CONSULTATION RESPONSE

PUBLIC CONSULTATION ON THE FIRST SET OF DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS (ESRS)

Section 3A – Adequacy of Disclosure Requirements – Cross cutting standards

August 2022

To inform this response, the following investor groups have been consulted: PRI Corporate Reporting Reference Group and PRI Global Policy Reference Group. This consultation is not an endorsement or acknowledgement of the views expressed in this response.

Please note that this document contains PRI’s response to Section 3A of EFRAG’s public consultation on the first set of Draft European Sustainability Reporting Standards (ESRS): Adequacy of Disclosure Requirements – Cross cutting standards.

An overview of all key recommendations and our responses to the remaining sections of the consultation are included in separate documents, available here.

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INTRODUCTION

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a range of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

The PRI's Driving Meaningful Data programme is a key PRI Blueprint target and works on the types of data, sources and reporting frameworks needed to support responsible investors. This work includes ensuring consistent data across all the various units and entities, as well as addressing gaps identified in the Driving Meaningful Data Framework. This requires collaboration with others across the financial and corporate sectors as well as standard setters, policy makers and regulators. The PRI has an important role in working with our signatories to provide a clear signal on their data needs, how they aid decision-making and understanding their contribution towards sustainability objectives.

The PRI develops analysis and recommendations based on signatory views and evidence-based research. The PRI welcomes the opportunity to respond to the European Financial Reporting Advisory Group (EFRAG) public consultation on the first set of Draft European Sustainability Reporting Standards (ESRS).

ABOUT THIS CONSULTATION

On 29 April 2022 EFRAG launched a first set of sector-agnostic Exposure Draft European Sustainability Reporting Standards (ED ESRS) prepared by its Project Task Force on European sustainability reporting standards (PTF-ESRS), for consultation until 8 August 2022. Final standards will be adopted through Delegated Acts by the European Commission next year and constitute reporting requirements under the Corporate Sustainability Reporting Directive (CSRD).

This first set of ED ESRS includes:

- Two **cross-cutting standards** applicable to reporting on all sustainability issues
  - ESRS 1 General principles
  - ESRS 2 General, strategy, governance and materiality assessment disclosure requirements
- Eleven **issue-specific standards** with additional disclosures on their respective sustainability issues
  - E: ESRS E1 Climate change, ESRS E2 Pollution, ESRS E3 Water and marine resources, ESRS E4 Biodiversity and ecosystems and ESRS E5 Resource use and circular economy
  - S: ESRS S1 Own workforce, ESRS S2 Workers in the value chain, ESRS S3 Affected communities and ESRS S4 Consumers and end-users
  - G: ESRS G1 Governance, risk management and internal control and ESRS G2 Business conduct

We expect the second set of ED ESRS, which will include sector-specific standards, to be consulted on in 2023 and adopted through Delegated Acts by the European Commission by June 2024.

This consultation aims to gather feedback on whether the structure and content of ED ESRS are fit for purpose, and on the potential phase-in of certain draft standards after the initial reporting period.

ABOUT OUR RESPONSE

The analysis and recommendations set out in this consultation response were shared with and reflect input of PRI signatories, including members of the PRI Investor Corporate Reporting Reference Group and PRI Global Policy Reference Group. The PRI has previously provided views and recommendations on European sustainability reporting standard setting through consultation responses and public statements on the proposed CSRD.

Our response focuses on cross-issue requirements (ED ESRS 1 and 2), climate reporting requirements (ED ESRS E1), social requirements (ED ESRS S1-4) and business conduct (ED ESRS G2). To shorten our overall response, recommendations on social and business conduct requirements are fully captured within our Section 1 response document (cf. Questions 45-50), and we have not responded to Sections 3c and 3d on Social and Governance standards.

At this time the PRI is not able to offer detailed views on the content of ED ESRS for pollution (E2), water and marine resources (E3), biodiversity and ecosystems (E4), resource use and circular economy (E5) or governance, risk management and internal control (G1). **However, we want to stress that these issues are highly important for investors and welcome EFRAG's work in this area**.

Finally, please note that italicised text throughout our response is used to indicate summaries or guidance included by EFRAG within the consultation documents, and that our response is based on the provisionally agreed CSRD text rather than the April 2021 CSRD proposal.

KEY RECOMMENDATIONS

ED ESRS 2 on cross-issue disclosures is a significant step towards providing responsible investors with the corporate sustainability data needed to effectively consider sustainability-related risks, opportunities and impacts in their decision-making.

The PRI is broadly supportive of these proposed disclosures and recognises that they would cover the cross-issue information required by Articles 19(a) and 29(a-b) of the provisionally agreed CSRD text, lead to relevant reporting on all issues covered by the CSRD, and allow for needed issue-specific adjustments by undertakings.

Furthermore, we note that several ED ESRS 2 disclosures would support reporting under the Sustainable Financed Disclosure Regulation (SFDR), such as reporting on the interaction between sustainability risks/opportunities/impacts and the strategy/business model(s) and on the process and parameters underlying the materiality assessment.

To better meet investor data needs, the PRI's key recommendations regarding the content of ED ESRS are:

- Require disclosure of additional information that investors would need to understand the context of an undertaking's business and operations, including: (i) an additional disclosure requirement to define the undertaking's value chain; and (ii) additional disclosure requirements on the geographic location of the overall undertaking and (where possible) of individual plants/factories (cf. Question 3).
- Require that where undertakings choose to include reporting additional to ESRS disclosures within their sustainability statements, such as reporting under pronouncements / guidance of other standard-setting bodies (cf. Question 9):
    - this reporting meets the required characteristics of information quality (relevance, faithful representation, comparability, verifiability and understandability); and

    - undertakings specify which standards and technical guidance have been followed, such that reporting users are able to verify the completeness of this disclosure.
- Require disclosure on overlaps and differences between sustainability-related governance arrangements (covered in ED ESRS 2) and general governance arrangements (covered in ED ESRS G1), such that differences are clear to investors (cf. Questions 15-16).
- Require further reporting on the rationale, method and challenges presented by the incorporation of sustainability-related metrics in executive pay (cf. Question 18).
- Require additional disclosures on assessing the materiality of sustainability risks/opportunities to ensure consistency of disclosures with equivalent reporting on sustainability impacts. Currently there are more granular disclosure requirements on assessing impacts in ED ESRS 2 (cf. Question 20).
- Require that undertakings identify relevant stakeholders to engage as part of the materiality assessment, engage these stakeholders and specify which stakeholders have informed the process of determining material topics as well as how they have informed this process – in line with GRI 3: Material Topics 2021 (cf. Question 20).
- Include additional guidance on calculating and disclosing current and potential financial effects of sustainability-related risks and opportunities, to improve the consistency of this information across undertakings (cf. Question 21).

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DETAILED RESPONSE

3A. ADEQUACY OF DISCLOSURE REQUIREMENTS - CROSS CUTTING STANDARDS (1/2)

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

- *When sharing comments on a given Disclosure Requirement, and as much as possible, reference to the specific paragraphs being commented on should be included in the written comments.*
- *In the question asked, for each ESRS, about the alignment with international sustainability standards, these include but are not limited to the International Sustainability Standards Board Exposure Drafts (ISSB EDs) 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.*

A complete index of Disclosure Requirements and their corresponding Application Guidance can be found in *Appendix I – Navigating the ESRS**.*

DR 2-GR 1 – General characteristics of the sustainability reporting of the undertaking

The undertaking shall give general information about (i) its sustainability report, and (ii) the structure of its sustainability statement.

The principle to be followed under this disclosure requirement is to give the necessary context of the sustainability reporting of the undertaking.

Q1: Please, rate to what extent do you think DR 2-GR 1 – General characteristics of the sustainability reporting of the undertaking

	Not at all	**To a limited extent with strong reservations**	**To a large extent with some reservations**	**Fully**	**No opinion**	**Not applicable**
A. Requires relevant information about the sustainability matter covered			X			
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		

D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation				X		
G. Is as aligned as possible to international sustainability standards given the CSRD requirements				X		
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstanding or practical complexities					X	

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

These disclosures are decision-useful to investors, for undertakings in all sectors, and should therefore be prioritised in the first year of implementation.

In particular we welcome the requirement to clearly disclose which presentation option has been chosen for the sustainability statements [6], and to provide information on the assurance provider and level of assurance given [5(d)].

However, we note that in the case of a consolidated report, undertakings would need to specify whether the 'reporting scope' used for sustainability reporting is identical to the scope used for consolidated financial statements [5(b)]. While a reference has been included to ED ESRS 1 for further detail on this, it is unclear what is meant by this term. **Therefore, our sole recommendation is to clarify what is meant by 'reporting scope'** to ensure that relevant information on scope is reported.

DR 2-GR 2 – Sector(s) of activity

The undertaking shall provide a description of its significant activities, headcount and revenue. The principle to be followed under this disclosure requirement is to allow an understanding of the distribution of the undertaking's activities by reference to a common sector definition.

Q2: Please, rate to what extent do you think DR 2-GR 2 – Sector(s) of activity

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation				X		
G. Is as aligned as possible to international sustainability standards given the CSRD requirements				X		

H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstanding or practical complexities					X	

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

These disclosures are decision-useful to investors, for undertakings in all sectors, and should therefore be prioritised in the first year of implementation.

Investors need these disclosures to better understand the context for the sustainability-related information reported by the undertaking. This is information that an investor would collect from different sources (including the undertaking's financial statements), but may not be reported consistently or accessibly to all investors, therefore we support the inclusion of these disclosures.

DR 2-GR 3 – Key features of the value chain

The undertaking shall describe its value chain.

The principle to be followed under this disclosure requirement is to provide an understanding of the value chain in which the undertaking operates, from the initial inputs into a product or service, in the upstream supply chain, to its downstream delivery to end-users, including ultimate disposal, recycling or reuse for physical products.

Q3: Please, rate to what extent do you think DR 2-GR 3 – Key features of the value chain

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered			X			

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation				X		
G. Is as aligned as possible to international sustainability standards given the CSRD requirements				X		
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstanding or practical complexities					X	

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

These disclosures are decision-useful to investors, for undertakings in all sectors, and should therefore be prioritised in the first year of implementation.

Recent signatory feedback has indicated that contextual information about an undertaking's business and value chain is key to investors' interpretation of sustainability matters. Therefore, we welcome the inclusion of these disclosures within the ED ESRS.

However, in our view **undertakings should be required to report two additional sets of information:**

- location of the overall undertaking and (where possible) of individual plants/factories, at the very least at the scale of the country they are operating in; and
- at least a definition of how far along the value chain has been considered in the undertaking's assessment and which parts have not been considered (level 1, 2 etc. for suppliers and/or customers), and where possible further contextual information such as identification and operating locations of suppliers and/or customers and scale of supply/proportion of sales, where management deems this information to be relevant.

This information would allow investors that require more detailed assessments to have a good understanding of the more systemic risks, opportunities and impacts related to location, laws that apply, and national targets that a company is subject to or could be affected by. Furthermore, recent signatory feedback has indicated that public disclosure of such information by undertakings is more verifiable than estimations or investigations that service providers undertake to collect this data.

Finally, we welcome the clarification that the boundaries of an undertaking's value chain must be defined (qualitatively) based on its material sustainability matters, where the definition the undertaking's the value chain should link directly to material sustainability matters [AG15]. This would help to ensure that all material sustainability matters along the undertaking's value chain are reported on. It would also enhance connectivity of reporting within the sustainability statements.

DR 2-GR 4 – Key drivers of the value creation

The undertaking shall describe how it creates value.

The principle to be followed under this disclosure requirement is to provide an understanding of the key drivers of value creation the undertaking is leveraging to contribute to the overall performance of the value chain it operates in taking account of the respective interests of all stakeholders.

Q4: Please, rate to what extent do you think DR 2-GR 4 – Key drivers of the value creation

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered			X			

B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation				X		
G. Is as aligned as possible to international sustainability standards given the CSRD requirements				X		
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstanding or practical complexities					X	

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

These disclosures are decision-useful to investors, for undertakings in all sectors, and should therefore be prioritised in the first year of implementation.

Investors need these disclosures to better understand the context for the sustainability-related information reported by the undertaking. Particularly how the value drivers may be affected by or causing the undertaking's sustainability-related risks, opportunities and/or impacts.

However, to improve connectivity within the sustainability statements, reporting on key drivers of value creation should be better linked to disclosures on the material risks, opportunities and impacts of an undertaking.

Under paragraph 20 undertakings would be required to describe how they structure operations / relationships, to the extent this is needed to 'convey a fair, relevant and complete depiction of how it is exposed to the risk of creating impacts and/or risks and opportunities. **<u>In our view they should also be required to focus this description on how key drivers of value creation contribute to the creation of material risks, opportunities and impacts, and to cross-reference these disclosures when reporting on results of the materiality assessment</u>.** This would provide investors with better and more easily accessible contextual information as to how material sustainability matters arise, enhancing relevance and understandability of reporting.

DR 2-GR 5 – Using approximations on the disclosure in relation to boundary and value chain

Following the principle on boundaries and value chain of ED ESRS 1 when the undertaking has used peer group information or sector data to approximate missing data due to impracticability, it shall disclose:

- *its basis for preparation for the relevant disclosure and indicators, including the scope for which an approximation has been used; and*
- *the planned actions to reduce missing data in the future.*

Q5: Please, rate to what extent do you think DR 2-GR 5 – Using approximations on the disclosure in relation to boundary and value chain

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		

D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation				X		
G. Is as aligned as possible to international sustainability standards given the CSRD requirements			X			
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstanding or practical complexities					X	

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

These disclosures are decision-useful to investors, for undertakings in all sectors, and should therefore be prioritised in the first year of implementation.

We believe this is verifiable as it includes a requirement to disclose the scope of the value chain, where the estimation applies. We also recognise that this could improve the verifiability of the wider data on value chains (at least over time) as it requires disclosure of the basis for preparation and requires the undertaking to report how it plans to improve the data over time. However, the PRI is not able to comment on whether the disclosure can be assured.

We cannot comment on all European sustainability reporting obligations, but note that these disclosures would help financial market participants (FMPs) to comply with obligations under the SFDR Regulatory Technical Standards (RTS). Under Article 7(2), FMPs would be required to describe their best efforts used to obtain information relating to Principal Adverse Impact (PAI) indicators that is not readily available, *'either directly from investee companies or by carrying out additional research, cooperating with third party data providers or external experts or making reasonable assumptions'*. We believe this disclosure would provide investors with relevant information on the source and limitations of reported information, allowing them to inform their SFDR disclosures accordingly.

On the quality of information, the only aspects that may not be comparable is the "*scope for which an approximation has been used*". With no standardized format for reporting on the value chain, there may be differences in how undertakings report on this scope. **We recommend this is standardized to reference Level 1, 2, 3 suppliers and/or customers, when referring to the different stages of the value chain.**

Finally, as listed below, there are some key differences in this disclosure requirement with the ISSB's Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (ED IFRS S1), although we support the approach in ED ESRS 2 and do not recommend any changes to increase alignment. Key differences in the disclosure requirements are:

- On assessing the value chain – ED IFRS S1 does not require disclosure of the reporting entity's assessment of the value chain, which the ED ESRS requires.
- Where approximations have been used to estimate values in the value chain – ED IFRS S1 does not require any reporting on estimations of data in the value chain, only requiring disclosure when this would result in *'significant estimation uncertainty'* (see Q6 for more commentary on estimation uncertainty). In contrast, ED ESRS 2 requires reporting on where approximations have been used (a source of uncertainty) throughout the value chain as well as how the undertaking plans to reduce these estimates in the future.

DR 2-GR 6 – Disclosing on significant estimation uncertainty

Following the principle of estimating under conditions of uncertainty in ED ESRS 1, the undertaking shall:

- *identify metrics it has disclosed that have a significant estimation uncertainty, disclose the sources and nature of the estimation uncertainties and the factors affecting the uncertainties; and*
- *identify and disclose the sources of significant uncertainty and the factors affecting these sources of uncertainty when explanations of possible effects of a sustainability factor relate to possible future events about which there is significant outcome uncertainty.*

Q6: Please, rate to what extent do you think DR 2-GR 6 – Disclosing on significant estimation uncertainty

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered				X		

B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured			X			
D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements			X			
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstanding or practical complexities					X	

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

These disclosures are decision-useful to investors, for undertakings in all sectors, and should therefore be prioritised in the first year of implementation.

We believe the disclosure requirements are verifiable, as undertakings would be required to disclose the sources for the estimation uncertainty and the factors affecting the uncertainties.

Finally, we note this disclosure requirement goes beyond what is currently required by ED IFRS S1 on one specific aspect. ED ESRS 2 goes further in paragraph 26b than paragraph 84 in ED IFRS S1, as it requires that an undertaking not only disclose the *'sources of significant uncertainty'* to possible future events but also the *'factors affecting these sources'*. As additional details will be reported by undertakings following the ED ESRS, **no changes related to ISSB alignment are required in ED ESRS 2.**

DR 2-GR 7 – Changes in preparation and presentation

Following the principle on changes in preparation or presentation of ED ESRS 1, the undertaking shall explain changes in preparation and presentation by disclosing:

- *the description of the methodology used for the restatement;*
- *the difference between the amount reported in the previous period and the revised comparative amount in case of quantitative metrics;*
- *the reasons for the change in reporting policy; and*
- *if it is impracticable to adjust comparative information for one or more prior periods, the undertaking shall disclose this fact and the reason why.*

Q7: Please, rate to what extent do you think DR 2-GR 7 – Changes in preparation and presentation

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured			X			
D. Meets the other objectives of the CSRD in term of quality of information				X		

E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements			X			
H. Represent information that must be prioritised in first year of implementation						X
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstanding or practical complexities					X	

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

These disclosures are decision-useful to investors, for undertakings in all sectors. It is not applicable to prioritise this disclosure requirement as it can only be implemented after at least one year of disclosure.

We believe the disclosure requirements are verifiable as they require the undertaking to disclose what is the change, the methodology now being applied and the reason for the change.

Finally, we note this disclosure requirement goes beyond what is currently required by ED IFRS S1. The primary difference between both draft standards is in the scope: whilst ED ESRS 1 specifies the scope to include changes to '*approach, method, option, metrics used to report and disclosures reported*', the comparable disclosure requirements in ED IFRS S1 focus on metrics and targets only (paragraph 34). ED IFRS S1 refers to elements of the wider scope through discrete disclosure requirements, including changes in the methodology to identify risks (paragraph 26b(iv)) and reporting period (paragraph 67). However, the ED ESRS requirements encompass more aspects of the sustainability reporting and require more specific disclosure requirements. Even within metrics and targets, ED ESRS 1 goes beyond the requirements in ED IFRS S1 by specifying that disclosure should include the difference in the amount compared to the previous period (paragraph 25b).

We do not consider these to be significant differences and do not believe this will affect the comparability of data. As additional details will be reported by undertakings following the ESRS, **no changes related to ISSB alignment are required in ED ESRS 2.**

DR 2-GR 8 – Prior period errors

Following the principles on errors in ESRS 1, if applicable, the undertaking shall disclose the following for prior period errors:

- *the nature of prior period errors;*
- *for each prior period disclosed, to the extent practicable, the amount of the corrections; and*
- *if retrospective restatement is impracticable for a particular period, the circumstances that led to the impracticability and a description of how and when the error was corrected.*

Q8: Please, rate to what extent do you think DR 2-GR 8 – Prior period errors

	Not at all	**To a limited extent with strong reservations**	**To a large extent with some reservations**	**Fully**	**No opinion**	**Not applicable**
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured			X			
D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	

G. Is as aligned as possible to international sustainability standards given the CSRD requirements				X		
H. Represent information that must be prioritised in first year of implementation						X
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstanding or practical complexities					X	

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

These disclosures are decision-useful to investors, for undertakings in all sectors. It is not applicable to prioritise this disclosure requirement as it can only be implemented after at least one year of disclosure.

We believe the disclosure requirements are verifiable, given requirements to disclose the change, the methodology and the reason for the change.

Finally, we note this disclosure requirement is fully in line with what is currently required by ED IFRS S1 under paragraph 90.

DR 2-GR 9 – On other sustainability reporting pronouncements

The undertaking shall disclose if it also reports in full or in part in accordance with generally accepted sustainability reporting pronouncements of other standard setting bodies and non-mandatory guidance including sector-specific, in addition to its report prepared according to ESRS. It shall disclose if such reporting is included in its sustainability statements.

Q9: Please, rate to what extent do you think DR 2-GR 9 – On other sustainability reporting pronouncements

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable

A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured			X			
D. Meets the other objectives of the CSRD in term of quality of information		X				
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements			X			
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstanding or practical complexities					X	

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

These disclosures are decision-useful to investors, for undertakings in all sectors, and should therefore be prioritised in the first year of implementation.

We believe the disclosure requirements are verifiable, as the undertaking is required to report on whether other standards have been included and which standards. However, the ED ESRS does not specify additional details to be included by the undertaking, especially since the undertaking is given the flexibility by the ED ESRS to report in full or in part. This additional data will be relevant to reporting users, as it refers to disclosure against '*other standard setting bodies and non-mandatory guidance including sector specific*', but with limited details on the scope of the disclosure there is little basis for users such as data providers to verify the completeness or the basis of the disclosure. **We recommend that undertakings should disclose which standards and which parts of standards have been disclosed, including what technical guidance has been followed.**

On the quality of information, in addition to the verifiability of the data noted above, we believe that transparency on the additional disclosure and guidance followed will also:

- provide a more complete representation of this information, as investors will be able to identify what has and what has not been included by the undertaking; and
- improve comparability across peers that disclose on the same standards.

Finally, we note this disclosure requirement goes beyond what is currently required by ED IFRS S1 in paragraph 90. Under ED IFRS S1, the undertaking is only required to consider standards outside of the IFRS Sustainability Disclosure Standard[1], and we believe that ED IFRS S1 does not require disclosure of whether the reporting entity (i.e. undertaking) has reported metrics that follow these standards. As additional details will be reported by undertakings following the ESRS, **no changes are required in ED ESRS 2.**

Where ED IFRS S1 goes further than ED ESRS 2 is by also including reporting by peers as a potential source of metrics. We do not recommend additional requirements under ED ESRS 2 to reflect this, as we believe it will be captured under entity-specific disclosure outlined by the ESRS.

One nuance that may play a role in alignment of disclosures under these two draft standards are the quality criteria applied to these additional standards. As specified by ED ESRS 1 paragraph 130, these additional disclosures must still meet requirements for understandability of the disclosure (following paragraph 40 of ED ESRS 1). However, under ED IFRS S1, disclosure must follow requirements of relevance, faithful representation and neutrality (as defined by ED IFRS S1) in order to be included in the sustainability reporting. We believe reference to the broader set of quality criteria is a useful level of rigor to ensure that all information disclosed by the undertaking is relevant, verifiable and comparable to investors. **We recommend that ED ESRS 1 require that this data is reported subject to the characteristics of information quality (Section 2.1 in ED ESRS 1).**

DR 2-GR 10 – General statement of compliance

The undertaking shall provide a statement of compliance with ESRS.

The principle to be followed under this disclosure requirement is to inform the users about the compliance with ESRS requirements, following mandated disclosure requirements complemented by entity-specific disclosures.

[1] 'IFRS Sustainability Disclosure Standards' refer to finalised versions of the ISSB EDs.

Q10: Please, rate to what extent do you think DR2-GR 10 – General statement of compliance

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured			X			
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation					X	
G. Is as aligned as possible to international sustainability standards given the CSRD requirements			X			
H. Represent information that must be prioritised in first year of implementation				X		

I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstanding or practical complexities					X	

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

These disclosures are decision-useful to investors, for undertakings in all sectors, and should therefore be prioritised in the first year of implementation.

We believe the disclosure requirements are verifiable, as they refer to compliance of the overall ESRS standards and include additional entity-specific compliance statements.

On the quality of information, our only concern on comparability of disclosure is from the lack of clarity in the standard on whether disclosure is required on materiality under entity-specific disclosure. According to AG23 (Appendix B), undertakings are required to disclose where an ESRS or group of disclosure requirements are not material, but it is unclear if this a requirement for the statement of compliance or for another part of the sustainability reporting. **<u>We recommend the standard clarifies whether compliance of the materiality assessment is required under the statement of compliance, and if so, what details need to be included.</u>**

Finally, we note this disclosure requirement goes beyond what is currently required by ED IFRS S1. Under paragraph 91 of ED IFRS S1, disclosure is only required in line with the statement in paragraph 30(a) of ED ESRS 2, with no entity-specific disclosures in line with paragraph 30(b). As additional details will be reported by undertakings following the ESRS, **<u>no changes related to ISSB alignment are required in ED ESRS 2.</u>**

3A. ADEQUACY OF DISCLOSURE REQUIREMENTS - CROSS CUTTING STANDARDS (2/2)

DR 2-SBM 1 – Overview of strategy and business model

The undertaking shall provide a concise description of its strategy and business model as a context for its sustainability reporting.

The principle to be followed under this disclosure requirement is to provide relevant contextual information necessary to understanding the sustainability reporting of the undertaking. It is therefore a reference point for other disclosure requirements.

Q11: Please, rate to what extent do you think DR 2-SBM 1 – Overview of strategy and business model

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable

A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation				X		
G. Is as aligned as possible to international sustainability standards given the CSRD requirements				X		
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstanding or practical complexities					X	

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

These disclosures are decision-useful to investors, for undertakings in all sectors, and should therefore be prioritised in the first year of implementation.

Reporting on key features of the strategy and business model(s) outlined in paragraph 35 would provide investors with information needed to understand an entity's material sustainability risks, opportunities and impacts.

In addition, we note that under paragraph AG25 undertakings would report on intended direction of travel and challenges ahead, key sustainability and financial targets an undertaking expects to reach, and current expected benefits for stakeholders [AG25(g)]. The PRI supports these disclosures, as they would improve the verifiability of reporting on policies, targets and action plans – in particular how feasible anticipated improvements are and how they interact with an undertaking's non-sustainability related objectives.

DR 2-SBM 2 – Views, interests and expectations of stakeholders

An undertaking shall describe how the views, interests and expectations of its stakeholders inform the undertaking' strategy and business model.

The principle to be followed under this disclosure requirement is to provide an understanding of how stakeholders' views, interests and expectations are considered for the undertaking's decision and evolution of its strategy and business model.

Q12: Please, rate to what extent do you think DR 2-SBM 2 – Views, interests and expectations of stakeholders

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information				X		

E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation				X		
G. Is as aligned as possible to international sustainability standards given the CSRD requirements				X		
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstanding or practical complexities					X	

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

These disclosures are decision-useful to investors, for undertakings in all sectors, and should therefore be prioritised in the first year of implementation.

Reporting on key stakeholders, their views/interests and how this shapes the strategy and business model(s) would provide investors with contextual information on the undertaking. This will help investors better understand an undertaking's material sustainability risks, opportunities and impacts, particularly for social issues which often relate directly to affected stakeholders.

DR 2-SBM 3 – Interaction of impacts and the undertaking' strategy and business model

The undertaking shall describe the interaction between its material impacts and its strategy and business model.

The principle to be followed under this disclosure requirement is to provide an understanding of material impacts on people and the environment and the adaptation of its strategy and business model to such material sustainability impacts.

Q13: Please, rate to what extent do you think DR 2-SBM 3 – Interaction of impacts and the undertaking' strategy and business model

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered			X			
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation				X		
G. Is as aligned as possible to international sustainability standards given the CSRD requirements				X		
H. Represent information that must be prioritised in first year of implementation				X		

I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstanding or practical complexities					X	

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

These disclosures are decision-useful to investors, for undertakings in all sectors, and should therefore be prioritised in the first year of implementation.

Reporting on the interaction between material sustainability impacts and the strategy / business model(s) would help investors to understand the source of these impacts [41(b)], and how the undertaking plans to address them [41(c)].

This information is also relevant to investors' regulatory reporting obligations. Under the SFDR FMP's would need to provide information about how they identify and prioritise principal adverse sustainability impacts (PAIs), and describe these impacts and actions planned or underway to address these [Art 4(2)]. As such, reporting under DR2-SBM 3 would help investors identify and prioritise PAIs based on how these interact with business models/strategies of each of their portfolio companies.

We note that under paragraph AG32(b) this section would include a description of the undertaking's strategic / business model resilience to material sustainability impacts. **To avoid unnecessary duplication of reporting these requirements should be removed from this section and only included for risks/opportunities, as is already done under Disclosure Requirement 2-SBM 4.**

DR 2-SBM 4 – Interaction of risks and opportunities and the undertakings' strategy and business model

The undertaking shall describe the interaction between its material risks and opportunities and its strategy and business model.

The principle to be followed under this disclosure requirement is to provide an understanding of material risks and opportunities related to sustainability matters that originate from or are connected to the undertakings' strategy and business model and the adaptation of its strategy and business model to such material risks and opportunities.

Q14: Please, rate to what extent do you think DR 2-SBM 4 – Interaction of risks and opportunities and the undertakings' strategy and business model

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable

A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation				X		
G. Is as aligned as possible to international sustainability standards given the CSRD requirements				X		
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstanding or practical complexities					X	

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

These disclosures are decision-useful to investors, for undertakings in all sectors, and should therefore be prioritised in the first year of implementation.

Reporting on the interaction between material sustainability risks / opportunities and the strategy / business model(s) would help investors to understand how these matters arise [47(b)], strategic / business model resilience to sustainability risks / opportunities [AG34(b)] and how the undertaking plans to address these matters [47(c)].

This information is also relevant to investors' regulatory reporting obligations. Under the SFDR FMP's would need to report on how they integrate sustainability risks in their investment decision-making process [Art 3(1)]. Disclosure under DR2-SBM 4 would provide investors with information to inform their decisions and input into this disclosure.

DR 2-GOV 1 – Roles and responsibilities of the administrative, management and supervisory bodies

The undertaking shall provide a description of the roles and responsibilities of its governance bodies and management levels with regard to sustainability matters.

The principle to be followed under this disclosure requirement is to provide an understanding of the distribution of sustainability-related roles and responsibilities throughout the undertaking's organisation, from its administrative, management and supervisory bodies to its executive and operational levels, the expertise of its governance bodies and management levels on sustainability matters, and the sustainability- related criteria applied for nominating and selecting their members.

Q15: Please, rate to what extent do you think DR 2-GOV 1 – Roles and responsibilities of the administrative, management and supervisory bodies

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered			X			
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		

D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation				X		
G. Is as aligned as possible to international sustainability standards given the CSRD requirements				X		
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstanding or practical complexities					X	

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

These disclosures are decision-useful to investors, for undertakings in all sectors, and should therefore be prioritised in the first year of implementation. Suggested disclosures on roles and responsibilities of governance bodies would provide investors with information needed to assess an undertaking's ability to monitor, manage and react to material sustainability matters, and relevant controls for this purpose.

We welcome the granularity of each disclosure within this section. Crucially, disclosures would be consistently linked back to the suitability of governance arrangements to address an undertaking's material sustainability matters, improving relevance of reporting. In addition, undertakings would need to provide specific information on how high-level responsibilities, policies and structures manifest in practice, substantiating and harmonising the information provided and thereby improving verifiability and comparability of reporting.

This is exemplified in the disclosure requirements below:

- reporting on responsibilities of governance bodies would include specific aspects of sustainability over which oversight is being exercised, and how this is done [AG37];
- reporting on organisational structure of governance bodies related to sustainability matters would include reporting lines and processes by which sustainability-related responsibilities are cascaded down onto management-level senior executives and key staff at operational level [AG39];
- reporting on sustainability-related expertise of governance bodies and individual members would be substantiated by a description of the skills and competencies possessed by (or available to) each member, and how this expertise is relevant to the undertaking's material sustainability matters [AG40]; and
- reporting on sustainability-related nomination criteria would include an explanation of how these criteria were chosen to ensure the adequacy of skills, competencies, diversity and independence to the undertaking's specific sustainability matters [AG41].

However, we recommend that undertakings should be **required to cross-reference reporting within ED ESRS G1 – Governance, risk management and internal control on nomination and selection processes for the governance bodies**, including the nomination and selection criteria used [Disclosure Requirement G1-3]. Since this overlaps with disclosures on sustainability-related nomination and selection criteria, cross-referencing would improve investors' understanding of the relationship between these sets of criteria.

DR 2-GOV 2 – Information of administrative, management and supervisory bodies about sustainability matters

The undertaking shall describe how its governance bodies are informed about sustainability matters. The principle to be followed under this disclosure requirement is to provide an understanding of how governance bodies and management level senior executives are informed about sustainability-related facts, decisions and/or concerns that are within their responsibility so that they can effectively perform their duties in that respect.

Q16: Please, rate to what extent do you think DR 2- GOV 2 – Information of administrative, management and supervisory bodies about sustainability matters

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered			X			
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		

C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation				X		
G. Is as aligned as possible to international sustainability standards given the CSRD requirements				X		
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstanding or practical complexities					X	

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

These disclosures are decision-useful to investors, for undertakings in all sectors, and should therefore be prioritised in the first year of implementation. They would provide investors with information needed to assess an undertaking's ability to monitor, manage and react to material sustainability matters, specifically with respect to interactions and reporting lines for this purpose.

We welcome the granularity of each disclosure within this section. Crucially, disclosures would be consistently linked back to the suitability of governance arrangements to address an undertaking's material sustainability matters, improving relevance of reporting. For instance, disclosures on reporting lines would cover how governance bodies are informed about material sustainability matters and the results/effectiveness of policies, targets and action plans to address these [56].

In addition, undertakings would need to provide specific information on how high-level structures manifest in practice, substantiating and harmonising the information provided – for example, on reporting lines disclosures would include whom governance bodies receive information from and at what frequency [57], how senior executives and other staff interact with governance bodies on sustainability matters and the specific topics being addressed through these interactions [AG44]. This would help to substantiate and harmonise the information provided, thereby improving verifiability and comparability of reporting.

Furthermore, we welcome suggested disclosures on how and how often governance bodies interact with affected stakeholders in hearing and responding to their perspectives on sustainability matters [AG45]. This information is important to investors because stakeholder engagement is a crucial part of assessing the financial and impact materiality of sustainability matters throughout the ED ESRS, including but not limited to the materiality assessment and evaluating the effectiveness of policies, targets and action plans.

However, it is unclear how the above disclosures would interact with Disclosure Requirement G1-8 on general internal control processes and reporting on these processes to the governance bodies, within ED ESRS G1 – Governance, risk management and internal control.

In our view, undertakings should be required to cross-reference reporting under G1-8 in this section, and identify and justify any differences between internal control processes for material sustainability matters and general internal control processes.

This would allow investors to better assess the suitability of sustainability-related internal control processes, and to understand the relationship (or lack thereof) between general and sustainability-related processes without having to perform a comparative analysis of these separate sections.

Furthermore, signatories have informed us of their preference for an integrated approach to sustainability-related information. These recommended disclosures would allow investors to evaluate whether this is the case and engage with undertakings on this basis.

DR 2-GOV 3 – Sustainability matters addressed by the undertaking's administrative, management and supervisory bodies

The undertaking shall provide a description of the sustainability matters that were addressed by its administrative, management and supervisory bodies during the reporting period.

The principle to be followed under this disclosure requirement is to provide information on whether the administrative, management and supervisory bodies were adequately informed of the material sustainability-related impacts, risks and opportunities arising or developing during the reporting period. Equally what information and matters it actually spent time addressing, and whether it was able to fulfil its roles and responsibilities, as defined in its mandate and described under DR 2-GOV 1.

Q17: Please, rate to what extent do you think DR 2- GOV 3 – Sustainability matters addressed by the undertaking's administrative, management and supervisory bodies

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable

A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation				X		
G. Is as aligned as possible to international sustainability standards given the CSRD requirements				X		
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstanding or practical complexities					X	

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

These disclosures are decision-useful to investors, for undertakings in all sectors, and should therefore be prioritised in the first year of implementation. They would enable investors to understand which specific sustainability matters were addressed by governance bodies during the reporting period and how this was done [60].

This information is needed to understand how an undertaking's sustainability-related governance arrangements are put into practice and would act as an important 'source of verifiability' for other governance-related reporting.

In addition, we note that under Article 26 of the European Commission's proposed Corporate Sustainability Due Diligence (CSDD) Directive, Member States would be responsible for ensuring that directors of companies are responsible for putting in place and overseeing due diligence actions, and take steps to adapt the corporate strategy to take into account actual and potential adverse impacts. Reporting under DR 2-GOV 3 would provide investors with indicative information on undertakings' compliance with this provision.

DR 2-GOV 4 – Integration of sustainability strategies and performance in incentive schemes

The undertaking shall provide a description of the integration of sustainability strategies and performance in incentive schemes.

The principle to be followed under this disclosure requirement is to provide an understanding of how members of the administrative, management and supervisory bodies are incentivised to properly manage the undertaking's sustainability impacts, risks and opportunities and, along with other employees, to take steps towards implementing the sustainability strategy of the undertaking.

Q18: Please, rate to what extent do you think DR 2- GOV 4 – Integration of sustainability strategies and performance in incentive schemes

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered			X			
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured			X			

D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation				X		
G. Is as aligned as possible to international sustainability standards given the CSRD requirements				X		
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstanding or practical complexities					X	

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

These disclosures are decision-useful to investors, for undertakings in all sectors, and should therefore be prioritised in the first year of implementation.

Executive pay should be aligned with corporate strategy and performance to drive value creation, and the PRI considers that linking sustainability performance to pay can help hold executive management to account for the delivery of sustainable business goals. Therefore, we welcome the disclosure requirement on the integration of sustainability strategies and performance in incentive schemes.

The PRI has long called for better reporting by companies on ESG targets, performance against those targets and actual impact on pay[2] and recommends that investors adopt a formal position in favour of substantive links between sustainability objectives and pay, encourage investee companies to link ESG measures to executive pay and engage with companies that either do not consider ESG measures in their executive pay packages or fail to do so in a meaningful way.[3]

Several investors have informed us that existing disclosures on sustainability-related remuneration tend to lack specificity, such that it is unclear whether relevant governance body members and senior management-level executives have the right incentives to implement strategic changes and other initiatives to address material sustainability matters.

Disclosures on sustainability-related remuneration should be understandable with clear linkage between relevant sustainability metrics, objectives, compensation and individuals to which this applies. Suggested disclosures would achieve these objectives, notably through reporting on:

- whom each sustainability-related remuneration policy applies to [AG50];
- how incentive policies consider the sustainability-related objectives of these individuals [64];
- whether performance is assessed against specific targets and/or impacts (and which ones) [AG52];
- whether KPIs are being considered as performance benchmarks [AG52]; and
- the proportion of variable compensation conditioned to such KPIs being met [AG52].

In addition, we welcome that undertakings would need to specify who has authority over the approval/update of policies and monitoring the effects on the undertaking's ability to deliver its sustainability strategy, meet sustainability targets and manage sustainability matters [AG51]. This would add an additional source of verifiability to these disclosures.

Our sole recommendation concerns the disclosure of KPIs used to inform sustainability-related remuneration. When integrating sustainability into executive pay and reporting on this, we recommend that companies should[4]:

- adopt a clear process for identifying appropriate ESG metrics that relate to sustainable shareholder returns and company strategy;
- disclose how sustainability related targets included in executive remuneration are balanced with other metrics of financial performance that influence executive pay – relevant ESG factors should be selected based on a nuanced understanding of what impacts the financial or the operating performance of a company and how an entity's operations and products impact stakeholders and the environment, in the context of broader societal goals and planetary boundaries;[5]
- link appropriate ESG metrics to reward systems in a way that they form a meaningful component of the overall remuneration framework; and
- endeavour to disclose the rationale, method and challenges presented by the incorporation of ESG metrics into executive pay clearly and concisely.

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[2] PRI (2021), ESG-linked pay: Recommendations for investors, available at https://www.unpri.org/executive-pay/esg-linked-pay-recommendations-for-investors/7864.article.

[3] PRI (2012), Integrating ESG issues into executive pay available at https://www.unpri.org/download?ac=1878.

[4] PRI (2012), Integrating ESG issues into executive pay available at https://www.unpri.org/download?ac=1878.

[5] PRI (2021), ESG-linked pay: Recommendations for investors available at https://www.unpri.org/executive-pay/esg-linked-pay-recommendations-for-investors/7864.article.

This would allow investors to better understand and evaluate sustainability-related incentives in place, and (by extension) the feasibility of key sustainability-related objectives.

DR 2-GOV 5 – Statement on due diligence

The undertaking shall disclose its general assessment regarding how it embeds the core elements of due diligence.

Q19: Please, rate to what extent do you think DR 2- GOV 5 – Integration of sustainability strategies and performance in incentive schemes

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered				X		
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured				X		
D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation				X		
G. Is as aligned as possible to international sustainability				X		

standards given the CSRD requirements						
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstanding or practical complexities					X	

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

These disclosures are decision-useful to investors, for undertakings in all sectors, and should therefore be prioritised in the first year of implementation. They would provide investors with a standardised 'table of contents' indicating where the main aspects of an entity's due diligence practices are reported on within the sustainability statements, with clear categories and location information [66]. This is needed to facilitate a holistic, end-to-end understanding of how an undertaking identifies and manages its material sustainability impacts.

DR 2-IRO 1 – Description of the processes to identify material sustainability impacts, risks and opportunities

The undertaking shall provide a description of its processes to identify its sustainability impacts, risks and opportunities and assess which ones are material.

The principle to be followed under this disclosure requirement is to provide information on (i) how the undertaking is organising its identification and assessment and (ii) what is in the scope of its identification and assessment of sustainability matters.

Q20: Please, rate to what extent do you think DR 2-IRO 1 – Description of the processes to identify material sustainability impacts, risks and opportunities

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable

A. Requires relevant information about the sustainability matter covered			X			
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured			X			
D. Meets the other objectives of the CSRD in term of quality of information				X		
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation				X		
G. Is as aligned as possible to international sustainability standards given the CSRD requirements				X		
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstanding or practical complexities					X	

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

These disclosures would provide investors with relevant information on an undertaking's processes and considerations to identify and assess potentially material risks, opportunities and impacts, with disclosures varying across risks/opportunities and impacts.

This information forms the basis of all other reporting under the ESRS. It is therefore relevant across all sectors and should be prioritised in the first year of implementation.

Identification of potentially material sustainability risks/opportunities/impacts

We welcome the inclusion of suggested disclosures on identification of potentially material sustainability matters. Investors need this information for comparability and verifiability purposes, as it reports the findings of materiality assessments and their resulting disclosures.

We note that under paragraph AG68 of ED ESRS 2, undertakings would need to explain how they have determined which identified potential or actual impacts are material, including information on:

- how they have prioritised negative impacts identified through due diligence and how this prioritisation reflects the relative likelihood and severity (defined by scale, scope and remediability) of impacts; and
- how they have prioritised positive impacts and how this reflects the relative scale and scope of impacts.

Crucially, this is coherent with Article 7 under the SFDR, in which FMPs would need to explain how methodologies to identify and assess principal adverse impacts take into account their probability of occurrence and severity (including potentially irremediable character).

However, **we recommend that the term 'significant' is removed from this section and replaced with 'material'.** While it is specified in ED ESRS 1 that *'the terms significant and material have the same meaning when referring to impacts, risks and opportunities in the ESRS'* [48], the use of the term 'significant' is likely to cause confusion to undertakings and may risk comparability of the resulting disclosure for investors.

In addition, on the processes used to identify material sustainability risks/opportunities [74(b)], to improve comparability and verifiability of reporting **we recommend that several disclosure areas included within equivalent reporting on impact identification are also included here**, such as:

- whether and how risks / opportunities across various aspects of the value chain were considered;
- the clarification that the entire value chain should be assessed in identifying material risks/opportunities; and
- scope considered in risk / opportunity identification –our recommendations on scope pertaining to impact identification would also apply here.

Finally, we note that stakeholder engagement is an essential step in sustainability reporting, as reflected by disclosure requirements currently included within the EDs on how this informs policy-setting [ED ESRS 1, AG9] and strategy and business model(s) [ED ESRS 2, 36-38].

However, in our view necessary implementation and disclosure requirements with respect to stakeholder engagement for the materiality assessment are currently missing from the EDs. For investors it is important that undertakings appropriately consider their stakeholders in reporting, and investors need disclosures on how these various interests and expectations have shaped materiality judgments in order to conduct their own assessments as to the issue- and investment-relevance of reported information.

To address this gap, the below implementation and disclosure requirements should be added to the standard, in line with GRI 3: Material Topics 2021.

- **On implementation, undertakings should be required to do the following as part of the materiality assessment process:**
  - identify relevant stakeholders whose interests are affected (or could be affected) by the undertaking's activities to engage as part of the materiality assessment, across their activities and business relationships – where relevant this should include individuals / groups with whom the undertaking does not have a direct relationship [cf. GRI 3: Material Topics 2021, page 9]; and
  - engage with these stakeholders, prioritising the most severely affected or potentially affected stakeholders and respecting the human rights of all engaged stakeholders, for instance through protection against reprisals where relevant [cf. GRI 3: Material Topics 2021, page 10].

Note we are not recommending that undertakings report on these activities, but that the above steps are required as part of the materiality assessment.

- **On disclosure, undertakings should be required to specify which stakeholders and stakeholder groups have informed the process of determining material topics, including how engagement with stakeholders has informed the ongoing identification and assessment of impacts** [cf. GRI 3: Material Topics 2021, pages 16-17].

Note we are not recommending that undertakings disclose this information for each stakeholder, but rather for groups of stakeholders with whom engagement has shaped the materiality assessment results.

Assessment of potentially material sustainability risks/opportunities/impacts

We welcome the proposed requirement for undertakings to disclose how the prioritisation of negative impacts reflects their relative severity (defined by scale, scope and remediability) and likelihood, and how prioritisation of positive impacts reflects their relative scale and scope [AG68]. These parameters are aligned with the United Nations Guiding Principles (UNGPs) and Interpretive Guide released by the UN subsequently. Furthermore, linking material sustainability impacts back to these parameters would help investors to understand the materiality (and immateriality) of impacts, and would enhance comparability of reporting on the materiality assessment across entities.

On the assessment of risks/opportunities, in turn, undertakings would need to provide information on the contribution of these risks/opportunities to decrease or increase future cash flows based on [AG69]:

- scenarios/forecasts deemed likely to materialise; or
- for situations below the 'more likely than not' threshold and assets not reflected (or realised) under financial reporting, effects through potential future events that may affect cash flow generation potential, and through 'capitals' that are not recognised as assets from an accounting and financial reporting perspective but have a significant influence on financial performance – such as natural, intellectual, human, social and relationship capitals.

We support these proposed disclosures, as they would help investors to understand why risks/opportunities have been deemed material and would cover a wide range of potential effect channels.

However, we note that the ESRS does not clearly specify whether financial effects would need to be quantified or could be reported qualitatively. We recommend **that both options are afforded to undertakings**. Furthermore, **it should be clarified that where effects on future cash flows are**

quantified this should be presented as a range rather than a single amount – to avoid these disclosures reflecting a false sense of certainty – and should be accompanied by narrative text explaining the potential variation.

DR 2-IRO 2 – Outcome of the undertaking's assessment of material sustainability impacts risks and opportunities as identified by reference to and in compliance with sector-agnostic and sector-specific level ESRS

The undertaking shall provide a description of the outcome of its assessment processes by reference to mandatory disclosures under ESRS.

The principle to be followed under this disclosure requirement is to give a clear statement of sustainability matters, as addressed by all ESRS, that are material for the undertaking, and to give relevant explanations on (i) how the undertaking related to the material impacts, risks and opportunities identified by its assessment, (ii) when the undertaking has or will put in place initiative to modify its strategy and business model, in order to reduce or eliminate the risk or to benefit from the opportunity and/or in order to prevent and mitigate negative material impacts and enhance positive material impacts (see DR 2-SBM3 and 4), why this was the case; and (iii) if and why certain mandatory disclosures are not material under the undertaking' specific facts and circumstances and therefore disclosed as such.

Q21: Please, rate to what extent do you think DR 2-IRO 2 – Outcome of the undertaking's assessment of material sustainability impacts risks and opportunities as identified by reference to and in compliance with sector-agnostic and sector-specific level ESRS

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the sustainability matter covered			X			
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured			X			
D. Meets the other objectives of the CSRD in term of quality of information			X			

E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation				X		
G. Is as aligned as possible to international sustainability standards given the CSRD requirements				X		
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstanding or practical complexities					X	

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

These disclosures are decision-useful to investors, for undertakings in all sectors, and should therefore be prioritised in the first year of implementation. They would provide investors with relevant contextual information on an undertaking's list of material sustainability matters covered by the ESRS, including how they arise and why they are material [77].

We note that for material risks/opportunities, undertakings would be required to describe:

- how material risks/opportunities have affected their financial performance, financial position and cash flows;
- how they expect financial performance, financial position and cash flows to change over time under the effects of material risks / opportunities; and
- how the undertaking is exposed to risks and intends to pursue opportunities [77(a)].

Reporting on current and future financial effects of sustainability risks/opportunities is decision-useful to investors. However, because this is an emerging practice, there is a risk of significant variation in how entities determine and report on these effects.

In our view, **two additions to this section are needed** to mitigate potentials risks to comparability and verifiability of disclosure:

- the inclusion of extensive application guidance on how to calculate and disclose such financial and impact effects, provided at the issue-specific level – for instance, ED ESRS 2 could reference guidance within TCFD Guidance on Metrics, Targets and Transition Plans [cf. page 34]; and
- a recommendation to specify how current and future effects have been calculated, and any assumptions / limitations underpinning this.

Finally, we note that undertakings would be required to:

- disclose a list of ESRS, or groups of disclosure requirements related to a specific aspect covered by an ESRS, that are 'not material for the undertaking';
- explain why these are not material; and
- disclose the thresholds and/or criteria retained by the undertaking to determine materiality / immateriality [77(c)].

The PRI supports these disclosures as they would provide enhanced clarity to investors on matters the undertaking has deemed material / immaterial, and on the reason for this.

DR 2-IRO 3 – Outcome of the undertaking's assessment of material sustainability impacts risks and opportunities that are not covered by and ESRS (entity-specific level)

The undertaking shall provide a description of the outcome of its assessment process in relation to material impacts, risks and opportunities that are not addressed under mandatory disclosure and require entity- specific disclosure.

The principle to be followed under this disclosure requirement is to provide information (i) about all material impacts, risks and opportunities of the undertaking resulting from the undertaking's specific facts and circumstances for which relevant disclosure requirements do not exist, and (ii) when the undertaking has or will put in place initiatives to modify its strategy and business model, in order to reduce or eliminate the risk or to benefit from the opportunity and/or in order to prevent and mitigate negative material impacts and enhance positive material impacts (see DR 2-SBM 3 and 4), about such impacts, risks and opportunities.

For each sustainability matter in the scope of sustainability reporting, the undertaking shall assess which material impacts, risks and opportunities are not covered by ESRS and shall give rise to entity-specific disclosure.

Q22: Please, rate to what extent do you think DR 2-IRO 3 – Outcome of the undertaking's assessment of material sustainability impacts risks and opportunities as identified by reference to and in compliance with sector-agnostic and sector-specific level ESRS

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Requires relevant information about the			X			

sustainability matter covered						
B. Requires information that is relevant for all sectors (sector-agnostic only information)				X		
C. Can be verified / assured			X			
D. Meets the other objectives of the CSRD in term of quality of information			X			
E. Reaches a reasonable cost / benefit balance					X	
F. Is sufficiently consistent with relevant EU policies and other EU legislation				X		
G. Is as aligned as possible to international sustainability standards given the CSRD requirements				X		
H. Represent information that must be prioritised in first year of implementation				X		
I. Is well suited to be transformed in a digital reporting taxonomy that will avoid creating misunderstanding or practical complexities					X	

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

These disclosures are decision-useful to investors, for undertakings in all sectors, and should therefore be prioritised in the first year of implementation. They would provide investors with relevant information on an undertaking's list of material sustainability matters that are not covered by ESRS, how they arise and why they are material [80].

We support the strong alignment between disclosures in this section and those within DR 2-IRO 3 on material sustainability matters covered by ESRS, as this would help to achieve the needed level of comparability between reporting on these two sets of material sustainability matters.

Furthermore, we welcome the specification included within ED ESRS 1 that this information would need to meet the characteristics of information quality (relevance, faithful representation, comparability, verifiability and understandability) [19].

Given the aforementioned similarities, all recommendations for DR 2-IRO 2 (Q21) also apply to this section.