

Attn Mr Hans Buysse
Administrative Board President, EFRAG
European Financial Reporting Advisory Group (EFRAG)
35, Square de Meeûs
1000 Brussels

CC: Sven Gentner
Head of Unit DG FISMA, Corporate reporting, audit and credit rating agencies
European Commission

CC: Kerstin Lopatta
Acting Sustainability Reporting Board Chair, EFRAG

CC: Chiara Del Prete,
Acting Sustainability Reporting TEG Chair, EFRAG

CC: Saskia Slomp
Chief Executive Officer, EFRAG

Subject: EFRAG public consultation on the first set of draft European Sustainability Reporting Standards

Dear Mr Buysse,

On behalf of the Deloitte¹ firms in the European Union (EU) and Deloitte Global, we are pleased to respond to the EFRAG consultation paper on the draft European Sustainability Reporting Standards (ESRS) developed by the EFRAG Project Task Force and to share some overall observations and comments.

We acknowledge the important progress that EFRAG and the EFRAG Project Task Force (PTF) have accomplished, in a limited timeframe, to present sustainability reporting proposals respecting a comprehensive framework of relevant EU legislations.

Deloitte supports consistent reporting of high-quality, relevant, reliable and comparable information that will enable investors and other relevant stakeholders to make decisions that support the transition to a green and inclusive economy. The most effective disclosures are those that are clear, concise and focused on matters that are material both to investors and other relevant stakeholders. They should help to drive real change and accelerate progress towards the Green Deal in Europe and beyond.

¹ For more information, see the link to Deloitte.

The draft ESRS are comprehensive and generally have the potential to result in relevant information, but we have key concerns that they will create issues for the quality of the information provided, the effective implementation and enforceability of the standards, and consequently will not support the ultimate objective. These issues need to be addressed before ESRS are finalised and issued. In particular, we ask that EFRAG to:

- (a) Continue to work closely with the International Sustainability Standards Board (ISSB) to drive convergence and achieve a global baseline of sustainability information, taking advantage of the current window of opportunity to align before the respective standards are finalised;
- (b) Address the overall volume of required disclosures in the proposed package of ESRS and ensure they are practical for companies to implement and relevant to users considering costs and benefits, particularly in the first years; and
- (c) Allow for a more reasonable timeline to finalise the standards and adhere to the due process.

We make some recommendations on each of these areas below, with an aim of contributing to EFRAG's efforts to develop a set of high quality standards. These recommendations and observations are based on our extensive experience of financial and non-financial assurance and advisory activities in the EU and worldwide, and our technical analysis of the proposed ESRS. We have also provided detailed comments in the EFRAG Consultation Survey questionnaires.

A. Global convergence

We support a global baseline for sustainability reporting on which EU and other jurisdictional requirements can be added. We welcome the EU's commitment under the CSRD that *"European standards should reduce the risk of inconsistent reporting requirements on undertakings that operate globally by integrating the content of global baseline standards to be developed by the ISSB, to the extent that the content of the ISSB baseline standards is consistent with the EU's legal framework and the objectives of the European Green Deal"*².

We encourage greater collaboration across all standard-setters to ensure that organisations with a global presence are not required to prepare multiple sets of reports or a plethora of different metrics under different standards. Preparing multiple sustainability reports is time consuming and costly for EU companies, and of little benefit to investors and other relevant stakeholders, because it reduces the comparability of information.

We encourage EFRAG to continue to work on an ongoing basis with the ISSB and other parties to:

- (a) *Further clarify the materiality concepts used (such as double materiality, impact materiality, financial materiality, information materiality, enterprise value), and use the same terminology/wording as the ISSB.*

Where different terminology has to be used due to legal or other considerations, we recommend that there is a clear explanation and illustration of how the concepts differ,

² Provisional final text of CSRD, Recital (37)

so as not to confuse users. Guidance should fully accommodate the interconnectivity of the two aspects of double materiality and position it as an integrated exercise;

- (b) *Reconsider the architecture of the proposed standards to align with that of the ISSB to the greatest extent possible, and at a minimum further explain how the two structures relate to each other.*

Deciding the architecture for standards is a fundamental first step in standard-setting. It is not something that can be changed easily. We understand the significant time constraints that have been prescribed, but we recommend that EFRAG revisit the proposed reporting areas used in ESRS (strategy, implementation and performance measurement) which differ from the approach taken by the ISSB and the four pillars of the TCFD recommendations (governance, strategy, risk management, and metrics and targets). Different architectures will create confusion amongst preparers and users.

B. Volume and practicability for companies to implement

The scope of the CSRD will extend to a large number of entities that have not previously prepared non-financial information under the NFRD.

The ESRS, with their detailed transparency requirements, in conjunction with other EU regulations, such as the EU Taxonomy and Sustainable Finance Disclosure Regulation (SFDR), will create significant implementation challenges. Entities will need to invest in human and financial resources to build systems, processes, internal controls and governance to collect, control and report accurate data in a timely manner.

Accordingly, ESRS need to be practical, fit for purpose and understandable. And, as set out in ISAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, to enable high quality assurance, the data needs to be identifiable, capable of consistent measurement and be evaluated against suitable criteria.

We therefore recommend that EFRAG:

Considerations of materiality

- (a) *Better explain and illustrate the double materiality and information materiality concepts and develop further guidance on how to perform a materiality assessment exercise.*

Having a clear understanding of the materiality concepts and how to perform a materiality exercise are critical to ensure that the reporting provides relevant information, enables a consistent, verifiable and enforceable application of ESRS, and ensures that this does not just turn into a compliance exercise.

Selecting the information to be reported will be a very judgemental area. Accordingly, we support the requirements to disclose the materiality process and key stakeholders groups considered but it would be helpful if EFRAG could further explain the process and how to determine its outcome, e.g. through the illustration of an example of a materiality matrix;

- (b) *Reconsider the need for the materiality rebuttable presumption.*

We are concerned that preparers will face challenges documenting how, and explaining why, a certain disclosure is not deemed material. They may in fact find it easier to disclose everything listed in ESRS in a box-ticking exercise, which is not a desirable outcome. We believe that, if the materiality point above is addressed, then there is no need for a rebuttable presumption; and

- (c) *Provide greater clarity on those disclosure requirements that stem from EU regulations (in particular the CSRD and SFDR) and to which the materiality concepts established in ESRS would not apply.*

Granularity of the information required to be disclosed, value chain, and financial effects

- (d) *Reconsider the volume and level of granularity of the mandatory disclosure requirements by eliminating some disclosure requirements (number of data points), changing the mandatory application guidance to non-authoritative implementation guidance, and moving some disclosure requirements to the sectoral level – see our detailed suggestions in our responses to EFRAG Consultation Survey questionnaires;*
- (e) *Provide further explanations, illustrations and guidance as it relates to the value chain requirements and its boundaries, and reduce the burden on preparers by requiring a “reasonable effort” to collect direct information rather than “every reasonable effort” (ESRS 1.67).*

Sustainability information related to the value chain will be difficult to collect, process and verify, particularly from its direct and indirect business relations upstream and downstream. There is currently a significant lack of sufficient data, as well as accepted and recognised methodologies to perform approximations. It is important that EFRAG works with the ISSB, and builds on the experience from the EU Taxonomy regulation, as well as the on-going debates on the proposed Corporate Sustainability Due Diligence Directive, to provide clear, practical guidance;

- (f) *Provide further explanations, illustrations and guidance as it relates to the financial effects of sustainability matters.*

Determining and verifying the financial effects of sustainability matters over time will be challenging. It presupposes that an entity performs a detailed assessment of its impacts, risks and opportunities, and what is going to be its future strategy, targets, policies, action plans and resources allocated to them on the longer term. EFRAG and the ISSB should work together to develop clear, practical, consistent guidance on how to determine the financial effects of sustainability matters and the related disclosures.

Phasing-in of the required information

We think that the phasing-in of the requirements should focus on the most relevant information for users, accommodate practical considerations for companies, and prioritise the information requirements arising from the CSRD and SFDR.

We think EFRAG should:

- (g) *Give priority to transparency about the company’s assessment of its material impacts, risks, and opportunities, and how it addresses its sustainability matters (governance);*
- (h) *Allow for more time for:*
- (i) the detailed description of the policies, targets, action plans and resources related to the value chain, and the related performance measures, as well as the potential financial effects of the risks and opportunities arising from environmental-related impacts and dependencies;
 - (ii) the detailed description of policies and processes, particularly as they relate to demonstrating compliance with laws (e.g. in the social standards) or implementation

of due diligence practices on sustainability matters. The detailed information required on due diligence practices will be challenging to prepare and verify, without the support of a finalised text for the proposed Corporate Sustainability Due Diligence Directive; and

- (iii) the most complex disclosure requirements (e.g. information relating to forward-looking information, such as whether strategies and targets are aligned with specific EU or local strategic plans; E3 *Marine resources*-related performance metrics, and several metrics in E4 *Biodiversity and ecosystems*).

C. Timeline and due process

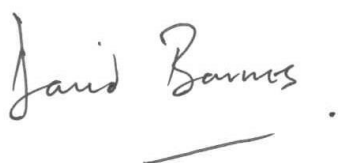
EFRAG's draft ESRS represent a comprehensive framework for sustainability reporting in the EU.

However, we consider that there is a significant risk that the quality of the standards is affected by the insufficient time available to collect the necessary input from stakeholders, and for research, analysis and suggestions for technical enhancements to take place. This could have an effect on the resulting quality of the information produced; call into question whether they are fit for purpose at a balanced cost; and make it difficult to verify and enforce. Furthermore, we question how the current timing would allow for adequate meaningful dialogue between EFRAG, the ISSB and other regulatory and standard-setting bodies, which is necessary to enable global convergence and interoperability to the maximum extent possible.

Whilst we appreciate the ambition of the EU, we strongly recommend EFRAG discuss with EU policymakers how time and an agile process can be found to allow for sufficient stakeholder feedback on the proposals, impact assessment, and the required technical deliberations. We also recommend that sufficient time is allowed for developing implementation and application guidance. We note that the phase-in that we recommend for some disclosure requirements could usefully be used to field-test them, so that EFRAG can incorporate lessons learnt in the next review of the ESRS.

We appreciate the opportunity to provide our perspectives on the proposal. We share your objectives of delivering high quality sustainability reporting standards that can help drive real change. We welcome the opportunity to discuss any of the points in our letter. If you have any question please contact Laurence Rivat on +33 (0)1 55 61 67 60 or David Barnes on +44 (0)20 7303 2888.

Yours sincerely,



David Barnes
Global Regulatory & Public Policy Leader



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