including" ("The reporting standards shall … specify the information that undertakings are to disclose about the following governance factors: (i) the role of the undertaking's administrative, management and supervisory bodies, ~~including*~~with regard to sustainability matters, and their composition, and their expertise and skills to fulfil this role or access to such expertise and skills"). This may lead to a deletion of standards G3, G5, G6 and maybe also G4 while the remaining standards may be moved to ESRS 2 or left in G1. While we would – as stated above – welcome the integration of G1 into ESRS 2, we would consider the deletion of large parts of the G1 DR as a huge step backwards in the quality of governance reporting. While disclosure is lacking on outcomes, the whole set of G1 provides a good picture about an undertaking's governance processes. Furthermore, in its current form, ESRS would require undertakings to report on governance topics in the management report only. Such a consolidated reporting is needed, as a respective EU-wide requirement does currently not exist. In Germany, for example, the corporate governance report or the remuneration report do not necessarily have to be included in the management report, leaving the corporate governance information scattered, i.e., difficult to retrieve for investors.[38]

Objective: Missing in G1 is a standard on the responsibilities of the (annual) shareholders meeting (AGM) which is most often an important governance body of an undertaking. Regulation on the competencies of an AGM differ from Member State to Member State -also depending on the board structure (two-tier vs. one-tier). For example, in Germany, the Boards need to be discharged annually by the AGM while this is not the case in France. Another example is that a vote on the sustainability report is required in Spain but not in Germany.

[36] M. Kardos, The reflection of good governance in sustainable development strategies (2012), https://www.sciencedirect.com/science/article/pii/S1877042812045600/pdf?md5=c0e7b3c9eed116ba2525973f65c054d0&pid=1-s2.0-S1877042812045600-main.pdf

[37] CSRD Proposal, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52021PC0189

[38] Article 20 (2) of the Accounting Directive leaves it to Member States to permit the corporate governance statement to be set out either in a separate report published together with the management report OR in a document publicly available on the undertaking's website, to which reference is made in the management report.

Users of the sustainability report could find information on the competencies of the AGM helpful. To cover this topic, either the definition of "(highest) governance body" could be changed to include also the AGM or another standard dealing with this topic could be introduced.

Objective: Related party transactions (RPT) may undermine the functioning of an undertaking's corporate governance as such transactions may compromise the independence of one or more governance body members. Disclosure of RPT provides transparency on how an undertaking's financial and non-financial position and performance may be affected by transactions with related parties, which may or may not be conducted on an arm's length basis. SRD II for example leaves it to the MS to devise a quantitative threshold for RPT and tailor it to local conditions. It would be helpful for users of the sustainability report to understand what is considered a related party, how the (highest) governance body has dealt with RPT, where they have occurred during the reporting period and whether a fairness opinion has been obtained from a third party. Certain information on this already needs to be provided under IAS 24 and SRD II but it is deemed helpful to also include at least a reference to this information in the sustainability report. Any such requirement could be included either as a separate standard (preferably) or in Appendix B.

G1-1, para. 14 (d) requires the disclosure of the independence of members. First of all, we consider it necessary for undertakings to have a "two-tier" corporate governance to include a clarification that the independence criterion, which is a core element of good corporate governance, is required only for members of the supervisory/administrative body and not for management/executive board members. AG 5 (a) provides some guidance on the term "independence" which is however rather vague (" the absence of an interest, position, association or relationship which, when judged from the perspective of a reasonable and informed third party, is likely to influence unduly or cause bias in decision-making") and leaves too much room for interpretation. Moreover, independence criteria established in various markets may differ. BETTER FINANCE therefore considers it important to improve guidance on the term independence.

G1-1 para. 14 (g) requires disclosure on "representation of stakeholder groups". This term does not appear in ESRS 1 or 2 nor is a guidance provided in Appendix VI. Here again, we understand that this information is required for non-executive board members (supervisory/administrative body) only and ask for further clarification in that respect. Moreover, we wonder why only the representation of stakeholder groups needs to be disclosed. It is unclear to us, how this information is important for investors to make their assessment unless this disclosure is deemed to reveal potential conflicts of interest. If that is the intention of this disclosure requirement, we ask for widening the scope to "representation of any third party with a significant interest in the undertaking" to cover also e.g., other companies or natural/legal persons holding a significant interest in the undertaking.

G1-1 para. 14 (h) requires disclosure of competencies "relevant to the sector, products and geographic locations of the undertaking and associated regulation". AG 5 (c) supplements the competencies by those with respect to corporate reporting and audit. We wonder if "competency" is the right term to use here or is it rather "knowledge, skills and professional experience" that is being requested from a governance body member? For example, the German CG Code (C.14) uses the wording "knowledge, skills and professional expertise. We recommend extending the wording to cover not only competencies but also the expertise etc. of governance body members.

We furthermore consider the scope of competencies as such already rather narrow. For example, management experience, or R&D experience as well as soft skills like integrity, accountability, motivation are not mentioned. We therefore recommend 1) to add corporate reporting and audit to the standard itself (instead of hiding it in the Application Guidance) and 2) to extend para. 14 (h) by adding "knowledge, skills and expertise the undertaking has identified as relevant".

DR G1-2 – Corporate governance code or policy

The undertaking shall disclose the corporate governance code, policy or practices that determine the function of its administrative, management or supervisory bodies.

The principle to be followed under this Disclosure Requirement is to provide information about any legal or regulatory requirements that mandate and influence the design of the governance structure of the undertaking, together with information on aspects implemented that are over and above any relevant legal or regulatory requirements.

Q118: Please, rate to what extent do you think G1-2 – Corporate governance code or policy

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

See our general remarks on the inclusion of this standard into ESRS 2.

DR G1-2 (para. 15) states that "The undertaking shall disclose the corporate governance code, policy or practices that determine the function of its administrative, management or supervisory bodies." Para. 16 of DR G1-2 requires undertakings to provide information about any legal or regulatory requirements that mandate and influence the design of the governance structure of the undertaking. Reading the two paragraphs together, they may be understood as implying that corporate governance codes designed exclusively as soft law, like for example in France[39],

[39] Afep-Medev Code, https://afep.com/en/themes/governance/

or like the partial case with Greece[40]. This might imply full or partial exclusion from the scope of this disclosure requirement. This would however contradict the rest of this DR. We therefore recommend a respective clarification.

DR G1-3 – Nomination process

The undertaking shall provide information about the nomination and selection processes for its administrative, management and supervisory bodies.

The principle to be followed under this Disclosure Requirement is to provide information about the criteria used for selecting and nominating the members of the undertaking's administrative, management and supervisory bodies.

Q119: Please, rate to what extent do you think G1-3 – Nomination process

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

See our general remarks on the inclusion of this standard into ESRS 2.

GR 1-3 which deals with the nomination process only requires a description of the nomination process including the criteria used for nominating members of the governance bodies. Missing is, however, how these generic requirements have been put into action in the year under review,

[40] Hellenic Corporate Governance Code, https://ecgi.global/sites/default/files/codes/documents/hellenic_greek_corporate_governance_code_062021.pdf

i.e., in how far the nomination process has been followed. Any nomination process requires a review of the status quo followed by an intense evaluation of all board members. BETTER FINANCE wonders how an investor or any other stakeholder should be able to understand the role of a governance body, its members' expertise and skills without being informed about the underlying nomination or evaluation process that had taken place during the year under review. In our view this would counteract the general ESRS concept of information quality.

DR G1-4 – Diversity policy

The undertaking shall provide information on the diversity policy applied in relation to its administrative, management and supervisory bodies.

The principle to be followed under this Disclosure Requirement is to provide information about the undertaking's diversity policy to promote a diversified composition of its administrative, management and supervisory bodies. This shall also include the diversity criteria adopted with the associated rationale on their prioritisation, and the mechanism adopted to foster diversity representation.

Q120: Please, rate to what extent do you think G1-4 – Diversity policy

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

See our general remarks on the inclusion of this standard into ESRS 2.

BETTER FINANCE welcomes the reporting requirements on disclosure of the undertaking's diversity policy. As of today, there seems to be no EU-wide legal requirement to reporting in that respect. We note that the upcoming Directive on improving gender balance among non-executive board members[41] in its current version will require undertakings among others to report the reasons and the measures they are taking to address shortcomings with regard to the implementation of the Directive's requirements (among them being the requirement to have at least 40% of the underrepresented gender to be represented in non-executive boards of listed companies). We consider a harmonized reporting requirement on the undertaking's diversity policy which is extended to a report on the reasons and measures for non-implementation (i.e., on the outcomes) to be also stipulated in the ESRS as highly important as this Directive is not yet formally adopted nor published in the Official Journal and there will be a transposition period of two years for Member States after publication.

G1-4 requires disclosure about the undertaking's diversity policy and how it has been implemented which we welcome. We note that disclosure shall among others specify (GR1-4, para. 26 (b)) whether the diversity representation is over or above any relevant legal and regulatory requirements. To enable investors' understanding that there is a need for improvement regarding diversity, it would be more helpful if the Standard would require disclosure if diversity levels were below any relevant legal and regulatory requirements. Noting that a reference to ESRS 1, Disclosure Principle 1-2 is missing, we furthermore consider that the Standard should also require disclosure of timelines for achieving targets in para. 26 (c).

DR G1-5 – Evaluation process

The undertaking shall describe the process, if any, followed for evaluating the performance of its administrative, management and supervisory bodies in overseeing the management of the undertaking.

The principle to be followed under this Disclosure Requirement is to provide transparency on the process implemented by the undertaking for the evaluation of the performance of its administrative, management and supervisory bodies in supervising the management of the undertaking.

Q121: Please, rate to what extent do you think G1-5 – Evaluation process

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation			X			
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

[41] https://ec.europa.eu/commission/presscorner/detail/en/IP_22_3478

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

See our general remarks on the inclusion of this standard into ESRS 2.

Here again, we deem it important to underline that not only the process for evaluating the performance of the administrative, management or supervisory body of an undertaking is deemed to be important for investors and other stakeholders to understand and verify the information provided in that respect. It is also necessary to receive information on the outcomes of any such evaluation process performed during the reporting year if the information is supposed to follow the general concept of the ESRS (fair representation of information). BETTER FINANCE therefore recommends including at least the requirement to report whether an evaluation had taken place during the year under review and what the outcome of the evaluation was.

DR G1-6 – Remuneration policy

The undertaking shall describe the policy used for the remuneration of its administrative, management and supervisory bodies.

The principle to be followed under this Disclosure Requirement is to provide information about the undertaking's policy for the remuneration of the administrative, management and supervisory bodies.

Q122: Please, rate to what extent do you think G1-6 – Remuneration policy

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

See our general remarks on the inclusion of this standard into ESRS 2.

G1-6 does not include a requirement to disclose how remuneration during the year under review has actually matched sustainability- or climate-related metrics (outcome information). Also, other (often regular) remuneration elements for executive board members, namely benefits in kind, remuneration from third parties, or payments agreed for post-contractual non-competition obligations are not mentioned in the draft, meaning that a full picture of the remuneration package may not be necessarily provided. Based on the disclosure foreseen by G1, even when read in conjunction with ESRS 2-GOV 4 para. 62-64, investors will therefore not be able to thoroughly assess the remuneration policy of board members from an impact or financial perspective.

We would furthermore welcome a clarification in the accompanying guidelines (G1-6, AG 14 (a) (ii) if indeed the remuneration of senior executives shall be described, as the DR itself (unlike ESRS 2-GOV 4) does not refer to senior executives at all but only to the governance body, defined as “administrative, management and supervisory bodies” in ESRS 2.

DR G1-7 – Risk management processes

The undertaking shall provide information on its risk management processes, with regards to risk arising for the undertaking and for the stakeholders.

The principle to be followed under this Disclosure Requirement is to inform about the undertaking's risk management processes. This includes an understanding of the supervision and monitoring of risk management by the undertaking’s administrative, management and supervisory bodies.

Q123: Please, rate to what extent do you think G1-7 – Risk management processes

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation				X		

I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

See our general remarks on the inclusion of this standard into ESRS 2.

Disclosure of processes or policies only focus on risk **management**; a disclosure of **identifying** significant risks and opportunities and materiality assessment is not required, which is key for investors' understanding. Also, we would consider it helpful if EFRAG would provide guidance whether compliance management is considered being part of risk management. There are different understandings in that regard in the markets. Risk management processes do not necessarily include compliance management systems, on the contrary, there often is an inadequate linkage between risk and compliance, the risks of fraud are not captured by a risk management system because they are often "systemic" risks from a risk management perspective that defy formal capture (and evaluation even with simple value-at-risk methods) from a practical perspective. The standards should therefore ensure that undertakings should also provide information on its compliance management or disclose, whether it is covered by the risk management.

DR G1-8 – Internal control processes

The undertaking shall provide information on its internal control processes, including in relation to the sustainability reporting process.

The principle to be followed under this Disclosure Requirement is to inform about the aspects related to the governance factors that affect the undertaking's internal control processes, including in relation to sustainability reporting. This also includes an understanding of the supervision and monitoring of those processes by the undertaking's administrative, management and supervisory bodies.

Q124: Please, rate to what extent do you think G1-8 – Internal control processes

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	

H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

See our general remarks on the inclusion of this standard into ESRS 2.

DR G1-9 – Composition of the administrative, management and supervisory bodies

The undertaking shall provide information about the composition of its administrative, supervisory and management bodies.

The principle to be followed under this Disclosure Requirement is to provide information about the diversity of the members of its administrative, management and supervisory bodies and committees.

Q125: Please, rate to what extent do you think G1-9 – Composition of the administrative, management and supervisory

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation			X			
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

See our general remarks on the inclusion of this standard into ESRS 2.

G1-9 requires disclosure of the composition of the undertaking's administrative, management and supervisory body which we welcome, because this information is currently not required to be reported in a harmonized way across EU Member States. We advise, though, to use a gender-neutral wording in para. 44 to not exclude genders other than male or female.

DR G1-10 – Meetings and attendance rate

The undertaking shall provide information about the number of meetings and the attendance rate for its administrative, management and supervisory bodies and committees.

The principle to be followed under this Disclosure Requirement is to provide information about the rate of participation in meetings of the members of the administrative, management and supervisory bodies and committees.

Q126: Please, rate to what extent do you think G1-10 – Composition of the administrative, management and supervisory

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

See our general remarks on the inclusion of this standard into ESRS 2.

Next to the disclosure of the number of members who participated in each meeting in the reporting period (para. 48 (b)), the personalised attendance of each member in meetings of the governance body and its committees is needed as useful information for investors, too. Users are enabled to draw conclusions on the commitment of a respective member from this information and this can be taken into account when a member is proposed for re-appointment at a general meeting. The undertaking reserves of course the option to explain any higher rates of non-attendance of a certain member. It is therefore recommended that personalised information on individual meeting attendance is requested by the standards.

DR G2-1– Business conduct culture

The undertaking shall disclose its initiatives to establish, develop and promote a business conduct culture

The principle to be followed under this Disclosure Requirement is to provide an understanding of how the administrative, management and supervisory bodies are involved in forming, monitoring, promoting and assessing the business conduct culture.

Q127: Please, rate to what extent do you think G2-1 – Business conduct culture

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements		X				
H. Represent information that must be prioritised in first year of implementation			X			
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities					X	

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

As stated in the Objective (para. 3.), business conduct covers “a wide range of behaviours that support transparent and sustainable business practices to the benefit of all stakeholders.” G2, however, focuses on business conduct culture, anti-corruption, anti-bribery, anti-competitive behaviour and political engagement only. This despite the fact that CSRD requires the Commission to take to the greatest extent possible - account of “the work of global standard-setting initiatives for sustainability reporting, and existing standards and frameworks for natural capital accounting and for greenhouse gas accounting, responsible business conduct, corporate social responsibility, and sustainable development;[42]

While BETTER FINANCE notes that the areas covered by the ESRS are of high importance for stakeholders, we are concerned that other, likewise important areas, are left out of this Standard. For example, we explicitly point out that transparency about taxation matters is not covered by the Standard. Taxes are however a key mechanism by which companies contribute to the economy of the countries in which they operate. Companies have an obligation to comply with tax legislation and a responsibility to their stakeholders to meet expectations of good tax governance. BETTER FINANCE considers that, in line with the double materiality approach, tax reporting should be part of the sustainability reporting as tax behavior of undertakings may severely impact various dimensions of sustainability, e.g., citizens, environment. Besides, tax reporting increases transparency and promotes trust and credibility in the tax practices of the reporting companies with investors and other stakeholders. This understanding of business conduct is in line with for example the GRI Standards[43]. BETTER FINANCE recommends expanding the scope of business culture at least in the mid-term.

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

G2-1 para. 16 requires disclosure that covers “the strategy to foster the business conduct, how this strategy is implemented and how the outcome is evaluated.” We point to our concerns about the lack of disclosure of outcomes mentioned elsewhere in our reply and recommend including a requirement to not only disclose HOW the outcome is evaluated but also the results of the outcomes that have been evaluated during the reporting year.

In addition, we consider that G2-1, G2-2, and G2-8 would be better placed in the cross-cutting standards (ESRS 2) as they should not be subject to a materiality assessment by undertakings and are transversal to all sustainability subject matters, as defined in Article 19b of CSRD.

DR G2-2 – Policies and targets on business conduct

The undertaking shall provide information about its policies with respect to business conduct matters.

The principle to be followed under this disclosure requirement is to provide an understanding of the undertaking’s ability (i) to mitigate any negative impacts and maximise positive impacts related to business conduct throughout its value chain, and (ii) to monitor and manage the related risks.

Q128: Please, rate to what extent do you think G2-2 – Policies and targets on business conduct

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 6/ Not applicable

[42] Article 19b (3) (a) of the Directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting: https://www.consilium.europa.eu/media/57644/st10835-xx22.pdf

[43] GRI 207 recommends companies to disclose their approach to tax; tax governance, control and risk management; stakeholder engagement and management of concerns related to tax, as well as country-by-country-reporting.

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

We consider that G2-1, G2-2, and G2-8 would be better placed in the cross-cutting standards (ESRS 2) as they should not be subject to a materiality assessment by undertakings and are transversal to all sustainability subject matters, as defined in Article 19b of CSRD.

We point to our concerns about the lack of disclosure of outcomes mentioned elsewhere in our reply and recommend including a requirement to not only disclose description of the mechanism for reporting concerns about unethical or unlawful behaviour (para. 20 (a)), the policies on whistle-blowers (para 20 (d)), or the potential commitment to investigate business conduct (para. 20 €), but also HOW these policies etc. have translated into action in the reporting year, i.e., the outcome of their application.

DR G2-3 – Prevention and detection of corruption and bribery

The undertaking shall provide information about its system to prevent and detect, investigate, and respond to allegations or incidents relating to corruption and bribery.

The principle to be followed under this disclosure requirement is to provide transparency on the key procedures of the undertaking to prevent and detect, investigate and respond to corruption or bribery-related incidents or allegations.

Q129: Please, rate to what extent do you think G2-3 – Prevention and detection of corruption and bribery

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation			X			
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

See our similar concerns raised above. It is not only important for investors and other stakeholders to learn about the key procedures of the undertaking to prevent and detect, investigate and respond to corruption or bribery-related incidents or allegations but also whether or not these procedures had been effective during the reporting year.

DR G2-4 – Anti-competitive behaviour prevention and detection

The undertaking shall provide information about its system to prevent and detect, investigate, and respond to allegations or incidents relating to anti-competitive behaviour.

The principle to be followed under this disclosure requirement is to provide transparency on the key procedures of the undertaking to prevent and detect, investigate and respond to allegations or incidents of anti-competitive behaviour.

Q130: Please, rate to what extent do you think G2-4 – Anti-competitive behaviour prevention and detection

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 6/ Not applicable

	1	2	3	4	5	6

A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation			X			
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

See our similar concerns raised above. It is not only important for investors and other stakeholders to learn about the key procedures of the undertaking to prevent and detect, investigate and respond to allegations or incidents of anti-competitive behavior but also whether or not these procedures had been effective during the reporting year.

DR G2-5 – Anti-corruption and anti-bribery training

The undertaking shall provide information about any anti-corruption and anti-bribery training programmes offered.

The principle to be followed under this disclosure requirement is to provide an understanding of the undertaking's training and educational initiatives to develop and maintain awareness related to anti-corruption or anti-bribery and business conduct within the undertaking as well as in the value chain.

Q131: Please, rate to what extent do you think G2-5 – Anti-corruption and anti-bribery training

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation			X			
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

DR G2-6 – Corruption or bribery events

The undertaking shall provide information on legal proceedings related to corruption or bribery during the reporting period.

The principle to be followed under this disclosure requirement is to provide transparency on legal proceedings relating to corruption or bribery incidents during the reporting period and the related outcomes.

Q132: Please, rate to what extent do you think G2-6 – Corruption or bribery events

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	

	1	2	3	4	5	6
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

DR G2-7 – Anti-competitive behaviour events

The undertaking shall provide information on any publicly announced investigation into or litigation concerning possible anti-competitive behaviour it is facing during the reporting period.

The principle to be followed under this disclosure requirement is to provide transparency on publicly announced investigations into or litigation concerning possible anti-competitive behaviour of the undertaking that are ongoing during the reporting period.

Q133: Please, rate to what extent do you think G2-7 – Anti-competitive behaviour events

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

DR G2-8 – Beneficial ownership

The undertaking shall provide information about its beneficial owners (as defined in article 3(6) of Directive (EU) 2015/849) and control structure.

The principle to be followed under this disclosure requirement is to provide transparency on the individuals who ultimately own or control the undertaking's organisational and control structure, including beneficial owners.

Q134: Please, rate to what extent do you think G2-8 – Beneficial ownership

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance				X		
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

We consider that G2-1, G2-2, and G2-8 would be better placed in the cross-cutting standards (ESRS 2) as they should not be subject to a materiality assessment by undertakings and are transversal to all sustainability subject matters, as defined in Article 19b of CSRD.

DR G2-9 – Political engagement and lobbying activities

The undertaking shall provide information on its political contributions and lobbying or advocacy activities.

The principle to be followed under this disclosure requirement is to provide transparency on the types, purpose and cost of political contributions and lobbying activities of the undertaking during the reporting period.

Q135: Please, rate to what extent do you think G2-9 – Political engagement and lobbying activities

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 6/ Not applicable

	1	2	3	4	5	6
A. Requires relevant information about the sustainability matter covered		X				
B. Requires information that is relevant for all sectors (sector-agnostic only information)		X				
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information		X				
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements					X	
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstandings or practical complexities				X		

For part E, please explain why costs would be unreasonable and / or what particular benefit this disclosure requirement offers

For part F, please specify what existing European sustainability reporting obligation you think the disclosure requirements misses to address adequately

For part G, please explain how you think further alignment could be reached

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

BETTER FINANCE welcomes the requirement of disclosure of undertakings' political engagement and lobbying activities as this supports the disclosure requirements foreseen by this Standard. We would suggest, however, to add a further disclosure requirement. We note that representatives of an undertaking or their paid consultants may perform lobbying activities through membership in for example governmental/regulator's expert commissions or close contacts to political leaders[44]. Through such memberships or contacts, undertakings may significantly influence decisions of governments or regulators. BETTER FINANCE therefore

[44] A very recent example is an allegedly close contact between the CEO of Porsche and the (by hen designated) German Minister of Finance during the coalition negotiations of the German Government:

considers it important for investors and other stakeholders that DR G2-9, para. 50, is extended insofar that it also includes a requirement to disclose memberships by representatives of the undertaking (executive and/or non-executive) in respective public expert commissions or comparable positions as well as other means of influence exercised on governments/regulators that took place during the reporting year.

Furthermore, we would like to receive clarification about what is understood by a "previously held position" in para. 50. Is there a certain time limit, e.g., 5 years, foreseen by the Standard or do undertakings have to disclose any former membership of governance bodies' members in a public administration regardless of how long ago this membership had ended? We deem it important that the ESRS provide further guidance in that respect.

From an investor-user perspective, climate-relevant political and policy engagement from investee companies can pose a company and system-level risk and represents increasingly material information for investors. However, this information is not readily accessible or comprehensive. Currently, an investor seeking to understand company-level activities would need to learn and then navigate numerous, disparate disclosure mechanisms providing incomplete and sporadic information. Investors simply do not have the capacity to do this across all relevant EU policies.

Comprehensive company-level lobbying disclosures via G2-9 could simplify this process for investors, providing a source of clear, comparable disclosures on policy influencing activities. However, in order to fulfil this potential, as with the alignment with existing standards, disclosures must include information on industry/trade organisation policy engagement in order to match the criteria of investor demand.