

ANALYSIS OF THE PRELIMINARY COMMENTS OF TEG MEMBERS

ESRS 2 – General, strategy governance and materiality assessment

This paper presents an assessment of the comments provided by EFRAG SR TEG members (in the survey). Such assessment is considered preliminary orientation, is not final (the final views will be expressed by SR TEG members following the end of the consultation) and has been prepared in order to provide EFRAG SR TEG with a basis for the discussion and to allow to identify the topics **that have to be discussed** following the consultation and those for which possible changes could be approved by EFRAG SR TEG/Board members (where appropriate) in written. Views of TEG members are preliminary at this stage and may change following the presentation of the outcome of the consultation. If feasible, for the topics identified to be amended, the EFRAG Secretariat will start preparing a markup. All the changes to the EDs will be submitted for approval by the SR TEG/SRB (where appropriate and reflecting the allocation of decisions at TEG/SRB) in written or in meetings. Comments supporting the proposals in the ED have not been reported in this paper as they do not require actions/discussions.

QUESTION FOR EFRAG SRT MEMBERS (will be asked in the meeting)

A decision on the changes to the EDs will only be made after having assessed the results of the public consultation in September. However:

- a) some points of enhancements can already be identified and if feasible a markup can be already developed (on points that do not change the substance of the proposals). Those points are identified in the secretariat assessment as '**Draft to be amended**'. For these topics a written approval procedure is proposed in order to focus the discussion on more substantial points;
- b) some comments point in the direction of possible DRs/datapoints that may be considered as postponed to year 2 and they are identified as to be **considered in the phase-in**;
- c) some comments point in the direction of possible actions that are not compatible with the deadline of November (e.g. additional guidance on some aspects). They are identified as **not compatible with the November deadline**. Along the same lines, some items require an assessment of their feasibility by November and as such they are identified as **Feasibility for November to be assessed**;
- d) some comments require discussion as they require a possible change in the substance of the requirements. They are identified as '**to be discussed**'. In this case, the EFRAG SR TEG members are invited to provide their preliminary orientation in the meeting.

1) *Do you agree with the preliminary assessment by the EFRAG Secretariat? In case you disagree, please explain.*

2) *Please provide your view on the items 'to be discussed in TEG'.*

1. SUGGESTED IMPROVEMENTS TO THE DRAFT

G = general

	DR	COMMENT	EFRAG SECRETARIAT PRELIMINARY ASSESSMENT	CONCLUSION
1		<p>Need to reorganise DR in order to limit overlaps: <i>GR/SBM/IRO</i></p> <ul style="list-style-type: none"> - The ED shows 17 DR on generic and transversal issues that are detailed in topics specific standards. The DR must be simplified and rationalized to facilitate the reading and the use of the sustainable information. - Merge DR 2 GR 2, 3 and 4 and the DR SBM 1, 2, 3 and 4, and IRO 1, 2 and 3. DR 2 GR 2 and SBM 1 can integrate many overlaps. - Many elements (for example on the description of the business model, on the description of IRO) overlap and / or are repetitive, sometimes of little use or interest as final information. - Merge GR 3 and GR 4 into SBM 1 as they are part of the business model - Requirements of 2-GR 4 should be reported within 2-SBM 1 - DR2 SBM1: Overlap with indicators describing the general characteristics and business context (DR 2 GR1, DR 2 GR2 and DR 2 GR 3). The integration of sustainability matters in the business model could be considered directly when describing the business model on a factual basis. - GR 3 Value chain (to be merged into new SBM 1 on Business Model) - Value chain description (GR 3) and value creation drivers (GR 4) should be grouped into one part, called description of Business Mod - DR2 SBM2: Information to be provided under DR 2-SBM 2 is artificial and it will bring no added value to the report. It is redundant, as more appropriate is information reported under 2-GOV 2 and 2-GOV 3. <p><i>G1 and 2</i></p> <ul style="list-style-type: none"> - Governance topical standards could / should also be reintegrated in this ESRS. Overall, information on governance (ESRS G1 and potentially G2) could be simplified and reintegrated within ESRS 2 as a cross-cutting issue, rather than a topical sustainability issue. Especially in a context of double materiality: governance does not correspond to a positive or adverse impact (such as E and S topics) it is rather an "enabler" and should be considered as such with ESRS 2 disclosure requirements. <p><i>GOV</i></p> <ul style="list-style-type: none"> - GOV 2 should be merged with GOV 1 and/or GOV 3. (ED) - GOV 1: 52 (c) needs to be simplified and let open. I suggest deleting the trainings and educational initiatives. Suggested text: "description of expertise in relation to its sustainability IROs that the 		To be discussed

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		<p>administrative, management, and supervisory bodies, and its individual members, possess, or have access to”.</p> <ul style="list-style-type: none"> - GOV1: 52 (a) and (b) could be merged into one single point since they both relate to the overall description of the administrative, management, and supervisory bodies. Mandates should include precision on information, consultation, or decision levels (AG 44). - GOV 1: 52 (d) is very demanding for the undertakings. This should rather be a suggestion of how to improve the expertise of the board with training and other initiatives other than a mandatory requirement. While this type of disclosure requirement will drive undertakings to document the type of sustainability issues they might discuss, this very descriptive DR always bear the risk to provide superficial and ‘reconstituted information’ that does not reflect the real level of attention given by supervisory bodies to sustainability matters. - DR2 GOV4: There may be an overlap with DR6 of ESRS G1 – governance-related requirements need to be streamlined - DR2-GOV5 together with ESRS 1 does already seem to cross the fine line between only being a reporting requirement and requiring compliance with an underlying duty, which is not the role of the ESRS. - GOV 5: Information on due diligence should be disclosed together with information on risks mapping and management. <p><i>GR</i></p> <ul style="list-style-type: none"> - GR10: There’s room for simplification on GR10. The generic DR on compliance are too long compared to the DR on sustainability substance. It seems that this part has been drafted by reporting experts rather than by sustainability experts. GR 10:The requirements in 30 (b) on an entity-specific level might not be necessary. It is already covered in ESRS 1 and GR8. - GR10: Par. 30(b) should be removed as (b)(i) is implied by (a)(i), (b)(ii) is covered by DR ESRS 2-IRO1 and par. 30(iii) would be covered by DRs ESRS 2-GR 5-8. - GR5 to 10: to be merged and located after presentation - Paragraph 30 (b) i) is very formal. GR5:-30 (b) not necessary/very formal/already covered in ESRS 1 and GR8. <p><i>IRO</i></p> <ul style="list-style-type: none"> - DR2 IRO2: There is a lot of overlapping among 76 ii), SBM 3 and 4, 77 (b), and IRO 1. I suggest that 77b be deleted. - The DRs IRO-2 and IRO-3 of ESRS 2 would require centralized disclosure of IROs across topics, which would lead to a significant need for cross-referencing when policies, targets, action plans and performance 		

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		<p>measures related to those IROs are separately disclosed under the topical standards, creating fragmentation and complexity.</p> <ul style="list-style-type: none"> - DR 2 IRO3: Paragraph 80b is useless or redundant with SBM 3 and 4. It is also the purpose of the Implementation section to explain remediation actions. The 2 AGs are not very useful and do not bring more clarity. - AG61 is too detailed and will result in multi cross referencing with low added value. At this stage of the report (general information) the disclosure requirement must address only the process and the output. Potential impact risk or exposures are detailed in the topic section. Paragraph b i and ii are requesting effect on performance positions and cash flows which is already requested for instance in ESRS E1 with a different wording (potential financial effects). paragraph iv request a description of the monitoring process which is also a request embedded in each topics standard. - ESRS 2 IRO 1 is extremely heavy, challenging to implement even by significant undertakings. Disclosure on the assessment process not necessary. Result materiality assessment very important, must be disclosed and justified, but some flexibility needed in assessment process. - The ED proposal is complex to apply and will lead to unnecessary accumulation of information. IRO 1 should be simplified especially paragraph 74. The paragraph shall only request for the disclosure of the process and its result of the double materiality assessment. No need here to add information on the dedicated resources. - A definition of “resources” (para.74, ESRS 2) is needed (whether it refers to work hours, FTE, invested capital, etc.). <p>[4 TEG members]</p> <p>[All]</p>		
2		<p>Quick fix</p> <ul style="list-style-type: none"> - suggest replacing IRO 3 with a simple paragraph stating that the same approach should be applied to entity specific level - Should not have separate DRs for DR2 IRO 2 and DR2 IRO 3 - 2-IRO 3 should be combined with 2-IRO 2 (currently there is an option to report both DRs in conjunction, that should simply be the base rule; just one DR on the results of materiality assessment process) 		Draft to be amended
3	GR2	<p>Sector reporting is too granular and should not differ from IFRS8</p> <p>[From 6 TEG members (5 preparers responded to the survey, 36% of the total were preparers)]</p>	Managerial view (IFRS 8) VS sector standardization.	To be discussed

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			Need to pave the way for sector standards, sectors do matter for material IRO identification.	
4	ALL	Most of the DR are narrative requirements difficult to digitise [From 5 TEG members]	Digitisation team will deal with text tags	No actions for November.
5	ALL	Terminology issue for "highest governing body" wording, or governance body as in IFRS [From 2 TEG members]	To be aligned per new draft of CSRD	Draft to be amended
6		Points related to rebuttable presumption: <ul style="list-style-type: none"> - Rebuttable presumption will lead to large technical reporting overhead and foster overreporting - Sustainability competition will remain a "who reports more" rather than shifting towards "who performs best". - •Need to restructure balance between sector-agnostic and sector specific in order to not use the rebuttable presumption mechanism. - Rebuttable presumption approach will cause significant reporting overhead and overreporting, diluting relevance. - IRO1: Having a quick result of the undertaking's (double) materiality assessment and rebuttable presumptions on ESRS is already extremely valuable. Information about the process is not useful. In addition, most of the time this requires the undertaking to artificially constitute a process for the reporting, which is extremely burdensome. Is there really a need to maintain this DR? [From 4 TEG members]	To be discussed in TEG	

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7	SBM4	<ul style="list-style-type: none"> •Disclosure of opportunities may disadvantage companies in international competition [From 1 TEG member]	To be discussed in TEG	
8	GR10	<ul style="list-style-type: none"> •Not sure to understand the utility of this type of compliance statement. As long as it is clear that the undertaking reports to comply with ESRS we see no need to add compliance statements. [From 1 TEG member]	Usefulness of compliance assertion?	
9		The implementation is feasible, but the current content of ESRS 2-IRO doesn't include enough clarity for companies, which risks leading to divergent implementation.	More guidance may be produced in the next steps.	No actions for November.
10	GR8	<ul style="list-style-type: none"> •Corrections should be limited to prior 2 years and - if applicable - base year of targets. [From 1 TEG member]	To be discussed in TEG	
11		Potential issues with auditors : <ul style="list-style-type: none"> - GR5: Auditors lacking knowledge - difficulties assessing reasonable approximations - GR3 It is highly possible that auditors will not have expertise sufficient enough to assess whether the undertaking has mapped its value chain in enough detail. - GR1: The stress could be put on the information provided on the scope of the audit: how was the sustainability statement audited? on the basis of what number of sites? affiliates? what countries, - (GENERAL ESRS2) Information can be verified and assured only if an independent verifier can corroborate that they are correct and compliant with the regulations. - •Access to this information will be made available to the independent verifier, as is currently the case. The leap in quality and transparency would be to agree with the entity to make its documents and spreadsheets public, which currently no entity does, as the regulations do not provide for such a possibility. 	To be discussed in TEG in order to see if other wording is needed	

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		[From 3 TEG members]		
12	GR5	Information on data limitations shall be required at level of specific issue (scope 3 limitations to be disclosed together with scope 3 information) not centrally [From 1 TEG member]	Clarify that this info shall be disclosed jointly with the specific datapoint for which approximation is used.	Draft to be amended.
13	GR5	·If data is not sufficient, companies should not at all disclose [From 1 TEG member]	In the meeting on 20 June there was a broad support for the approach.	No actions for November.
14		DR ESRS 2-GOV3 and ESRS-GR4 should be removed for confidentiality reasons. [From 1 TEG member]		To be discussed
15		DR ESRS 2-GR 5 GR6 and GR8 should only represent principles to apply to each disclosure requirement of the topical standards, not disclosure requirements to be fulfilled in a central place themselves. GR8: Information should not be required centrally; there should be a disclosure principle that requires information on prior period errors etc. under the specific disclosure requirement to which the issue applies (e.g. scope 3 error to be disclosed together with scope 3 information, not centrally with other information). I.e. DR should be removed and be a principle in ESRS 1 only – this would be more aligned with ISSB approach. [From 1 TEG member]	For GR 5 see above. GR 6 and 8 refer to specific circumstances that affect only some of the DRs. As such disseminating them in the report would not	No actions for November.

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			facilitate users' understanding.	
14	GR2	<p><i>ALTERNATIVE PROPOSAL FOR SIMPLIFICATION OF GR 2</i></p> <p>he expected content (description of its significant activities, headcount and revenue), yet the following text does not reflect the same philosophy. I suggest modifications as follows:</p> <p>1) The description of the undertaking should start with a presentation of its turnover broken down by activities. Activities are generally classified by operating segment under IFRS 8 instead of sectors (when undertakings are listed). We cannot change the way undertakings present themselves because of another new sector classification after the Taxonomy one. Then the link between activities or operating segments and ESRS SEC sectors should be required to identify the relevant sector-specific disclosure requirements.</p> <p>2) Then a split of the turnover and headcounts both by geography should be disclosed. This allows users to analyze the geographical footprint and the associated social risks.</p> <p>3) The breakdown should be based on geography rather than on country to allow flexibility for preparers with numerous countries of operations.</p> <p>4) Customer group should not be discussed here but in the value chain (GR 3 16 (c)).</p> <p>5) The "market" in 12 (b) iii) raises confusion here since it is not clear if the word refers to a country or a sector. Precise words are to be chosen."</p> <p>[From 1 TEG member]</p>		To be discussed
15		ESRS 2-ROI, especially the AG, should better use the content of the UNGPs, OECD Guidelines, and the GRI Universal standards. These norms provide the basis for the draft CSDDD.	To check what is missing	Draft to be amended (if need to change confirmed)

2. TOO MANY DR/GRANULARITY/COMPLEXITY/COST-BENEFIT

		COMMENT	EFRAG SECRETARIAT PRELIMINARY ASSESSMENT	CONCLUSION
1		DR considered as too granular: GOV2, GOV4, GOV5, SBM1, SBM2, SBM3, GR3 §17 1 AG14 [From 5 TEG members; 5 preparers participated to this survey, 36% of the total]		To be discussed
2	ALL	The number of disclosure requirements including verification of the sustainability statement will be a huge cost for undertakings. This is especially critical for smaller undertakings with limited resources. [From 1 TEG member]		To be discussed
3		IRO 1 - Having a quick result of the undertaking's (double) materiality assessment and rebuttable presumptions on ESRS is already extremely valuable. Information about the process is not useful. In addition, most of the time this requires the undertaking to artificially constitute a process for the reporting, which is extremely burdensome. Is there really a need to maintain this DR? [From 2 TEG members]		To be discussed
4		GR6,7: Requires deep scientific and statistical knowledge and will therefore impose significant challenge to companies, w/o adding value to most readers. Should be simplified.	The knowledge needed is the same as for the preparation of the estimates to comply with the DRs to which significant uncertainty or change refers.	No actions for November
5	SBM1	·Should be integrated with information given in financial reporting, rather than creating redundancy. ·Does not pursue idea of integrated reporting. ·May result in some boilerplate information.		To be discussed

		[From 2 TEG members]		
6	GR5	It is important to specify the margin of error of an indicator but no need to require a statement. Burdensome and superficial to ask for a dedicated DR. [From 1 TEG member]	Approximation is the remedy to impracticability of collecting the data for value chain. This disclosure is needed for users to understand the extent of missing data.	No actions for November.
7	GR3	AG13 is more relevant than 16 (a). [From 1 TEG member]	Rewording to be taken into consideration	Draft to be amended

3. ALIGNMENT WITH INTERNATIONAL STANDARDS / WITH EU REGULATIONS

	COMMENT	EFRAG SECRETARIAT PRELIMINARY ASSESSMENT	CONCLUSION
1	Alignment with CSDDD : <ul style="list-style-type: none"> - CSDDD is insufficiently considered and have some strong dependencies not defined yet - DR ESRS 2-GOV5 should only represent a placeholder until the CSDDD is adopted. [From 4 TEG members]	Actions to enhance the interoperability between CSDDD and ESRS are outside EFRAG scope and timing doesn't allow to address this issue.	No actions for November
2	DR2-GR9 : ESRS will only be a benefit to companies, if legacy frameworks are replaced. Persistent referencing keeps them alive. Is this information to be audited? [one comment] [From 3 TEG members]	This DR doesn't refer to legacy frameworks.	No actions for November.
3	GR 1: Regarding the scope, as required in 5 (b), the undertakings need flexibility to a certain level. A reporting scope identical to the financial statement is not practical due to the maturity of the sustainability reporting and to the operational influence concept. I propose to offer an option to disclose differences in terms of the scope. [From 1 TEG member]	The reporting scope is not identical to financial reporting as it is expanded to cover value chain.	Draft to be amended

4. MISSING DATAPOINTS OR GUIDANCE

		COMMENT	EFRAG SECRETARIAT PRELIMINARY ASSESSMENT	CONCLUSION
1		GR2 to 4 and SBM 1: mix of concepts not well defined: GR2: More information could be requested on the main clients and/ or main providers, especially for B to B companies. This would enable to better analyse risks related for instance to the over-importance of a client and / or a provider in the undertaking business model. [From 1 TEG member]	Review if definition is needed	Draft to be amended (if need confirmed)
2		Clarification needed for Materiality aspects and impact materiality, including assessment of material stakeholders. Need definition for value chain [From 6 TEG members]	Review if definition is needed	Draft to be amended (if need confirmed)
3		Examples would be useful for : GR3, SBM2, SBM 3, SBM 4 [From 3 TEG members]	Examples to be included in AG	Draft to be amended (if feasible for November)
4	IRO2	In addition this would be extremely useful to understand the location of these impacts, risks and opportunities across the undertaking's internal organisation: some affiliates might be much more concerned by some sustainability matters than others. Providing guidance on how to disclose the result of the materiality assessment would be in this regard really helpful. (This is much more important than the description of the assessment process, for which much more flexibility should be given to undertakings and which disclosure does not provide much valuable information). [From 1 TEG member]	Clarify how IRO2 is applicable to affiliates and across the organization	Draft to be amended (if feasible for November)
5	GOV4	This is an important issue for which factual data can prove interesting. In order to provide information of quality / meaningful information, it would be worth requiring more details on the ponderation of sustainability criteria in the remuneration policy and to disclose for the incentives the related performance criteria. Justification of level of achievement of performance criteria should be provided to justify sustainability-related bonuses -here or somewhere else in the management / sustainability report. [From 1 TEG member]		To be discussed

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6	GR3	<p>Request to disaggregate information where relevant by country or in relation to a significant site / asset: DR 2 GR3 is less specific while this information is extremely important. It might be worth reiterating this directly in the DR. For sensitive suppliers, the stake is not to obtain the location of the administrative headquarters but rather the location of sensitive production sites- for instance to consider human rights related issues. Good practice in the tech sector: US tech companies now provide a list of their main suppliers with the exact address of the production site so as to demonstrate that their production line is not concerned by sensitive locations subject to human rights controversies.</p> <p>[From 1 TEG member]</p>		To be discussed
7	GR3	<p>Need to have more information e.g. number and names of first tier suppliers Different opinion: Potential for infinite detail - companies have only limited transparency.</p> <p>[From 2 TEG members]</p>	Name of suppliers is sensible information.	<p>No actions for November.</p> <p>Number of suppliers: to be discussed</p>