



**EAA Stakeholder Reporting Committee
Comment Letter
Exposure Draft ESRS 1 General principles
Exposure Draft ESRS 2 General, strategy, governance and
materiality assessment disclosure requirements**

...
...
...

About the SRC

The Stakeholder Reporting Committee (SRC) is a committee of the European Accounting Association (EAA) whose mission is to actively participate in the debate about how organisations can, and should, inform their wide range of stakeholders about their activities, including their impact on society. It focuses on non-financial or sustainability reporting. Further, given that sustainability information is increasingly attracting the interest of policy makers and standard setters, the SRC also aims to create awareness of the policy issues amongst its membership, and to collaborate with policy makers and standard setters with a view to allowing the academic community's research expertise to have an impact on emerging policies and standards.

Based on the above, the SRC is pleased to accept the invitation to comment on the EFRAG's public consultation on the first set of Draft ESRSs.

We would like to focus our feedback on a few important issues:

Lack of consistency in terminology, and abuse of words that have different meanings

In our view, ESRS are a bit dense in terms of wording, they would need a deep revision to make them more readable, as well as avoiding introducing new words for concepts that have a well-known term (this is the case for the characteristics of information that are renamed as principles), or overusing terms that in the accounting field have particular meanings (such as principles, which are very relevant accounting concepts, while in the ESRSs the word appears in many different paragraphs). We have also observed that there is a lack of consistency in the use of some words (e.g., material, significant and severe, or concept and criteria), and some words are used with different meanings (e.g., concept). We list below some examples of these issues taken from ESRS 1:

§25 refers to principles of information quality, why not qualitative characteristics of information as they are normally known in the accounting field?

The word principle is also used when explaining the Disclosure Principles in ESRS 1 and the Disclosure Requirements in ESRS 2: "The principle to be followed under this DR.... Is to provide ...". In the view of the SRC this is not a principle but an objective.

Concept vs criteria: in §46 it is stated "Double materiality is a concept...", and later in the same paragraph "A sustainability matter meets, therefore, the criteria of double materiality".

§51, It introduces several words that are not clear if they are synonymous or not: materiality, significance, severity, the SRC thinks that it would be better to keep consistency in the terminology.

§53, It would be convenient to clarify the financial materiality concept in sustainability reporting if different from financial reporting.

§54, It would be good to give examples of how a future event gives rise to financially material consequences.

Rebuttable presumption:

§57: How should it be applied? How should it be justified in practical terms?

Value chain and financial materiality?

§64, How can the financial materiality (understood as risks and opportunities affecting the undertaking) be computed for the value chain? In other words, would it be possible to know the financial consequences in the value chain of sustainability issues? Which sort of information is expected to be provided on that?

About horizon: short term, medium term and long term

ESRS 1 considers that these three horizons should be defined as: one year ahead, two to five, and more than five (§ 88), and that the impacts and action plans and targets should be classified in the relevant time horizon (§ 89). In the Basis for Conclusions (§ BC81 to 86), it is argued that one year for short term helps to understand the linkages between sustainability and financial reporting, which we truly understand. As for the other two conventional groupings, it is considered that they will help to make comparison (§ BC84), and also states that breakdowns of the long term could be done at topical level. And even other horizons can be divided as well (§ BC85). The SRC questions, why not regulate this at sector level, as the argument provided by the ISSB suggests (IFRS S 1 § 18)?

Materiality

The SRC believes that the definition of materiality based on the double materiality approach – as the sum of financial materiality and impact materiality – may assist preparers in identifying information that would meet the needs of all stakeholders.

The SRC agrees on the fact that the assessment of impact materiality may be the starting point for the overall materiality assessment, followed by the consideration of the financial consequences of the material impacts on people and the environment and the financial consequences of sustainability matters which are external to the organization's activities (ESRS1, § 47). The wording of this paragraph could make these three “points”/“steps” even more clear.

The SRC believes that additional guidance is needed on materiality assessment. The (Draft) ESRS1 states that materiality assessments should reflect: “(i) the significance of the information in relation to the phenomenon it purports to depict or explain, as well as (ii) its capacity to meet the needs of the stakeholders of the undertaking, allowing for proper decision-making, and more generally (iii) the needs for transparency corresponding to the European public good. The implementation of materiality implies the use of thresholds and/or criteria.” (ESRS 1, § 43).

However, the ESRS 1 and 2 do not propose a logical process to follow in the determination of material information, and it remains silent on what “thresholds and/or criteria” should be applied and how. In this respect, should preparers adopt separate thresholds for each of the three aspects mentioned in § 43 (significant information; stakeholders' information needs; need for transparency as European public good)?

Additional guidance – offered for instance in the form of a list of examples – is also welcome with reference to the thresholds and/or criteria to be used to determine when preparers are allowed not to offer mandatory disclosure (according to the rebuttal of the materiality presumption).

ESRS 2 (§ 68) states that the standard aims “to support undertakings identifying material sustainability impacts, risks and opportunities and to specify disclosure requirements”. We believe

that the present version of the standard does not provide sufficient guidance on assessment procedures. While the SRC agrees on the importance of disclosing the process followed to identify material sustainability impacts, risks and opportunities and the outcome of this process, preparers – especially the ones less experienced with sustainability report preparation – need support on how the materiality assessment should be operationalised. Without adequate guidance, the “cost” of implementing credible materiality assessment may be too high for organisations.

To conclude, the SRC believes that additional guidance on the materiality assessment process is needed. Considering the format of the ESRS 2, this additional guidance may be provided as an appendix, preferably separate from that relating to disclosure requirements.

For correspondence:

EAA Stakeholder Reporting Committee
Prof. Dr. Peter Kajueter
Phone: +49-251-83-22840
Email: peter.kajueter@wiwi.uni-muenster.de