

ERT response to EFRAG's public call for input on ESRS Set 1 Revision



06/05/2025

Section 2 – General Assessment (optional)

- As preparer/user/other stakeholder, could you share your overall assessment about the implementation challenges and benefits that you have experienced or observed?

The European Round Table for Industry (ERT) supports reporting standards that promote transparency and set a high level-playing field that drive corporates' efforts to help address urgent social and environmental concerns. We are strong advocates of reporting that prioritises quality and relevance, focusing on meaningful insights. Advancing our collective sustainability agendas is only possible through meaningful transparency of data that creates collective and individual ownership.

Key recommendations

- To simplify the report structure, the purpose of reporting should be the lodestar: it should be tailored to the users of the report and the information they are looking for. Users are looking for concise and comparable information on key points such as: 1) Environmental impacts 2) Social impacts 3) Financial risks and 4) Financial opportunities, and how each of these are prevented and managed.
- Allow flexibility for companies to conduct their own assessments based on clear and pragmatic criteria to focus only on those sustainability topics with post-mitigation material impacts, risks and opportunities for the future.
- Provide detailed and practical guidance on how to implement reporting requirements consistently and efficiently, without creating unnecessary complexity, costs, and bureaucracy. However, do not develop guidance and FAQs that extend the obligations in the Standards and Delegated Acts themselves. Simplify or remove existing published guidance and make explicit it is not legally binding as this is not universally understood.
- Promote harmonization, interoperability and equivalence between regional or national non-financial voluntary or mandatory frameworks across geographies, such as the GRI and ISSB financial materiality, to avoid duplicated effort and stakeholder confusion.
- Allow consolidated reporting at the parent group level, avoiding unnecessary segregation that is meaningless when dealing with global strategies and value chains.
- Significant reduction in the number of data points to be mandatorily reported and a greater degree of freedom with regard to reporting requirements.
- The ESRS contain insufficient illustrative examples to clarify the level of granularity needed for the disclosures and to highlight potential flexibilities. Illustrative examples can serve as a blueprint and enhance comparability between preparers.

Benefits

- We anticipate a more harmonised approach to reporting in the coming years, which should also streamline year-on-year reporting and improve consistency over time. Although this goal has not yet been achieved, in the long term, this could contribute to achieving a high level of comparability among all the preparers in Europe.
- The structured approach to first identifying material IROs and subsequently describing the management of these may help less mature companies to develop in sustainability topics.

- Moreover, the concept of IROs is a step forward compared to all other reporting frameworks, as:
 1. It allows to directly connect the materiality analysis and the report content.
 2. Increases visibility for topics previously not in the focus of companies.
 3. It allows steering of the sustainability performance of the company by steering the IROs.

Challenges

- ESRS implementation proved to be very challenging and cumbersome despite ERT companies have been reporting according to external frameworks (e.g. GRI) for many years.
- Complexity: The value chain provisions are particularly complex, as it is very difficult to identify actors and distinguish between horizontal and vertical value chains in such intricate value chains. For many undertakings, particularly smaller companies or those with complex supply chains, there is limited control or influence over many actors in the chain, raising concerns around the accuracy and verifiability of such disclosures. The sheer volume of required disclosures, especially for first-time reporters, imposed significant strain on internal teams, systems and processes. Building reporting capacity and integrating sustainability data with financial and risk systems is a major transformation that requires both time and strategic investment.
- Lack of clear guidance: The uncertain transposition scenario and lack of guidance have been two of the most difficult aspects to address. The provisions have in many cases not been clear in terms of the requirements and lack methodologies for the implementation of specific data points. The differing interpretations of limited assurance likely led to large differences in preparers effort and cost.
- Group reporting: Challenges arise in the context of group reporting, especially when group companies operate in diverse sectors with markedly different material topics, maturity levels and strategic priorities. In such cases, applying a single set of materiality assessments or harmonised disclosures can become extremely difficult and risks oversimplifying or misrepresenting the sustainability performance of individual entities. The current ESRS framework lacks dedicated guidance or illustrative examples tailored to group-level scenarios. This gap leads to inconsistencies, uncertainties, and a considerable increase in reporting burden, particularly when trying to reconcile group-level disclosures with subsidiary-specific realities. Many of the narrative and qualitative datapoints are not sufficiently adaptable to the context of different businesses or sectors. To maintain interoperability between group report and entity level report, issues not covered in the former should nonetheless be included in an “Annual report appendix”. On the other hand, matters addressed in the annual report should be referred to in the relevant section of the entity report.
- Global applicability of metrics: Certain metrics may currently be measured only in certain jurisdictions depending on the local regulatory requirements. For example, the pollutants in E-PRTR may not be applicable to all countries. In such cases, reporting requirements on metrics leads to excessive reporting burden for European companies operating in other countries in comparison with the local companies in such jurisdictions.
- Prescribed format and lack of flexibility: ESRS has a set of pre-defined tables that do not suit all companies. Companies have extensive experience how to best present information in both financial and sustainability reporting. Limiting their ability to do so by mandating the use of pre-defined tables and layouts, mainly to allow a better ESEF tagging massively reduces readability and increases complexity of sustainability statements.
- Data points and methodology: there are data points that should be simplified/eliminated and/or clarified, considering that in many cases, specific methodologies are lacking. Only limited interpretation guidance is available, and best practices are not yet established. This poses a challenge also for our auditors, as we observe differing

interpretations between audit firms. As a result, some disclosures are not and will not be comparable between various preparers for the foreseeable future.

- Lack of alignment with existing international standards: Ensure there is better alignment between ESRS/EFRAG guidance and existing international financial standards. For example, the concept of "operational control" (as referenced in ESRS E1, ESRS 2, ESRS E4) conflicts with IFRS 11, introducing complexity and reducing comparability. A clarification is needed. Therefore, it is recommended that the ESRS definition be aligned with the IFRS definition and integrate joint operations independent on their legal structure into the ESRS scope.
- Lack of relief clause: Remove the requirements to provide "estimates" for KPI and data points when actual data is not available, and introduce a 'comply or explain' principle, as under GRI reporting. This would allow companies to explain the steps they are taking to ensure the information will be available in the future. Requiring estimates undermines comparability and reduces the quality of the information these may need to be revisited in the following years unduly exposing companies to questions from their stakeholders.
- Need for longer deadlines: Introduce longer deadlines for all ESRS to provide metrics that are not yet available, also for large companies that have been reporting sustainable information under the Non-Financial Reporting Directive for several years. If the metrics are not available, it means that the company must implement a new process to collect them, and it takes time to disclose robust, reliable and verifiable metrics. Missing metrics are sometimes also due to the lack of globally accepted measurement methodologies (e.g. microplastics). They need to be developed in a first step.
- Need for strengthening business secrecy and legal certainty: Strengthen business secrecy and legal certainty to protect strategically sensitive information (such as forward-looking information), which is even more of importance in the current geopolitical context in which the EU industry must operate.
- Low value and high effort information: ERT members were required to invest significant amount of time to collect the data while at the same time the information was not deemed of importance for their stakeholders.
- Double materiality: Regarding double materiality, the process should be clarified and simplified to enhance comparability among companies.

Section 3 – Question 1

PART 1 – HOW TO IMPROVE THE MATERIALITY ASSESSMENT. The Materiality Assessment process is critical to establish the perimeter of the sustainability statement and pivotal to ensure that undertakings only report material information, that they do not report unnecessary information nor dedicate excessive resources to the materiality assessment process. Initial feedback seems to suggest that required disclosures on the process may be too detailed and the outcome of the process may lead to disclose too many/too detailed IROs. The Omnibus proposals have identified this area as to be clarified.

- 1.1. From your perspective (preparer/user/others), please share your suggestions on how to improve the ESRS provisions on materiality indicating the most critical and the most useful elements, in relation to **(please add suggestions to as many items as you deem fit)**:
 - the definition of material impacts, risks and opportunities (IROs) under double materiality assessment

It is critical to note that the topics covered under 'impacts' are already heavily regulated and there are various reporting requirements on such topics which may vary across jurisdictions. These include environmental regulations, health and safety regulations, labour laws etc. Companies are already reporting extensively on such impacts topics as part of ongoing

regulatory reporting. In some countries, such information is confidential and in some countries some of this information is made available publicly. It is critical that EFRAG recognizes the connection between reporting on impacts and the information that companies already report on impacts under various environment, social and governance related regulations in each country.

ERT believes that the boundaries and thresholds for double materiality (impact and financial materiality) should be set through quantitative and qualitative indicators, and that the concepts of positive impact, negative impact, actual and potential be amended to better reflect these practices.

More specifically, we propose the following definitions with regard to impact materiality:

Positive Impact: Causing impact or contributing in a positive way on people or the environment (doing more / beyond legal minimum requirements).

Negative Impact: Causing impact or contributing in a negative way on people or the environment (“net” evaluation after considering legally required and implemented measures)

Actual:

- Be proven by evidence either based on internal data (e.g. whistleblowing system, project documentation) or external information (e.g. scientifically/officially validated).

Potential:

- possible to occur in the reporting period or future
- occurred in the past but not relevant in the current period
- might occur again

As a note on the above, we believe that an impact that was „actual“ in a past period can be reclassified to „potential“ on a case-by-case basis (e.g. if remediation was successful or reason for impact has been stopped).

- the process to determine material matters, including how to factor implemented mitigation and prevention actions in the materiality assessment and how to define thresholds striking the right balance between completeness and decision-usefulness of information

On the process to determine material matters

ERT believes that broad-reaching sustainability reporting standards, that span all sectors, geographies and entity sizes, by their nature cannot be completely deterministic in their requirements. Therefore, it is important that the framing and the flexibility of the Double Materiality Assessment (DMA) allow for an assessment in a way that is appropriate for each organisation, as well as for its reader.

EFRAG should define a more clearly detailed process for their impact materiality assessment. This would include a more streamlined, structured, tiered approach to determining material topics, including any stakeholder engagement conditions (considering if it should be a requirement, with a description of the identity of the stakeholder, rhythm of engagement and what weight it should have).

It is important that the DMA process retains its flexibility to design and execute it in a way that is appropriate for the organization and its activities and for the users (e.g. maintain the ability

to define the 'level' of matter to assess and report on, taking qualitative or quantitative approaches, flexibility regarding the methodology of stakeholder engagement). We support a simplification of the evaluation process that would mirror the ERM evaluation (magnitude x probability). However, this approach should not be jeopardised by introducing guidelines on expected material matters for different sectors.

We believe that several definitions in the scope of the materiality assessment could benefit from further clarification. A stronger alignment with the IFRS Sustainability Standards should be considered. Clarifications should be made on the definition of:

- **financial materiality.** It is considered very broad and as lacking concreteness when defined as *“expected to affect the undertaking’s financial position, financial performance, cash flows, its access to finance or cost of capital over the short-, medium- or long-term”*. The ERT suggests that financial materiality should exclusively focus on information most relevant for the capital market, otherwise one impact may spiral into 15 risks thereby greatly increasing the scope. The determination should be oriented towards the company-specific steering KPIs.
- the term **“gross”**. This term is considered overly abstract and theoretical as the lack of consideration of any mitigation measures, regardless of whether they were implemented before the (potential) impact, leads to highly unrealistic scenarios. We recommend that “gross” be clarified in the regulation and should mean not anticipating technologies or overly positive developments (as in FAQ 23).

There is currently no guidance on whether gross or net impacts and risks should be considered, nor on how to treat mitigation measures in this context. This creates inconsistencies in how risks and opportunities are measured and reported. ERT is of the opinion that mitigations that are in place (or will be in place), when considering any of likelihood, scale, scope and irremediability, is important in properly assessing and identifying the most material IROs and sustainability matters and can help reduce unnecessary reporting of possible issues that have been adequately mitigated (no point reporting on something that has been mitigated and then explaining that it has been mitigated). ERT recommends that in relation to IROs, clarify that preventative mitigations where in place (e.g. through policy, physical equipment, process, local environment/situation, etc), or anticipated to be in place before the potential impact may occur, may be taken into account in the assessment of likelihood and/or scale or scope of materiality of matters (and metrics) and that remedial measures, where in place or anticipated to be in place, may be taken into account in the assessment of irremediability. By doing so, the company would only consider those impacts/risks the company actually faces. Considering impacts or risks without taking into account mitigation, prevention or remedial actions is not representative of reality. Considering risks on a gross basis is also not aligned with the Enterprise Risk Management (ERM) Framework which uses the net risk concept and is applied by many companies.

ERT is of the view that only a “net” perspective (i.e. gross impact minus mitigation/prevention measures that are implemented) provide a realistic picture of a company-individual materiality assessment. A revision of ESRS should explicitly allow the materiality assessment process to take into account mitigation actions, resulting in the identification of impacts, risks and opportunities that are material post-mitigation.

ERT recommends that mitigation measures dedicated at preventing occurrence, or reducing severity, should not be reported as positive impacts. We propose that the ESRS specify that this is forbidden.

In addition, the ERT sees a risk that IROs can end up being considered as material, not only due to the general guidance but because of some ESRS 1 requirements (mentioned below).

With respect to specific paragraphs in scope of the ESRS 1, it is worth noting that:

- paragraph 45 requires that “human rights impact takes precedence over its likelihood”. ERT believes that these risks creating an inaccurate view of materiality as very low likelihood impacts may end up being shown. We recommend that human rights scoring should take the concept likelihood into account (which give the real picture of human rights impacts & risks, not an artificial one). The materiality-by-default-rule for human rights topics should be removed.
- paragraph 40 states that “*the undertaking shall consider how it is affected by its dependencies on the availability of natural, human and social resources at appropriate prices and quality, irrespective of its potential impacts on those resources*”. The ESRS stipulates that dependencies must be considered. While this makes sense and is similar to frameworks like TNFD, the IRO framing would consider dependencies under risks, as they are fundamental to the business success of the entity. The methodology does not have a dedicated place for the dependencies. One suggestion could be encouraging preparers to consider dependencies when considering risks.

On the definition of thresholds

ERT believes that thresholds should remain company-specific and should be aligned with company-internal threshold(s) of Group Risk Management system. Materiality thresholds for risks and opportunities are strongly dependant on company size and structure. Integration of ESG risks and opportunities in risk management process (which also underly national legislation specifics) is only possible if existing company-specific thresholds can be used.

Lastly, we believe that monetary quantification of impacts should remain voluntary to avoid increased complexity. This would need extensive additional efforts and is not in line with Omnibus intentions to simplify.

- the process to determine material information to be reported (information materiality, ESRS 1 – paragraph 31 and 34)

ERT believes that information materiality should be preserved as it allows companies to tailor information to their circumstances and materiality. However, the process to determine material information should distinguish what makes a topic, and a datapoint within that topic, material. In addition, it should introduce a guidance mechanism to rationalise disclosures, especially when certain datapoints within a material topic are not decision-useful.

It may be worth considering:

- to adapt the definition of stakeholder relevance to include a materiality threshold;
- That the DMA process should include a company-specific cross-standard comparison to ensure that the perceived importance of topics is not driven by the sheer number of ESRS sub-sub-topics.
- making it explicit in the document that not all data points are material if a topic/subtopic/sub subtopic has been considered material.

ERT believes that paragraph ESRS 1 Par. 31 governing the cases where data points do not need to be reported based on "materiality of information", could be amended. however, the requirements are formulated so rigidly that there is hardly any possibility to make use of this option and ensure reporting that is appropriate for the addressees. The criteria should be less rigidly formulated in the sense of an overarching principle of "fair presentation". EFRAG should consider including clear instructions regarding quantitative thresholds for the materiality of information of specific datapoints. Without clear instructions, the materiality will be defined by

each preparer in cooperation with its auditor thereby reducing the comparability of the disclosures.

ERT strongly recommends clarifying that if a disclosure requirement or datapoint does not meet the criteria of representing relevant and decision-useful information about a significant impact or risk, then it shall not be reported.

While entities can create an entity-defined matter according to this IRO detail, the reported data should be allowed to address the identified material IRO if that is a subset of the matter, versus requiring reporting across the entire matter or the entire company. Therefore, the ERT recommends amending Par. 31a to be *“the significance of the information in relation to the matter (or specific IRO(s) that inform it) it purports to depict or explain”*.

- the disclosures related to the process according to IRO-1

While publishing a basis of preparation is established practice, IRO-1 specifies significant details, which may lead to missing comparability due to missing methodological guidance (see our comments in (1) & (2) & (9)).

ERT believes this can be addressed by revising the different level of granularity/attention on this particular process. More specifically:

- depending on the size of the company (specific reference to ESRS2 paragraph 53 b.1);
- how the process interfaces with other business processes (ESRS2 53 (e,f)) ;
- detail on input parameters (53(g))

There is also a duplication between ESRS1 DMA requirements and individual topical standards on how to assess (and what to report) regarding the approach to assessing IROs. Therefore, the ERT also recommends simplifying IRO-1 to require a description of the approach taken to identifying and assessing IROs, without the prescriptive detail and in particular removal (or optionality) of 53 (d-g). Remove references to IRO/DMA approach from topical standards and have a single approach set out in ESRS1.

- the disclosures related to the outcome of the process (SBM 3)

Currently, the description of process to identify IROs (par. 51 to 53) comes after the disclosure requirement for the list of IROs and how they are integrated into the SBM (par. 46 to 49). For logical flow for the users, the reporting requirements on SBM should follow par. 59.

ERT also believes that the level of required disclosure about the assessment process can be simplified, with a particular focusing on the governance oversight and general methodological approach avoiding overly technical explanations.

In addition, ESRS 2:

- paragraph 48b references to “current and anticipated effects” are not easily distinguishable from “current and anticipated financial effects”. This topic is also specifically discussed in topical standards.
- paragraph 48f, on the resilience of the strategy and business model, we believe that there is a need to better specify what is expected in terms of reporting on resilience aspects and to provide references to specific methodologies.
- paragraph 48 (g) disclosure requirements lead to boilerplate disclosures.

- the inclusion of material information based on entity-specific disclosures

ERT supports the Commission's proposal to not introduce requirements for sector-specific standards.

In addition, companies should retain ability to report on both entity specific matters and entity-specific metrics if this provides useful information to users of the report. EFRAG should clarify that, where there are established metrics that are used by an entity or its sector, that these metrics are equally valid to those prescribed by ESRS (see data point comments).

With respect to specific provision, ESRS1 30b, ESRS2 para 76 (and elsewhere) should be retained while ESRS1 para 130 should be eliminated with EFRAG accept that entity-specific matters are a long-standing and relevant part of reporting that is unlikely to decrease.

- the challenges related to the audit of the double materiality assessment (process and outcome)

Currently, the audit process of the DMA proved challenging as a lot of documentation is requested. Consequently, ESRS requirements are interpreted and audited very differently.

We recommend that EFRAG:

- provides clearer guidance wording and less room for interpretation in ESRS (see our comments above) with a view at easing audit discussions.
- ensures audit requirements are proportionate to the judgemental nature of the process, focusing on the methodological integrity and the assessment of the robustness of the process.
- clarify that the purpose of an audit should verify that the process of the preparer serves in generating a fair overview of a company's impact and risk profile. As DMA decisions usually rely on expert judgement, an audit cannot have – as its objective - to find an objective truth.
- Clarifies that the DMA conducted by the preparer is decisive in defining the scope of the reporting and the auditor should verify that the DMA process is in line with the provisions of the ESRS. The auditor should have no role in deciding which IROs or sub-sub-topics are material for the preparer.

- the value chain

Members agree that the existing definitions are too broad to give guidance for reporting. The ERT believes that this can be improved by approaching the value chain on a risk-based basis.

The value chain in practice is challenging for companies to assess and evidence accurately, in particular beyond tier 1 direct relationships, due to lack of visibility to who is conducting activity, how it is conducted and whether impacts are or may occur. Exchange of reporting data (including in support of IRO assessment) is also onerous for all participants – not just SMEs. In the case of value chain entities caught by CSRD, they will assess and report upon material matters in their own right – therefore negating the need for other entities to attempt to assess and report the same information. For non-CSRD-caught entities there is little incentive to share information with preparers and a potential risk to EU company competitiveness.

Consequently, the ERT believes that, as a first step, clearer guidance and illustrative examples should be tabled by EFRAG on how to effectively present an undertaking's value chain within the sustainability statement. This is particularly important for entities with complex or multi-tiered value chains, where identifying and structuring relevant information can be challenging.

Secondly, specific amendments should be made to the DRs associated with in-depth IRO assessment of the value chain (e.g. ESRS1 para 39, 43), to make clear that efforts to consider entities beyond those with whom a direct relationship is held are subject to pragmatic and practical effort and should not place unreasonable burden on either the preparer or the VC entity – and where possible instead leverage instead the value chain companies’ own reporting and (sectoral trade association reporting). The focus should be on entities with whom these is a direct (contractual) relationship and the limits on extent of influence a company can have on such partners.

- the aggregation/disaggregation of information

ERT believes that clearer guidance is needed regarding the extent to which IRO aggregation is possible. Therefore, we suggest that there be no aggregation up to sub-topic level as IRO specifics are lost and comparability is not possible.

In addition, **ESRS1 paragraph 54-55** requires information to be disaggregated by country or site/asset (and potentially by subsidiary) ‘when needed for a proper understanding’ of the IRO or material matter. This is subjective, due to the breadth of potential readers, and risks adding data complexity with little added value. In the case of opportunities, it may also risk exposing commercially sensitive information.

Therefore, the ERT recommends that EFRAG provides for a more helpful framing for IROs focused on specific assets/sites/countries to be defined as such. This would create more clarity on the specific IRO, and where they are more cross-cutting, the breakdown by site/asset would consequently not be required or made optional based on how the IRO is defined (as required by para 31 / 34). Therefore, changes to paragraph 54 to ‘shall consider’ or ‘may’ and in paragraph 55 retain ‘shall consider’ (or change to ‘may’) would provide flexibility and the ability for preparers to apply judgment, based on their impact management and/or readers’ needs.

Lastly, **ESRS1 paragraph 57** should be amended, given that there will likely not be sector specific standards.

- other (please specify)

ERT would like to raise the following topics:

1. **ESRS scope** - the intention behind the scope of the ESRS should be specified, notably if the intention is to have “undertakings only report material information”. As it currently stands, the wording leaves room for interpretation and does not explicitly prohibit reporting of non-material IROs or on non-material sustainability sub-sub-topics, which is used by some companies extensively. Only reporting on material information should also allow to omit parts of tables without content.
2. **ESRS revision** - A revision of ESRS should allow flexibility for companies with respect to the process of conducting a materiality assessment. In particular, companies should be able to conduct their own materiality assessment based on clear and pragmatic criteria of their choice..

In addition, a revision of ESRS should allow companies to conduct the materiality assessment on a consolidated basis for each of its value chains at the parent group level. Any rules that result in the segregation of the materiality assessment and reporting are unnecessary for reporting by companies with global strategies and value chains. The Materiality Assessment process is critical to establish the perimeter of the sustainability statement and pivotal to ensure that undertakings only report material

information, that they do not report unnecessary information nor dedicate excessive resources to the materiality assessment process. Initial feedback seems to suggest that required disclosures on the process may be too detailed and the outcome of the process may lead to disclose too many/too detailed IROs. The Omnibus proposals have identified this area as to be clarified.

3. **Conceptual clarity on Opportunities and Dependencies** – Members believe that the concepts of opportunities and dependencies remain insufficiently defined, leading to inconsistencies in how they are understood and applied. Opportunities are often confused with positive impacts or mitigation measures, while dependencies lack a structured evaluation framework. Clearer definitions, aligned with the AR16 topic structure (topics, sub-topics, and sub-sub-topics), and supported by practical examples would improve the accuracy and comparability of assessments. Additionally, the current use of uniform parameters (e.g., scale, scope, irremediability) across fundamentally different topics—such as environmental versus social issues—adds complexity and should be revisited or clarified.
4. **Clarity on material topics** – the ERT believes that more clarity should be provided on material topics. Therefore, EFRAG should indicate whether each topic can have both positive and negative impacts, or if the overall impact should be viewed as either positive or negative. Clarifications should be made on how the company's action plans for mitigating negative impacts will be evaluated.
5. **Scope and boundary definitions** – Defining the scope and boundaries of impacts, especially those related to the value chain, remains a significant challenge for members. Without clear criteria, entities within the same sector may arrive at materially different conclusions, undermining comparability. Guidance is needed to help entities determine where and how to set boundaries for assessing impacts, risks, and opportunities across their operations and value chains.
6. **Simplification and sectoral guidance** - The current DMA process is overly complex and resource-intensive, with limited returns in terms of actionable insight. Attempting to quantify and assess all types of impacts, including those that are inherently difficult to measure (e.g., human rights), can feel artificial and burdensome. Simplifying the process and providing sector-specific guidance on relevant topics, reporting priorities, and expected levels of granularity would make the framework more practical and effective for preparers. Additionally, the DMA requires actual impacts that have occurred in the past to be considered in the current materiality assessment. However, no specification exist regarding the appropriate timeframe that should be applied, which should be clarified through guidance.

- 1.2. If possible, and if not specified already under point 1.1 above, please identify the narrative disclosure requirements (DRs) or datapoints (DPs) that raised the most critical challenges in determining the material information to be reported and share your suggestions (**please replicate for as many DRs / DPs as you deem fit**).¹
 - Disclosure requirements (DRs):

ERT identified the following narrative DRs:

1. **ESRS 2 IRO 1 – 53 b:** The requirement asks the company to describe the process used to identify impacts, with a focus on how it addresses specific activities, business relationships, geographies, or other factors associated with heightened risk of adverse impacts. However, this level of specificity is challenging to provide in the context of a complex organisation, where processes are typically designed at a broader level and are not tailored individually for each geography.
2. **ESRS 2 SBM- 3 48 b:** the requirement asks to identify current and anticipated effects of its material impacts, risks and opportunities on its business model, value chain, strategy and decision-making, and how it has responded or plans to respond to these effects, including any changes it has made or plans to make to its strategy or business model. Unfortunately, it is neither easy nor likely to establish a direct connection between IROs and current or expected financial effects. Requiring a company to make this connection could result in overlooking IROs that, while not directly linked to financial outcomes, are still significant from a sustainability perspective.
3. **ESRS 2 SBM- 3 48 f:** the requirement asks to provide information regarding the resilience of the undertaking's strategy and business model regarding its capacity to address its material impacts and risks and to take advantage of its material opportunities. Moreover, it is requested to provide a qualitative and, when applicable, a quantitative analysis of the resilience. We believe that a company can provide a general analysis of how its strategy addresses and is resilient to sustainability impacts and risks. However, it is unlikely that a precise quantitative analysis exists that tests each impact or risk identified through a double materiality assessment against the company's strategy. Typically, a company's strategy is not designed to respond to each specific impact or risk but rather to broader sustainability topics. Therefore, requesting this level of detailed disclosure may not be particularly useful. Additionally, disclosures on resilience are also required in some topical standards, e.g E4. ERT strongly advises to delete these additional requirements as the preparer will usually only conduct a general resilience analysis for the whole company instead of several analysis for specific sustainability topics.

- Datapoints (DP):

ERT identified the following DPs:

¹ List of disclosure requirements (DRs): BP-1, BP-2, GOV-1, GOV-2, GOV-3, GOV-4, GOV-5, SBM-1, SBM-2, SBM-3, IRO-1, IRO-2, MDR-P, MDR-A, MDR-M, MDR-T, E1-GOV 3, E1-1, E1-SBM3, E1-IRO1, E1-2, E1-3, E1-4, E1-5, E1-6, E1-7, E1-8, E1-9, E2-IRO1, E2-1, E2-2, E2-3, E2-4, E2-5, E2-6, E3-IRO-1, E3-1, E3-2, E3-3, E3-4, E3-5, E4-SBM3, E4-IRO1, E4-1, E4-2, E4-3, E4-4, E4-5, E4-6, E5-IRO1, E5-1, E5-2, E5-3, E5-4, E5-5, E5-6, S1-SBM-3, S1-1, S1-2, S1-3, S1-4, S1-5, S1-6, S1-7, S1-8, S1-9, S1-10, S1-11, S1-12, S1-13, S1-14, S1-15, S1-16, S1-17, S2-SBM3, S2-1, S2-2, S2-3, S2-4, S2-5, S3-SBM3, S3-1, S3-2, S3-3, S3-4, S3-5, S4-SBM3, S4-1, S4-2, S4-3, S4-4, S4-5, G1-GOV1, G1-1, G1-2, G1-3, G1-4, G1-5, G1-6.

- 1) ESRS2 SBM-3 paragraph 48d/e in combination with E1-9, E2-6, E3-5, E4-6, E5-6: the breadth and detail required in the current and anticipated financial effects disclosures lack clarity and, at least for the anticipated effects, will not be reliable or allow comparability. The detailed reporting on anticipated financial effects of the undertaking's material risks and opportunities seems inappropriate: 1. There exists no accepted and generally used method to calculate anticipated financial effects. ESRS 2 does not give any guidance or insights on how to calculate the financial effects. E.g. It remains unclear what the basis for the calculation of the financial effects should be (planning data or the data from the last financial year) or which granularity is required regarding the effects on financial position, financial performance and cash flows. 2. For some material risks and opportunities, a calculation is impossible. This includes reputational risks that can usually not be quantified. 3. In many cases the effects of material risks and opportunities cannot be identified separately. E.g. the financial effect of higher competition in a specific market cannot be separated from general economic influences, or the effect of changes in the portfolio or pricing. This results in a very high level of measurement uncertainty, potentially giving users a wrong picture about the issue. 4. Mid-term and long-term financial effects of risks are usually mitigated (completely or at least to some extent) by measures decided and implemented by the preparer during a later point in time and not necessarily during the reporting year. This leads to a situation where the anticipated financial effects have to be reported without highlighting measures the preparer would implement to mitigate them. This will give users of the reports a wrong impression regarding the financial effects. ESRS 2 SBM-3 paragraph 48d/e should therefore be deleted completely or the ESRS should explicitly allow for narrative disclosures.
- 2) ESRS Par. 45c (only illustrative example)
- 3) GOV-4 due diligence index: There are reporting redundancies because the ESRS require separate tables for GOV-4 and IRO-2. We suggest combining the required information in a single table to avoid redundancies
- 4) ESRS2 SBM-1: ESRS 2 Par. 40b, c should be omitted because no ESRS sector-specific standards will be applied.
- 5) MDR-A CAPEX/OPEX: ESRS 2 Par 69c requires indication of the amount of future financial resources. This data point should be removed as it contains business sensitive information and is subject to high volatility and planning uncertainties.

- Comments on challenge:

We believe that a revision of ESRS should include detailed and practical guidance for efficient implementation, avoiding unnecessary complexity, costs and bureaucracy. As multinational companies with global footprints, ERT members face significant challenges in distinguishing information that is material from information that is not. This creates a risk of unnecessary reporting and overcompliance.

In addition, the ERT would like to provide comments on the following challenges:

1. the individual due diligence index does not offer any real added value but increases the complexity of reporting. The overarching classification (GOV4) of the ESRS in conjunction with the IRO2 index should be sufficient.
2. social and governance qualitative data points are often challenging to report due to their subjective nature. A potential solution is to reduce the number of data points and establish minimum data requirements focused on quality. This approach would allow companies greater flexibility in detailing their policies and action plans while still providing a structured framework. The primary goal is to simplify the qualitative narrative.

- Suggestions:

ERT suggests the following:

- ESRS 2 Par. 40b, c should be omitted because no ESRS sector-specific standards will be applied.
- Delete provisions on financial effects (ESRS 2 SBM-3 paragraph 48d/e in combination with E1-9, E2-6, E3-5, E4-6, E5-6): the breadth and detail required in the current and anticipated financial effects disclosures lack clarity and, at least for the anticipated effects, will not be reliable or allow comparability. The detailed reporting on anticipated financial effects of the undertaking's material risks and opportunities seems inappropriate: 1. There exists no accepted and generally used method to calculate anticipated financial effects. ESRS 2 does not give any guidance or insights on how to calculate the financial effects. E.g. It remains unclear what the basis for the calculation of the financial effects should be (planning data or the data from the last financial year) or which granularity is required regarding the effects on financial position, financial performance and cash flows. 2. For some material risks and opportunities, a calculation is impossible. This includes reputational risks that can usually not be quantified. 3. In many cases the effects of material risks and opportunities cannot be identified separately. E.g. the financial effect of higher competition in a specific market cannot be separated from general economic influences, or the effect of changes in the portfolio or pricing. This results in a very high level of measurement uncertainty, potentially giving users a wrong picture about the issue. 4. Mid-term and long-term financial effects of risks are usually mitigated (completely or at least to some extent) by measures decided and implemented by the preparer during a later point in time and not necessarily during the reporting year. This leads to a situation where the anticipated financial effects have to be reported without highlighting measures the preparer would implement to mitigate them. This will give users of the reports a wrong impression regarding the financial effects. ESRS 2 SBM-3 paragraph 48d/e should therefore be deleted completely.
- ESRS 2 Par 69c requires indication of the amount of future financial resources. This data point should be removed as it contains business sensitive information and is subject to high volatility and planning uncertainties.
- Remove negative statements: Datapoints (DP): ESRS 2.45 (c) (only illustrative example) This datapoint requires at least a negative statement like "we have not amended our strategy". We expect such statements to be very common for many companies. ERT suggests removing the obligation to disclose these negative statements as such disclosures do not add value to the user as the knowledgeable user already knows from the missing of such a statement that no such change occurred. Consequently, it is just a boilerplate statement. As this concept is already known in financial reporting (i.e., what is not disclosed is either not applicable or not material), this approach has already proven its worth. It would also be a further step to align financial and sustainability reporting.

PART 2: HOW TO STREAMLINE NARRATIVE INFORMATION

Narrative information is a key part of sustainability reporting, in particular with respect to governance, strategy, business model, as well as policies, actions and targets (PATs). It is a key factor to meet the quality characteristics of relevance of information and fair presentation of the situation of the undertaking with respect to its sustainability matters. However, narrative information is difficult to compare. In determining the content of narrative information to be reported per disclosure requirements, ESRS combine a principles-based disclosure objective with a list of “shall” datapoints. Initial feedback seems to suggest that the “shall disclose” datapoints in ESRS Set 1 may be too detailed and too prescriptive in that regard and that a proper balance between relevance/fair presentation, comparability and preparation effort has been difficult to achieve. The Omnibus proposals suggest to consider this point carefully for burden reduction purposes.

The ERT believe scope exists for streamlining narrative information through the elimination of duplicative disclosures and datapoints that are not identified as critical. Where similar information is required across multiple standards or sections datapoints should be merged into a single disclosure. In cases where datapoints do not substantively add to the understanding of materiality sustainability matters, these should be eliminated.

The provisions for the incorporation by reference are overly burdensome and complex. Incorporation by reference of information and/or datapoints from the remuneration report and the statement on corporate governance should be made easier to avoid duplication of information. For example, information that needs to be disclosed under GOV-1, GOV-2, GOV-3 and GOV-5 is also included in other reports published by the preparer (for example remuneration report or statement on corporate governance) and required by the competent regulatory authority. These additional reports are sometimes not verified by the auditor. Due to the very strict requirements, a lot of information needs to be duplicated thereby increasing the reporting scope without adding value to the user as the information is already publicly available elsewhere. The AR for the incorporation by reference should include minimum requirements for the incorporation. EFRAG should provide for an illustrative example regarding the incorporation by reference.

- 2.1. From your perspective (preparer/user/other), please share your suggestions on how to simplify narrative information, in relation to **(please add suggestions to as many items as deem fit)**:
 - Deleting datapoints that are not critical:

ESRS 2 Par. 45b could be removed as it is a duplicated disclosure on DMA and already covered by the ESRS 2 IRO-1 disclosures.

ESRS 2 Par.40a i-iv duplicate general information on the company that is already published in other parts of the management report. It is unnecessary to require preparers to copy and paste this information.

ESRS 2 Par. 40 b and c. Breakdown of revenue by ESRS sectors can be deleted.

ESRS 2 Par 40 e. Keep it limited to products and services and customer groups; delete the rest as it just adds complexity with very little value to the users.

ESRS 2 Par 40 f and g. (g) is covered under the SBM section to a large extent. Both f and g just add unnecessary complexity with very little value.

MDR-P par. 65a to f should be deleted as they lead to excessive disclosure for most companies with several policies. MDR-T para 79 could be simplified such that it does not apply to each material matter. Remove/simplify policy related DRs in each topical chapter. Keep the disclosure requirements limited to MDR-P, a simplified version of MDR-P.

ESRS 2 Par 79 and 80 (a) to (j) – Several low value-adding disclosure requirements on target setting process. Report users would mainly look for what are a given company's ambitions or goals w.r.t a sustainability matter and what relevant targets have been set, and progress against the same. But the disclosures under Par 79 and 80 on how targets were set and who was consulted is unnecessary information for the report users. Simplify.

ESRS E2 24 – Delete. Ecological threshold is a complex concept with very little practical examples as applied in industries.

ESRS S1 Par. 15 and AR 8 could be deleted. The requirement fails to provide useful guidance to understand the notions of "particular characteristics", "particular contexts", and "particular activities" in order to apply the corresponding disclosure requirement provided for in par. 15 since it uses vague terms and concepts. For preparers it is important to specify which criteria should be applied to categorise the workforce and for what purpose. For example, it is also not clear which audit-proof assumptions are used to identify contexts considered eligible to be "routinely discriminated" as women.

ESRS S1 Par. 16 could be deleted as requiring sub-classifications of own workers in this granularity is disproportionate as the CSRD does not demand any such specifics. Consistency in use of terms is crucial for the correct implementation of the directive.

In ESRS S1-11 all datapoints related to local requirements should be removed. ESRS S1 Par. 75 should be completely deleted as it is unclear in what types the employees are divided, despite the fact that it is impossible to provide reliable data on the five areas of social security in the form requested. It does not comply with the CSRD requirements. The required details are irrelevant for sustainability reporting. Globally, very different legal grounds are in effect and local particularities come into play; thus, for worldwide active companies providing meaningful statements would be difficult. Information would need to be collected manually, hence burden of data collection would be disproportionate.

Additionally, in ESRS S1-8 collective bargaining coverage, S1-12 persons with disabilities and S1-14 on health and safety all datapoints related to local requirements should be removed as diverging regulations in each country limits the value for the users of sustainability information. Furthermore, in many regions and countries (especially Europe & US), collecting disability status information is subject to strict privacy laws (GDPR), and voluntary self-declaration rates are low.

ESRS S1-83 – Training and skills development. S1-83 (a) Percentage of employees participating in performance reviews should be removed as it is not a proxy to training and development programmes. Limit it to percentage of employees covered under career development.

ESRS S1-15-93 – Should be removed as data on entitlement and usage is heavily shaped by local laws (e.g., EU mandates vs. US systems) and does not necessarily reflect corporate policies.

Exclude mental illness from the required reporting based on ESRS S1 AR 86. Research on lists of official occupational diseases that are published by national health authorities (e.g. US, China, Germany etc.) show that in none of those mental illness would be considered fully or only work-related or would be classified as occupational disease which are running through an official determination process (despite mentioned by ILO).

Mental illnesses often arise from a complex mix of genetic and environmental factors, making it challenging to attribute them solely to workplace conditions. Additionally, the subjective nature of these conditions means that symptoms can vary widely, complicating their

classification as occupational diseases. Furthermore, individuals suffering from mental health issues should be protected from the stress of formal assessments to determine work-relatedness, as such processes can exacerbate their symptoms and hinder recovery.

As a company, it is essential to report only those cases of recordable work-related ill health for which we have been officially held accountable through a formal determination process, thereby limiting the data collection to officially recognized occupational diseases as defined by the respective national health authorities.

ESRS S4 Par. 16a-c: These datapoints should only focus on consumer rights. The ESRS require companies to report on the impacts of their activities on consumer rights. This is an important aspect, as consumer rights, such as product safety, information rights, and protection from misleading advertising, are crucial for protecting the interests and wellbeing of consumers. However, consumer rights and human rights, while interconnected, are not entirely synonymous. Human rights encompass a broader range of fundamental freedoms and entitlements, including civil, political, economic, social, and cultural rights. These go beyond just the specific consumer-oriented rights that are addressed in ESRS S4 and though human rights should be considered by companies in their governance, consumer rights should remain the focus in ESRS S4.

- Merging datapoints (with an indication of its effectiveness for burden reduction purposes):

The inclusion of DRs/ARs in topical ESRS that are applicable in conjunction with ESRS 2 (GOV-1, GOV-3, SBM-2, SBM-3, IRO-1) increases complexity and creates challenges in structuring a coherent narrative. A large part of the content required in these disclosure requirements is already covered in DRs under ESRS 2 (e.g. for SBM-2, IRO-1 and partially for SBM-3). This structure results in unnecessary duplication contributing not only to longer reports (as the auditor requires the preparer to include additional wording), but also leads to disconnected content that reduces the overall readability and usability of the sustainability statement. These should be shifted to ESRS 2 to reduce duplication across individual standards.

- Transferring “shall” datapoints to non-mandatory material (“May“, guidance, illustrative examples):

/

- Other (please specify):

While the suggestions included below reflect areas most relevant to the ERT, we suggest a comprehensive review of narrative reporting requirements and data points (DPs) to identify and eliminate redundancies and remove DPs that do not provide clear decision-useful information. In particular, a thorough review of all “shall requirements” and an assessment of all “may” requirements should be conducted to remove or consolidate those that do not add meaningful context or insight to the disclosures. Similarly, Application Requirements (AR) should be reassessed to ensure they focus on material, essential, and decision-useful information, removing those that contribute to disclosure overload without significantly improving quality or clarity of the information. Currently, application requirements (ARs) contain in some cases additional mandatory datapoints. The ESRS should differentiate between disclosure requirements and application requirements. The latter should serve as guidance to support the reporting of mandatory datapoints already included in the disclosure requirements (DRs) in the main body of the standard. Treating them as de facto obligations adds unnecessary reporting burden and contributes to very high complexity of the standards. Following such a review, mandatory datapoints should be maintained in the DRs while related

and additional information, methodologies and objectives should be moved to the ARs. All mandatory datapoints should be subsumed under the DRs.

Additionally, it is not understandable that the ESRS are not providing for ARs on many complex DRs. The lack of guidance leads to differing interpretations of the legal requirements thereby reducing the comparability of the disclosure and limiting the usefulness of the reports for the users. If no guidance can be given on how to interpret and/or implement a DR, we strongly recommend the deletion of the respective DR.

The ERT suggest Simplifying Mandatory Narrative Requirements (MDR) by developing guidance on how to integrate the required information cohesively within the report—particularly in relation to the management approach for each standard. Clarifying disclosure expectation regarding the selection criteria for actions to disclose and the treatment of non-existent targets to ensure that the omission of MDR-T is clearly understood as “no targets exist” would avoid unnecessary explanations. Similarly, broad definitions of incidents and issues add further complexity as this can lead to a disconnect between impacts, reported incidents and issues and would benefit from further clarifications.

The ERT suggest addressing overlaps between environmental standards by providing distinction between standards where the same information (e.g. policies, actions, mitigations and financial effects) to avoid repetition. Furthermore, to address interactions between social standards, EFRAG should clarify relationship between engagement mechanisms, remediation processes, and actions to ensure better comprehension and narrative flow.

To facilitate the representation of datapoints that are relevant to separate sections leading to their duplication, the ERT suggests that the standards could provide the flexibility of presenting policy actions, IRO and targets in one section. This would allow companies to represent information in a way that better represents internal processes. To enhance comparability, a structured template or modular reporting format for narrative disclosures could be introduced to further reduce narrative complexity.

To remove negative statements, the ERT proposes that in cases where datapoints require a company to stat ‘whether and how’ if the first response is “no” that disclosures should not be required.

- The potential overlaps between minimum disclosures requirements (MDRs) on Policies Actions and Targets (PATs) that are located in ESRS 2 and PAT “shall” datapoints located in topical standards (**please add suggestions to as many items as you deem fit**):
 - Simplifying MDRs on policies in ESRS 2:

Remove policy related disclosures in each chapter. Keep the disclosure requirements limited to MDR-P.

The ERT recommends that Policies are described at a general level (ESRS 2) and simply referenced across topical areas to avoid duplication. Moreover, the “if relevant” provisions related to time horizons, key actions, stakeholder involvement in defining policies and targets, and progress on action plans should be made voluntary.

- Simplifying MDRs on actions in ESRS 2:

The ERT recommends shifting towards disclosure of key strategic actions only, rather than operational or tactical measures. Furthermore, some information on MDR-A action, especially with regard to time horizons and Capex/Opex as recurring costs, is not always fundamental and in certain cases could be made “if applicable” or deleted completely. Lastly, reporting about

allocated financial resources should not be required for social and governance topics. MDR-A Para 68a-e can be simplified. For example, 1) lot of use of “if applicable” leading to unnecessary confusion; 2) a lot of words are thrown in such as “expected outcomes”, “achievement of policy objectives and targets” which can instead be kept simple as to how IROs are being addressed; 3) scope: When IROs are described, scope is required to be mentioned; therefore, it is obvious that action plans would be specific to the scope where IROs exist whether it is in own operations or in the value chain. Keep the disclosure requirements clear, logical and simple in its wording; do not overcomplicate.

- Simplifying MDRs on targets in ESRS 2:

The ERT notes a high degree of complexity as well as contradictions in relation to targets.

We have identified instances in which MDRs that are required “flat” for each standard are not always fully applicable (e.g scientific evidence for occupational/business conduct targets). In such cases the ERT recommends clarifying that while MDRs on targets apply in general, these are not always mandatory or necessary depending on the context. When targets do not comply with all MDRs, these should still have the wording of “target” although entity specific.

Furthermore, contradictions between ESRS2 paragraph 72 and 81a). While paragraph 72 lists the reasons for not adopting targets as a shall-disclosure and the timeframe for setting them as a “may”-disclosure. ESRS par. 81a lists both as a may-disclosure. Recommendation: 81a) is preferred. Finally, reporting about allocated financial resources should not be required for social and governance topics.

- Merging MDR of ESRS 2 with “shall” PAT datapoints of topical standards

The ERT recommends developing a single PAT disclosure framework applicable across the topical standards (for instance, a mandatory table with the relevant information regarding the policies, actions and targets, disclosed at the beginning of each topical standard).

- Transferring “shall” PAT datapoints in topical standards to non-mandatory material (“May”, guidance, illustrative examples):
- Other (please specify):

Having MDRs requirements in a general standard (ESRS 2) and in the specific topics have been difficult to deal with. We suggest two different approaches:

- 1. Present MDRs in a single section** of the standard and provide for more flexibility in their application (for example, not every single requirement should be applicable for every topic);
- 2. Present MDRs in every single topic.** This approach makes the topical standards longer in texts but also provide for more clarity in the presentation especially when you have to present different portion of information to different department of the reporting entity. Furthermore, this approach avoids the risk to miss MDRs of each topical standard.

More generally, MDR requirements should be streamlined to eliminate redundancies and focus on information that is truly material for stakeholders. In particular, MDR-P datapoints should be simplified when the relevant policies are already publicly available and can be referenced instead of fully disclosed again.

Furthermore, the definition of policies, actions and targets are often too narrow, making reporting very complicated. For example, the definition for actions indicates that actions can

only exist when a target is set. However, as targets must be SMART, actions may not be reported even if a company has implemented them. To address this, the ERT suggests decoupling actions from targets, separately defining action plans, and including objectives that are not as strictly defined as a disclosure option.

General disclosures should be consolidated within ESRS 2, rather than duplicated across individual topical standards. Specifically, SBM (Strategy, Business Model), GOV (Governance) and IRO (Impacts, Risks, and Opportunities) datapoints should be removed from the materiality-focused standards and addressed exclusively in ESRS 2, where applicable.

In general, ERT strongly recommends clarifying that if a disclosure requirement or datapoint does not meet the criteria of representing relevant and decision-useful information about a significant impact or risk, then it shall not be reported. Make it clear that MDRs are a checklist of disclosure requirements and datapoints that shall be disclosed if it represents relevant and decision-useful information about a significant impact or risk, and that only relevant and decision-useful information shall be included (i.e. the MDRs are not a checklist where all data points are mandatory regardless of the outcomes of the materiality assessment

- Forward looking information:

The ERT believes that a revision of ESRS should allow flexibility for companies to conduct their own assessments based on clear and pragmatic criteria, and report material information accordingly by reference to the reporting period. The purpose of a non-financial statement is to provide a depiction of a reporting period that has been completed, therefore the revised ESRS should avoid requirements on forward-looking information.

There are different understandings among reporting enterprises and auditors regarding the characteristics of ESRS-compliant targets. From our understanding, targets could potentially cover multiple (sub-sub-)topics at the same time, especially in the field of social and environmental topics in the supply chain. This understanding seems to be similar at other reporting enterprises, but has not been confirmed by the auditor. This leads to inconsistencies in reporting. It should also be clarified if targets that do not have all the expected characteristics (or that perhaps are only qualitative) can adopt the wording "target" specifying all the differences with the requirements of the standards, perhaps even clarifying that they are entity specific targets and not CSRD aligned..

It is worth noting that reporting forward-looking information presents several significant challenges for preparers:

- Lack of standardised methodologies: There is currently a lack of clear, consistent, and sector-specific methodologies for producing forward-looking metrics. This limits comparability and increases uncertainty for both preparers and users.
- Volatility and uncertainty: Future scenarios are inherently uncertain and often influenced by rapidly changing external factors (e.g. regulatory developments, technological changes, macroeconomic conditions). This volatility makes it difficult to produce reliable projections and can lead to frequent revisions.
- Market sensitivity: This type of information often includes strategic assumptions, projections, and future-oriented plans, which may be sensitive and have implications for market perception or competitive positioning. Disclosing such data can create unintended risks, particularly when taken out of context.

The reporting on forward looking information should be strongly limited. Provisions on financial effects (ESRS 2 SBM-3 paragraph 48d/e in combination with E1-9, E2-6, E3-5, E4-6, E5-6) should be deleted as well future financial resources (ESRS 2 MDR-A Par 69c) should be removed.

- On the other hand, please indicate the most critical and the most useful elements to be retained:

The ERT finds the general structure and connection of the IROs coming from the DMA to the IRO Management through policies, actions and targets to be helpful and relevant. However, less rigidity in the application of the framework could resolve some of the issues encountered by preparers such as in cases of negative statements regarding policies, actions and targets when these IRO-Management tools were present but did not fulfil strict definitions.

- 2.2. OPTIONAL – If possible, and if not specified already under point 2.1 Please identify the most critical narrative disclosure requirements (DRs) and/or datapoints (DPs) that require clarification, and share your suggestions. Please organise your comments and suggestions according to the sequence of the standards - cross-cutting, E topical, S topical, G topical. **(Please replicate for as many DRs / DPs as you deem fit; the list of DRs can be found under footnote 1).**
 - Disclosure requirements (DRs):

The ERT would like to identify the most critical DR: S1-17_ clarification of “incidents” and S1-10. We believe that the benchmarks for adequate wages are not clear, and that companies should be free to do the analysis according to other external benchmarks.

- Datapoints (DP):

The ERT would like to identify the most critical DP: S2-4, S3-4 (36) Incidents and Issue. We believe the definition is quite broad and should be clarified.

- Comments on challenge:
- Suggestions:

ESRS E5 Par.37b AR 31: Categories i) preparation for reuse, (ii) recycling and (iii) other recovery operations, do not unequivocally correspond with the codes provided for by current legislation (see Directive 2008/98/EC and subsequent amendments). Furthermore, the categories do not capture waste destined for intermediate operations, which does not allow the subsequent destination to be identified with certainty. Alignment of categories with those required by current legislation or make this detail optional

ESRS E5 Par 20 (a to f) – Not every disclosure under Par 20 may be applicable or relevant to each industry or sector. EFRAG should consider revising the language and disclosure requirements accordingly.

ESRS E5 Par.38: Requirements to indicate the composition of waste for large companies with multiple streams and different activities is overly complex. Limiting the request to the composition of waste to prevailing waste stream with illustrative examples on the indicative composition.

ESRS S2 AR 41: It is unclear which “external developments” are asked to be considered in the report of risks deriving from dependence. Clarification needed with illustrative examples.

ESRS S3: Consider a tiered disclosure structure, allowing entities to disclose at a higher level of abstraction unless material thresholds are exceeded. Delete duplicative DPs that overlap with S1 (e.g. regarding land rights, grievance mechanisms).

ESRS S4: Narrow the scope of required narrative disclosures to those that materially relate to the undertaking's business model and sector (e.g. product safety, marketing practices). The current structure includes broad requirements that are often immaterial.

- 2.3. OPTIONAL If possible, and if not specified already under point 2.1 above, please beyond the need for clarification, identify the 10 most challenging narrative disclosure requirements (DRs) with an indication of the least important or most problematic datapoints (DPs) to prepare and share your suggestions. Please organise your comments and suggestions according to the sequence of the standards (cross-cutting, E topical, S topical, G topical). **(Please replicate for as many DRs / DPs as you deem fit; the list of DRs can be found under footnote 1).**
 - Disclosure requirements (DRs):
 - Datapoints (DP):
 - Comments on challenge:

The ERT believes that the breadth and detail required in the current and anticipated financial effects disclosures lack clarity and, at least for the anticipated effects, will not be reliable or allow comparability. They should therefore be completely removed.

PART 3: HOW TO IMPROVE QUANTITATIVE INFORMATION AND EU REGULATION RELATED INFORMATION

Quantitative information (metrics) is in principle comparable (over time and between undertakings). Initial feedback seems to suggest that some required metrics may be too granular and/or not decision useful or may be difficult to prepare (due to difficulty to collect basic data or lack of maturity of the matter). Furthermore, EU Regulations related information (SFDR, Climate Law, Pillar 3, Benchmark) was included in ESRS Set 1 to facilitate the appropriate flows of information between the various actors, in order to create consistency in reporting. In this context, its relevance with respect to general purpose sustainability reporting was not assessed by EFRAG. Initial feedback seems to suggest that certain datapoints may not meet the criteria to be included in the general-purpose sustainability reporting. In addition, with respect to Article 8 of the Environmental Taxonomy Regulation 2020/852, it was decided to offer a placeholder in the sustainability statement for the information required under this regulation. In this context, its relevance with respect to general purpose sustainability reporting was not assessed by EFRAG. Initial feedback seems to suggest that this information has increased significantly the volume of information reported in the sustainability statement.

Numbers alone lack meaning without context. Absolute figures, such as the number of lost days, need to be normalized against a baseline, like employee count, to create meaningful DRs and datapoints. This normalization allows for effective comparisons and trend analysis. Moreover, the theory of statistical significance shows that isolated numbers without context are not informative. Only by using DRs and datapoints that incorporate both absolute and relative values can we make informed decisions and accurately assess performance. Consolidate overlapping disclosures on diversity, inclusion, and working conditions into a smaller set of principles-based narrative DRs. Remove or merge highly detailed DPs on employment types, contractual arrangements, and breakdowns by region or role if not material at the entity level

- 3.1. Please identify the most challenging quantitative DRs/DPs and share your suggestion on how to address the issue, in terms of: a) the relevance (least important, critical), b) the difficulty to prepare, 3) the need for clarification. Please organise your comments and suggestions according to the sequence of the standards (cross-cutting, E topical, S topical, G topical). **(Please replicate for as many DRs / DPs as you deem fit; the list of DRs can be found under footnote 1)..**
 - Disclosure requirements (DRs):

It is worth noting that reporting forward-looking information presents several significant challenges for preparers:

- Lack of standardised methodologies: There is currently a lack of clear, consistent, and sector-specific methodologies for producing forward-looking metrics. This limits comparability and increases uncertainty for both preparers and users.
- Volatility and uncertainty: Future scenarios are inherently uncertain and often influenced by rapidly changing external factors (e.g. regulatory developments, technological changes, macroeconomic conditions). This volatility makes it difficult to produce reliable projections and can lead to frequent revisions.
- Market sensitivity: This type of information often includes strategic assumptions, projections, and future-oriented plans, which may be sensitive and have implications for market perception or competitive positioning. Disclosing such data can create unintended risks, particularly when taken out of context.

The reporting on forward looking information should be strongly limited. Provisions on financial effects (ESRS 2 SBM-3 paragraph 48d/e in combination with E1-9, E2-6, E3-5, E4-6, E5-6) should be deleted as well future financial resources (ESRS 2 MDR-A Par 69c) should be removed.

Delete provisions on financial effects (ESRS 2 SBM-3 paragraph 48d/e in combination with E1-9, E2-6, E3-5, E4-6, E5-6): the breadth and detail required in the current and anticipated financial effects disclosures lack clarity and, at least for the anticipated effects, will not be reliable or allow comparability. The detailed reporting on anticipated financial effects of the undertaking's material risks and opportunities seems inappropriate: 1. There exists no accepted and generally used method to calculate anticipated financial effects. ESRS 2 does not give any guidance or insights on how to calculate the financial effects. E.g. It remains unclear what the basis for the calculation of the financial effects should be (planning data or the data from the last financial year) or which granularity is required regarding the effects on financial position, financial performance and cash flows. 2. For some material risks and opportunities, a calculation is impossible. This includes reputational risks that can usually not be quantified. 3. In many cases the effects of material risks and opportunities cannot be identified separately. E.g. the financial effect of higher competition in a specific market cannot be separated from general economic influences, or the effect of changes in the portfolio or pricing. This results in a very high level of measurement uncertainty, potentially giving users a wrong picture about the issue. 4. Mid-term and long-term financial effects of risks are usually mitigated (completely or at least to some extent) by measures decided and implemented by the preparer during a later point in time and not necessarily during the reporting year. This leads to a situation where the anticipated financial effects have to be reported without highlighting measures the preparer would implement to mitigate them. This will give users of the reports a wrong impression regarding the financial effects. ESRS 2 SBM-3 paragraph 48d/e should therefore be deleted completely or the ESRS should explicitly allow for narrative disclosures.

ESRS E1 Par.7: Understanding and calculation methodology of potential locked-in GHG emissions. This is not applicable to all companies, just only for those that have emissions-intensive assests with a long-life period. ERT proposes to make this datapoint voluntary, as it only applies to certain sector, and specific assets.

Information on future investment projects is sensitive, and its disclosure may have a severe impact on the competitiveness of the preparer. ERT suggests to delete all data points regarding significant CapEx and OpEx amounts and CapEx/ OpEx projections to fund action plans. This includes specifically ESRS E1 Par. 29c.

ESRS E1 AR 48: The mandatory table for disclosing emissions and targets (CO₂e balance) is complicated to understand and has limited value for stakeholders. Preparers should be free to choose the best and most understandable way of presenting the metrics. There does not seem to be a homogeneous approach among preparers and auditors, as some preparers presented the data according to the table but others not. The ESRS should include a clear guidance that preparers have flexibility to disclose the information according to the information needs of their main stakeholders. The table should be indicated as an illustrative example.

E1 AR 39d: Emission factors are not standardized. Standardized emission factors to be used by reporting companies to increase comparability.

ESRS E1-6 AR 43c, 45e, 46j: Currently, "biogenic CO₂ emissions" are not defined under EU law. To ensure a comparable and decision-useful disclosure, a uniform regulation and homogeneous definition of "biogenic CO₂ emissions" is necessary. Additionally, clear instructions on how to disclose these emissions would be useful. A uniform and homogeneous definition of "biogenic CO₂ emissions" is necessary before any reporting under the ESRS can be mandated.

ESRS E1 AR 46g: To disclose the extent to which the undertaking's Scope 3 GHG emissions are measured using inputs from specific activities within the entity's upstream and downstream

value chain, and to disclose the percentage of emissions calculated using primary data obtained from suppliers or other value chain partners should become a voluntary datapoint. Primary data to be obtained from suppliers or other value chain partners will not be available in the foreseeable future.

ESRS E1-7 disclosures relating to carbon credits and offsets are more detailed than what is required by IFRS S2. A lot of this data requires detailed calculations and establishment of methodologies and can also be commercially sensitive. We recommend aligning this requirement with IFRS S2. Additionally, EFRAG should reconsider the requirement that offsets cannot be used to achieve GHG reduction targets. This should be aligned with IFRS S2 which allows companies to choose whether to use offsets towards targets and requires the disclosure of both net and gross emissions.

ESRS E2 Par. 28: The obligation to disclose pollutants in air, water and soil refers to Regulation 166/2006, although it is applicable only in the countries of the European Union, with the consequent difficulty in the availability of all the data, required by the regulation and necessary for disclosure in non-European countries. Also, for European countries, already subject to Regulation 166/2006, the timing required for sustainability disclosure is misaligned with the one of EPRTR reporting, with the consequent difficulty in the availability of data about three months in advance. The referenced framework for the chemical industry (App. II) does not apply in this extent to other industries. Collecting and documenting that pollutant are irrelevant is very burdensome and lead to very high verification efforts. The focus should be on relevant air pollutants, depending on the industry the company is operating in. A way forward could be to include only a list of pollutants considered most significant for the business (not where the threshold for a single site is exceeded) and deriving from a materiality analysis relating to relevance and significance.

E2-5 Par. 34: There is a lack of a definition of SOC in EU law. A clear definition of SOC is needed before any reporting based on the ESRS is mandated. SOC should be defined under EU law to understand which substances to refer to and allow comparability between companies. We therefore propose that no SOC disclosures under ESRS are necessary until an EU-wide definition has been integrated into EU law. ESRS should use the definitions as set out in the other EU regulations. The disclosures should focus exclusively on SVHCs, recognized as the main pollutants by current legislation (REACH).

E2-5: Reporting information on substances of very high concern require a high level of reporting efforts and uncertainty for companies which main impacts are in value chain. Related data is not available with the level of granularity required. For it to be available at a value chain level would require efforts/more level of data from other industries, namely the chemical industry. ERT proposes to limit the reporting of this information to own operations and to certain sectors already covered by other EU legislation such as the E-PRTR (annex I). ERT proposes to make the disclosure voluntary for the value chain.

ESRS E2-4, ESRS E2-5 and ESRS E2-6: Reporting information on microplastics is not possible with the current sector or primary data available. Additionally, there are no well established proxies or methodologies to calculate and report robust and comparable data. Uniform guidelines for calculation of microplastics are needed, as currently no industry standard is available. EFRAG should consider/clarify what is the ultimate purpose of collecting data on microplastics. We propose to omit this data point as long as no data and no generally accepted measurement method is available. Additionally, the definition of microplastics included in the ESRS in the context of the disclosure requirement E2-4 is not fit for purpose (i.e. "small pieces of plastics, usually smaller than 5mm"). Such a description could also capture the polymers manufactured by chemical companies, a high-quality intermediate for the production of final polymers that are placed in the market through downstream value chains.

The production of such polymers is usually carried out under strict loss schemes (e.g. OCS principles). The definition should only cover microplastics and nothing else.

ESRS E3 Par. 23: It seems that the quantitative targets are limited to the reduction of consumption, when local needs could indicate the reduction of withdrawals as a more relevant action for environmental protection. Moreover, targets on consumption are in potential contrast with AR 23 which refers to the reduction of withdrawals and discharges. Water recycling/reuse processes increase water consumption: are they to be considered unsustainable practices? Furthermore, the reduction of discharges risks to doesn't always correspond to a virtuous action. The quantitative targets should be rethought, for example by referring more to water withdrawals rather than consumption.

ESRS E3 Par.28c: There is a lack of clarity as to whether the datapoint "Total water recycled and reused" should be included within the scope of "Total water consumption". If inclusion is intended, this should be explicitly clarified.

ESRS E4: Biodiversity is a brand 'new topic' (and complex in terms of practical application due to lack of standardized data and difficulty in measurements) and there are not standardized metrics or well-established methodologies that include this information. Furthermore, there is lack of primary data to calculate them, so it would be based on estimations limiting the quality of the reported data to a great extent. Additionally, TNFD framework, from which a lot of disclosure requirements are inspired, is quite new with very limited examples of good and comprehensive application for companies in all sectors. ERT proposes to restrict the reporting of this information to own operations and make DR voluntary/phased-in until proper methodologies and metrics have been defined and established.

ESRS E4 Par.16, Par. 17, Par. 19 and Par.35: Clear instructions/specify, which sites should be analyzed (e.g. consideration of short-term leasing; production plants vs. office buildings may differ in „materiality“) and frequency of analysis (usually high stability in sites and biodiversity-sensible areas. The analysis should only be conducted every 5 years as it is very cost-intensive. This would reduce the burden on preparers but not influence the comparability of the disclosures. It would be helpful if a clear definition of “material site” in the context of Par 16a could be provided.

ESRS E4 Par. 35; It is not clear whether the area and number of sites should be reported only where there are negative impacts or for all overlaps. It should be made clear that the area and number of sites should only be reported where there are ascertained negative impacts, to avoid too long and in-depth disclosure in the context of the Annual Report. Moreover, more clarification on metrics related to E4-5 is needed.

ESRS E4 AR 34: There is a lack of clarity regarding the definition of the datapoint "total use of land". It is not specified whether this should refer solely to the implementation footprint (e.g. built-up or sealed areas), or if it should also include the total lease area, planted area, or surrounding non-vegetated zones. Additionally, the datapoint "Number of sites owned, leased or managed in or near protected areas or key biodiversity areas that the undertaking is negatively affecting" is problematic due to the vague terminology, particularly the reference to "near protected areas". It is unclear how proximity is to be defined—whether based on distance thresholds, ecological connectivity, or administrative boundaries—which significantly impacts the scope and accuracy of the disclosure. ERT suggests to clarify the AR.

ESRS E5 Par. 31a-c: The DR should be explicitly limited to main materials of the product and omit consideration of process materials; if process materials need to be reported, a materiality threshold should be introduced. It should be clarified that water is excluded if already disclosed under E3 to avoid double counting and avoid detailed discussions over negligible inflows.

ESRS E5 Par. 36a: Disclosure requirements regarding durability are unpractical and may force companies to report sensitive information depending on the industry they are operating in. Often no industry average is available. The ESRS should contain flexibilities for disclosure as the definition of durability is highly dependent on the product. It is mostly only relevant for consumer goods and can be seen as sector-specific information.

ESRS 2 Par. 40a iii and ESRS S1 AR 54, AR 55 table. ERT suggests to clarify the term "region". The disclosure requirements in the ESRS regarding the breakdown of employees by regions, countries, and geographical areas are misleading and need to be harmonized. It needs to be specified whether the term "region" refers to subnational regions within a country or whether several countries can be combined into one region. The AR does not help in implementing this disclosure requirement as it lacks guidance. The required information needs to be determined and gathered internally by every reporting undertaking for each individual country, hence aggregating information at the regional level is in no way a simplification and does not serve the comparability of reports.

ESRS S1 Par. 2a-c & AR 16: The sub-sub-topics "working time" and "work-life balance" in the ESRS should be combined because they are inherently interconnected and address similar issues. Both topics focus on the management of time and resources in the workplace, influencing employee well-being and productivity, considering given legislations as to what extent companies can provide flexibility. By uniting these areas, organizations can develop more comprehensive strategies that promote a healthier work environment and enhance overall employee satisfaction.

ESRS S1 Par. 16: Requiring sub-classifications of own workers in this granularity is disproportionate as CSRD does not demand any such specifics. Consistency in use of terms is crucial for the correct implementation of the directive. This DR should be simplified.

ESRS S1 Par. 20a-c, Par-23, Par. 24a-d: The specific request of reporting on policies mentioned in S1-1 (human rights policy, health management policy, non-discrimination, diversity) does not follow general approach on P-A-T logic by ESRS. It should be clear that only policies relating to material impacts, risks and opportunities should be reported to make sure that information materiality is given to readers and user of the annual report.

ESRS S1 Par. 24: Par. 24 requires companies to report on internal policies to promote diversity; S1-9 ("diversity metrics") exists on the same subject. The examples in the Appendices A.1.-A.3. of ESRS S1 are confusing and not helpful to define this term precisely. ERT proposes to define "diversity" by the Union principles on no-discrimination: "racial and ethnic origin, colour, sex, sexual orientation, gender identity, disability, age, religion, political opinion, national extraction or social origin, or other forms of discrimination covered by Union regulation and national law.

ESRS S1 Par.40: It is not always clear how to account for data relating to acquisitions or divestments that took place during the year. In cases where companies are acquired at the end of the year, it becomes very complex for companies to gather all relevant data and policies in time for the following year's disclosure. Forcing estimates in such situations often leads to low-quality information. It should be better explained how to consider acquisitions or divestments without expecting data to be immediately available. It should also be considered to have a "comply or explain approach" to state which companies are considered and the steps that will be taken in future years to expand the data collection

ESRS S1 Par. 48, AR 53 and AR 56: Establishing a standardized definition of "employees" at the European level within the ESRS is essential to avoid significant discrepancies arising from varying national definitions, which can lead to increased complexity and inefficiencies in reporting. A clear and simple definition that includes only temporary and permanent employees

with an entity contract—excluding trainees, absentees, and other groups—accurately reflects the active headcount and ensures consistency across member states. Current statements in the ESRS, which suggest aggregating data based on national laws without addressing these differences, can be misleading and hinder effective sustainability reporting.

ESRS S1 AR 55 Table 3 should be modified to be able to include multi-year course. Currently, it is not useful for a multi-year reporting as the table would have to be duplicated several times to make it comparable to previous year and therefore not reflect important information on multi-year courses as usual in annual reports.

ESRS S1 Par.50b iii: The requirement should be defined clearly and consistently. There are interpretative challenges in defining non-guaranteed hours employees. It is clear that this category includes "own workforce" employees, not "nonemployees" or "value chain workers," and these employees do not have guaranteed minimum working hours. However, it is not explicitly stated if non-guaranteed hours employees only include on-call workers considered vulnerable workers. AR56, stating "the employee may need to make themselves available for work as required," can be interpreted as either optional ("might be on-call workers but not necessarily") or mandatory ("are on-call workers"). Therefore, it is unclear if mutual agreements between employer and employee about work hours exclude them from being non-guaranteed hours employees or if this only applies when the employer unilaterally decides work hours. The varying interpretation of AR56 affects the comparability of this employment category in reports. It should be clarified whether non-guaranteed hours employees only include on-call workers or also those without guaranteed hours but with mutual agreements on work availability. A comparison of the sustainability reports for FY 2024 indicate that the disclosure seems non-material and irrelevant for a large majority of preparers. EFRAG might consider deleting the datapoints as it seems not important.

ESRS S1-7: There is the need for clarifications on the definition of "non-employees" as it lacks precision, especially for "self-employed workers". Additionally, there are challenges in the availability and public disclosure of non-employee metrics. According to German definition, under S1-7, contractors ("Example: A worker with a contract of an employment relationship with a temporary-work agency with a view to being assigned to a user undertaking to work temporarily under its supervision and direction", employed by a third party) are to be reported. External workforce providing services to the undertaking (e.g. self-employed people providing services) have a contract for the provision of the service, not an employment contract. According to the requirements of services, this activity is not subject to control or supervision by the company. Reporting these data is not possible due to availability and bureaucratic effort. Workers providing services based on a contract should not fall under the reporting of S1-7. This must be specified accordingly in the legal requirements.

ESRS S1-7 Par.54-57: Since the level of disaggregation to be adopted in reporting is not always clear, this could lead the auditor to request a disaggregation on each individual piece of data (even when not useful). The text should be made clearer when the breakdown is necessary.

ESRS S1 Par. 60a: The reporting template offered by the EFRAG to report on S1-8 Par. 60a provides little readability for the wider audience, and groups countries with 80% coverage of collective bargaining (and thus only 80% of employees having the working conditions pre-negotiated and thus supervised and protected/enforceable) and countries where all employees are protected by collective agreements. EFRAG should provide flexibility in the disclosure format, allowing companies to switch the first column (coverage rate) with countries so that the information can be more precise and enable differential countries with close but not equal coverage rates and making it easier to read. Additionally, the conditions under which employees whose working conditions are regulated by agreements with the Works Council can be counted under S1-8 need clarification. The phrase "in their absence, the

representatives of the workers duly elected and authorized by them in accordance with national laws and regulations" in the definition of Collective Bargaining (annex II) can be interpreted in several ways: 1. Narrow interpretation: In countries without trade unions, negotiations on working conditions with employee representatives are considered "Collective Bargaining." 2. Broad interpretation: In countries where trade unions exist but their agreements do not apply to a company, internal agreements covering working conditions are considered "Collective Bargaining." ERT suggests to define this requirement clearly.

ESRS S1-8 Par. 60b-c, 63a-b and AR70

The narrative disclosure requirements for collective bargaining and social dialogue are relevant, in particular information about whether collective agreements are also applicable to non-organized employees. However, the table / template for reporting metrics related to collective bargaining and social dialogue, as presented in ESRS S1 AR70 specifically, is challenging to prepare and does not provide the user of the annual report any decision useful information. All the metrics related to S1-8 should be provided as examples that can be reported rather than as mandatory "shall" metrics, and the preparer should be given the discretion to determine relevant metrics for the sub-topic. As the disclosure requirements in S1-8 are presented today, the table/template and the metrics appear to be mandatory for the preparer, if the company determines that the sub-topic relates to a material IRO.

ESRS S1 Par. 66a and AR 71: This requirement has no added value if using individual, entity-level definitions. Achieving the objective of comparability in a practicable and proportionate manner remains impossible. Hence, entity-specific definitions of the term top management should not be possible to enhance comparability. "Top management" should be defined as the top two levels below the board of management.

ESRS S1 Par. 66b: In the benchmark comparison, ERT noticed that some companies did not present the distribution in percentages. It should be precisely stipulated in the legal text how the distribution is to be depicted. The requirement should be defined clearly.

ESRS S1-10: The DR should be aligned with Directive (EU) 2022/2041 of the European Parliament and of the Council on adequate minimum wages in the European Union. Regarding ESRS S1 Par. 69, there is no consistent provision regarding sources and definitions of valid reference values for adequate wages. Searching for valid reference values is disproportionately time-consuming and non-transparent. Significance: Due to varying definitions of adequate wages, the KPI is only somewhat meaningful in terms of social sustainability.

ESRS S1 Par. 72: Social protection should be covered through qualitative disclosures (description of policies, actions, targets via secure employment (e.g. Just Transition). This disclosure requirement has no basis in the CSRD as it does not even mention the term "social security". National differences in social security systems undermine data availability and comparability. Loss of income is not clearly defined as when the protection scheme would be sufficient or not and to when eligibility gets taken into account. Employers are free to choose from the legally possible contractual models they offer their employees to carry out their economic activity, with the associated social insurance contributions determined by the state as its sovereign responsibility. The DR ESRS S1-11 should be simplified. EFRAG should also contemplate further phase-in options. For S1-11, the scope defined for S1-6 (e.g., active workforce) is applied. Breakdown by contract types from S1-6 (temporary/permanent, etc.) is not required under S1-11. If any one of the five points "Sickness, Unemployment, Injury and acquired disability, Parental leave, Retirement" is met by an employee, social protection is considered to be in place. It should be clearly stated in the legal text that not all points need to be met for social protection to be recognized. This is also recommended considering country-specific interpretations. Each employee is ultimately counted only once, even if multiple

elements of social protection apply to that employee. The requirement should be defined clearly and consistently.

ESRS S1 Par. 74c-d: The five life areas of social security are not clear: 1) Most of the time, acquired disability is secured via the health insurance. The five areas are not separated but intertwined. 2) The definition of social protection regarding parental leave is inadequate as it conflates paternity leave with maternity leave, which serve different purposes. Maternity leave is designed to protect the health of mothers and children, while paternity leave supports fathers' active involvement. This lack of distinction creates confusion about coverage and adequacy of support for fathers, making it difficult to assess how many employees are truly protected under social security for paternity leave. ERT proposes to restrict the disclosures to qualitative disclosures (policies, actions, targets via secure employment) only.

ESRS S1 Par.75: It is unclear in what types the employees are divided, despite the fact that it is impossible to provide reliable data on the five areas of social security in the form requested. It does not comply with the CSRD requirements. The required details are irrelevant for sustainability reporting. Globally, very different legal grounds are in effect and local particularities come into play; thus, for worldwide active companies providing meaningful statements would be difficult. Information grounds are in effect and local particularities come into play; thus, for worldwide active companies providing meaningful statements would be difficult. Information would need to be collected manually, hence burden of data collection would be disproportionate. This DR should be simplified.

ESRS S1-12 Par. 77-80: "Disabilities" should be covered via the sub-sub-topic "diversity" (persons with disabilities are part of any diversity concept which include age, gender identity, sexual orientation, ethnic, national or religious background, physical and mental abilities). Diverse national legislation including differences of definitions across the EU and beyond make fulfilling this requirement quasi-impossible. Additionally, regulations for data collection and reporting on persons with disabilities differ widely across countries. In some countries, companies are legally required to employ a specific percentage of persons with disabilities and face fines for non-compliance. Other countries encourage data collection but do not mandate quotas. Health data, including information on disabilities, are considered sensitive personal data under the EU General Data Protection Regulation (GDPR), making data collection on disabilities difficult in countries without legal requirements or recommendations for such collection. It must be clarified in the legal provisions that the DR can only include data that is available based on the respective legal requirements, sometimes only based on voluntary employee data.

ESRS S1-13 Par. 83a and AR 77: Diverging requirements from ESRS S1-13 Par. 83a (regular performance and career development reviews) and AR 77 (here only performance review). It is therefore unclear whether the disclosure requirement only includes performance meetings or development discussions. This can lead to a lack of comparability in the disclosure. ERT asks to clarify this requirement.

ESRS S1-14: The ESRS legal text is unclear about what should be taken into consideration as work-related injuries, accidents and other health and safety related metrics. The definition ERT suggests providing for additional guidance. The information according to ESRS S1-14 Par. 88b regarding the reporting of deaths due to work-related illnesses cannot be reasonably and uniformly reported due to data protection regulations and the differences in social legislation in various countries. Additionally, there is a phase-in possibility for reporting cases of work-related illnesses, but not for reporting deaths due to work-related illnesses, which renders the phase-in absurd. ERT suggests removing this requirement. Benchmarking of sustainability statements for FY 2024 have shown that there is no uniformity regarding the number of accidents/accident rate. This is due to the lack of a precise explanation of "recordable." Specifically, country-specific regulations regarding "recordable" should be

considered (e.g., reporting requirement in Germany from the third day of absence (days lost), reporting requirement in the USA regardless of the day of absence). ERT asks that the DR is clearly defined.

ESRS S1 Par. 88: ERT proposes to delete this datapoint. It is important to acknowledge that the mere indication of numbers and quotas will not provide any meaningful insights. They must be put into context, in particular considering what accident rates and occupational diseases are common in the respective countries and sector. Collecting detailed data on work-related illnesses raises significant privacy concerns. Employees have a reasonable expectation of privacy regarding their personal health information. Given the sensitive nature of this information, a strong case can be made that the potential benefits of collecting such data do not outweigh the privacy risks to employees.

ESRS S1-15 AR 95: The term “entitled to take family leave” requires further clarification. It is currently unclear whether this refers solely to employees who meet eligibility criteria in that year or those with a legal entitlement under national labour law.

ESRS S1 Par.97a: The gender pay gap DR should be a phase-in until clear requirements are being published and alignment with EU Pay Transparency Act is finalized. The gender pay gap as defined under the ESRS does not fully align with the precise definition outlined in the Sustainable Finance Disclosure Regulation (SFDR). The SFDR requires the inclusion of specific components in the calculation, which are not adequately captured in the ESRS approach. Currently, information about the Pay Transparency Directive mentions “average pay levels, broken down by sex, for categories of employees doing the same work or work of equal value” which implies an adjusted gender pay gap as opposed to the current CSRD unadjusted gender pay gap. ERT strongly requests to ensure that all those directives are aligned when it comes to definitions and methodologies in order to ensure the best comprehension of information for external users of the reports.

Moreover, the use of an unadjusted gender pay gap metric does not provide a meaningful assessment of whether the principle of "equal pay for equal work" is being upheld. By simply aggregating all employees without accounting for factors such as job roles, experience, geographies and industry sectors, the unadjusted gender pay gap can lead to distorted conclusions. The reality is that the gender pay gap can be heavily influenced by the distribution of employees across different occupations, industries, countries and levels of seniority. Simply combining all employees into a single metric fails to recognize the nuances and complexities involved in ensuring true pay equity. This approach can result in misleading conclusions, as the pay differences may be more reflective of the underlying workforce composition rather than direct discrimination in compensation. There should be the option to report the indicator on a geographical basis and not on group-level.

ESRS S1 Par.97b: The disclosures on “annual total remuneration ratio” and the “highest paid individual” should be deleted. The disclosure of the remuneration of the "highest paid individual" can be problematic from a data protection perspective, as the information can often be traced back to a specific employee. This raises concerns about individual privacy and the potential for misuse or misinterpretation of the data.

Additionally, the usage of the unadjusted "annual total remuneration ratio" can be misleading, as it does not account for factors such as country or industry differences that can significantly impact compensation levels. A more meaningful analysis would involve adjusting the ratio to consider these contextual factors, providing a more accurate representation of the compensation structure within the organization.

Furthermore, there can be discrepancies between the "earned" and "actual" remuneration of the highest paid individual, which can lead to inconsistencies in the reported figures. It is important to ensure that the calculation methodology is clearly defined and consistently applied to provide a transparent and accurate representation of the compensation structure.

Lastly, the disclosure of the highest paid employee's remuneration and the median compensation ratio may not be fully justified under data protection regulations, particularly the Sustainable Finance Disclosure Regulation (SFDR), as the potential identification of individuals and the sensitivity of the information raise concerns about compliance with data protection requirements. This approach also does not align with the fundamental approach to the calculation and transparency of executive compensation at national level (e.g. in Germany), which mandates the use of an average rather than a median.

ESRS S1-16 AR 98: There appears to be a contradiction between the methodology prescribed and the intent of the datapoint. AR 98 requires undertakings to calculate the gender pay gap using all employees' gross hourly pay levels. However, since the aim is to measure the pay gap between female and male employees, it would be appropriate to exclude employees whose gender is classified as "other" or "not disclosed" from this calculation. A clarification would be welcome.

ESRS S1-16 AR 101: There is insufficient clarity regarding the distinction between the terms Pay, Remuneration, and Salary, and how they interrelate within the calculation of the Total Remuneration Ratio. For instance, Remuneration is defined (in the context of the ratio) as base salary + benefits in cash + benefits in kind + total fair value of all annual and long-term incentives. However, Pay is defined as basic or minimum wage or salary, plus any other remuneration in cash or kind. The overlap between these definitions creates confusion as to whether the two terms are interchangeable or hierarchical, and how to apply them consistently across disclosures.

ESRS S1-17: There are questions about the relevance and difficulty to prepare the data related to complains and the reputational risks that could follow for larger companies due to the risk of fines and penalties they may be facing. ERT proposes to move this DR to a "voluntary" datapoint. Furthermore, companies have different reporting cultures, proactive vs reactive, and verbal reporting which may get resolved before reported in the system. Therefore, in some cases higher complaint numbers could misleadingly suggest worse conditions and not reflect the reporting cultures in a company; this means that the data reported may not be comparable.

ESRS S1-17 Par.102: The grounds for discrimination overlap with ESRS S1 par. 24d. The distinction between the two disclosure requirements needs further clarification, double reporting must be avoided. The mapping guidance by EFRAG is unclear as S1-17 should only be required if the sub-sub-topic "measures against violence and harassment" is material. The mere fact that only (absolute) numbers are reported could be misleading: higher figures could result from the mere fact that the company is bigger. The data point should be qualitative, no quantitative data should be reported.

ESRS S1 S1-17 Par. 103a: Difficult to prepare with some questions around relevance. More specifically: 1. Channels to signal incidents of discrimination are open to all employees and later analyzed to be addressed. The number of complaints lodged does not represent the amount of complaints that need addressing after having been proved well-founded. 2. This information is also not related to Par. 103c which only addresses amounts as a result of the complaints, meaning indicators Par. 103c relate to court rulings whereas Par. 103a relates to all and any complaints lodged, further proving that indicator Par. 103a has too wide of a definition. 3. In addition, this indicator is presenting a high reputational risk as the number of potential complaints (well-founded or not) mathematically grows with the number of employees, meaning large companies will be disproportionately exposed to reputational risks that present a major business risk. There is a need for clarifications. It would be best sticking to court rulings for Par.103a. This would provide an accurate representation of the undertaking's situation. As all European companies abide by the EU non-discrimination rules, courts provide the necessary assurance and authority for all companies that complaints are both well-founded and needed to be addressed. This would put all companies at the same

level of reporting and would serve the purpose of making information comparable across all reports. Additionally, for both Par. 103a and Par. 103b it should be clarified that incidents and complaints are limited to confirmed cases. Outside the whistleblower system, cases are usually only documented if they are confirmed.

ESRS S1-17 Par. 103b: It is important to note that this DR requires for information related to the matters mentioned in ESRS S1 para. 102, including those that are not further specified in the disclosure or application requirements such as “working time”, “adequate housing” and “privacy”. There remains significant uncertainty about what needs to be covered in detail and what the reporting undertaking needs to account for. It seems unclear as to what constitutes a complaint or a grievance. ERT proposes to reduce sub-sub-topic to „Privacy“, „Adequate Housing“ and combine the disclosure requirements for „Working time“, „Work-Life-Balance“ from other S1 DRs.

ESRS GOV-1 Par.21: The concept of “function at risk” is not well defined and in some companies does not exist as the person rather than the entire function may be at risk. Clarification is therefore needed with reference to “person at risks in consideration of the role” rather than “function at risk”.

ESRS GOV-1 Par.25d: The datapoint requesting details of all legal cases brought to court with their outcome is too general and should be simplified. Only finalised cases in which conviction for bribery or corruption has been received should be requested.

- Datapoints (DP):
- Comments on challenge:
- Suggestions:

ESRS E1 Par.16d: The metric is only relevant for some sectors and is therefore not always relevant. It should be moved from “shall” to “may” disclosure.

- 3.2. Do you have suggestions regarding EU regulation related datapoints (DPs)?

The ERT proposes the following suggestions regarding the EU regulation DPs:

- **Streamlining datapoints' tables** - datapoints that require extensive tables, such as those in IRO-2, take up significant visual space and demand substantial reporting effort, not adding proportional value to the overall narrative of the sustainability statement. We recommend streamlining these tables or allowing more flexible formats for presentation.
- **Map EU regulation-related DPs with IG3 requirements** - a clear mapping between the ESRS datapoints and the IG3 dataset (used in the context of the European Single Access Point and EFRAG initiatives) should be provided. This would facilitate interoperability and help preparers understand how disclosures align with broader EU regulatory expectations.
- **Introduce a mandatory and streamlined template** - Develop a mandatory reporting table for EU regulation-related DPs that is consistent across entities. This template should be a simplified version of the current detailed table, focusing only on core mandatory data points, to reduce complexity while maintaining comparability and alignment with regulatory needs.

- 3.3. Do you have suggestions regarding Article 8 of the Environmental Taxonomy Regulation 2020/852 related information and its inclusion in the sustainability statement under a placeholder approach?

Review of the Taxonomy

The ERT would like to advocate that the Taxonomy requirements should be reconsidered as a whole for CSRD-subject companies. These requirements impose a high reporting burden, with limited evidence they are able to achieve the intended goal of directing more finance toward sustainable activities. Therefore, the Taxonomy rules should not trigger reporting requirements additional to those of CSRD, but could usefully create a “dictionary” to level the playing field.

Quantitative information (metrics) is in principle comparable (over time and between undertakings). Initial feedback seems to suggest that some required metrics may be too granular and/or not decision useful or may be difficult to prepare (due to difficulty to collect basic data or lack of maturity of the matter).

Furthermore, EU Regulations related information (SFDR, Climate Law, Pillar 3, Benchmark) was included in ESRS Set 1 to facilitate the appropriate flows of information between the various actors, in order to create consistency in reporting. In this context, its relevance with respect to general purpose sustainability reporting was not assessed by EFRAG.

Initial feedback seems to suggest that certain datapoints may not meet the criteria to be included in the general- purpose sustainability reporting. In addition, with respect to Article 8 of the Environmental Taxonomy Regulation 2020/852, it was decided to offer a placeholder in the sustainability statement for the information required under this regulation. In this context, its relevance with respect to general purpose sustainability reporting was not assessed by EFRAG. Initial feedback seems to suggest that this information has increased significantly the volume of information reported in the sustainability statement.

Taxonomy reporting tables

The ERT strongly recommends the simplification of the reporting tables required under Article 8 of the Environmental Taxonomy Regulation 2020/852. Currently, these tables are highly complex and difficult to interpret for both preparers, due to the technical structure and granularity, and users, who may struggle to extract meaningful insights.

Given the technical and rigid nature of Article 8 disclosures, including these elements within the main body of the Environmental Standards disrupts the narrative flow of the sustainability statement. A more effective approach may be to:

- Relocate the detailed Taxonomy-related disclosures to a dedicated annex, allowing preparers to maintain a clear, cohesive narrative in the main report.
- Maintain reference to the annex in the main body, ensuring traceability without overloading the narrative section.

Removing the OPEX KPI

On the materiality threshold, this would allow ERT members to omit non-significant reporting information. We regret that the EU Commission did not take the opportunity to remove completely the Operating Expense (OpEx) KPI in the EU Taxonomy as it lacks a clear definition under IFRS, making it an artificial metric that cannot be reconciled with financial statements.

Moreover, it is extremely difficult to identify and to align according to its definition, leading to unnecessary complexity without added value.

Review of the TSC and DNSH criteria

We welcome the mention of an upcoming systematic and thorough review of all the technical screening and DNSH criteria. The ERT believes that simplifying these requirements will make the reporting more efficient and accurate for companies as certain TSCs are not fit for reporting.

Appendix C of the Taxonomy Delegated Regulation

We support the deletion of the following paragraph in the Taxonomy Delegated Regulation: *“In addition, the activity does not lead to the manufacture, presence in the final product or output, or placing on the market, of other substances, whether on their own, or in mixtures or in an article, in a concentration above 0,1 % weight by weight (w/w), that meet the criteria of Regulation (EC) No 1272/2008 for one of the hazard classes or hazard categories mentioned in Article 57 of Regulation (EC) No 1907/2006, except if it is assessed and documented by the operators that no other suitable alternative substances or technologies are available on the market, and that they are used under controlled conditions.”*

The inclusion of the information pursuant to Article 8 of the Environmental Taxonomy Regulation 2020/852 in the sustainability statement makes senses, but for industries like telecommunications that are not well captured to date by Taxonomy Regulation, the link between taxonomy indicators of performance and ESRS data points remains highly theoretical.

PART 4: HOW TO ADDRESS THE SIMPLIFICATION OF THE STANDARDS (STRUCTURE AND PRESENTATION) AND THE NEED FOR INTEROPERABILITY

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Initial feedback seems to suggest that the current structure and presentation of reporting requirements in the standards may be difficult to understand and use and may have contributed to the inclusion of repetitive and duplicated content within the sustainability statement. In addition, to avoid unnecessary regulatory fragmentation that could have negative consequences for undertakings operating globally, ESRS Set 1 has been drafted with the objective to contribute to the process of convergence of sustainability reporting standards at global level. The Omnibus proposals suggest to further enhance the already very high degree of interoperability with global sustainability reporting standards.

- 4.1. Please share your suggestions on how to improve and simplify the current structure and presentation of the standards, in relation to:
 - The relationship between cross-cutting and topical standards

The ERT suggests merging duplicative DR into a single disclosure, in order to reduce redundancy and ease the reporting burden. It may be worth considering aggregating them with flexibility clauses. For example, part of the content included in sections on GOV, SBM and IRO are repetitively covered in ESRS 2. Further, topical standards sometimes contain requirements that have an impact on the overall report or previous steps, therefore an ESRS E1 requirements can lead to a change in scope of consolidation that is defined in the cross-cutting standards. ERT also suggests having cross-cutting references between the ESRSs and CSDDD.

- The relationship between the main body of the standards and the application requirements

Members suggest to revise application requirements to ensure that no additional disclosures are required and to further distinguishing essential requirements from supportive guidance. Application Requirements (ARs) should serve as guidance to support the reporting of mandatory datapoints already included in the main body of the standard and should not be treated as additional mandatory datapoints. To further provide more clarity, it would be beneficial to have the specific ARs next to the related RDs and to consolidate or summarise lengthy AR, particularly where they contain extensive tabular datapoints. Mandatory datapoints should all be placed in the main body of the standard.

“May” datapoints could be removed from the main body of the standard, rather than being placed at the same level as mandatory disclosures. This would help prevent confusion about their status and reduce reporting burden.

- Any other matter

The ERT suggests to structure G1 in a more streamlined way, such as by gathering all anti-corruption topics and suppliers’ topics together. To avoid confusion, members recommended to eliminate the first paragraph of every disclosure requirement, or making it non mandatory, as it does not add anything to the disclosure and risks to make it more confusing.

For a successful and clear implementation of the standards, it is important that the structure of disclosure requirements is aligned across all topical standards while at the same time clearly distinguish between mandatory and voluntary information. Mandatory datapoints should be limited to information that is material to the reporting company. The Omnibus proposals suggest to further enhance the already very high degree of interoperability with global sustainability reporting standards.

IFRS have a comparable structure. As this structure is already proven, we support this. However, maybe additional publications like an implementation guidance, illustrative examples, etc. could prove valuable.

- Suggestion

Specific suggestions were formulated with respect to (i) materiality of information; (ii) scope of consolidation; (iii) value chain information; and (iv) anticipated financial effects.

Materiality of information, as introduced in ESRS 1 Par. 31, should be less rigidly formulated in the sense of an overarching principle of "fair presentation". As it appears now, it seems to be formulated so rigidly that there is hardly any possibility to make use of this option and ensure reporting that is appropriate for the addressees.

Further, for the simplification and improvement of the ESRS, it is crucial that the scope of consolidation for sustainability reporting and financial reporting is identical. This promotes the "connectivity" of both reports and avoids erroneous or misleading KPIs due to different scopes of consolidation. The concept of "operational control" should be completely eliminated. Applying this concept leads to high administrative effort and misunderstandings. Its elimination would significantly simplify reporting and create clear, consistent framework conditions.

Concerning the value chain information, the ESRS 1 Par. 69 requirement to use primary data for value chain impacts poses significant challenges. Primary data is often unavailable, and obtaining it requires substantial effort. Instead, using industry benchmarks or public databases should be more easily permitted. Allowing estimated data without stringent conditions would enhance transparency and reduce reporting costs. This suggestion would align ESRS requirements with available tools, lowering costs and improving transparency on value chain impacts.

- 4.2. Regarding interoperability, please:
 - If you are a preparer, indicate if you are reporting under another framework and which one:

SASB, EU Taxonomy, IFRS Sustainability Disclosure Standards, CDP, TCFD and GRI

- If you are not reporting under another framework, indicate if you intend to do so and use which one:
- Please share any suggestion you may have to enhance the already high level of interoperability of ESRS with other frameworks (ISSB, GRI, TCFD, TNFD, CDP). Please indicate DR/DPs if relevant:

From members' perspective, the EU Commission should assess the interoperability between the EU Taxonomy's "Do No Significant Harm" (DNSH) criteria (Water, Biodiversity, Climate, Circularity) and the equivalent ESRS requirements, with the objective of achieving alignment that prevents double reporting.

For instance, while the DNSH criteria under the EU Taxonomy's Climate Delegated Act require adaptation measures to be implemented within the next five years, ESRS E1 includes adaptation as part of the transitional plan but does not mandate a specific timeline, offering greater flexibility.

Similarly, the EU Commission should also assess the interoperability between ESRS S1 and S2, G1, and Minimum Social Safeguards under the EU Taxonomy and Corporate Sustainability Due Diligence Directive (CS3D). Most of these requirements should align with or comply with the following: (1) OECD Guidelines for Multinational Enterprises on Responsible Business Conduct, (2) UN Guiding Principles on Business and Human Rights (UNGPs), (3) Declaration of the International Labour Organization (ILO) on Fundamental Principles and Rights at Work, (4) International Bill of Human rights. Aligning these standards would simplify reporting flows and assessments.

In addition, if a company reports under both the EU Taxonomy and Corporate Sustainability Reporting Directive (CSRD), but the interoperable data points between DNSH, Minimum Safeguards and ESRS data points are not considered material following a DMA assessment, DNSH criteria become an additional reporting burden - these criteria are mandatory under the EU Taxonomy, even if they are not considered significant or required under the ESRS.

Additionally, the new Draft Delegated Act published by the Commission on 26 February states that under the EU Taxonomy non-material information needs to be disclosed. This contradicts the materiality perspective of the CSRD.

To address these challenges, the revision of the ESRS should explicitly prioritize harmonization, interoperability, and equivalence between regional and national sustainability frameworks—whether voluntary or mandatory. These features should be treated as core design principles of the ESRS, in order to reduce or eliminate redundant disclosures, duplication of data points, and stakeholder confusion.

- If you are a user/other type of stakeholder. Share your views on the importance and usefulness of interoperability from your perspective:

Members stressed that while equivalency is critical for companies reporting under (or set to report under) multiple regimes, there is currently no clear timeline or process outlining how this objective will be achieved.

Similarly, interoperability is a fundamental concept in drafting standards and should be implemented by design, without the need of making small adjustments to comply with other regulations and standards. Interoperability with IFRS S is key as many local subsidiaries will be subject to mandatory local reporting based on IFRS S in the future. Interoperability with GRI is seen as less essential, as it was not originally intended to align with or be integrated into the Annual Report.

PART 5 – ANY OTHER COMMENT OR SUGGESTION

- For instance, among others, in relation to format and presentation of the sustainability statement and its relationship with other parts of the management report, the communication of the company, the reporting boundaries, etc.

1. Financial Boundaries

Financial boundaries for very complex sectors in which there are a conspicuous number of joint operations or joint operation agreements (JOA) complicates the representation of sustainability impact. The inclusion of non-operated JOAs in the reporting scope of environmental data makes it difficult to obtain quality and comparable data because, in this type of agreement, when the company is not the operator of the asset, detailed information on environmental performance and sustainability is not available. Additionally, the non-operator does not establish policies or procedures and cannot enforce compliance with certain guidelines when calculating metrics. Most of these entities are outside Europe and so outside the CSRD scope, and as such never collected the sustainability data. Unlike GHG, methodologies for collecting data related to other environmental topics are extremely diversified and site-specific, not allowing a solid estimation process. While some data can be easily estimated based on the production, the sharing of environmental data requires years before common methodologies are established and some data cannot be estimated as they result from unforeseeable events. That is the reason why such a complex sector has developed the “operated approach” to ensure quality data, in which the operator, who control the procedure, report 100% of the data regardless its share.

Recommendations:

- The preferred solution would be to set the boundary according to sector specificities and guidelines which would ensure worldwide comparability beyond Europe.
- If the actual financial approach must be maintained, the possibility to have a voluntary boundary should be explicitly granted. In this case, it would be essential to provide a clear definition of “Operational control” within the standards, which allows the identification of this corporate attribute in an unambiguous way, possibly also providing a check-list for the identification of operational control. Furthermore, the approach to calculate Scope 1 and 2 should be aligned with international practices (i.e. the GHG protocol – avoiding the sum between data from financial and operational control).

2. Guidelines/FAQs

The proliferation of guidelines and FAQs risk to be confusing, conflicting with or extending beyond the standards themselves by asserting how processes should be performed and what entities should report on. Therefore, any guidance/FAQs should very clearly recognise that they are non-binding and that other approaches remain valid – and only genuinely ‘frequently’ asked questions should be addressed.

Recommendations:

- *Strictly limit any further (and simplify/remove existing) guidance to avoid over-extending the requirements of the standards.*
- *Clarify in any assurance standards/guidelines that published guidance/FAQs are non-binding, do not represent requirements or best practice and therefore are not relevant to assurance*

3. Value chain data:

Assessment and reporting of Value Chain metrics is i) extremely onerous and likely to be incomplete, therefore with lower quality, ii) potentially inaccurate, due to the lack of visibility into the VC, iii) of lesser value, and consequently with less ability to influence, iv) duplicative and likely to be reported by the VC entity itself, and v) potentially harmful to competition because deter non-EU entities from engaging with EU entities.

For example, it not only appeared to be significantly complex accessing data due to limited contractual rights, but also gathering data across all VC members, with consequential issues in delivering high quality and accurate reporting. Similarly, when value chain activities cannot be directly linked to the reporting entity's interaction with a value chain partner (e.g., commoditized products or activities at tier 2+ in relation to the reporting entity), it is impractical to conduct a meaningful assessment of whether: a) impacts have actually or potentially occurred, and b) those impacts are attributable to the entity's actions, as opposed to being effects that would happen independently (ESRS1: 1.3 para 14 (impacts), 5.1 para 63, 65). Furthermore, it is unreasonable to assume that the reporting entity can significantly influence such activities without a direct business relationship, making this information less relevant to readers. On the different scenarios concerning the VC entities members highlighted that:

- i) where VC entities are themselves CSRD reporters, there is a duplication of reporting;
- ii) where there is not a direct business relationship, the greater the degree on separation, the more rapidly the ability to influence and therefore impact the potential issue diminishes;
- iii) where VC entities are outside CSRD scope, there is a risk that data/reporting burden stifles competition by increasing cost of doing business.

ERT members agree that a significant reduction in work could be achieved by simplifying the scope of quantitative value chain assessment and reporting to direct relationships.

Additionally, the acceptable use of estimated data remains unclear and can lead to the overuse or inappropriate use of estimates without robust methodologies or sector benchmarks which can undermine the credibility and decision-usefulness of the sustainability statement. While some level of estimation may be unavoidable, especially in the early stages of data collection or when dealing with complex value chains, it is critical to ensure that these estimates do not compromise the quality or reliability of the reported information.

Recommendations:

- Limit assessment of Impacts only to those entities with whom there is a direct 'business relationship' and
- Significantly reduce or remove requirements related to quantitative data points associated with value chain (with the exception of scope 3)
- Limit to qualitative statements.
- Amend associated Glossary definitions ('business relationships', 'Value chain', and 'impacts' to solely focused on entities with whom there is a direct relationship)
- Provide clear guidance and define criteria regarding the acceptable use of estimated data, particularly when reliable sources are unavailable or no commonly accepted methodologies or proxies exist.

Failing this, limit data (via a comply or explain basis) to

- Tier 1 entities who are subject to their own CSRD reporting obligations, remainder of value chain limited to qualitative statements; and
- Limit datapoints to those that the VC entity reports itself as by definition these are more likely to be material

Failing this

- amend ESRS 1 10.2 (132-135) to extend phase-in for ALL value chain to 5 years (to allow time for all participants to improve on their own data.

In all cases:

- clarity in assurance guidelines that absence of VC data is to be dealt with pragmatically, including avoiding excessive over-science of, or challenge to, estimation methodologies

4. Data Points:

Throughout the overall process, we found that most of the challenges stemmed from difficulties in interpreting what was being requested. Many datapoints are overly detailed with limited practical relevance, and there is a lack of concrete guidelines to support consistent implementation. The existing framework leaves too much room for diverging interpretations, not only between undertakings but also among auditors, which may compromise consistency and auditability across the market.

Application requirements (ARs)

Currently, application requirements (ARs) contain in some cases additional mandatory datapoints. The ESRS should differentiate between disclosure requirements and application requirements. The latter should serve as guidance to support the reporting of mandatory datapoints already included in the disclosure requirements (DRs) in the main body of the standard. Treating them as de facto obligations adds unnecessary reporting burden and contributes to very high complexity of the standards. All mandatory datapoints should be subsumed under the DRs.

Additionally, it is not understandable that the ESRS are not providing for ARs on many complex DRs. The lack of guidance leads to differing interpretations of the legal requirements thereby reducing the comparability of the disclosure and limiting the usefulness of the reports for the users. If no guidance can be given on how to interpret and/or implement a DR, we strongly recommend the deletion of the respective DR.

Therefore, we believe that all datapoints from the ARs should be moved to the DRs. All ARs should be reviewed to ensure they focus on material, essential, and decision-useful information and provide for useful guidance to understand and implement the DRs.

Additional Recommendations:

- *Better alignment between the datapoints listed in the Excel files and the requirements outlined in the Directive's text, particularly in distinguishing between "shall" and "should" provisions*
- *Increase consistency in the terminology and labelling of datapoints across documents to ensure clarity, coherence, and ease of use for preparers.*
- *Allows the inclusion of undertaking-specific KPIs under a given Disclosure Requirement, where the topic is deemed material and the KPI is relevant to that same topic (when it does not fall under an entity-specific topic).*

The revision of mandatory datapoints for greater clarity and consistency would enhance comparability and standardisation across reports. Further, increased flexibility would enable a better reflection of strategically relevant performance indicators already used internally.

With respect to specific paragraphs, members believe that the text could be further improved. Below are reported the suggested modifications.