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Comments on EFRAG Climate Standard Prototype Working Paper

Dear Mr Gauzès,

Deutsches Aktieninstitut would like to take the opportunity to comment on the 'Climate Standard Prototype' working paper prepared by Cluster 2 of the EFRAG Project Task Force on European sustainability reporting standards (PTF-ESRS) published on 8 September.

In general, the publication of the working paper can be seen as a means of creating transparency. We welcome the orientation of the working paper towards existing international frameworks, such as the Task Force on Climate-Related Financial Disclosures (TCFD). However, we would not equate requirements of a NGO (CDP) with a standard setter. Then the requirements of the other major rating agencies would also have to be used, which can go beyond CDP. When addressing the GRI reporting requirements, the ESRS should clearly distinguish between core and comprehensive reporting requirements. A global orientation of the future European standards on sustainability reporting should be ensured. This entails a close collaboration between EFRAG, the future ISSB and the corporate world.

We appreciate that the working paper explicitly pursues compatibility with the EU Taxonomy, as European requirements on sustainability reporting must be aligned with each other. An alignment between the EU Taxonomy and the ESRS will need to be ensured on a permanent basis, as both initiatives will progress further over the next months and years. Additional or even doubled reporting requirements regarding the EU Taxonomy must be avoided at all costs (the draft Climate Standard Prototype goes beyond Article 8 of the EU Taxonomy and the Delegated Regulation specifying the reporting requirements of Article 8).

The working paper is well structured, consistent and elaborated with regard to the disclosure requirements. The selection of the disclosure areas seems reasonable and the individual Key Performance Indicators (KPIs) are coherent.

Governance and competition issues

Regarding the three disclosure requirements on climate governance, it has to be clarified which board has to be addressed in a dualistic system (supervisory/management board). Disclosure requirements concerning internal CO₂ pricing and climate-related remuneration should not go beyond a yes/no information as they directly intervene in corporate governance and expose the reporting company to competitive disadvantages vis-à-vis its third-country competitors.

Reporting requirements too granular

The scope of the disclosure requirements appears to be overly comprehensive, granular and not very practice oriented. The reporting requirements are designed to gather very detailed information that can contribute to the EU climate goals. Nevertheless, the requested information appears to be overambitious (32 aspects corresponding to 10 disclosure areas). In some cases, the information cannot be reliably determined, e.g. detailed information on Scope 3 emissions (especially large companies dealing with several thousand suppliers). For companies, it is difficult to identify climate related risks and opportunities along the entire value chain. In addition to the narrative part, the working paper also contains numerous quantitative information in the context of decarbonization. This is so multi-layered and complex that the question arises whether and how preparers are able to cope with the data collection. Furthermore, it seems questionable whether the information can effectively contribute to reaching the EU climate goals and whether the cost-benefit ratio and materiality assessment were adequately considered. The additional value for investors should also be considered. It seems doubtful that these huge data sets will empower investors to make the right decisions.

A large portion of narrative reporting is very difficult to align internally as well as with the auditor. It should also be further elaborated whether it is useful to compose a new standard based on existing guidelines, such as TCFD or GRI Standards. as companies already report according to those guidelines.

Measurement basis for quantitative disclosures of GHG emissions

The working paper contains numerous quantitative disclosure requirements. Much of this information can only be determined on the basis of certain measurement methods that are not adequately addressed in the working paper. To ensure that the information is comparable, it should be based on a common measurement basis. For example, GHG emissions are often identified and calculated on the basis of the GHG protocol. However, the working paper does not refer the GHG protocol in this regard explicitly, whereas the draft Basis for conclusions (published on 24 September) does. In our view it is essential to address the measurement bases for quantitative disclosures in the standard itself.

Critical timing

The standard prototype would result in extensive disclosure requirements. It does not match with the ambitious time schedule set for companies which entails the application of core standards for the financial year 2023 for a large number of limited liability companies. Germany is disproportionately affected with an almost 30-fold increase from approx. 500 to 15,000 companies. It is paramount that non-financial undertakings have sufficient lead time to implement the reporting requirements to ensure the quality and comparability of the data disclosed. The timeline as set out in the CSRD will make implementation very

difficult. The focus should therefore be on key KPIs. To allow for an adequate implementation of the reporting requirements, a prioritization as regards which information will need to be disclosed by when is important.

This also applies to the requirements arising from a possible European law in Corporate Governance, which has been mentioned in combination with climate governance and remuneration. We do not know which elements this law will include and with a view to the timeline, hence the standards will already be applicable, while co legislators will still need to agree on a potential Corporate Governance law. Otherwise, it is to be presumed that the reporting requirements cannot be met by the companies within the targeted period. Given the short implementation period and the challenge to build up reporting capacities, companies are bound to fail to meet the reporting requirements starting 1 January 2023.

Clearing body for reporting questions

Although companies are currently implementing the 2021 disclosure requirements with only limited KPIs, they currently see that even those KPIs along with the underlying criteria are interpreted differently in the market and that the determination of the individual KPIs is unclear. More detailed application guidelines are required to ensure practical implementation and future comparability. Therefore, EFRAG – or another adequate public authority of the EU – should set up a body and processes to collect, discuss and resolve questions that might arise during implementation from practitioners, users, auditors and other stakeholders. A role model for such a body could be the IFRS Interpretations Committee (IFRS IC) under the umbrella of the IFRS Foundation. The IFRS IC is the interpretative body of the International Accounting Standards Board (Board). Its tasks include responding to questions about the application of IFRS Standards while following a defined process.

We kindly ask you to duly consider these aspects in the forthcoming process and look forward to further discussions also in a personal meeting upon your convenience.

Yours faithfully



Jan Bremer
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