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EFRAG Sustainability Reporting Board Consultation Survey 1

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EFRAG Sustainability Reporting Board Consultation Survey 1A - 1C, 2

Consultation survey structure

1. Overall European Sustainability Reporting Standards (ESRS) Exposure Drafts' relevance (Survey 1)

- 1A. Architecture
- 1B. Implementation of Corporate Sustainability Reporting Directive (CSRD) principles
- 1C. Exposure Drafts' content

2. European Sustainability Reporting Standards (ESRS) implementation prioritisation / phasing-in (Survey 1)

3. Adequacy of Disclosure Requirements (Survey 2)

- 3A. Cross cutting standards
- 3B Environmental standards
- 3C Social standards
- 3D Governance standards

Respondent Profile

1. Personal details

* Organisation name

50 character(s) maximum

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50 character(s) maximum

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* Country of origin

50 character(s) maximum

The Netherlands

*** 2. Type of respondent**

- ( ) Academic / research institution
- ( ) Audit firm, assurance provider and/or accounting firm
- ( ) Business association
- ( ) Consumer organization
- ( ) ESG reporting initiative
- ( ) EU Citizen
- ( ) Financial institution (Bank)
- ( ) Financial institution (Other financial Market Participant, including pension funds and other asset managers)
- ( ) Financial institution (Insurance)
- ( ) National Standard Setter
- ( ) Non-governmental organisation
- ( ) Non-financial corporation with securities listed on EU regulated markets
- ( ) Non-financial corporation with securities listed outside EU regulated markets
- (•) Public authority/regulator/supervisor
- ( ) Rating agency and analysts
- ( ) Trade unions or other workers representatives
- ( ) Unlisted non-financial corporations
- ( ) Other

*** 3. Size**

- ( ) Micro (1 to 9 employees)
- ( ) Small (10 to 49 employees)
- ( ) Medium (50 to 249 employees)
- (•) Large (250 or more employees)
- ( ) Not relevant

*** 4. User/Preparer perspective**

- User
- Preparer
- Both
- Neither

*** 5. Subject to CSRD**

Separate non-financial corps subject to CSRD from those not subject to CSRD?

- Yes
- No

EFRAG Sustainability Reporting Board Consultation Survey 1A - 1C, 2

1A. Overall ESRS Exposure Drafts' relevance – Architecture

Cross-cutting and topical standards

To facilitate a coherent coverage of the CSRD topics and reporting areas (as per Article 19a paragraph 2 and Article 19b paragraph 2 – see Appendix II) the Exposure Drafts ("EDs") submitted for public consultation are based upon two categories of standards:

• **Cross-cutting ESRS** which:

1. Establish the general principles to be followed when preparing sustainability reporting in line with the CSRD provisions
2. Mandate Disclosure Requirements ("DRs") aimed at providing an understanding of (a) strategy and business model, (b) governance and organisation, and (c) materiality assessment, covering all topics.

• **Topical ESRS** which, from a sector-agnostic perspective:

1. Provide topic-specific application guidance in relation to the cross-cutting DRs on strategy and business model, governance, materiality assessment
2. Mandate DRs about the undertaking's implementation of its sustainability-related objectives (i.e. on its policies, targets, actions and action plans, and allocation of resources)
3. Mandate performance measurement metrics.

A full list of standards and whether they are cross-cutting standards or topical standards can be found in Appendix I.

Q1: in your opinion, to what extent do the structure and articulation of cross-cutting and topical standards adequately support the coverage of CSRD topics and reporting areas?

- Not at all

- To a limited extent with strong reservations
- (selected) To a large extent with some reservations
- Fully
- No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

The AFM observes that the proposed European Sustainability Reporting Standards (ESRS) cover most of the CSRD (Corporate Sustainability Reporting Directive) topics and reporting areas, with the exception of some subtopics described in the final text of the CSRD under (Accounting Directive) Art. 29b (e.g. business ethics relating to animal welfare mentioned under 2.c.ii.).

We also have the following comments regarding the structuring of the standards:

Cross-cutting and topical standards

The AFM notes, in accordance with ESMA, that at times the topical standards complement the cross-cutting standards with additional requirements or require that the cross-cutting standards are read in the context of the specificities of the topical standards. This may result in a situation in which finding the relevant disclosure requirements for a certain cross-cutting topic becomes challenging (e.g., requirements on the sustainable business model, on impacts, risks and opportunities or on governance) given that it is necessary to navigate through cross-cutting standards and topical standards and across both core text and application guidance. EFRAG may want to consider moving these particular cross-cutting requirements directly into the topical standards. This approach will help make each of the topical standards a self-contained set of requirements to the widest possible extent.

'Disclosure principles' on implementation and 'disclosure requirements'

In our opinion, the proposed cross-cutting 'disclosure principles' in ESRS 1 seem to be misnamed and mislocated, as they are de facto a list of disclosure requirements complementing the cross-cutting requirements in ESRS 2 and indirectly the requirements in the topical standards. For the overall clarity and efficiency of the framework, we recommend that the content of these 'principles' be re-allocated to the relevant disclosure requirements or that they at least be renamed into disclosure requirements and that it be better clarified how they relate to ESRS 2 and topical standards.

Hyperlinks and glossary

The AFM also wishes to highlight that it would be helpful from a practical perspective to insert hyperlinks when one standard refers to another (we acknowledge this may not be possible in the delegated acts which will enact the ESRS, but it could be done if EFRAG makes a version of the standards available on its website). It would be useful to have a common glossary across the entire set of ESRS since defined terms are sometimes standard-specific and sometimes transversal.

Alignment and interoperability with international standards and frameworks

- Article 19b paragraph 3a of the CSRD requires that "When adopting delegated acts pursuant to paragraph 1, the Commission shall take account of the work of global standard-setting initiatives for sustainability reporting, and existing standards and frameworks for natural capital accounting, responsible business conduct, corporate social responsibility, and sustainable development."
- ESRS EDs were drafted accordingly, with the objective of fostering as much alignment as possible considering the constraints imposed by other provisions included in articles 19a and 19b as per the CSRD proposal. Details of these provisions and how they are covered by the ESRS EDs can be found in Appendix I.
- The structure and organisation of the reporting areas was one aspect of alignment to which particular attention was paid. Thus, the two categories of standards are organised to cover the reporting areas in relation to governance, strategy, assessment/management of impacts, risks and opportunities, and targets/metrics (as considered by the Task Force on Climate-Related Financial Disclosures - TCFD and source of inspiration for the IFRS Sustainability standards). A detailed mapping of the ESRS EDs disclosure requirements with TCFD recommendations and with IFRS Sustainability Exposure Drafts can be found in Appendices 5 and 6.

Q2: in your opinion, to what extent is the TCFD framework of reporting areas (governance, strategy, risk management and metrics/targets) compatible with the structure of the ESRS?

- (x) Not at all
- ( ) To a limited extent with strong reservations
- ( ) To a large extent with some reservations
- ( ) Fully
- ( ) No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

The AFM observes that the proposed ESRS diverge from the TCFD's clear structure which rests on four pillars, namely:
1. Governance
2. Strategy
3. Risk management
4. Metrics and targets

EFRAG has elected to create a more complex architecture for the ESRS. This is partly understandable due to the more complex requirements set out for these standards by the CSRD (i.e. explicitly demanding a double materiality perspective, the coverage of many more ESG topics than just climate change, as well as disclosures on business models and policies). However, we note that the architecture varies from one topical standard to the other and recommend that EFRAG endeavors to create as much consistency as possible in this regard. Moreover, we believe there is room to further align the ESRS architecture with the TCFD structure, despite the complexities inherent in CSRD requirements. The AFM therefore strongly suggests that EFRAG reviews the structure and architecture of the ESRS to create not only consistency across topical standards (insofar as that is possible), but also to enhance the convergence with the TCFD structure.

More convergence with the TCFD structure will enhance alignment with the international standards proposed by the International Sustainability Standards Board (ISSB) as the architecture of their general and climate-related disclosure standards (IFRS S1 and IFRS S2 respectively) are explicitly mimic the TFCD structure. Concretely, it would be important to achieve maximum consistency in the architecture of the ESRS' general and climate change-related requirements and the IFRS Sustainability Standards while still catering for necessary adjustments to the TCFD architecture, e.g. to reflect the fact that in the EU context reference should be made not only to ‘risk management’, but also to ‘impacts management’ or to accept that for the structure of the governance standards, the TCFD pillar of ‘governance’ may not be well suited.

Q3: in your opinion, to what extent does the approach taken to structure the reporting areas promote interoperability between the ESRS and the IFRS Sustainability Exposure Drafts?

- (x) Not at all
- ( ) To a limited extent with strong reservations
- ( ) To a large extent with some reservations
- ( ) Fully
- ( ) No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

The AFM is markedly concerned about the proposed ESRS’s lack of alignment and interoperability with the proposed ISSB standards (concerning financial materiality and focusing mainly on general and climate-related disclosures) and the limited alignment with the widely used Global Reporting Initiative (GRI) standards (concerning impact materiality and a wide range of sustainability topics). If this lack of alignment is maintained it would be to the severe detriment of both users and preparers, as it impairs the ability to adequately compare and consolidate sustainability disclosures under the different sets of standards. Our recommendations to remedy this problem, listed below, echo ESMA’s.

General comments on interoperability

The AFM strongly encourages EFRAG to make all possible efforts to develop standards that minimise unnecessary divergence with the upcoming IFRS Sustainability Standards and other relevant standards, such as GRI. The CSRD explicitly demands that the ESRS take account, to the greatest extent possible, of the work of global initiatives while remaining consistent with the EU’s legal framework and sustainability objectives. In our view, in finalising the ESRS, EFRAG should identify the differences with ISSB and GRI standards and group them into 3 categories: 1) those due to compliance with EU requirements (e.g., CSRD, SFDR, TR, BMR); 2) those due to impact materiality; and 3) other differences.

Differences in the second bucket are understandable vis-à-vis the draft ISSB standards which do not relate to impact materiality, although some impacts can be tied to enterprise value creation (i.e. financial) materiality as well. Vis-à-vis GRI standards, however, impact materiality cannot justify a difference. Differences in the third bucket should be carefully analysed to understand their rationale and the consequences of leaving them unaddressed. These differences may also constitute a basis for providing suggestions related to the development of international standards.

Architecture

One such difference that is not entirely due to specificities of EU legislation is the architecture of the ESRS vis-à-vis the architecture of the draft ISSB standards. In this regard, the AFM notes that the TCFD structure, used in the ISSB’s standards, has been re-worked by EFRAG into a more complex architecture. As noted in our response to Question 2, the AFM recommends that EFRAG seeks stronger alignment with the original TCFD structure to ensure a closer consistency with this well-known and broadly endorsed architecture thus facilitating alignment with the ISSB standards. That would be to the advantage of users of sustainability information under both sets of standards as they would be able to more easily compare the information. It would also be to the benefit of preparers who would be able to more easily navigate both sets of standards when compiling their reporting.

Concepts and terminology

Similarly, when the ESRS and the ISSB standards intend to require the same quantitative or qualitative information, the terminology used for those common disclosure requirements should be as aligned as possible. Consistency in terminology is also important with GRI requirements that relate to impact materiality. GRI is currently the most commonly used reporting framework under the NFRD and making the ESRS as consistent as possible with GRI will therefore be helpful for many preparers.

It would also be important to more clearly align the concept of financial materiality in the ESRS with that of enterprise value creation in the ISSB standards. This will facilitate interoperability between the two sets of standards.

The AFM also observes that the identification and description of qualitative characteristics of sustainability information in ESRS 1 diverges from that in both IFRS Sustainability Standards and existing IFRSs (e.g., ‘timeliness’ is missing, the definition of prudence is not aligned to that in the IASB’s Conceptual Framework, in the definition of faithful representation 'free from error' is replaced by ‘accurate’, the definition of ‘relevance’ talks about ‘substantive influence on the assessments and decisions of users’ instead of the IFRS notion of information ‘capable of making a difference in a decision’).

Sector classification

Lastly, it would be important to seek alignment with the ISSB on the approach to sector-specific standards, ideally basing these on a converged sector classification. The SASB sector classification differs from the NACE code classification typically used in Europe. We therefore recommend a mapping of the SASB classification to the classification that EFRAG will adopt. The mapping exercise may also help identify requirements that could be dropped or better fit the sector-agnostic category to maximise comparability amongst entities.

Consideration given to EU policies and legislation

Article 19b paragraph 3 of the CSRD also requires that “When adopting delegated acts pursuant to paragraph 1, the Commission shall take account of:

1. the information that financial market participants need to comply with their disclosure obligations laid down in Regulation (EU) 2019/2088 and the delegated acts adopted pursuant to that Regulation - **Sustainable Finance Disclosure Requirements**;
2. the criteria set out in the delegated acts adopted pursuant to Regulation (EU) 2020/852 - **Taxonomy Regulation**;
3. the disclosure requirements applicable to benchmarks administrators in the benchmark statement and in the benchmark methodology and the minimum standards for the construction of EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks in accordance with Commission Delegated Regulations (EU) 2020/1816*8, (EU) 2020/1817 and (EU) 2020/1818 - **Benchmark Regulation**;
4. the disclosures specified in the implementing acts adopted pursuant to Article 434a of Regulation (EU) No 575/2013; **Prudential requirements for Credit Institutions and Investment Firms**;

5. Commission Recommendation 2013/179/EU; **European Commission recommendation on the life cycle environmental performance of products and services**;
6. Directive 2003/87/EC of the European Parliament and of the Council; **GHG allowance Directive**;
7. Regulation (EC) No 1221/2009 of the European Parliament and of the Council; **EMAS regulation**.

Q4: in your opinion, have these European legislation and initiatives been considered properly?

- ○ Not at all
- ○ To a limited extent with strong reservations
- ● To a large extent with some reservations
- ○ Fully
- ○ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

The AFM would like to reiterate ESMA's comments in response to this question:

SFDR

As regards the disclosure requirements applicable to financial market participants under the SFDR, we have not identified any missing points or fundamental inconsistencies in the draft ESRS. It thus appears that the disclosure required under the ESRS will go far in permitting financial market participants to meet their obligation to disclose principal adverse impact (PAI) indicators.

We have the following detailed comments in relation to alignment with the PAI indicators:

- E2-4, par. AG 16(a) says 'the total amount of inorganic emissions in tons'. We recommend adjusting this to 'the total amount of inorganic pollution in tons'. This adjustment would ensure consistent wording within the standard and avoid creating doubt as to what the breakdown of 'inorganic emissions' is.

- In E3-4, it is unclear whether the requirement is for a composite KPI accounting for both 'emissions to water' and 'direct emissions of nitrates, phosphates and pesticides' or for two separate indicators. We observe that PAI indicator n°8 (table 1) requires one measure covering both.

- In E3-5, we suggest mentioning that the result must be expressed in 'millions' of the monetary unit in line with the SFDR PAI indicators.

- In E5, the definition of 'hazardous waste' is not fully aligned with the definition given in the SFDR RTS and we suggest referring to Art. 3(2) of Directive 2008/98/EC. It could furthermore be useful to add the definition of 'non-recycled waste' from the SFDR RTS in Appendix A and to align the definition of 'recycling' with that in Art. 3(17) of Directive 2008/98/EC.

- In S2-2, EFRAG could consider specifying in par. AG 16 that when an undertaking does not have a supplier code of conduct, it should state that fact. This would ensure fuller alignment with PAI indicator n°4 (table 3).

In addition, we observe that the CSRD aims to ensure consistency between the ESRS and the SFDR so financial market participants have access to the information they need from their investee companies to comply with their SFDR disclosure obligations. For this reason, it would be important:

- to make all ESRS disclosure requirements which meet the needs of financial market participants under the SFDR mandatory. For example, E3-5 covers the disclosure which is required under PAI indicator n°6 (table 2). However, E3-5 is optional and therefore undertakings may decide not to provide this disclosure.

- to indicate that all ESRS disclosure requirements which meet the needs of financial market participants under the SFDR are likely to be material since investor companies will be looking for this disclosure.

If these points are not clarified, financial market participants might not receive the disclosure from undertakings under the CSRD / ESRS which they, in turn, need to meet their disclosure obligations under the SFDR.

We also encourage EFRAG, in its discussions with the ISSB about aligning the ESRS and the IFRS Sustainability Standards, to encourage the ISSB to cater, where possible, for the SFDR PAI indicators to the widest possible extent. Naturally, the ISSB is not obliged to onboard all EU legislation into its standards. However, financial market participants subject to the SFDR will be looking for their investee companies – whether they are EU or non-EU entities – to disclose the SFDR's PAI indicators. This may make it relevant to try to accommodate these indicators in the IFRS Sustainability Standards as far as possible.

Benchmark Regulation (BR)

The AFM observes that the ESRS contain many disclosure points which would permit benchmark administrators to disclose the ESG factors required by Commission Delegated Regulation (EU) 2020/1816. However, we note that the following disclosure point appears to be missing:

- corporate information that will enable benchmark administrators to understand the exposure of the benchmark portfolio to renewable energy as measured by capital expenditures (CapEx) in those activities (as a share of total CapEx by energy companies included in the portfolio).

We therefore encourage EFRAG to add such a disclosure point.

Furthermore, when sectoral standards are developed, we encourage EFRAG to keep in mind the requirement for benchmark administrators to disclose the percentage of underlying funds with stewardship policies in place, including measures for the planning and management of resources. This point is not covered by the first set of the ESRS, and rightly so as it only pertains to fund managers. EFRAG could therefore consider covering this in the sectoral standard for fund managers / financial institutions.

Taxonomy Regulation (TR)

The AFM has not identified substantial inconsistencies between the ESRS and the TR nor between the ESRS and Commission Delegated Regulation (EU) 2021/2178.

Q5: are there any other European policies and legislation you would suggest should be considered more fully?

The AFM recommends that EFRAG considers aligning the definition of 'value chain', including for what concerns the definition of 'Business relationships', with that under discussion as part of the negotiations on the Corporate Sustainability Due Diligence Directive (CSDDD). In particular in relation to the value chain of financial sector undertakings, we suggest aligning with the definition provided in Art. 3(g) of the CSDDD text proposed by the European Commission.

In line with ESMA, the AFM further notes that ESRS 2 helpfully refers to Art. 9(a) and (b) of the Shareholder Rights Directive II (SRD II). To complement this reference, we suggest adding a reference to the forthcoming Commission Guidelines on the remuneration report, as publication of the Guidelines is foreseen for H2 2022. In addition, in order to clarify the concept of 'administrative, management and supervisory bodies', it would be helpful to use, or make reference to, the definition of 'director' in SRD II, which also includes the CEO (and deputy CEO, if existent), when these are not members of the administrative, management or supervisory bodies, and provides member states with the possibility to include other persons performing similar functions.

Coverage of sustainability topics

Article 19b paragraph 2 of the CSRD proposal defines the sustainability subject matters (referred to as sustainability topics or subtopics in the ESRS) that the sustainability reporting standards shall address when defining the sustainability information required by article 19a paragraphs 1 and 2 of the CSRD.
The ESRS architecture was designed to cover all the detailed subject matters listed in article 19b paragraph 2 for environment-, social- and governance-related matters and to ensure that sustainability information is reported in a carefully articulated manner.
In terms of timing of adoption of European sustainability reporting standards, article 19b paragraph 1 of the CSRD requires the Commission to adopt:

- a first set of sustainability standards covering the information required by article 19a and at least specifying information needed by financial market participants subject to the SFDR reporting obligations
- a second set of standards covering information that is specific to the sector in which undertakings operate.

Also, article 19c of the CSRD proposal on sustainability reporting standards for SMEs requires the Commission to adopt SME-proportionate standards in a second set.
As a consequence, as per article 19b paragraph 1, are only included in this first set of ESRS Exposure Drafts:

1. the two cross-cutting standards on General principles (ESRS 1) and on General, strategy, governance and materiality assessment (ESRS 2);
2. the eleven topical (sector-agnostic) standards covering environment- (ESRS E1 to E5), social- (ESRS S1 to S4) and governance-related (ESRS G1 and G2) sustainability topics.

A detailed list of ESRS EDs can be found in Appendix I. And the detailed provisions of the CSRD and how they are covered by the ESRS EDs can be found in Appendix II.

Q6: in your opinion, to what extent does the proposed coverage of set 1 adequately address CSRD sustainability topics?

- ○ Not at all
- ○ To a limited extent with strong reservations
- ◉ To a large extent with some reservations
- ○ Fully
- ○ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have.

As mentioned under Question 1, the AFM observes that the proposed ESRS cover most of the CSRD sustainability topics, with the exception of some subtopics described in the final text of the CSRD under (Accounting Directive) Art. 29(b), for example business ethics relating to animal welfare (mentioned under 2. c.ii.). We recommend that EFRAG reviews Art. 29(b) to identify subtopics mentioned there that are missing in the topical ESRS drafts.

Q7: in your opinion, to what extent does the proposed coverage of set 1 (see Appendix I) adequately address SFDR reporting obligations?

- ○ Not at all
- ○ To a limited extent with strong reservations
- ◉ To a large extent with some reservations
- ○ Fully
- ○ No opinion

If you think this coverage and its implementation could be improved in any way, please specify how and to what specific SFDR indicator your comment relates

See our response to Question 4.

Sustainability statements and the links with other parts of corporate reporting

For clarity and ease of use, standardised sustainability reporting shall be easily identifiable within the management report (MR). To that effect, ESRS 1 – General principles (paragraphs 145 to 152) prescribes how to organise the information required by ESRS. It offers three options (paragraphs 148 and 149) for undertakings to consider when preparing their sustainability reporting:

- a single separately identifiable section of the MR;
- four separately identifiable parts of the MR:

1. General information;
2. Environment;
3. Social;
4. Governance

- one separately identifiable part per ESRS in the MR.

The first option is the preferred option. When applying the other two options the entity shall report a location table to identify where disclosures are presented in the MR.
In order to foster linkage throughout the undertaking's corporate reporting, ESRS 1 also:

- prescribes that the undertaking adopts presentation practices that promote cohesiveness between its sustainability reporting and: (a) the information provided in the other parts of the management report, (b) its financial statements (FS), and (c) other sustainability-related regulated information (paragraphs 131 to 134)
- promotes the incorporation of information by reference to other parts of the corporate reporting in order to avoid redundancy (paragraphs 135 and 136)
- organises connectivity with the financial statements by prescribing how to include monetary amounts or other quantitative data points directly presented in the financial statements (paragraphs 137 to 143).

Q8: Do you agree with the proposed three options?

- ○ Yes
- ● No
- ○ No opinion

Q9: would you recommend any other option(s)?

If so, please describe the proposed alternative option(s)

> The AFM notes, in concert with ESMA, that the CSRD states (in Art. 19a(1)) that 'This [sustainability] information should be clearly identifiable within the management report, through a dedicated section of the management report'. Within the confines of this boundary, the AFM considers that EFRAG should allow for cross-referencing to other parts of the annual financial report, including but not limited to the management report (as covered in more detail under Question 11). In the AFM's view, such cross-references should be permitted to the extent they do not undermine the understandability of the sustainability reporting and its verifiability by means of assurance.
>
> While the AFM is strongly supportive of greater connectivity between sustainability reporting and financial reporting, and thus would welcome the inclusion of cross-referencing options (or even requirements), we also acknowledge a down-side to cross-referencing. As the Commission of European Audit Oversight Bodies (CEAOB) has noted in its response to the ESRS, cross-referencing might produce difficulties for providing assurance on the sustainability statement. We therefore encourage EFRAG to develop a methodology for incorporating cross-referencing that does not unnecessarily obscure the boundaries of the assurance task for providers of sustainability assurance.

Q10: in your opinion, to what extent do you believe that connectivity between the sustainability reporting and other parts of the management report has been appropriately addressed?

- ○ Not at all
- ● To a limited extent with strong reservations
- ○ To a large extent with some reservations
- ○ Fully
- ○ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

> The AFM appreciates EFRAG's efforts to allow for cross-referencing to other parts of the management report. In our opinion that some way towards connecting different parts of the management report while avoiding duplication of information.

However, ideally, investors and other users should be able to connect forward-looking financial information immediately to relevant sustainability-related information.
We recognize that the CSRD limits the extent to which the sustainability report can be integrated with (other) financial information by demanding explicitly that the sustainability-related information (to be disclosed in accordance with the CSRD) is presented in a separate and clearly identifiable location in the management report in order to facilitate assurance thereof. We strongly support the elements in the application guidance to ESRS 1 (§92 AG 24 and 26) which require corporations to report on the expected sustainability-related impact of future capital expenditures in the future information section of management report. In the AFM's opinion, such information is of great importance to investors and other stakeholders to assess the trajectory that a corporation is on in terms of transitioning to sustainable economic conduct.

The AFM would like to encourage EFRAG to further encourage connectivity between the sustainability information and (particularly forward-looking) financial information that corporations report. Corporations should moreover be required to report in clear terms how expected material sustainability-related impacts, risks and opportunities have informed and affected its main strategic decisions and business development decisions.

Q11: in your opinion, to what extent does the incorporation of information in the Sustainability section by reference to other parts of the management report support cohesiveness throughout corporate reporting?

- ( ) Not at all
- (x) To a limited extent with strong reservations
- ( ) To a large extent with some reservations
- ( ) Fully
- ( ) No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

In our reply to this question, the AFM would like to reiterate largely ESMA's detailed response:

Considerations related to corporate governance

ESRS 2 establishes disclosure requirements on the corporate governance of sustainability matters that are at the same time very wide-ranging and very detailed. These requirements correspond to the great part of the disclosures currently provided in the context of corporate governance and remuneration reports based on national law, corporate governance codes and the provisions under Art. 20 of the Accounting Directive. For the benefit of those undertakings that fall under both some / all of these provisions and the ESRS, ESMA encourages EFRAG to pursue alignment of the reporting requirements.

In this regard, the fact that incorporation by reference is limited to information in the management report may create duplication issues:
- the corporate governance report might sit outside the management report, as allowed by Art. 20 of the Accounting Directive, in which case the current draft ESRS would not permit incorporation by reference of the corporate governance report into the sustainability report.
- the remuneration report is a separate report and could therefore also not be incorporated into the sustainability report by reference.

To address this problem, incorporating information from those reports by reference should be explicitly allowed. Notably, it should be taken in consideration that information regarding administrative, management and supervisory bodies and their remuneration are at the core of the corporate governance report and remuneration report, respectively, and it would therefore be most suitable to reference the information in those reports to meet the ESRS' disclosure requirements on these topics.

General considerations

More generally, we believe there is a lack of clarity in the rules surrounding incorporation by reference into the sustainability report of information in other reports which already cover sustainability matters. For example, it is unclear what is meant in par. 131-132 when referring to the fact that an undertaking shall adopt presentation practices that promote cohesiveness between its sustainability report with other forms of reporting.

In particular, it would be important to allow for cross-referencing to information presented outside the management report, for example when it comes to certain regulatory information required for banks in relation to ESG risks.

- In this respect, the AFM believes that the ESRS should use incorporation by reference to reduce duplications across undertakings' annual financial reports and to help build connectivity with any other relevant information that is made available under the same terms, made subject to the same assurance regime and timing as the sustainability reporting.
- More concretely, we believe the ESRS should build on the experience of financial reporting whereby the relevant standards (e.g., IFRS) in selected cases allow the incorporation by reference into the financial statements of certain information that is placed elsewhere (a notable example of this are the financial risk disclosures required by IFRS 7 which would typically sit in an undertaking's management report). What is important is that the understandability of the sustainability reporting is not impaired when certain information is provided through the incorporation-by-reference mechanism.

While the AFM supports facilitating incorporation by reference as explained in the previous paragraphs, should cross-referencing not be possible, it should be considered whether certain requirements that duplicate information already available outside the sustainability report should be deleted from the ESRS.

Effects on digitalisation and assurance

In refining incorporation by reference, it would be important to ensure that any possibilities of cross-referencing do not impair the digital consumption of the sustainability reporting and the cross-referred information.
Acknowledging the CEAOB's observation regarding incorporation by reference, the AFM would also like to stress that EFRAG should similarly ensure that the ability of assurance providers to execute their assurance assignment is not unduly impaired either.

Q12: in your opinion, to what extent do the requirements and provisions on how to include monetary amounts and other financial statement-related quantitative data into sustainability reporting support connectivity with the financial statements?

- ○ Not at all
- ● To a limited extent with strong reservations
- ○ To a large extent with some reservations
- ○ Fully
- ○ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

In the AFM's view, connectivity between the financial statement and the sustainability statement should be strengthened and should be a two-way street. We would be supportive of systematic cross-referencing requirements, relating to any information that is deemed material both in sustainability-related and financial statement terms, from the financial statement to the sustainability statement and vice versa, regardless of whether that information is qualitative or quantitative in nature.

Clarifying and strengthening cross-referencing provisions

In order to ensure that it is clear that cross-referencing to the financial statements is allowed, par. 135 may have to be amended in accordance with par. 137-143 of ESRS 1 (which seem to allow for cross-referencing).

Like ESMA, the AFM also strongly recommends:
1. explicitly allowing cross-referencing not only to quantitative, but also to qualitative, information in the financial statements.
2. requiring (rather than merely allowing, as in par. 139), a reconciliation between the amounts presented in the sustainability report and those referred to in the financial statements.

Referencing in the other direction

While the AFM acknowledges that it may not be within the remit of the ESRS to require references to the sustainability statement to be made within financial statements, we strongly encourage EFRAG to find ways to underline that 'referencing in the other direction' may in many cases be helpful to assess the information in financial statements and that this financial information may be materially affected by information disclosed in the sustainability statement. One way in which EFRAG might encourage this, is by mentioning (and supporting by means of examples) in the basis for conclusions of ESRS 1 the fact that including in financial statements references to information in the sustainability reporting may contribute to a proper understanding and assessment of the information in financial statements. Naturally, it should be explicated that including such references inside financial statements should be done in ways that are appropriate and compatible with the relevant reporting standards.

Ensuring consistency across the ESRS

In line with ESMA, we furthermore recommend performing a consistency check of how the topic of connectivity with the financial statements is addressed across the topical standards and how this relates to ESRS 1, par. 137-143. Currently, different approaches are taken at various places in the topical standards: sometimes, only the body of the standard reminds undertakings to relate / reconcile monetary amounts with the financial statement (e.g., E1-4, par. 30(b)), sometimes only the application guidance makes this point (e.g., E3-5, par. AG 33), sometimes it is mentioned in both the body of the standard and the application guidance (e.g., S1-9, par. AG 110). It would be helpful to always take the same approach, potentially referring back to par. 137-143 of ESRS 1. In addition to this remark, in some cases we suggest specifying that the 'most relevant line item' in the financial statements will be the revenue item in the income statement; we have inserted this point in our response to a few of the topical standards.

1B. Overall ESRS Exposure Drafts relevance – Implementation of CSRD principles

Characteristics of information quality

Article 19a paragraph 2 of the CSRD proposal states that “the sustainability reporting standards referred to in paragraph 1 shall require that the information to be reported is understandable, relevant, representative, verifiable, comparable, and is represented in a faithful manner.”
As a consequence, ESRS 1 - *General principles* defines how such qualities of information shall be met:

- Relevance is defined in paragraphs 26 to 28
- Faithful representation is defined in paragraphs 29 to 32
- Comparability is defined in paragraphs 33 and 34
- Verifiability is defined in paragraphs 35 to 37
- Understandability is defined in paragraphs 38 to 41

Q13: to what extent do you think that the principle of relevance of sustainability information is adequately defined and prescribed?

- ○ Not at all
- ○ To a limited extent with strong reservations
- ● To a large extent with some reservations
- ○ Fully
- ○ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

> The AFM notes that the description of relevance is not fully aligned with that of the ISSB and of the International Accounting Standards Board (IASB). In ESRS 1 par.26 refers to ‘substantive influence on the assessments and decisions of users’ whereas the ISSB and IASB refer to information that 'may be capable of making a difference in a decision'. In the AFM’s view, it is not completely clear why the double materiality perspective would warrant this divergence in terminology, as also stakeholders who are solely interested in the sustainability impacts of a corporation always have some form of agency. We recommend that EFRAG considers whether this difference in terminology is necessary.

Q14: to what extent do you think that the principle of faithful representation of sustainability information is adequately defined and prescribed?

- ○ Not at all
- ○ To a limited extent with strong reservations
- ● To a large extent with some reservations
- ○ Fully
- ○ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

> The AFM notes that the description of faithful representation is not fully aligned with that of the ISSB and of the IASB. In ESRS 1 par.29 uses the term ‘accurate’ to refer to the third listed constituent quality of information that is faithfully represented. This term seemingly replaces the term ‘free from error’ that is used by the ISSB and IASB. In the AFM’s view, it is not completely clear why the double materiality perspective

would warrant this divergence in terminology ad we recommend that EFRAG considers whether this difference in terminology is necessary.
For our reflections on the role of estimations as mentioned in par.32, see our comment under Question 28 on the use of approximations.

Q15: to what extent do you think that the principle of comparability of sustainability information is adequately defined and prescribed?

- Not at all
- To a limited extent with strong reservations
- To a large extent with some reservations
- (x) Fully
- No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

Q16: to what extent do you think that the principle of verifiability of sustainability information is adequately defined and prescribed?

- Not at all
- (x) To a limited extent with strong reservations
- To a large extent with some reservations
- Fully
- No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

In response to this question, the AFM would like to reiterate the comments made by the CEAOB in relation to the principle of verifiability, as defined and prescribed in the ESRS.

Like the CEAOB, we note that paragraph 35 of ESRS 1 indicates that ‘Information is verifiable if it is possible to trace it, which is a prerequisite of information being auditable, as it allows for appropriate evidence on the audit assertions to be obtained’. We agree that the ability to trace information is one of the necessary conditions for information to be auditable. However, traceability of information is not sufficient in itself and should be complemented by the existence of underlying evidence or documentation. The AFM also believes that the last part of the sentence (i.e. ‘to allow for appropriate evidence on the audit assertions to be obtained’) should be deleted, because referring to audit assertions is not useful in this paragraph.

In our view, it is also important for the undertaking to retain appropriate evidence to support the sustainability statements. Furthermore, we agree with the CEAOB that an assurance standard (rather than the ESRS) should deal with issues related to the qualities (relevance and reliability) of the information which is used as evidence in an assurance engagement on sustainability statements.

Q17: to what extent do you think that the principle of understandability of sustainability information is adequately defined and prescribed?

- Not at all
- To a limited extent with strong reservations
- (selected) To a large extent with some reservations
- Fully
- No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

> The AFM appreciates the definition offered of understandability and its description in terms of conciseness, avoidance of boilerplate information and unnecessary duplication, knowledgeable intended users and possible connections to financial statements. We believe these information qualities are integral to high-quality reporting and, if marshalled effectively, can contribute to ensuring the relevance and reliability of sustainability statements. At the same time, these qualities (alongside a reduction of the number of disclosure requirements and their granularity) may help to limit the potential for information overload.
>
> To further contribute to such beneficial outcomes, the AFM suggests that EFRAG removes the brackets in the phrase '(knowledgeable) intended users'.

Double materiality

Double materiality is a principle that is central to the CSRD proposal and is represented accordingly in the ESRS materiality assessment approach that sustains the definition of mandatory requirements by the cross-cutting and topical standards. This is also true of the materiality assessment any undertaking is expected to perform, per ESRS 2 – *General, strategy, governance and materiality assessment*, to identify its principal sustainability risks, impacts and opportunities. This in turn, defines what sustainability information must be reported by the undertaking.

Double materiality assessment supports the determination of whether information on a sustainability matter has to be included in the undertaking's sustainability report. ESRS 1 paragraph 46 states that "a sustainability matter meets the criteria of double materiality if it is material from an impact perspective or from a financial perspective or from both." Further indications as to how to implement double materiality is given by ESRS 2 Disclosure Requirement 2-IRO 1, paragraph 74b(iii) and AG 68.

While recognising that both perspectives are intertwined the Exposure Drafts contain provisions about how to implement the two perspectives in their own rights.

Q18: in your opinion, to what extent does the definition of double materiality (as per ESRS 1 paragraph 46) foster the identification of sustainability information that would meet the needs of all stakeholders?

- Not at all
- (selected) To a limited extent with strong reservations
- To a large extent with some reservations
- Fully
- No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

Extensive application guidance needed

The AFM notes that the double materiality concept remains a very complex notion for entities to base their materiality assessments on and that extensive application guidance is required. Like ESMA, we recommend incorporating in the application guidance relating to ESRS 1 (around AG 60) the explanations and illustrations found in EFRAG's Conceptual framework for non-financial information standard-setting (par. 47-49) and the European Commission Guidelines on reporting of climate-related information (page 7).
We also like to emphasize the need for more examples of material information, more guidance on how to perform materiality assessments in consistent ways, clearer thresholds for what constitutes material information (in terms of severity of impact, likelihood of occurrence, etc.), a clearer delineation of the 'long term' time horizon and of affected stakeholders and users.

Financial materiality of impacts

The AFM appreciates that par. 47 makes clear that impact materiality is generally the starting point and that the interrelation with financial materiality is found in the fact that an entity's impacts may have financial implications for the undertaking, but recommends that EFRAG provides examples thereof. This is an important aspect of corporate risk management systems which should consider in an integrated way sustainability-related risks and opportunities and impacts and the AFM believes it should be further emphasised in the ESRS. Such examples could include (among other things) impacts that may lead to lawsuits against the entity, that may damage the entity's reputation among consumers, or degrade its own assets that underpin its production processes. We thus encourage EFRAG to further clarify the interplay between those two notions and the process for identifying material impacts, e.g., by reference to the extensive guidance of GRI standard no. 3 Material Topics.

Stakeholders

EFRAG should further clarify its description of stakeholders (in general and per topical standard) to make the double materiality concept more applicable in a consistent way. ESRS 1, par. 43 refers to the 'European public good' as one of the drivers for identifying material information. This notion is open to wide interpretation and not conducive to consistent application. It also ignores impacts on local communities outside of Europe. We therefore recommend that the reference to this notion is modified or removed from ESRS 1.
ESRS 1, par. 44-45 refer to a broad range of stakeholders and it is difficult to understand which stakeholders should be the reference point for the identification of material information under the two materiality lenses. The definition of affected stakeholders is excessively broad since it refers to every individual who can have an interest in the undertaking. The AFM, in line with ESMA, suggests considering the GRI definition of stakeholder (GRI 101) according to which stakeholders include entities or individuals whose rights under law or international conventions provide them with legitimate claims vis-à-vis the organisation.
The AFM furthermore wishes to highlight that the implications of distinguishing between 'affected stakeholders' and 'users' are not clear, especially not in terms of the distinct roles they should play in the materiality assessment and sustainability reporting of undertakings. We therefore recommend that EFRAG clarifies how undertakings should consider the 'users' compared to how they should consider (other) affected stakeholders in their reporting and materiality assessment.
In addition, like ESMA, we observe that other EFRAG standards (e.g., ESRS 2 and precisely with reference to the process of identifying material topics) introduce additional specifications of the stakeholder notion, such as 'relevant stakeholder', 'key stakeholder', 'key relevant stakeholder'. The AFM suggests retaining only one of these, for example 'relevant stakeholder'.

‘Significant’ and ‘material’

According to ESRS 1, par. 48 the terms ‘significant’ and ‘material’ have the same meaning when referring to impacts, risks and opportunities in the ESRS. For consistency and clarity purposes, we suggest always using the term ‘material’ where the two terms are used interchangeably. It may be specified that materiality is an aspect of relevance.
The topical standards sometimes oblige undertakings to provide information ‘where relevant’ / ‘as relevant’ / ‘to the extent relevant’. We note that the materiality assessment applies to all parts of the ESRS, as established by ESRS 1, par. 42. It therefore seems unnecessary and counterproductive to include the term ‘relevant’ in individual disclosure requirements as this may create confusion and undermine the general obligation to always assess materiality. We recommend EFRAG to carefully reconsider the use of such wording to ensure that no confusion exist with the materiality assessment.

Q19: to what extent do you think that the proposed implementation of double materiality (as per ESRS 2-IRO 1, paragraph 74b(iii) and AG 61) is practically feasible?

- (x) Not at all
- ( ) To a limited extent with strong reservations
- ( ) To a large extent with some reservations
- ( ) Fully
- ( ) No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

In the AFM’s view, the guidance on the methodology of materiality assessment should be improved. ESRS 2-IRO 1 requires entities to describe the methodology they used for their materiality assessment. Echoing the CEAOB, we note that it is unclear how entities will ensure consistency in their materiality assessments. Guidance or examples are necessary to ensure proper assessments of materiality and foster consistency in the materiality assessment performed by entities. Consistency and clarity in this methodology is crucially beneficial for preparers and assurance providers, and also for users as it will benefit the comparability of information reported by different entities.

Furthermore, the AFM emphasizes that, to ensure consistency in such assessments, clearer thresholds (in terms of severity, frequency, probability and redeemability) for material impacts and risks should be provided. For example, it should clarified further how frequent (e.g. once per decade) or probable (e.g. one-in-a-million chance) an impact should at least be in relation to specified levels of severity (e.g. a human life-threatening matter) to constitute a material impact.

The AFM also believes it should be clarified if and how ‘users’ should be considered in materiality assessments compared to how other ‘affected stakeholders’ are considered therein. The notion of ‘affected stakeholders’ also requires further clarification, as it is too broadly and vaguely defined. See our response to Question 18.
Lastly, we believe that the horizon for ‘long term’ impacts or risks (and opportunities) should be delineated, as the further away in the future, the more uncertain an impact, risk or opportunity is to occur (except where there is clear scientific evidence to the contrary). See also our response to Question 33.

Impact materiality

- A definition of impact materiality is given by ESRS 1 paragraph 49: “a sustainability matter is material from an impact perspective if the undertaking is connected to actual or potential significant impacts on people or the environment over the short, medium or long term. This includes impacts directly caused or contributed to by the undertaking and impacts which are otherwise directly linked to the undertaking’s upstream and downstream value chain.”
- A description of how to determine impact materiality and implement impact materiality assessment can be found in ESRS 1 *paragraph 51* and is complemented by ESRS 2 *Disclosure Requirement* 2-IRO 1, paragraph 74b(iii), AG 64 and AG 68.

Q20: in your opinion, to what extent is the definition of impact materiality (as per ESRS 1 paragraph 49) aligned with that of international standards?

- ○ Not at all
- ○ To a limited extent with strong reservations
- ● To a large extent with some reservations
- ○ Fully
- ○ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

The AFM recommends that EFRAG closely studies the alignment of its definition of impact materiality with the definition used by GRI and, wherever possible, converges with the GRI definition if differences are found.

Q21: to what extent do your think that the determination and implementation of impact materiality (as proposed by ESRS 1 paragraph 51) is practically feasible?

- ● Not at all
- ○ To a limited extent with strong reservations
- ○ To a large extent with some reservations
- ○ Fully
- ○ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

To help undertakings carry out the task of assessing impact materiality, and as previously mentioned in our response to Question 18, the AFM believes it would be important to set out a clear process for identifying material impacts and for how the identified impacts should then be captured under the lens of financial materiality. On these points, it would be important for EFRAG to work closely with GRI and the ISSB to agree on a common approach.

We emphasize the need for more examples of material information on impacts, more guidance on how to perform materiality assessments in consistent ways, clearer thresholds for what constitutes material information (in terms of severity of impact, likelihood of occurrence, etc.), a clearer delineation of the ‘long term’ time horizon and of affected stakeholders and users.

Specifically, we recommend that EFRAG further clarifies the interplay between those two notions and the process for identifying material impacts, e.g., by reference to the extensive guidance of GRI standard no. 3 Material Topics.

The AFM also stresses that more guidance is needed on how to apply the criteria severity of the impact and likelihood of the impact, in terms of thresholds and in relation to the definition of the two main groups of stakeholders mentioned in paragraph 44.
We further refer to our recommendations mentioned under Question 18 and 19 in relation to clarifications of terminology and delineation of the long term time horizon.

Financial materiality

- A definition of financial materiality is given by ESRS 1 paragraph 53: “a matter is material from a financial perspective if it triggers or may trigger significant financial effects on the undertaking, i.e., it generates risks or opportunities that influence or are likely to influence the future cash flows and therefore the enterprise value of the undertaking in the short, medium or long term, but it is not captured or not yet fully captured by financial reporting at the reporting date.”
- A description of how to determine financial materiality and implement financial materiality assessment can be found in ESRS 1 paragraphs 54 to 56 and is complemented by ESRS 2 Disclosure Requirement 2-IRO 1, paragraph 74b(iii), AG 65 and AG 69.

Q22: in your opinion, to what extent is the definition of financial materiality (as per ESRS 1 paragraph 53) aligned with that of international standards?

- ( ) Not at all
- (x) To a limited extent with strong reservations
- ( ) To a large extent with some reservations
- ( ) Fully
- ( ) No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

The AFM suggests better aligning the notion of financial materiality to that of enterprise value creation and to make all possible cooperation efforts to reach a converged position with the ISSB, especially regarding the role that impacts may have in terms of financial materiality (enterprise value materiality). We have made a similar recommendation to the ISSB in our response to the proposed IFRS Sustainability Standards. We also suggest adopting the term ‘enterprise value creation’ instead of ‘financial’ in designating this type of materiality. See also our response to Question 18.

Q23: to what extent do you think that the determination and implementation of financial materiality (as proposed by ESRS 1 paragraphs 54 to 56) is practically feasible?

- (x) Not at all
- ( ) To a limited extent with strong reservations
- ( ) To a large extent with some reservations
- ( ) Fully
- ( ) No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

It is the AFM's view that much more guidance is needed in ESRS 1 and ESRS 2 to ensure proper and consistent materiality assessment, also with regards to financial materiality (enterprise value creation materiality). This guidance should include, at least:

- more examples, especially of how impacts can generate material risks or opportunities for the reporting entity.
- clearer and stricter thresholds for criteria such as likelihood of occurrence.
- a clearer delineation of 'long term'.

Examples of impacts that are material through the lens of financial materiality are:

- impacts that may lead to lawsuits against the entity.
- impacts that may damage the entity's reputation among consumers, investors, business partners or potential employees.
- impacts that degrade the entity's own assets that underpin its production processes.

We strongly recommend that EFRAG endeavours to find as much common ground as possible with the ISSB to align the application of the financial materiality concept with the application of enterprise value creation materiality in the ISSB's standards.
See also our reply to Questions 18, 19 and 21.

(Materiality) Rebuttable presumption

Central to the ESRS is the critical combination of two key elements:

- the mandatory nature of disclosure requirements prescribed by ESRS, and
- the pivotal importance of the assessment by the undertaking of its material impacts, risks and opportunities.

The combination of the two is designed to make sure that the entity will report on its material impacts, risks and opportunities, but on all of them.
The assessment of materiality applies not just to a given sustainability matter covered by a given ESRS (like ESRS E3 on biodiversity for example), but also to each one of the specific disclosure requirements included in that ESRS. However, this excludes the cross-cutting standards and related disclosure requirements, which are always material and must be reported in all cases.
When a sustainability matter is deemed material as a result of its materiality assessment, the undertaking must apply the requirements in ESRS related to these material matters (except for the few optional requirements identified as such in ESRS). Conversely, disclosure requirements in ESRS that relate to matters that are not material for the undertaking are not to be reported.
The (materiality) rebuttable presumption mechanism described in ESRS 1 paragraphs 57 to 62 aims at supporting the implementation and documentation of the materiality assessment of the undertaking at a granular level.
ESRS 1 paragraphs 58 to 62 describe how to implement the rebuttable presumption principles. In particular, "The undertaking shall therefore assess for each ESRS and, when relevant, for a group of disclosure requirements related to a specific aspect covered by an ESRS if the presumption is rebutted for:

1. all of the mandatory disclosures of an entire ESRS or
2. a group of DR related to a specific aspect covered by an ESRS,

Based on reasonable and supportable evidence, in which case it is deemed to be complied with through a statement that:

1. the ESRS or
2. the group of DR is “not material for the undertaking”.

Q24: to what extent do you think that the (materiality) rebuttable presumption and its proposed implementation will support relevant, accurate and efficient documentation of the results of the materiality assessment?

- (x) Not at all
- ( ) To a limited extent with strong reservations
- ( ) To a large extent with some reservations
- ( ) Fully
- ( ) No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

> Like ESMA, the AFM does not support the proposed rebuttable presumption, defined in paragraphs 57-62 of ESRS 1, by which every mandatory disclosure requirement is presumed material, unless a corporation provides (ad hoc) reasonable and supportable evidence to rebut that presumption per disclosure requirement or group of disclosure requirements. We believe this may provide counterproductive and sometimes even conflicting incentives which may decrease disclosure quality. The problematic aspects of this approach are threefold.
>
> Firstly, it may engender a checklist approach to sustainability reporting, whereby corporations take the (impressive amount of) disclosure requirements in the ESRS rather than rigorous materiality assessment as the starting point of their reporting process.
>
> Secondly, the rebuttable presumption mechanism is easily interpretable as a ‘comply or explain’ mechanism, which may encourage only superficial compliance to the CSRD requirements and may reduce both the usefulness of the reported information and effectiveness of supervision.
>
> Thirdly, in some cases this mechanism may further aggravate the disclosure overload problem as some corporations may tend to disclose immaterial information to avoid the development of more burdensome supporting documentation necessary to justify the non-disclosure of that information.
>
> In the AFM’s view, a strict requirement to disclose only material information (like in financial reporting) is needed in place of the rebuttable presumption mechanism. However, the AFM recognizes that sustainability reporting that employs a double materiality lens, requires materiality assessments which are more complex than those common in financial reporting. Moreover, sustainability reporting is a relatively new field of reporting for many corporations that fall within the scope of the CSRD. The resulting information is also relatively new for investors and other users of corporate information, at least in comparison to financial information. Therefore, the AFM sees the need for extensive guidance on assessing which sustainability-related information is material or not in terms of financial materiality (enterprise value creation materiality) and /or impact materiality.

Q25: what would you say are the advantages of the (materiality) rebuttable presumption and its proposed implementation?

The AFM sees no advantages in retaining the rebuttable presumption principle in the ESRS. In the AFM's view, the task of judging whether any specific topic and disclosure requirement is material to a corporation's operations and/or value chain, falls to the corporation itself and the assurance provider (and to supervisors), rather than to the user of the information who should not be burdened with superfluous information.

Q26: what would you say are the disadvantages of the (materiality) rebuttable presumption and its proposed implementation?

The AFM believes that the disadvantages of the rebuttable presumption approach are threefold (as explained more elaborately in our response to Question 24).

1. It may engender a checklist approach to sustainability reporting, whereby corporations take the (impressive amount of) disclosure requirements in the ESRS rather than rigorous materiality assessment as the starting point of their reporting process.

2. The rebuttable presumption mechanism is easily interpretable as a 'comply or explain' mechanism, which may encourage only superficial compliance to the CSRD requirements and may reduce both the usefulness of the reported information and effectiveness of supervision.

3. In some cases this mechanism may further aggravate the disclosure overload problem as some corporations may tend to disclose immaterial information to avoid the development of more burdensome supporting documentation necessary to justify the non-disclosure of that information.

Q27: how would you suggest it can be improved?

The AFM believes that the rebuttable presumption mechanism should be replaced by a strict requirement to disclose only material information (like in financial reporting). However, the AFM recognizes that sustainability reporting that employs a double materiality lens, requires materiality assessments which are more complex than those common in financial reporting. Moreover, sustainability reporting is a relatively new field of reporting for many corporations that fall within the scope of the CSRD. The resulting information is also relatively new for investors and other users of corporate information, at least in comparison to financial information. Therefore, the AFM sees the need for extensive guidance on assessing which sustainability-related information is material or not in terms of financial materiality (enterprise value creation materiality) and /or impact materiality.

The guidance provided for materiality assessment should include, among other things, better clarified and stricter thresholds of materiality, more specifications per topic regarding (potentially) affected stakeholders, a clearer definition of the long term time horizon and more examples of what constitutes material information on the basis of both the impact and the financial materiality principle. Furthermore, the guidance provided on impact materiality assessment should ideally be aligned as much as possible with the guidance provided by the GRI, which over the last decades has been the main global standard setter for corporate reporting on matters of corporate sustainability impacts. The AFM would also recommend that EFRAG coordinates with the ISSB to ensure that guidance on financial materiality assessment aligns with enterprise value creation materiality assessments.

We refer also to our replies to Questions 18, 19, 21 and 23.

Reporting boundary and value chain

ESRS 1 paragraphs 63 to 65 define the reporting boundary of the undertaking and how and when it is expanded when relevant for the identification and assessment of principal impacts, risks and opportunities upstream and downstream its value chain – as the financial and/or impact materiality of a sustainability matter is not constrained to matters that are within the control of the undertaking.

Paragraphs 67 and 68 address the situation when collecting the information about the upstream and downstream value chain may be impracticable, i.e. the undertaking cannot collect the necessary information after making every reasonable effort, and allows approximation based on the use of all reasonable and supportable information, including peer group or sector data.

Due to the dynamics and causal connections between levels within the undertaking's reporting boundary, material information is not constrained to one particular level. Paragraphs 72 to 77 prescribe how the undertaking shall consider the appropriate level of disaggregation of information to ensure it represents the undertaking's principal impacts, risks and opportunities in a relevant and faithful manner.

Q28: in your opinion, to what extent would approximation of information on the value chain that cannot (practically) be collected contribute to the reporting of understandable, relevant, verifiable, comparable, and faithfully represented sustainability information?

- (x) Not at all
- ( ) To a limited extent with strong reservations
- ( ) To a large extent with some reservations
- ( ) Fully
- ( ) No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

The AFM believes that the extension of traditional reporting boundaries to include the value chain is one of the key beneficial aspects of sustainability reporting, but also one of the most challenging in terms of feasibility for preparers, verifiability for assurance providers, reliability of the provided information. When kept vague and too broad, the expanded reporting boundary will be likely to produce an overload of information which is difficult to compare and verify, of questionable reliability and relevance and hard to digest for users. In our view, several aspects of the reporting boundary should therefore be improved in the ESRS.

Clearer delineation of the value chain within the reporting boundary

The AFM recommends that EFRAG clearly defines how far into the value chain, both upstream and downstream, the general reporting obligations of a reporting entity reaches (e.g. to 2nd tier or 3rd tier business partners). The specific delineation of the reporting boundary may be specified in the sector agnostic standards or (if they should vary per industry or sustainability topic) in the industry-specific and/or topical standards. We also recommend that guidance is given explicitly on how to assess material impacts and material risks/opportunities when it comes to different tiers in the value chain, both upstream and downstream.

Clarification of terms

The meaning and role of 'operational influence' should be clarified. It seems obvious that operational influence will have an impact on an undertaking's ability to obtain data, but the basis for conclusions of ESRS 1 (par. BC72) indicates the contrary. We also recommend defining the notion of upstream entities. It is also important to ensure that users are able to understand how the reporting boundary for sustainability reporting compares with that for financial reporting (to identify sustainability-related risks and opportunities that may arise from value chain activities and which may have an impact on future financial statements).

Financial sector value chains

We strongly encourage EFRAG to outline an adequate, relevant, bounded and feasible definition of financial-sector value chains in the industry-specific standards which it is developing. Lack of clarity concerning the reporting boundaries for financial-sector enterprises can lead to either underreporting of relevant information or overreporting. The potential for a disclosure overload problem and inconsistency is particularly acute when it comes to banks, insurance companies, mortgage lenders and other financial-sector enterprises whose relevant value chains are at present difficult to conceptualize. We urge EFRAG (as we have urged the ISSB) to clearly delineate the reporting boundaries of financial enterprises, especially in terms of the value chains of the counterparties to which they lend or in which they invest. We suggest setting clear and consistent limits (in terms of tiers in the chain and in terms of thresholds for counterparties to be incorporated) for the reporting boundaries of financial enterprises in the upcoming sector-specific standards and to endeavour to achieve an aligned approach with the ISSB on this point.

Approximations

The extension of the reporting requirements to entities in the value chain that are not subject to the CSRD, including those in non-EU countries, may be problematic. At the same time, for other areas of Sustainable Finance legislation, such as the TR, the need to look across the value chain is a key feature to ensure that ESG impacts, risks and opportunities are properly assessed and disclosed. The CSRD envisages a 3-year period during which it is envisaged that the necessary information regarding the value chain may not all be available and foresees specific disclosures to address these situations. The ESRS should reflect this requirement in its phase-in approach. In the AFM's view, this requirement also implies that after the initial period, the value chain information is expected to be provided which the ESRS should reflect.

The CSRD also indicates that the ESRS 'shall specify disclosures on value chains that are proportionate and relevant to the scale and complexity of the activities, and the capacities and characteristics of undertakings in value chains' especially those undertakings that are not subject to CSRD. EFRAG will need to take account in the standard-setting process of these new specifications, in particular regarding the scale and complexity of the activities and type of entities in the value chain.

Alignment with the ISSB

In developing the final approach to reporting boundaries in the ESRS, we encourage EFRAG to engage in discussions with the ISSB to seek a converged approach.

Q29: what other alternative to approximation would you recommend in cases where collecting information is impracticable?

The AFM would like to stress that if value chains are more clearly delineated in terms of the tiers within the value chain that fall within the reporting boundaries of an entity, the need for approximations will likely decrease as more direct information will likely be available.

In addition, the AFM would like to reiterate the alternatives for approximation, derived from ESMA's response, mentioned under Question 28:

The CSRD envisages a 3-year period during which it is envisaged that the necessary information regarding the value chain may not all be available and foresees specific disclosures to address these situations. The ESRS should reflect this requirement in its phase-in approach. In the AFM's view, this requirement also implies that after the initial period, the value chain information is expected to be provided which the ESRS should reflect.

The CSRD also indicates that the ESRS 'shall specify disclosures on value chains that are proportionate and relevant to the scale and complexity of the activities, and the capacities and characteristics of undertakings in value chains' especially those undertakings that are not subject to CSRD. EFRAG will need to take account in the standard-setting process of these new specifications, in particular regarding the scale and complexity of the activities and type of entities in the value chain.

Q30: in your opinion, to what extent will the choice of disaggregation level by the undertaking as per ESRS 1 paragraphs 72 to 77 contribute to the reporting of understandable, relevant, verifiable, comparable and faithfully represented sustainability information?

- (x) Not at all
- ( ) To a limited extent with strong reservations
- ( ) To a large extent with some reservations
- ( ) Fully
- ( ) No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

The AFM strongly recommends the removal of requirements to report KPI's per country, per site or per asset. In our opinion, the requirements contained in ESRS 1 paragraphs 72 to 77 represent an unnecessarily high burden on reporting entities and will contribute significantly to the risk of information overload for users. These proposed disaggregation requirements are also nowhere specified in the CSRD, neither in the recitals nor in Art. 19a, 29a or 29b.

In the AFM's view, these general requirements in ESRS 1 concerning disaggregation level should be replaced by the requirement to report at a higher level of aggregation (e.g. world regions), with the caveat that the undertaking should additionally report on particular countries, locations or assets (only) if materially higher levels of risk or impact have been identified there, thus following a risk-based approach. This should be accompanied by extensive guidance and examples.

We note that some disclosure requirements in ESRS E5, S1 and G1 are particularly striking examples of disclosure requirements that are made too cumbersome for both preparers and users due to the granularity of disaggregation.

Time horizon

ESRS 1 paragraph 83 defines short-, medium- and long-term for reporting purposes, as

- One year for short term

- Two to five years for medium term
- More than five years for long-term.

Q31: do you think it is relevant to define short-, medium- and long-term horizon for sustainability reporting purposes?

- (x) Yes
- ( ) No
- ( ) I do not know

Please explain why

In the AFM's view, defining time horizons will be beneficial to consistent reporting and comparability and to assurance providers.

Problematic, however, is the lack of alignment with the ISSB on this point because the proposed IFRS Sustainability Standards apply a principles-based approach to time horizons in order to account for the specificities of different sectors and product lifecycles. We encourage EFRAG to engage in discussions with the ISSB to reach agreement on this matter.

We also observe that EFRAG's definition of long term is open ended.

Q32: if yes, do you agree with the proposed time horizons?

- ( ) Yes
- (x) No
- ( ) I do not know

Please explain why

The AFM disagrees with the open-endedness of the 'long term' time horizon. In our view this invites vagueness, increases the reporting burden and the risk of information overload. It also hampers the assurance and supervision of the reported information.

Q33: if you disagree with the proposed time horizons, what other suggestion would you make? And why?

The AFM suggests defining a cut-off point for the long term time horizon. We do envision that this cut-off point may vary from topic to topic.

The AFM suggests that EFRAG work with the ISSB to get to a common understanding of time horizons and their possible definition. Like ESMA, we do not believe that the statement in the basis for conclusions of ESRS 1 that there is consistency between the approach to time horizons of EFRAG and ISSB is accurate.

Disclosure principles for implementation of Policies, targets, action and action plans, and resources

In order to harmonise disclosures prescribed by topical standards, ESRS 1 provides disclosure principles (DP) to specify, from a generic perspective, the key aspects to disclose:

1. when the undertaking is required to describe policies, targets, actions and action plans, and resources in relation to sustainability matters and
2. when the undertaking decides to describe policies, targets, actions and action plans, and resources in relation to entity-specific sustainability matters.

DP 1-1 on policies adopted to manage material sustainability matters describes (paragraphs 96 to 98) the aspects that are to be reported for the relevant policies related to sustainability matters identified as material following the materiality assessment performed by the undertaking.
DP 1-2 on targets, progress and tracking effectiveness defines (paragraphs 99 to 102) how the undertaking is to report measurable outcome-oriented targets set to meet the objectives of policies, progress against these targets and if non-measurable outcome-oriented targets have been set, how effectiveness is monitored.
DP 1-3 on actions, action plans and resources in relation to policies and targets defines (paragraphs 103 to 106) the aspects that are to be reported by the undertaking relating to actions, action plans and resources in relation to policies and targets adopted to address material impacts, risks and opportunities.

Q34: in your opinion, to what extent will DP 1-1 contribute to the reporting of understandable, relevant, verifiable, comparable and faithfully represented information on sustainability related policies?

- ○ Not at all
- ◉ To a limited extent with strong reservations
- ○ To a large extent with some reservations
- ○ Fully
- ○ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

The AFM would like to reiterate ESMA's reply to this question:

Please see our comments under Q1 in relation to the use of disclosure principles in general.

In relation to ESRS 1-1, we suggest also requiring disclosures on the extent to which available resources are sufficient to pursue the policies, objectives / targets, etc. A link with ESRS 1-3 on resources needed to fulfil the policies could be made.

We also note that par. 98 on policies adopted to manage material sustainability matters addresses the case in which entities 'cannot' disclose policies and, in this case, indicates that explanations shall be provided. If this is a general requirement, it should be reflected more clearly in the topical standards. However, we question whether such a requirement will promote good reporting practices. If information on policies in a certain sustainability area is material, this information should be disclosed. If this is not disclosed because of lack of materiality, there is no need to further explain that fact. On the contrary, if a policy is material but information about it is missing, undertakings should simply make sure they provide this information. We would suggest not giving the impression that undertakings may choose whether to report policies with respect to sustainability matters which are considered material.

Q35: in your opinion, to what extent will DP 1-2 contribute to the reporting of understandable, relevant, verifiable, comparable, and faithfully represented information on sustainability-related targets and their monitoring?

- ( ) Not at all
- (x) To a limited extent with strong reservations
- ( ) To a large extent with some reservations
- ( ) Fully
- ( ) No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

> The AFM believes that the general requirement (in ESRS 1 paragraph 100a) to explain the link between each sustainability-related (transitional) policy and each related measurable target should be amended. In its current form it can contribute greatly to information overload and lead to the reporting of information which is superfluous to (somewhat) knowledgeable audiences when both the policies and the targets are described in familiar general terms. A situation should be avoided in which undertakings are all under the impression that they have to reiterate the same (scientific or other) explanations for how specific types of actions may reduce specific sustainability-related problems or risks.
>
> In our view, DP 1-2 should make clear that only entity-specific elements of these policies and/or entity-specific target metrics should be accompanied by specific explanation as to their interrelation.

Q36: in your opinion, to what extent will DP 1-3 contribute to the reporting of understandable, relevant, verifiable, comparable, and faithfully represented information on sustainability-related action plans and allocated resources?

- ( ) Not at all
- (x) To a limited extent with strong reservations
- ( ) To a large extent with some reservations
- ( ) Fully
- ( ) No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

> The AFM's concerns regarding DP 1-3 are similar in nature to those mentioned in relation to DP 1-1 and DP 1-2 and we thus refer to our responses to Questions 34 and 45.

Bases for preparation

Chapter 4 of ESRS 1 provides for principles to be applied when preparing and presenting sustainability information covering general situations and specific circumstances. Aspects covered include:

- general presentation principles (paragraphs 108 and 109);
- presenting comparative information (paragraphs 110 and 111);
- estimating under conditions of uncertainty (paragraphs 112 and 113);

- updating disclosures about events after the end of the reporting period (paragraphs 114 to 116);
- changes in preparing or presenting sustainability information (paragraphs 117 and 118);
- reporting errors in prior periods (paragraphs 119 to 124);
- adverse impacts and financial risks (paragraphs 125 and 126);
- optional disclosures (paragraph 127);
- consolidated reporting and subsidiary exemption (paragraphs 128 and 129);
- stating relationship and compatibility with other sustainability reporting frameworks (paragraph 130).

Q37: is anything important missing in the aspects covered by the bases for preparation?

- (x) Yes
- ( ) No
- ( ) I do not know

If yes, please indicate which one(s).
Please share any comment you might have on the aspects already covered (make sure to indicate which one you are referring to)

The AFM is generally appreciative of the bases for preparation proposed by EFRAG in ESRS 1 and in particular section of 4.7 which addresses potential adverse effects and financial risks.

Concerning section 4.6, however, the AFM believes a reference is missing to the fact that some reporting errors in prior periods cannot wait to be addressed in the subsequent reporting report, especially where it concerns listed companies and the reporting error constitutes price-sensitive information. For such errors, the basis of preparation should contain a guideline to ensure timely correction.

1C. Overall ESRS Exposure Drafts relevance – Exposure Drafts content

For the purpose of the questions included in this section, respondents are encouraged to consider the following:

- when sharing comments on a given ESRS Exposure Draft, and as much as possible, reference to the specific paragraphs being commented on should be included in the written comments,
- in the questions asked, for each ESRS, about the alignment with international sustainability standards, these include but are not limited to the IFRS Sustainability Standards and the Global Reporting Initiative Standards. Other relevant international initiatives may be considered by the respondents. When commenting on this particular question, respondents are encouraged to specify which international standards are being referred to.

ESRS 1 – General Principles

This [draft] Standard prescribes the mandatory concepts and principles to apply for preparation of sustainability reporting under the Corporate Sustainability Reporting Directive (CSRD) proposal.
It covers the applicable general principles:

1. when reporting under European Sustainability Reporting Standards;

2. on how to apply CSRD concepts;
3. when disclosing policies, targets, actions and action plans, and resources;
4. when preparing and presenting sustainability information;
5. on how sustainability reporting is linked to other parts of corporate reporting; and
6. specifying the structure of the sustainability statements building upon the disclosure requirements of all ESRS.

Most questions relevant for ESRS 1 are covered in the previous sections of the survey (section 1 Overall ESRS Exposure Drafts relevance – architecture and section 2 Overall ESRS Exposure Drafts relevance – implementation of CSRD principles).

Q38: in your opinion, to what extent can ESRS 1 – *General principles* foster alignment with international sustainability reporting standards (in particular IFRS Sustainability Reporting S1 Exposure draft)?

- ○ Not at all
- ◉ To a limited extent with strong reservations
- ○ To a large extent with some reservations
- ○ Fully
- ○ No opinion

Please explain your reservations or your suggestions for improvement or any other comment you might have

The AFM's main observations in relation to ESRS 1 are reflected in sections 1A and 1B of this survey.

The AFM's additional observations, mainly derived from ESMA's response, concerning ESRS 1 are the following:

1. We suggest that the body text makes reference to the application guidance, like in IFRS. This would be useful to the readers of the ESRS.

2. We suggest using italics for the terms defined in the appendix, as in done in IFRS. It serves the users of the standards and make clear these definitions are always applicable.

3. In relation to the entity-specific disclosures we have the following comments:
a) We wonder why in paragraph 20 only compliance with paragraphs 6,7,16 and 18 is required, whereas the other paragraphs are also applicable. Further is EFRAG sure only the beforementioned paragraphs from other sections have to be complied with.
b) Paragraph 20 focuses very much on comparability, whereas relevance and faithful representation are equally important qualitative characteristics.

4. In relation to changes in preparing or presenting sustainability information (section 4.5):
We suggest replacing the term "more useful information" which is found in the following sentence (paragraph 117): "Any change from one year to another is expected to occur only when the new preparation or presentation allows to provide more useful information." In the AFM's view, it would be more appropriate to use here the term 'reliable and more relevant' as in IAS 8.

ESRS 2 – General, strategy, governance and materiality assessment

This [draft] standard sets out the disclosure requirements of the undertaking's sustainability report that are of a cross-cutting nature. Those disclosures can be grouped into those that are:

1. of a general nature;
2. on the strategy and business model of the undertaking;
3. on its governance in relation to sustainability; and
4. on its materiality assessment of sustainability impacts, risks and opportunities.

Q39: Please, rate to what extent do you think ESRS 2 – General, strategy, governance and materiality assessment

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)				X	
B. Supports the production of relevant information about the sustainability matter covered		X			
C. Fosters comparability across sectors			X		
D. Covers information necessary for a faithful representation from an impact perspective		X			
E. Covers information necessary for a faithful representation from a financial perspective		X			
F. Prescribes information that can be verified / assured		X			
G. Meets the other objectives of the CSRD in term of quality of information		X			
H. Reaches a reasonable cost / benefit balance		X			
I. Is sufficiently consistent with relevant EU policies and other EU legislation			X		
J. Is as aligned as possible to international sustainability standards given the CSRD requirements		X			

For part H, please explain why costs would be unreasonable and / or what particular benefit ESRS 2 offers
For part I, please specify what European law or initiative you think is insufficiently considered
For part J, please explain how you think further alignment could be reached

Please share any comments and suggestions for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment

Guidance on materiality assessment

The AFM's key concern regarding ESRS 2 relates to the insufficient guidance provided regarding materiality assessment and its methodology, as mentioned in our replies to Question 18, 19, 21 and 23.

Interplay between cross-cutting standards and topical standards

Our observations on the interplay between the cross-cutting standards and the topical standards are presented in section 1A of the questionnaire.

Overlap with ESRS 1

Echoing ESMA's response, we note that ESRS 1 prescribes the mandatory concepts and principles to apply for preparation of sustainability statements under the [draft] Corporate Sustainability Reporting Directive (CSRD) whereas ESR 2 is intended to set out the cross-cutting disclosure requirements. However, this distinction is not always that sharp. This starts with paragraph 2 which is a repetition of what is said in ESRS 1. We believe paragraph 2 should be dropped. Paragraph 6(b) and (c) is another example.

Overlap with ESRS G1

In addition, as set out in the section concerning G1, we believe the interaction between this part of the standards and ESRS G1 could benefit from clarification. Some of the requirements overlap and the alleged distinction between sustainable corporate governance and more general corporate governance does not seem to fully justify the split into two standards. In our view, it would be more beneficial to have the two addressed together, with sustainable corporate governance being a sub-topic of general corporate governance disclosures.

Terminology

The AFM would like to reiterate ESMA's comments on the use of terminology in ESRS 2:
- Value creation: this concept should be defined, and it should be clarified how and to what extent it takes into account the double materiality perspective since in some disclosure requirements (in GR4) it seems to purely relate to the financial materiality perspective, whereas ESRS 2, par. AG 17 extends the notion of 'value creation' to 'non-financial benefits' for other stakeholders. We also highlight that DR2-GR4 makes reference to the 'overall performance of the value chain' which is a notion that requires explanation.
- The ESRS' concept of financial materiality should be as aligned as much as possible with the ISSB's concept of enterprise value creation to facilitate the task of undertakings who will prepare reporting under both frameworks. If any differences remain, they should be clearly stated to avoid confusion.
- As mentioned earlier in our response, the notion of 'key drivers' of value creation should be defined, it should be explained how it differs from 'key resources' and it should be complemented with examples.
- The standard refers to 'governance bodies' in the disclosure requirements, but

Appendix A only defines a particular type of these bodies, i.e., the 'administrative, management and supervisory body’. We recommend using this notion to replace the term ‘governance bodies’ throughout the standards and to define ‘administrative, management and supervisory body’ by making reference to the wider definition of ’director’ that is provided for by SRD II. Helpfully, this definition i) includes also the CEO and deputy CEO, if applicable, when these are not members of an undertaking’s administrative, management or supervisory bodies and ii) provides member states with the possibility to include other persons performing similar functions.

ESRS E1 – Climate change

The objective of this [draft] standard is to specify Disclosure Requirements which will enable users of sustainability reporting to understand:

1. how the undertaking affects climate change, in terms of positive and negative material actual or potential adverse impact;
2. its past, current, and future mitigation efforts in line with the Paris Agreement (or an updated international agreement on climate change) and limiting global warming to 1.5°C;
3. the plans and capacity of the undertaking to adapt its business model(s) and operations in line with the transition to a sustainable economy and to contribute to limiting global warming to 1.5°C;
4. any other actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts;
5. the nature, type and extent of the undertaking’s material risks and opportunities related to the undertaking’s impacts and dependencies on climate change, and how the undertaking manages them; and
6. the effects of risks and opportunities, related to the undertaking’s impacts and dependencies on climate change, on the undertaking’s development, performance and position over the short-, medium- and long- term and therefore on its ability to create enterprise value .

This [draft] standard derives from the [Draft] Corporate Sustainability Reporting Directive stating that the sustainability reporting standards shall specify which information to disclose about climate change mitigation and climate change adaptation.
This [draft] standard covers Disclosure Requirements related to ‘Climate change mitigation’, ‘Climate change adaptation’ and ‘Energy’.

Q40: Please, rate to what extent do you think ESRS E1 – Climate change

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)	○	○	○	◉	○
B. Supports the production of relevant information about the sustainability matter covered	○	◉	○	○	○
C. Fosters comparability across sectors	○	○	◉	○	○

D. Covers information necessary for a faithful representation from an impact perspective	○	○	●	○	○
E. Covers information necessary for a faithful representation from a financial perspective	○	○	●	○	○
F. Prescribes information that can be verified / assured	○	○	●	○	○
G. Meets the other objectives of the CSRD in term of quality of information	○	○	●	○	○
H. Reaches a reasonable cost / benefit balance	○	○	●	○	○
I. Is sufficiently consistent with relevant EU policies and other EU legislation	○	○	●	○	○
J. Is as aligned as possible to international sustainability standards given the CSRD requirements	○	○	●	○	○

For part H, please explain why costs would be unreasonable and / or what particular benefit ESRS E1 offers
For part I, please specify what European law or initiative you think is insufficiently considered
For part J, please explain how you think further alignment could be reached

Please share any comments and suggestions for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment

Deforestation

Par. 4 states that beyond the greenhouse gasses (GHGs) covered by E1, other impacts on climate change such as land use should be part of an undertaking's assessment of its material impacts. The AFM welcomes this paragraph but it does not go far enough. Deforestation is a significant contributor to climate change and therefore should be included in E1 for adequate climate-related disclosures. We recommend expanding the requirements to include deforestation effects into the disclosed climate-related policies, targets and performance metrics. We refer to GRI's Sector Standard for Agriculture, Aquaculture, and Fishing for inspiration on how to incorporate deforestation impacts into climate-related disclosures. We have made a similar suggestion to the ISSB for the explicit inclusion of deforestation effects in IFRS S2 and suggest that EFRAG and the ISSB seek alignment, where possible, on this issue. The AFM also suggests aligning the (recommended) articulation of deforestation disclosures in E1 with those in E4.

Clarifications

In line with ESMA, we recommend adding clarifications / examples on how to apply the disclosure requirements, notably for disclosures which are currently provided by few companies / in few sectors or for which there are no internationally recognised standards (e.g., Scope 3, GHG removals, carbon credits). It would also be useful to add further references to frameworks or international initiatives which undertakings may use, e.g., to demonstrate their business model's alignment with the Paris Agreement, for the definition of targets, for the calculation of their energy consumption, for scenario analysis or for calculating the financial effects of transition and physical risks.

‘Gross’ and ‘net’ targets

The AFM supports the fact that E1 requires corporations to disclose their ‘gross’ emission reduction targets in which they may not count GHG removals, carbon credits or avoided emissions (par. 24(c)). It is important, however, that net targets are also reported, as these are also crucial to climate change mitigation. Furthermore, requiring the disclosure of net targets as well may improve interoperability with IFRS S2 and the comparability with the disclosed targets of non-EU corporations. While both E1 and IFRS S2 require undertakings to report their gross GHG emissions, the standards have different approaches to GHG emissions targets. The exposure draft for IFRS S2 allows the disclosure of either gross or net targets. The gross targets disclosed under E1 may appear less ambitious than the netted targets under IFRS S2 which could be confusing and give an artificially negative impression of undertakings’ targets under E1 compared to under IFRS S2. The AFM has therefore called upon the ISSB (in our response to this exposure draft) to require the disclosure of both gross and net targets.

At present, E1 foresees that removals may be used when an undertaking discloses a net zero target, that carbon credits may be used when an undertaking discloses GHG neutrality claims and that avoided emissions may be disclosed under E1-14. The AFM supports this distinction but suggests further clarifying the difference between ‘emission reduction targets’, ‘net zero target’ and ‘GHG neutrality claims’. The AFM also suggests that E1 requires that corporations clearly present the gross and net target next to (and in relation to) each other.

We suggest that E1 provides the following clarifications of terms and definitions

- Clarify the reporting boundary of E1-5 on energy consumption vis-à-vis ESRS 1 paragraphs 63-66.
- Add definitions of ‘dependencies’ and ‘operating lifetime’.
- Mention whether or not ‘operating segments’ (in E1-7 to E1-10) in AG 53 is to be defined as the segment reporting in the financial statements according to IFRS 8, as is done in AG 73.
- In E1-15, it should be clarified if ‘assets’ are limited to tangible assets.

The AFM welcomes the fact that, generally, there appears to be good alignment between the parts of E1’s objectives that relate to financial materiality and the objective of IFRS S2.

ESRS E2 – Pollution

The objective of this [draft] standard is to specify Disclosure Requirements which will enable users of the sustainability reporting to understand:

1. how the undertaking affects pollution of air (both indoor and outdoor), water (including groundwater) and soil, living organisms and food resources (referred to in this [draft] Standard as “pollution”), in terms of positive and negative material actual or potential adverse impacts;
2. any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts;
3. the plans and capacity of the undertaking to adapt its strategy, business model(s) and operations in line with the transition to a sustainable economy concurring with the needs for prevention, control

and elimination of pollution across air (both indoor and outdoor), water (including groundwater), soil, living organisms and food resources, thereby creating a toxic-free environment with zero pollution also in support of the EU Action Plan ‘Towards a Zero Pollution for Air, Water and Soil’;

4. the nature, type and extent of the undertaking’s material risks and opportunities related to the undertaking’s impacts and dependencies arising from pollution, as well as from the prevention, control, elimination or reduction of pollution (including from regulations) and how the undertaking manages them; and
5. the effects of risks and opportunities, related to the undertaking’s impacts and dependencies on pollution, on the undertaking’s development, performance and position over the short, medium and long term and therefore on its ability to create enterprise value.

This standard derives from the (Draft) Corporate Sustainability Reporting Directive stating that the sustainability reporting standards shall specify the information that undertakings are to disclose about environmental factors, including information about ’pollution’.
This standard sets out Disclosure Requirements related to pollution of air (both indoor and outdoor), water (including groundwater), soil, substances of concerns, most harmful substances and enabling activities in support of prevention, control and elimination of pollution.

Q41: Please, rate to what extent do you think ESRS E2 - Pollution

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)	○	○	○	●	○
B. Supports the production of relevant information about the sustainability matter covered	○	○	○	●	○
C. Fosters comparability across sectors	○	○	○	●	○
D. Covers information necessary for a faithful representation from an impact perspective	○	○	○	●	○
E. Covers information necessary for a faithful representation from a financial perspective	○	○	○	●	○
F. Prescribes information that can be verified / assured	○	○	○	●	○
G. Meets the other objectives of the CSRD in term of quality of information	○	○	○	●	○
H. Reaches a reasonable cost / benefit balance	○	○	○	●	○

I. Is sufficiently consistent with relevant EU policies and other EU legislation	○	○	○	●	○
J. Is as aligned as possible to international sustainability standards given the CSRD requirements	○	○	○	●	○

For part H, please explain why costs would be unreasonable and / or what particular benefit ESRS E2 offers
For part I, please specify what European law or initiative you think is insufficiently considered
For part J, please explain how you think further alignment could be reached

Please share any comments and suggestions for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment

The AFM has no comments regarding ESRS E2, except for the suggestion that EFRAG might considered moving some of the disclosure requirements around (non-renewable) waste disposal in ESRS E5 (on resource use and circular economy) to E2. In doing so, however, it would be necessary in the AFM's view to reduce the granularity of these requirements by eliminating the mandatory reporting per material, where this disaggregating does not provide markedly significant information from either the perspective of impact materiality or financial materiality.

ESRS E3 – Water and marine resources

The objective of this [draft] standard is to specify disclosure requirements which will enable users of the sustainability reporting to understand:

1. how the undertaking affects water and marine resources, in terms of positive and negative material actual or potential adverse impacts;
2. any actions taken, and the result of such actions, to protect water and marine resources, also with reference to reduction of water withdrawals, water consumption, water use, water discharges in water bodies and in the oceans, habitat degradation and the intensity of pressure on marine resources;
3. to what extent the undertaking is contributing to the European Green Deal's ambitions for fresh air, clean water, a healthy soil and biodiversity as well as to ensuring the sustainability of the blue economy and fisheries sectors, to the EU water framework directive, to the EU marine strategy framework, to the EU maritime spatial planning directive, the SDGs 6 Clean water and sanitation and 14 Life below water, and respect of global environmental limits (e.g. the biosphere integrity, ocean acidification, freshwater use, and biogeochemical flows planetary boundaries) in line with the vision for 2050 of 'living well within the ecological limits of our planet' set out in in the 7th Environmental Action Programme, and in the proposal for a decision of the European Parliament and the Council on the 8th Environmental Action Programme;
4. the plans and capacity of the undertaking to adapt its business model and operations in line with the transition to a sustainable economy as well as with the preservation and restoration of water and marine resources globally;
5. the nature, type and extent of the undertaking's material risks and opportunities related to the undertaking's impacts and dependencies on water and marine resources, and how the undertaking manages them; and

6. the effects of risks and opportunities, related to the undertaking's impacts and dependencies on water and marine resources, on the undertaking's development, performance and position over the short, medium and long term and therefore on its ability to create enterprise value.

This standard derives from the [Draft Corporate Sustainability Reporting Directive] stating that the sustainability reporting standards shall specify information to disclose about two sub-subtopics: 'water' and 'marine resources'.

Q42: Please, rate to what extent do you think ESRS E3 – Water and marine resources

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)	○	○	○	●	○
B. Supports the production of relevant information about the sustainability matter covered	○	●	○	○	○
C. Fosters comparability across sectors	○	○	●	○	○
D. Covers information necessary for a faithful representation from an impact perspective	○	○	●	○	○
E. Covers information necessary for a faithful representation from a financial perspective	○	●	○	○	○
F. Prescribes information that can be verified / assured	○	●	○	○	○
G. Meets the other objectives of the CSRD in term of quality of information	○	○	●	○	○
H. Reaches a reasonable cost / benefit balance	○	○	○	●	○
I. Is sufficiently consistent with relevant EU policies and other EU legislation	○	○	○	○	●
J. Is as aligned as possible to international sustainability standards given the CSRD requirements	○	○	○	○	●

For part H, please explain why costs would be unreasonable and / or what particular benefit ESRS E3 offers
For part I, please specify what European law or initiative you think is insufficiently considered
For part J, please explain how you think further alignment could be reached

Please share any comments and suggestions for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment

The AFM wishes to reiterate and elaborate some of ESMA's comments regarding ESRS E3.

Impact materiality vs financial materiality

The AFM observes, in concert with ESMA, that E3 has a strong focus on disclosure reflecting an impact materiality perspective whereas disclosure requirements reflecting a financial materiality perspective are scarcer. To strengthen the financial materiality perspective and as such ensure the standard provides for a faithful representation from both angles, EFRAG could consider including application guidance to further specify the disclosure required under E3-7.

International reference frameworks

E3-1, par. 14(b) requires undertakings to disclose how their policies for material water and marine resources-related impacts, risks and opportunities relate to EU and international reference frameworks. It is specified that those international reference frameworks should be third party standards of conduct. While disclosure on the use of such international standards of conduct may be useful, as a securities regulator, the AFM wishes to highlight that it will be difficult for national competent authorities to enforce this disclosure requirement due to such standards not sitting within the legislation in national competent authorities' remit.

Consistency in terminology

- E3-4, par. AG 26, AG 27 and AG 28 use the term 'per segment'. We would recommend clarifying what is meant by segment, e.g., whether it corresponds to the segments that are disclosed in the operating segments note in the undertaking's financial statements.
- Across the standard, there are references to 'material priority substances of concern' (par. 20(d), table under AG 30), 'material substances of concern' (par. 35(b)(vii)), 'priority substances of concern' (par. 28(d)), 'list of priority substances' (par. AG 18) and 'priority substances' (par. AG 24). We recommend aligning the terminology so the same wording is always used, and it would furthermore be useful to carry over the definition of substances of concern which is included in E2.

High water stress

We wish to reiterate ESMA's observation that E3 does not specifically require disclosure of targets or performance measures related to areas with high water stress. In our view, this represents one of the key risks related to water and marine resources for stakeholders and undertakings' assets. We recommend that EFRAG consider adding specific requirements relating to areas with high water stress (mostly from a financial materiality point of view) in the next version of the standard and that such requirements be aligned with those of GRI 303. We also recommend that, for the next version, EFRAG assesses to what extent high water stress should be regarded as a climate-change related risk in ESRS E1.

Net turnover

The application guidance for E3-5 (par. AG 33) states that net turnover should be reconciled to the most relevant line item in the undertaking's financial statements. We believe the most relevant line item will be the revenue item in the income statement, and to enhance comparability across different undertakings' disclosure, we suggest specifying this in par. AG 33.

ESRS E4 – Biodiversity and ecosystems

The objective of this [draft] standard is to specify Disclosure Requirements which will enable users of sustainability reporting to understand:

1. how the undertaking affects biodiversity and ecosystems, in terms of positive and negative material actual or potential adverse impacts;
2. any actions taken, and the result of such actions, to prevent, mitigate or remediate, actual or potential adverse impacts and to protect and restore biodiversity and ecosystems;
3. to what extent the undertaking contributes to (i) the European Green Deal's ambitions for protecting the biodiversity and ecosystems, the EU Biodiversity Strategy for 2030, the SDGs 2 Zero Hunger, 6 Clean water and sanitation, 12 Responsible consumption, 14 Life below water and 15 Life on land, the Post-2020 Global Biodiversity Framework and (ii) the respect of global environmental limits (e.g. the biosphere integrity and land-system change planetary boundaries);
4. and the plans and capacity of the undertaking to adapt its business model and operations in line with the transition to a sustainable economy and with the preservation and restoration of biodiversity and ecosystems globally in general; and in particular in line with the objective of (i) ensuring that by 2050 all of the world's ecosystems and their services are restored to a good ecological condition, resilient, and adequately protected and (ii) contributing to achieving the objectives of the EU Biodiversity Strategy at latest by 2030;
5. the nature, type and extent of the undertaking's material risks and opportunities related to the undertaking's impacts and dependencies on biodiversity and ecosystems, and how the undertaking manages them;
6. the effects of risks and opportunities, related to the undertaking's impacts and dependencies on biodiversity and ecosystems, on the undertaking's development, performance and position over the short, medium and ling term and therefore on its ability to create enterprise value.

This standard derives from the [Draft Corporate Sustainability Reporting Directive] stating that the sustainability reporting standards shall specify information to disclose about 'biodiversity and ecosystems'. This standard sets out Disclosure Requirements related to the undertaking's relationship to terrestrial, freshwater and marine habitats, ecosystems and populations of related fauna and flora species, including diversity within species, between species and of ecosystems and their interrelation with many indigenous and local communities.

Q43: Please, rate to what extent do you think ESRS E4 – Biodiversity and ecosystems

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)	○	○	○	◉	○
B. Supports the production of relevant information about the sustainability matter covered	○	◉	○	○	○

C. Fosters comparability across sectors	○	○	●	○	○
D. Covers information necessary for a faithful representation from an impact perspective	○	●	○	○	○
E. Covers information necessary for a faithful representation from a financial perspective	○	●	○	○	○
F. Prescribes information that can be verified / assured	○	●	○	○	○
G. Meets the other objectives of the CSRD in term of quality of information	○	●	○	○	○
H. Reaches a reasonable cost / benefit balance	○	●	○	○	○
I. Is sufficiently consistent with relevant EU policies and other EU legislation	○	○	○	○	●
J. Is as aligned as possible to international sustainability standards given the CSRD requirements	○	○	○	○	●

For part H, please explain why costs would be unreasonable and / or what particular benefit ESRS E4 offers
For part I, please specify what European law or initiative you think is insufficiently considered
For part J, please explain how you think further alignment could be reached

Please share any comments and suggestions for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment

In the AFM's view, the impact-related disclosure requirements are overly numerous, while the requirements which could fall within the lens of financial materiality seem too scarce. Furthermore, we would like reiterate some of ESMA's observations regarding specific definitions and disclosure requirements in E4.

Impact disclosures

The AFM suggests that EFRAG reviews whether each impact-related disclosure requirement in E4 is of key relevance for corporate reporting on matters related to biodiversity and ecosystems.

Financial materiality disclosures

The AFM suggests the removal in par. 19 which requires undertakings to disclose 'contribution to systemic risk' and par. AG 19(c)(iii) about 'contagion' which also refers to systemic risks. Together with ESMA, we believe assessing this risk will prove too challenging for undertakings which may therefore lead to boiler plate disclosure
Instead, we suggest that EFRAG adds other disclosures from the financial materiality perspective in order to make the standard more balanced and contribute to a faithful representation from both materiality perspectives. Namely, it could be helpful to add application guidance for E4-10 to provide further clarifications, explanations and examples of what undertakings should disclose in relation to the potential

financial effects of their biodiversity-related impacts, risks and opportunities (for example, that undertakings could disclose the costs of restoring their material impacts on biodiversity, a performance metric required under E4-7). EFRAG could also consider making the disclosure on the costs of financing biodiversity offsets in par. 66(b) mandatory rather than optional.

Third-party certification

In E4-2, par. 21(d) combined with par. 23(a) require undertakings to provide information on how their policies on biodiversity and ecosystems allow them to undertake biodiversity friendly production, consumption and sourcing of raw materials with or from third-party certification. The role of the third-party certification is not entirely clear, as the application guidance (par. AG 31 and AG 31(a)) states that undertakings 'may' refer to recognised third-party certifications. It would be helpful to elaborate on the status of these certifications by clarifying whether their use in the disclosure is mandatory or optional and by adding further explanation on what type of disclosure is expected (if such third-party certification schemes are overseen by a regulator, this may for example be relevant to disclose).

Definitions
In E4-3, there are several references to 'raw material of concern' and we suggest defining when raw materials are 'of concern' to ensure consistency and as such comparability across undertakings' disclosures. In E4-4, we would recommend defining what is meant by 'traditional knowledge and nature based-solutions'. For the latter, the glossary of IPBES' Global Assessment Report (Annex I) may provide a useful basis. For the definition of 'traditional knowledge' it may be useful to refer to the same glossary which may provide relevant examples linked to the notion of traditional knowledge (e.g., 'traditional farming'), as well as to the factsheet of the United Nations Convention on Biological Diversity and Regulation (EU) No 511/2014 for access and benefit-sharing.

Offsets

In E4-9, we would recommend clarifying the wording of par. 64 and 65 of the disclosure requirement a bit further, as the meaning of 'the undertaking may disclose the actions…of biodiversity and ecosystem mitigation projects' and 'the undertaking may disclose the development of biodiversity and ecosystem mitigation projects' is not fully clear (what is meant with 'actions' and 'development'?). We also observe that par. AG 81 and AG 83 relate to behavior (how the undertaking should go about designing its offsets) rather than disclosure. We suggest reconsidering the inclusion of these paragraphs or potentially rephrasing them to focus more on methodological / quality requirements for which types of offsets undertakings are permitted to include under this disclosure requirement.

ESRS E5 – Resource use and circular economy

The objective of this [draft] standard is to specify Disclosure Requirements which will enable users of the sustainability reporting to understand:

1. the impact of the undertaking on resource use considering the depletion of non-renewable resources and the regeneration of renewable resources and its past, current and future measures to decouple its growth from extraction of natural resources;
2. the nature, type and extent of risks and opportunities arising from the resource use and the transition to a circular economy including potential negative externalities;

3. the effects of circular economy-related risks and opportunities on the undertaking's development, performance and position over the short-, medium- and long-term and therefore on its ability to create enterprise value in;
4. the plans and capacity of the undertaking to adapt its business model and operations in line with circular economy principles including the elimination of waste, the circulation of products and materials at their highest value, and the nature's regeneration.

This [draft] standard derives from the [Draft] Corporate Sustainability Reporting Directive stating that the sustainability reporting standards shall specify information to disclose about 'resource use and circular economy'.

Q44: Please, rate to what extent do you think ESRS E5 – Resource use and circular economy

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)	○	○	○	◉	○
B. Supports the production of relevant information about the sustainability matter covered	◉	○	○	○	○
C. Fosters comparability across sectors	○	◉	○	○	○
D. Covers information necessary for a faithful representation from an impact perspective	◉	○	○	○	○
E. Covers information necessary for a faithful representation from a financial perspective	◉	○	○	○	○
F. Prescribes information that can be verified / assured	○	○	◉	○	○
G. Meets the other objectives of the CSRD in term of quality of information	◉	○	○	○	○
H. Reaches a reasonable cost / benefit balance	◉	○	○	○	○
I. Is sufficiently consistent with relevant EU policies and other EU legislation	○	◉	○	○	○
J. Is as aligned as possible to international sustainability standards given the CSRD requirements	○	◉	○	○	○

For part H, please explain why costs would be unreasonable and / or what particular benefit ESRS E5 offers
For part I, please specify what European law or initiative you think is insufficiently considered
For part J, please explain how you think further alignment could be reached

Please share any comments and suggestions for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment

Disclosure overload and excessive granularity

In the AFM's opinion, ESRS E5 provides a striking example among the topical standards that contribute to the risk of disclosure overload. In particular DR E5-6 on waste is overly granular. Particularly, the requirement to report 'for each material' defies, in our view, a risk-based approach to sustainability reporting and we question the relevance of this level of granularity. For example, we question the relevance to stakeholders of information about each (non-hazardous) material that specifies whether it is incinerated, landfilled or disposed in another (non-renewable) way. In our view, key to relevant disclosures about resource use and the circular economy would be the distinction between recycling on the one hand and waste disposal on the other hand.

The distinction between hazardous and non-hazardous materials seems more relevant, including disclosing about different ways in which they are disposed of. However, that distinction between different ways of disposal of those materials (if they are not recycled) seems more fitting in ESRS E2. We strongly recommend that EFRAG considers possible overlaps between E2 and E5. We furthermore strongly recommend that the mandatory granularity of the disclosure requirements in E5 are decreased in favor of a requirement to disclose on specific materials only where clearly relevant for stakeholders (and to provide extensive guidance on this point).

Application guidance required for financial effects

In line with ESMA's response, we note that it would be helpful to add application guidance for E5-9, so that undertakings' disclosure in relation to the potential financial effects from impacts, risks and opportunities related to resource use and circular economy becomes more consistent and as such comparable. Currently, the wording in par. 53-55 stands alone and the disclosure required in these paragraphs is quite general. The general nature of these requirements are in striking contrast to the granularity of the impact-related requirements. They will also be challenging for national competent authorities to enforce as it will leave much room for interpretation on the side of undertakings.

Definitions

The AFM would like to reiterate ESMA's observations on definitions used in E5.
- The definition of 'circular economy' differs from that in Art. 2(9) of the TR, and we recommend aligning with that definition.
- In relation to interoperability with GRI, we note that Appendix A makes a number of references to GRI by mentioning that various terms are either 'inspired by' a given GRI standard or that a given GRI standard is the 'source' of that term. We are supportive of alignment with GRI and to facilitate the task of undertakings preparing their reporting, we think it would be useful if the final version of the standards would be accompanied by a mapping of how these terms compare to GRI. Across the standard, we encourage EFRAG to check that all key terms are defined or explained (for example, 'reparability', 'upgradability').

E5-7 on resource use optimisation

The AFM also would like to echo ESMA's comments on E5-7. Par. AG 33 states that undertakings shall consider the sector-specific standards and how the circular economy is addressed in those standards. Since the sector-specific standards will be issued at a later stage and may as such also become applicable only later, it would be helpful to include a clarification of how undertakings may comply with this requirement in the meantime.

Net turnover

Lastly, par. AG 36 states that 'net turnover' should be reconciled to the most relevant line item in the undertaking's financial statements. We believe the most relevant line item will be the revenue item in the income statement, and to enhance comparability across different undertakings' disclosure, we suggest specifying this in par. AG 36.

ESRS S1 – Own workforce

The objective of this [draft] standard is to specify Disclosure Requirements which will enable users of the sustainability reporting to understand:

1. how they affect the undertaking affects own workforce, in terms of positive and negative material impacts;
2. any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts;
3. the nature, type and extent of the undertaking's material risks and opportunities related to its impacts and dependencies on own workforce, and how the undertaking manages them and,
4. the effects of risks and opportunities, related to the undertaking's impacts and dependencies on own workforce, on the undertaking's development, performance and position over the short, medium and long term and therefore on its ability to create enterprise value.

In order to meet the objective, this [draft] Standard also requires an explanation of the general approach the undertaking takes to identify and manage any material actual and potential impacts on its own workforce in relation to:

1. working conditions (impacts related to e.g. living wage, health and safety, social security, working hours, water and sanitation);
2. access to equal opportunities (impacts related to e.g. discrimination, including on the rights of workers with disabilities or on women workers, as well as impacts related to issues of equality in pay and work-life balance, precarious work);
3. other work-related rights, (impacts related to e.g. trade union rights, freedom of association and collective bargaining, child labour, forced labour, privacy, adequate housing).

This draft standard derives from the [Draft] Corporate Sustainability Reporting Directive stating that the sustainability reporting standards shall specify the information that undertakings are to disclose regarding social factors.
This [draft] Standard covers an undertaking's "own workforce", which is understood to include both workers who are in an employment relationship with the undertaking ("employees") and non-employee workers who are either individuals with contracts with the undertaking to supply labour ('self-employed workers') or workers provided by undertakings primarily engaged in 'employment activities' (NACE Code N78). This [draft] Standard does not cover (i) workers in the upstream or downstream undertaking's value chain for

whom neither work nor workplace are controlled by the undertaking; or (ii) workers whose work and/or workplace is controlled by the undertaking but are neither employees, nor individual contractors ("self-employed workers"), nor workers provided by undertakings primarily ,engaged in "employment activities" (NACE Code N78); these categories of workers are covered in ESRS S2 Workers in the Value Chain.

Q45: Please, rate to what extent do you think ESRS S1 – *Own workforce*

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)			X		
B. Supports the production of relevant information about the sustainability matter covered		X			
C. Fosters comparability across sectors		X			
D. Covers information necessary for a faithful representation from an impact perspective		X			
E. Covers information necessary for a faithful representation from a financial perspective		X			
F. Prescribes information that can be verified / assured			X		
G. Meets the other objectives of the CSRD in term of quality of information	X				
H. Reaches a reasonable cost / benefit balance	X				
I. Is sufficiently consistent with relevant EU policies and other EU legislation					X
J. Is as aligned as possible to international sustainability standards given the CSRD requirements		X			

For part H, please explain why costs would be unreasonable and / or what particular benefit ESRS S1 offers
For part I, please specify what European law or initiative you think is insufficiently considered
For part J, please explain how you think further alignment could be reached

Please share any comments and suggestions for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment

Disclosure overload and excessive granularity

The AFM acknowledges that the CSRD sets out extensive requirements on reporting on the workforce of undertakings, equal opportunities and working conditions. Nevertheless, S1 seems overextensive with 26 disclosure requirements and 173 paragraphs of application guidance. As such, this topical standard represents the prima example of a standard that produces information overload. As ESMA has noted, this could impede the ultimate goal to provide greater transparency about undertakings' practices in the social area. Like ESMA, the AFM recommends that EFRAG, taking into account stakeholders' input, analyses which disclosures are fundamental for stakeholders and should be prioritised. Other, less essential disclosure requirements could be removed or considered for gradual introduction.

The risk of information overload is not only generated by the number of disclosure requirements in this standard, but also by the granularity of, for example, DR S1-7. The country-by-country reporting required by DR S1-7 concerning numbers of total employees and gender differences in each national workforce are in the AFM's view of questionable significance to stakeholders. While this is certainly not always the case, an argument could be made, for example, that workforces in the same world region operate under more or less similar legal and social conditions in relation to gender and other inequalities. The AFM therefore encourages EFRAG to develop disclosure requirements in S1 that operate with higher geographical levels of aggregation, but which also require undertakings to report country-specific data (only) when they have identified particular material (positive or negative) effects, risks or opportunities on a national level.

Missing CSRD requirements

Despite the extensive list of disclosure requirements in S1, some subtopics prescribed by the CSRD are not adequately covered by these requirements.

- CSRD Art. 29b mentions the social factor 'diversity' in addition to gender equality and employment and inclusion of people of disabilities. We recommend adding explanations on the approaches taken by the undertaking to identify and manage any material actual and potential impacts on its own workforce in relation to other diversity aspects than those mentioned above (e.g., antiracism).
- CSRD Article 29b explicitly requires the ESRS to specify the information to be disclosed on working time and considering that the ESRS already envisage requirements on policies relating to working time, it would be important to ensure that adequate KPIs are also mandatorily reported.

Distinction between S1 and S2

Some clarification may be required around the term 'control' of the work or workplace. We recommend adding guidance and refer in this respect to the explanations and examples in GRI 403. Moreover, as ESMA has noted, some disclosure requirements in S1 require information about all affected stakeholders and not only on the undertaking's own workers. This applies, e.g., to the requirements in par. 18(a) and (c), 87, AG 42(e), AG 49(b) and (d) and AG 50(g). The AFM, like ESMA recommends reconsidering the scope of these requirements.

Terminology

The AFM notes that the terminology in S1 is not always consistent, in particular the terms 'own workforce', 'employees' and 'non-employee workers'. Alongside these terms, which are defined in Appendix A, other terms such as 'workers' or 'own employees' are used, the exact meaning of which is not clear. Additionally, some KPIs are required for own workforce and others for employees only, and it is not clear why there are such differences. In other cases, it is not specified to whom the requirements apply.

Comparability

As noted by ESMA as well, the notion of fair remuneration in S1-14 appears to be relatively subjective and not be easily comparable, despite the guidance provided. We recommend that EFRAG reconsiders how to approach and define this topic in a way that will be more conducive to adequate comparisons across entities. Alternatively, EFRAG could elect to specify this notion on an industry-by-industry basis in the upcoming industry-specific standards.

ESRS S2 – Workers in the value chain

The objective of this [draft] standard is to specify Disclosure Requirements which will enable users of the sustainability reporting to understand:

1. how the undertaking affects workers in its value chain through its own operations and its upstream and downstream value chain (including its products and services, its business relationships and its supply chain), in terms of material positive and negative actual or potential adverse impacts;
2. any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts;
3. the nature, type and extent of the undertaking's material risks and opportunities related to its impacts and dependencies on workers in the value chain, and how the undertaking manages them; and
4. the effects of risks and opportunities, related to the undertaking's impacts and dependencies on workers in the value chain, on the undertaking's development, performance and position over the short-, medium- and long-term and therefore on its ability to create enterprise value.

In order to meet the objective, the [draft] standard requires an explanation of the general approach the undertaking takes to identify and manage any material actual and potential impacts on value chain workers in relation to impacts on those workers':

1. working conditions (impacts related to e.g. living wage, health and safety, social security, working hours, water and sanitation);
2. access to equal opportunities (impacts related to e.g. discrimination, including on the rights of workers with disabilities or on women workers, as well as impacts related to issues of equality in pay and work-life balance, precarious work);
3. other work-related rights, (impacts related to e.g. trade union rights, freedom of association and collective bargaining, child labour, forced labour, privacy, adequate housing).

This draft standard derives from the [Draft] Corporate Sustainability Reporting Directive stating that the sustainability reporting standards shall specify the information that undertakings are to disclose regarding social factors.
This [draft] standard covers all workers in the undertaking's upstream and downstream value chain who are or can be materially impacted. This also includes all non-employee workers whose work and/or workplace is controlled by the undertaking but are not included in the scope of "own workforce" ("own workforce" includes: employees, individual contractors, i.e., self-employed workers, and workers provided by third party undertakings primarily engaged in 'employment activities'). Own workforce is covered in ESRS S1 Own workforce.

Q46: Please, rate to what extent do you think ESRS S2 – Workers in the value chain

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)			X		
B. Supports the production of relevant information about the sustainability matter covered			X		
C. Fosters comparability across sectors			X		
D. Covers information necessary for a faithful representation from an impact perspective		X			
E. Covers information necessary for a faithful representation from a financial perspective		X			
F. Prescribes information that can be verified / assured	X				
G. Meets the other objectives of the CSRD in term of quality of information		X			
H. Reaches a reasonable cost / benefit balance				X	
I. Is sufficiently consistent with relevant EU policies and other EU legislation				X	
J. Is as aligned as possible to international sustainability standards given the CSRD requirements			X		

For part H, please explain why costs would be unreasonable and / or what particular benefit ESRS S2 offers
For part I, please specify what European law or initiative you think is insufficiently considered
For part J, please explain how you think further alignment could be reached

Please share any comments and suggestions for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment

Echoing ESMA's response, the AFM would like to suggest that EFRAG considers a progressive approach in which application of some disclosure requirements included in this standard would be phased in (e.g., explanation of targets or actions taken on material impacts). The reason for this is that CSRD Art. 29b emphasizes that the ESRS shall take account of the difficulties that undertakings may encounter in gathering information from actors throughout their value chain, especially from those which are not obliged to report sustainability information. This difficulty makes it understandable in our view that S2 does not yet require the disclosure of any specific KPIs. We would recommend that EFRAG, in the next iteration of this standard, or perhaps in the sector-specific standards, does introduce KPI's on workers in the value chain.

ESRS S3 – Affected communities

The objective of this [draft] standard is to specify Disclosure Requirements which will enable users of the sustainability reporting to understand:

1. how the undertaking affects its local communities through its own operations and its upstream and downstream value chain (including its products and services, its business relationships and its supply chain), in terms of material positive and negative actual or potential adverse impacts;
2. any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts;
3. the nature, type and extent of the undertaking's material risks and opportunities related to the undertaking's impacts and dependencies on affected communities, and how the undertaking manages them; and
4. the effects of risks and opportunities, related to their impacts and dependencies on local communities, on the undertaking's development, performance and position over the short-, medium- and long-term and therefore on its ability to create enterprise value.

In order to meet the objective, the [Draft] standard requires an explanation of the general approach the undertaking takes to identify and manage any material actual and potential impacts on affected communities in relation to:

1. impacts on communities' economic, social and cultural rights (e.g. adequate housing, adequate food, water and sanitation, land-related and security-related impacts);
2. impacts on communities' civil and political rights (e.g. freedom of expression, freedom of assembly, impacts on human rights defenders); and
3. impacts on particular rights of Indigenous communities (e.g. free, prior and informed consent, self-determination, cultural rights).

This draft standard derives from the [Draft] Corporate Sustainability Reporting Directive stating that the sustainability reporting standards shall specify the information that undertakings are to disclose regarding social factors.

Q47: Please, rate to what extent do you think ESRS S3 – Affected communities

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)	○	○	○	●	○
B. Supports the production of relevant information about the sustainability matter covered	○	○	●	○	○

C. Fosters comparability across sectors	○	○	◉	○	○
D. Covers information necessary for a faithful representation from an impact perspective	○	○	◉	○	○
E. Covers information necessary for a faithful representation from a financial perspective	○	○	◉	○	○
F. Prescribes information that can be verified / assured	○	○	◉	○	○
G. Meets the other objectives of the CSRD in term of quality of information	○	◉	○	○	○
H. Reaches a reasonable cost / benefit balance	○	◉	○	○	○
I. Is sufficiently consistent with relevant EU policies and other EU legislation	○	○	○	◉	○
J. Is as aligned as possible to international sustainability standards given the CSRD requirements	○	○	◉	○	○

For part H, please explain why costs would be unreasonable and / or what particular benefit ESRS S3 offers
For part I, please specify what European law or initiative you think is insufficiently considered
For part J, please explain how you think further alignment could be reached

Please share any comments and suggestions for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment

The AFM would like to reiterate and expand on ESMA's comments regarding ESRS S4:
We generally support the proposed disclosure requirements relating to communities which may be impacted by the activities of undertakings.

Considering that some of the requirements in S3 are more detailed than what is currently required to be reported on the basis of the most commonly used sustainability reporting standards, most notably GRI (e.g., explanation of targets or actions taken on material impacts), the AFM encourages EFRAG to consider reducing that level of detail to converge with existing international reporting standards. Alternatively, EFRAG might consider a gradual phase-in of those requirements in order to ensure that the implementation of this standard leads to disclosure of a high quality.

Lastly, while still reflecting the specificities of disclosures applicable to affected communities and consumers, respectively, we would recommend that EFRAG consider merging S3 and S4 given the large overlaps between these two standards.

ESRS S4 – Consumers and end-users

The objective of this [draft] standard is to specify Disclosure Requirements which will enable users of the sustainability reporting to understand:

1. how the undertaking affects the consumers and end-users of its products and/or services (referred to in this [draft] Standard as “consumers and end-users”), in terms of material positive and negative actual or potential adverse impacts connected with the undertaking’s own operations and upstream and downstream value chain, including its business relationships and its supply chain;
2. any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts;
3. the nature, type and extent of the undertaking’s material risks and opportunities related to its impacts and dependencies on consumers and end-users, and how the undertaking manages them; and
4. the effects of risks and opportunities, related to their impacts and dependencies on consumers and end-users, on the undertaking’s development, performance and position over the short-, medium- and long-term and therefore on its ability to create enterprise value.

In order to meet the objective, the [draft] standard requires an explanation of the general approach the undertaking takes to identify and manage any material actual and potential impacts on the consumers and /or end-users related to their products and/or services in relation to:

1. information-related impacts for consumers/end-users, in particular privacy, freedom of expression and access to information; .
2. personal safety of consumers/end-users, in particular health & safety, security of a person and protection of children; and
3. social inclusion of consumers/end-users, in particular non-discrimination and access to products and services.

This draft standard derives from the [Draft] Corporate Sustainability Reporting Directive stating that the sustainability reporting standards shall specify the information that undertakings are to disclose regarding social factors.

Q48: Please, rate to what extent do you think ESRS S4 – Consumers and end-users

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)	○	○	○	●	○
B. Supports the production of relevant information about the sustainability matter covered	○	○	●	○	○
C. Fosters comparability across sectors	○	○	●	○	○
D. Covers information necessary for a faithful representation from an impact perspective	○	○	●	○	○

E. Covers information necessary for a faithful representation from a financial perspective	○	○	●	○	○
F. Prescribes information that can be verified / assured	○	○	●	○	○
G. Meets the other objectives of the CSRD in term of quality of information	○	●	○	○	○
H. Reaches a reasonable cost / benefit balance	○	●	○	○	○
I. Is sufficiently consistent with relevant EU policies and other EU legislation	○	○	○	●	○
J. Is as aligned as possible to international sustainability standards given the CSRD requirements	○	○	●	○	○

For part H, please explain why costs would be unreasonable and / or what particular benefit ESRS S4 offers
For part I, please specify what European law or initiative you think is insufficiently considered
For part J, please explain how you think further alignment could be reached

Please share any comments and suggestions for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment

General considerations

The AFM’s view on S4 is in many ways similar to our view on S3 (see Question 48). Overall, we support the proposed disclosure requirements relating to consumers and end-users which may be impacted by the activities of undertakings.

We do wish to note, however, that the distinction between consumers and end-users in S4 is not always clear. All requirements of the standard seem to apply equally to both groups. Furthermore, the terms ‘consumers’ and ‘end-users’ seem to overlap. We recommend that EFRAG clarifies the differences between these two terms or uses a term (e.g., customers) that covers both groups.

Because (just as in S3) some of the requirements in S4 are more detailed than what is currently required to be reported on the basis of the most commonly used sustainability reporting standards, most notably GRI (e.g., explanation of targets or actions taken on material impacts), the AFM encourages EFRAG to consider reducing that level of detail in the interest of:

- alignment with existing international reporting standards (GRI), and
- reducing the potential for information overload.

Alternatively, EFRAG might consider a gradual phase-in of those requirements in order to ensure that the implementation of this standard leads to disclosure of a high quality.

Lastly, while still reflecting the specificities of disclosures applicable to affected communities and consumers, respectively, we would recommend that EFRAG consider merging S3 and S4 given the large overlaps between these two standards.

Consumer vulnerability due to financing schemes

As a financial markets authority with a particular interest in protecting the financial wellbeing of consumers, the AFM notes that one subset of vulnerable consumers / end-users might be added to the guidance on assessing who might be materially affected by a product or service. This subset consists of consumers / end-users who are vulnerable to negative (e.g. financial or health-related) effects due to information asymmetries concerning the workings of the product, service or financing schemes for the purchase thereof. This subset is not fully encompassed by AG 9a (iii). The AFM therefore recommends that this subset of vulnerable consumers / end-users is separately listed in AG 9a.

ESRS G1 – Governance, risk management and internal control

The objective of this [draft] standard is to specify disclosure requirements which will enable users of the undertaking's sustainability report to understand the governance structure of the undertaking, and its internal control and risk management systems.
This [draft] standard derives from the [Draft Corporate Sustainability Reporting Directive] stating that the sustainability reporting standards shall specify information to disclose information about governance factors, including:

1. the role of the undertaking's administrative, management and supervisory bodies, including with regard to sustainability matters, and their composition, as well as a description of the diversity policy applied and its implementation;
2. the undertaking's internal control and risk management systems, including in relation to the undertaking's reporting process.

Q49: Please, rate to what extent do you think ESRS G1 – Governance, risk management and internal control

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)	○	○	○	◉	○
B. Supports the production of relevant information about the sustainability matter covered	○	◉	○	○	○
C. Fosters comparability across sectors	○	◉	○	○	○
D. Covers information necessary for a faithful representation from an impact perspective	○	◉	○	○	○

E. Covers information necessary for a faithful representation from a financial perspective	○	○	●	○	○
F. Prescribes information that can be verified / assured	○	○	●	○	○
G. Meets the other objectives of the CSRD in term of quality of information	●	○	○	○	○
H. Reaches a reasonable cost / benefit balance	●	○	○	○	○
I. Is sufficiently consistent with relevant EU policies and other EU legislation	●	○	○	○	○
J. Is as aligned as possible to international sustainability standards given the CSRD requirements	○	●	○	○	○

For part H, please explain why costs would be unreasonable and / or what particular benefit ESRS G1 offers
For part I, please specify what European law or initiative you think is insufficiently considered
For part J, please explain how you think further alignment could be reached

Please share any comments and suggestions for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment

The AFM has several comments relating to ESRS G1, which are largely based on ESMA's response.

Disclosure overload

In the AFM's view, the disclosure requirements in G1 are far too detailed and too wide in scope. This is largely due to the fact that they reflect the lion's share of disclosures currently provided in the context of corporate governance and remuneration reports based on national law and corporate governance codes as well as the provisions under Art. 20 of the Accounting Directive. This is problematic in three ways:

- It means that Accounting Directive requirements are indirectly extended to the larger group of undertakings that fall under the CSRD but do not fall under Art. 20 of the Accounting Directive (which is limited to undertakings admitted to trading on a regulated market).
- For those undertakings that fall under both sets of provisions, it entails the risk of misalignment and redundancies in their reporting.
- It contributes to the risk of information overload for users.

We further observe that in some cases, G1 goes beyond the requirements included in the CSRD. We suggest simplifying the standard to avoid duplication of information requirements and to focus only on the information relevant for users (e.g., we suggest that frequency and number of meetings are not indicators for an undertaking's productivity and may as such not be core pieces of disclosure).

Interaction between G1 and ESRS 2

The interaction between G1 and the governance standards under ESRS 2 could benefit from clarification.

Some of the requirements overlap and the alleged distinction between sustainable corporate governance and more general corporate governance does not seem to fully justify the split into two standards. Here, it would be more beneficial to have the two addressed together, with sustainable corporate governance being a sub-topic of general corporate governance disclosures.

Consistency in wording

It is not always clear whether information involving 'administrative, supervisory and management bodies' should be complemented with information on other functions, given the several references to other concepts such as 'senior management', 'other key personnel', 'management level', 'senior executives', 'executive and operational levels', in addition to 'governance bodies', that can be found in ESRS 2-GOV and in ESRS G1 and G2. To enhance clarity, it may be helpful to consistently use the wording 'administrative, supervisory and management bodies'.

Alignment with other pieces of legislation

As already mentioned under the relevant general questions, the envisaged interaction between these standards and other EU requirements such as the SRD II and the CSDDD proposal might be better clarified.

Lastly, we observe that our remarks in relation to incorporation by reference of governance-related information are set out under Q11.

ESRS G2 – Business conduct

The objective of this [draft] standard is to specify disclosure requirements for the undertaking to provide information about its strategy and approach, processes and procedures as well as its performance in respect of business conduct.
This [draft] standard derives from the [Draft Corporate Sustainability Reporting Directive] stating that the sustainability reporting standards shall specify information to disclose about business ethics and corporate culture, including anti-corruption and anti-bribery.
In general, business conduct covers a wide range of behaviours that support transparent and sustainable business practices to the benefit of all stakeholders. This [draft] standard focusses on a limited number of practices as follows:

1. business conduct culture;
2. avoiding corruption, bribery and other behaviours that often have been criminalised as they benefit some in positions of power with a detrimental impact on society; and
3. transparency about anti-competitive behaviour and political engagement or lobbying.

This [draft] standard is addressing business conduct as a key element of the undertaking's contribution to sustainable development. This [draft] standard requires the undertaking to report information about its overall policies and practices for business conduct, rather than information for specific material sustainability topics.

Q50: Please, rate to what extent do you think ESRS G2 – Business conduct

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)	○	○	●	○	○
B. Supports the production of relevant information about the sustainability matter covered	○	●	○	○	○
C. Fosters comparability across sectors	○	●	○	○	○
D. Covers information necessary for a faithful representation from an impact perspective	○	●	○	○	○
E. Covers information necessary for a faithful representation from a financial perspective	○	●	○	○	○
F. Prescribes information that can be verified / assured	○	●	○	○	○
G. Meets the other objectives of the CSRD in term of quality of information	○	●	○	○	○
H. Reaches a reasonable cost / benefit balance	○	○	●	○	○
I. Is sufficiently consistent with relevant EU policies and other EU legislation	○	○	○	●	○
J. Is as aligned as possible to international sustainability standards given the CSRD requirements	○	○	●	○	○

For part H, please explain why costs would be unreasonable and / or what particular benefit ESRS G2 offers
For part I, please specify what European law or initiative you think is insufficiently considered
For part J, please explain how you think further alignment could be reached

Please share any comments and suggestions for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment

The AFM notes that the exposure draft ESRS G2 does not contain any disclosure requirements relating to animal welfare, as required by the agreed CSRD text in Article 29b (2.c.ii.) on sustainability reporting standards.

Moreover, we observe that certain notions could be clarified, as further explained under the questions on each respective disclosure requirement in section 3D of the questionnaire. For example, the notion of ' relevant management' in par. AG 3(c) could specify whether it refers to persons involved in business conduct matters, those exposed to non-compliance risks or other. Moreover, there is no definition of what is considered 'unethical behavior'. In the absence of such a definition, reporting may be subjective and will depend on the interpretation of each individual undertaking. Finally, concepts such as 'bribery', 'lobbying', etc. could benefit from clarification.

2. ESRS implementation prioritisation / phasing-in

Application provisions

In order to facilitate the first-time application of set 1, ESRS 1 includes two provisions:

- Application Provision AP1 which exempts undertaking to reports comparatives for the first reporting period, and
- Application Provision AP2 which proposes transitional measures for entity-specific disclosures which consists in allowing the undertaking to continue to use, for 2 years, disclosures it has consistently used in the past, providing certain conditions are met, as described in paragraph 154.

Q51: to what extent do you support the implementation of Application Provision AP1?

- ○ Not at all
- ○ To a limited extent with strong reservations
- ○ To a large extent with some reservations
- ◉ Fully
- ○ No opinion

Q52: to what extent do you support the implementation of Application Provision AP2?

- ○ Not at all
- ○ To a limited extent with strong reservations
- ○ To a large extent with some reservations
- ◉ Fully
- ○ No opinion

Q53: what other application provision facilitating first-time application would you suggest being considered?

Please explain why

ESRS implementation prioritisation / phasing-in options

Set 1 proposes a comprehensive set of standards aimed at achieving the objectives of the CSRD proposal, with the exception of the standards to be included in Set 2.

Acknowledging the fact that the proposed vision of a comprehensive sustainability reporting might be challenging to implement in year one for the new preparers and potentially to some of the large preparers as well, EFRAG will consider using some prioritisation / phasing-in levers to smoothen out the implementation of the first set of standards.

The following questions aim at informing EFRAG's and ultimately the European Commission's decision as to what disclosure requirements should be considered for phasing-in, based on implementation feasibility / challenges and potentially other criteria, and over what period of time their implementation should be phased-in.

Q54: for which one of the current ESRS disclosure requirements (see Appendix I) do you think implementation feasibility will prove challenging? and why?

There are many challenging disclosure requirements in the proposed ESRS.

These include, among others, the requirement to disclose emissions to water and soil by actors in the value chain (ESRS E2-4), the disclosure requirement concerning the processing of all waste materials (ESRS E5-6) and the detailed requirements found in ESRS S3 and S4.

The main impediments to implementation of these disclosure requirements are the difficulties that undertakings will likely experience in gathering reliable data on these topics. That is usually due to the fact that such data would have to be acquired from actors in the value chain, outside of the EU's borders, regarding topics on which those actors might be unwilling or unable to provide information.

Given the critical importance of implementation prioritisation / phasing-in, please justify and illustrate your response

Q55: over what period of time would you think the implementation of such "challenging" disclosure requirements should be phased-in? and why?

Five years.

This should be enough time for (also non-listed) undertakings to set up the required organizational systems of due diligence to acquire reliable information on those topics from actors in the value chain. In the meantime, vendors of sustainability-related corporate data will be able to develop their expertise in these fields as well, facilitating the gathering of the necessary information. Concurrently, auditors and assurance providers may also gain the necessary expertise in information gathering on these topics and can provide some guidance therein to their corporate clients.

Within the coming, we expect the CSDDD to come into effect as well as (possibly) new EU regulations regarding providers of sustainability data, which the AFM expects will also be beneficial to European corporates in terms of their data-gathering capacities regarding challenging sustainability topics in their worldwide value chains.

Given the critical importance of implementation prioritisation / phasing-in, please justify and illustrate your response

Q56: beyond feasibility of implementation, what other criteria for implementation prioritisation / phasing-in would recommend being considered? And why?

1. Granularity of disclosure
2. Relevance for very select groups of users

Users, not only preparers, of sustainability statements will also need to get used to the new European sustainability reporting. It may take time for them to gain experience with navigating voluminous sustainability statements in order to identify the information that is relevant for them.

Assurance providers and supervisors will also be faced with a steep learning curve. Disclosure / information overload will make the curve steeper. This could impair the reliability of initial-phase ESRS-based disclosures, which in turn risks delegitimizing the new European sustainability reporting, not only on an extra-European level, but also among European users.

The AFM therefore recommends that disclosure / information overload is avoided wherever possible, at least during the initial years of the ESRS's introduction.

Given the critical importance of implementation prioritisation / phasing-in, please justify and illustrate your response

Q57: please share any other comments you might have regarding ESRS implementation prioritisation / phasing-in

The AFM would like to reiterate here ESMA’s comments regarding ESRS implementation prioritization / phasing-in:

Several topical, such as E5, S1 and G1, establish very detailed and / or numerous disclosure requirements. For this reason, sustainability reports prepared under the ESRS are likely to be very long and detailed. Overly long or detailed reporting could impact users’ ability to properly focus on material information and risk obscuring material information by an overload of disclosure points. For undertakings preparing reporting, it could furthermore be burdensome and complex to prepare the disclosure as well as difficult to establish the new systems to provide this disclosure in time for the expected application deadline for the standards.

Undertakings may equally experience difficulties collecting information about value chains, especially from entities who are not themselves obliged to publish sustainability information (EU entities which are not subject to the CSRD or non-EU entities, notably those which are SMEs or based in emerging economies).

EFRAG should therefore assess whether each of the disclosure requirements in the 11 topical standards should be included in the first set of ESRS. Such an assessment could rely on the following principles:

1. Thoroughly checking whether all the proposed requirements are relevant for virtually all undertakings in scope of the CSRD or whether any requirements, due to their specificity, are relevant only to undertakings in certain sectors. E.g., specific water-related disclosures may be of most relevance for sectors that heavily rely in water resources as part of their production processes. Any requirements which is only relevant to a subset of undertakings, even if that subset is large, should be moved to the relevant sector-specific standards. When preparing the sector-specific standards, we thus encourage EFRAG to ensure that similar topics addressed in different sector-specific standards are subject to the same disclosure treatment.

2. Considering whether all the proposed requirements should be part of the earliest ESRS reporting or whether some of them should be i) changed from mandatory to optional in the first version of the standards, ii) subject to a delayed application deadline which could be specified within the standards, iii) taken out of the first set of the standards altogether and considered for a later version. When considering whether a specific disclosure requirement should be part of the earliest ESRS reporting, EFRAG could use the two following points as guidance:

o Whether undertakings are likely to have access to the data from other entities in their value chain which is necessary to meet each disclosure requirement. For example, when undertakings already reporting under the NFRD prepare their disclosure in 2025 and 2026, they will not have access to disclosure provided from smaller entities in their value chain that will start reporting under the CSRD in 2026 onwards. Where necessary, it may be useful to permit these undertakings to use topic-specific approximations.

o Unrelated to the value chain, whether the data which undertakings are themselves able to compile is robust. For example, many undertakings will need to establish new systems for computing their disclosures and it will take some time before such systems can ensure fully reliable reporting. For that reason, there may be a need to permit reporting to commence in relation only to core areas of certain topics, let undertakings' systems mature and then add further requirements in a next version of the standards.

3. Considering the phase-in provisions in the CSRD (for example, on value chains) and the timing of development of other closely linked areas of EU legislation, such as the CSDDD. Before establishing extensive disclosure requirements on due diligence duties for all undertakings in scope of the CSRD, EFRAG should consider the scope of the due diligence obligations in the CSDDD.

To illustrate, some of the disclosure requirements that could be considered for reprioritization are:
- ESRS E2-4, emissions to air, water and soil all along the value chain as this information may be very difficult for undertakings to obtain when downstream activities are located outside the EU.
- Some of the disclosure requirements included in ESRS S2, ESRS S3 and ESRS S4 (e.g., explanation of targets or actions taken on material impacts), as undertakings may encounter difficulties in gathering information from actors throughout their value chain.

The AFM would like to add that ESRS E5-6 and some of the disclosure requirements in S3 and S4 should also be marked for deprioritization for the reasons mentioned in our response to Question 54.

Lastly, in the AFM's view, EFRAG should review for potential deprioritization (or removal) any KPI's which do not constitute the prime indicator for a topic, subtopic or specification listed in CSRD Art. 29(b).

If you have other comments in the form of a document please upload it here

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