

Revised ESRS: Still a Heavy Lift for Companies

Genuine relief through less datapoints, clearer rules and global alignment

Summary

EFRAG has made significant progress in streamlining and simplifying the European Sustainability Reporting Standards (ESRS). Restructuring the architecture and clarifying the interaction between ESRS 2 and the topical standards enhance the standards' overall readability and usability. Simplifying the General Disclosure Requirements (GDRs), reducing the number of mandatory data points for policies, actions, and targets (PATs), and removing overlapping topical specifications contribute to a clearer, more accessible framework. Also, the shift toward a principles-based approach, as well as the ability to report PATs at a higher aggregation level, reflects a pragmatic and proportionate response to the challenges identified during the initial application.

Even though the measures described improve the structure and readability of the standards, they do not significantly reduce the implementation effort or reporting complexity. This also applies to the 57% reduction in mandatory datapoints as they do not necessarily translate into a proportional decrease in reporting length and burden. Many changes seem cosmetic without altering the underlying substance of the disclosure requirements.

1. Reduction of Datapoints

We believe that the EU Commission's principle of not introducing new reporting requirements should be applied consistently. EFRAG should neither introduce new data points nor should “may” data points become “shall” datapoints, as this typically results in significant additional effort for reporting entities. We call for fewer mandatory indicators that are clearly defined for everyone.

We propose to delete:

- Data points that aim to describe the “how” (e.g. ED ESRS 2. AR4, ED ESRS 2.25, ED ESRS 2.26, ED ESRS E1.AR5 und AR6, ED ESRS E1.18)
- New requirements, such as S1 breakdowns due to the changed country breakdowns. Further examples can be found in the Log of Amendments in column 3, marked as “NEW.”
- Anticipated financial effects (in ESRS 2 & E1), reduction in reporting on the DMA (IRO-1)

2. Concepts and methodologies need to be improved

Significant concerns remain regarding newly introduced concepts and methodologies that may, in fact, increase the reporting effort if EFRAG does not

clarify these.

2.1. Information materiality

We welcome the revision of the Double Materiality Assessment (DMA) with a stronger emphasis on “information materiality”. This will help to reduce the scope of reporting, despite the still high number of data points. However, the question of how to determine when information is relevant to the users of general purpose remains unclear. The vagueness of the wording “necessary for users of general purpose to understand” (ESRS 1 21 (b) threatens to expand the reporting obligations of preparers immensely. Therefore, we propose that EFRAG deletes ESRS 21 (b) and applies the definition of material information that has been laid down in ESRS 21 (a) for the primary user to all users equally.

2.2. Fair Presentation

We welcome the introduction of the fair presentation concept, known from financial reporting. Positive is also the shift in focus toward materiality, away from viewing sustainability reporting as merely a compliance exercise. However, the "fair presentation" concept needs to be specified to minimize imminent audit burdens.

Therefore, we suggest that EFRAG is clarifying that the concept of fair presentation means not only adding information (as interpreted by auditors) but also omitting it due to the DMA or information materiality filter.

Also, it is necessary to define the primary user to give the fair presentation concept a clear focus. In financial reporting, the primary user is the investor, to whom fair presentation is directed. Since the goal of the Green Deal is to allocate capital to sustainable companies, investors should be identified as the primary users in sustainability reporting as well.

3. Only introduce anticipated financial effects once a sensible methodology is in place

The concept of "anticipated financial effects" is not an established and standardized concept. ESRS 2 does not give any guidance or insights on how to calculate the financial effects. The underlying data is often unclear, and the risks cannot be reliably isolated. This makes any form of disclosure, whether qualitative or quantitative, legally risky and prone to misinterpretation. Such information is not comparable and does not provide useful insights for decision-making purposes. Therefore, we reject the reporting of anticipated financial effects.

However, as we strongly support interoperability of ESRS and IFRS S1 and S2, we suggest that EFRAG and ISSB jointly examine what a meaningful, uniform, and

practical definition and methodology might look like.

4. Strengthen Interoperability to avoid double reporting

To avoid double reporting, reporting according to the ESRS should also accommodate the International Sustainability Standards Boards (ISSB) standards. Therefore, we propose that companies should be allowed to use IFRS S1 & S2 as a starting point and add those requirements that are needed to comply with CSRD/ESRS. If this is not possible, ISSB and EU should work together on resolving the remaining major differences between IFRS 1 & 2 and the ESRS to pave the way for mutual recognition of the standards.

The (ISSB) has identified 30 new differences beyond the 23 already existing differences. In addition to anticipated financial effects it points out that EFRAG using the reliefs in the ISSB Standards (e.g. undue cost and effort) uses a different language that can introduce scope differences. When adopting for example concepts, definitions or simplifications from the ISSB standards into the ESRS, we call on EFRAG to adopt them unaltered. This is the only way to ensure consistency between the two standards in future.

5. Full alignment of the reporting obligations according to the SFDR with those of the revised CSRD/ESRS

We propose that the SFDR data points in the ESRS should not be mandatory for companies. Companies only should be obliged to report them if they are material to them. Removing some of the SFDR datapoints is clearly appropriate. The ESRS simplification will need to be coordinated with the review of the SFDR.

Both the CSRD and the ESRS mark the boundary of corporate sustainability reporting. All information that financial companies are obliged to report under the SFDR or the regulatory framework governing the banking sector need to be derived from the sustainability reports of corporates subject to CSRD/ESRS disclosures.

CSRD/ESRS and SFDR are interdependent parts of the same reporting ecosystem and should be closely aligned. The same goes for the prudential requirements of the banking sector. Although the SFDR does not address listed companies as such, they are indirectly required to not only cater to the reporting obligations of financial companies but also to report data points under the SFDR due to capital market requirements (ratings and direct investor dialogues). To maintain a balanced ecosystem, the objective of substantially reducing reporting data points is to be reflected in the SFDR review. These reflections should also be incorporated into the framework governing bank disclosures e.g. the banking supervisory reporting requirements set out in the Capital Requirements Regulation (EBA-Guidelines on the management of ESG risks).

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