european contact group

Attn Mr Patrick de Cambourg, Chair EFRAG Sustainability Reporting Board
EFRAG
35 Square de Meeûs
1000 Brussels

6 May 2025

**EFRAG public call for input on European Sustainability Reporting Standards (ESRS) Set 1 Revision**

Dear Mr de Cambourg,

The European Contact Group (ECG), which brings together the six largest professional services networks in Europe (BDO, Deloitte, EY, Grant Thornton, KPMG and PwC), welcomes the opportunity to provide input to EFRAG on the revision of ESRS Set 1. In addition to this collective ECG response, networks will be sharing individual responses.

The ECG recognises that the ambitious and overly prescriptive requirements of ESRS – along with the speed of implementation – pose significant challenges. We support significant changes to the ESRS to increase focus on concise disclosure of entity-specific and decision-useful information on impacts, risks and opportunities (IROs). We welcome the mandate given to EFRAG by the European Commission (the Commission) to provide technical advice on revising and simplifying the ESRS, including substantially reducing the number of mandatory ESRS datapoints, whilst further enhancing the already high degree of interoperability with global reporting standards, and by providing clearer guidance on how to apply the materiality principle, without prejudice to the materiality assessment of each undertaking.

We do however have significant concerns regarding the ambitious timeline the Commission has set for EFRAG, which may affect the quality and credibility of the revised standards. More time is needed and, in our view, the Commission could envisage a slower and more thorough approach within the overall timeline envisaged by the first Omnibus proposals, allowing EFRAG to propose a consultation period of at least 60 days, given the extensive revisions expected, and to deliver an improved framework which continues to meet the original objectives of the legislation.

We would like to share the following main comments with respect to revision of ESRS set 1:

1. **Make the materiality of information more prominent as the overarching principle and provide further guidance for the double materiality assessment**

With respect to the concept of double materiality and materiality of information, we see a need for clarification and simplification to improve the decision-usefulness of sustainability statements.

In particular, ESRS 1 should be amended to make more prominent that the principle of the sustainability reporting is to disclose material information in relation to the material IROs of an undertaking, identified through the double materiality assessment (DMA), relating to environment, social, and governance matters.

We suggest applying the principle of materiality of information (as defined in ESRS 1.31 and .34 for metrics) throughout all ESRS disclosure requirements (qualitative and quantitative), including the ESRS 2 mandatory disclosures. This means that the materiality principle should apply to any disclosure, whether it relates to material or non-material matters, or whether it relates to cross-cutting or topical standards. For example, sustainability matters assessed not to be material should not trigger a disclosure requirement in relation to ESRS 2 (e.g. description of the process to identify and assess material impacts, risks and opportunities as per IRO-1 or the explanation as to why climate change is not deemed to be material), unless the information is deemed material.

More principles and guidance are needed to explain that it is appropriate to report information on IROs on an aggregated basis rather than at a granular level in certain cases, to achieve the objective of presenting material information in a clear and concise way.

More precise guidance on certain aspects of the DMA is needed, for instance on whether or not to consider mitigating actions when assessing IROs, and on the difference between positive impacts and actions mitigating negative impacts. This guidance should preferably be placed in the main body of the ESRS (i.e. the delegated act) to ensure consistent application.

**2. Use the opportunity to further harmonise requirements and language between ESRS, ISSB Standards, refer to the GHG Protocol without changes, and further address the needs of the financial sector**

Recognising the significant efforts already made by EFRAG and the ISSB to enhance interoperability of sustainability reporting standards, we emphasise the need for ongoing collaboration to align requirements where possible. As the ISSB Standards have been designed to provide a global baseline, it will be important that efforts to streamline ESRS continue to integrate this baseline as much as possible. The process to revise ESRS provides the opportunity to improve alignment of wording and terminology in ESRS 1 and ESRS 2 with IFRS S1, with supplementation as needed to reflect specific EU requirements.

In particular, the wording on the qualitative characteristics of information should be aligned as much as possible. It is critical to maintain identical definitions of financial materiality. Also, increased alignment on common disclosures could be achieved between ESRS E1 and IFRS S2. This would simplify reporting for the numerous EU companies operating in countries that have already mandated or will mandate use of the ISSB Standards or ISSB-based standards over the coming few years, as well as for non-EU entities operating in the EU.

Given the importance to users of global consistency and comparability of GHG emissions measurement and disclosure, we also recommend that ESRS E1 point to the GHG Protocol (GHGP) for the measurement of GHG emissions, without additional requirements. While the boundaries of sustainability reporting should remain aligned with the financial statements, we recommend following the GHGP specifically for the measurement of related GHG emissions as scope 1, 2 or 3 emissions. Undertakings have been struggling with the ESRS-specific approach in ESRS E1 that requires an additive approach in measuring GHG emissions (i.e. application of the GHGP financial control first and then, in addition, the operational control approach). The measurement requirements would be easier to implement if ESRS simply referred to the GHGP as a primary reference, aligning with the definitions in the GHGP (e.g. for operational control). This proposal would also further align with IFRS S2. Furthermore, given that revised GHGP content is expected to be issued in 2027, such an approach would also help to future-proof the ESRS, accommodating potential changes to the GHGP in the coming years.

Establishing SASB standards as the default non-mandatory reference point in guidance for (entity-specific) sector information would underpin proportionate and decision-useful sector-specific reporting.

With respect to sector standards, while we note that the Omnibus proposals do not consider their development in the EU, we emphasise that financial institutions are in particular need of sectorial guidance to enable them to implement ESRS set 1.

**3. Simplify and clarify the standards by revising their structure, simplifying ESRS 2 and reviewing its interaction with the topical Standards.**

We suggest that EFRAG actions the following changes, in view of providing greater clarity to the Standards and reducing the reporting burden, whilst keeping relevant and decision-useful information:

a) Include all reporting requirements (i.e. 'shall' data points) in the Disclosure Requirements (DR), accompanied by examples/illustrations/guidance in that part of the Standards only where needed, to ensure that the requirements are all located in the main body of each Standard.

b) Reduce and simplify significantly the Application Requirements (ARs) so that they only contain guidance needed to fulfil the objective of DRs (including examples or illustrations) and eliminate content that is overly complex.

c) Review the 'may' disclosures across the standards and identify which ones are critical to keep as illustrations.

d) Review all instances where 'shall consider' is used and only keep those that are absolutely needed. This should reduce the need for undertakings to put processes in place to ensure that proper consideration has been given. If 'shall consider' requirements are kept, further explain what is expected from the consideration process.

e) Reduce the number of required table formats and specify which ones are required in the DRs.

f) Simplify the Minimum Disclosure Requirements information to reduce the risk of too-granular disclosures (while taking care not to introduce interoperability concerns with core content in IFRS S1 and aiming to enhance interoperability).

**4. Simplify and clarify the reporting boundaries**

The reporting boundaries should be clarified and further explained, in particular the differentiation between 'own operations' and the upstream and downstream value chain. There is a lack of understanding of what shall be reported as 'own operations'. This is particularly key for financial sector reporting, as well as in situations of leased assets (for lessees and lessors), managed assets, joint operations, and other unconsolidated structures or entities (e.g. associated undertakings).

There should also be further clarifications on whether the concept of 'own operations' varies depending on the sustainability matters (e.g. for GHG emissions vs. social metrics, or other environmental metrics).

Specifically, for GHG emissions reporting, we refer to our recommendation above (see in point 2.) to refer to the GHGP for measurement purposes (without creating additional requirements in ESRS E1).

5. **Allow more flexibility for the presentation of the sustainability statement and consider including a dashboard of key sustainability matters**

The sustainability statement's presentation requirements should allow for simplification by introducing more flexibility in the presentation of the sustainability information. The aim would be to reduce the need for duplication of disclosures and allow better communication of (entity-specific) material matters that may be cross-topic and that do not necessarily fit the E, S and G categories. This would also help undertakings to present more connected or linked information.

With a view to making sustainability reporting more readable for a wide variety of users through concise information, EFRAG may wish to explore the idea of recommending the inclusion of a dashboard of the undertaking's key sustainability matters, for which further detailed information could then be found in the sustainability statement.

6. **Provide further reliefs to allow undertakings to evolve their data, processes, controls and systems**

We have observed that undertakings' data, processes, controls and systems are still evolving. We recommend developing a proportionality mechanism for collection or estimation of certain data, allowing undertakings to use reasonable and supportable information available without undue cost or effort. This wording is used in IFRS Accounting and Sustainability standards. This approach emphasises that an entity is still required to use relevant and appropriate information and implies that the greater the usefulness of information about a sustainability-related impact, risk or opportunity for users, the greater the effort expected of an undertaking to obtain that information.

We also propose to include an impracticability exception for specific data points in limited situations when a company is not able to provide a metric after making reasonable effort. Such exception could be limited in time (like the existing ESRS 1 relief for the 'value chain' data points) or permanent[1,2]. We suggest aligning this concept with the definition in IFRS S1 ("applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so").

7. **Promote consistency with the Corporate Sustainability Due Diligence Directive (CS3D) and other EU regulations**

Achieving significant simplification is dependent on revisions to other EU regulations that require disclosure of the same or similar datapoints, such as the Sustainable Finance Disclosure Regulation (SFDR) and the CS3D as amended through the Omnibus. In particular, in light of the outcome of the changes to the CS3D, it will be important to clarify the minimum requirements to be met for a plan to qualify as a 'transition plan' for the purposes of ESRS E1 disclosures, as well as what is meant by "compatible with limiting global warming to 1.5°C".

We expect that further changes to ESRS will be needed in the future as sustainability reporting evolves. We recommend an appropriate and robust due process, which allows sufficient time for stakeholders

[1] As described in FAQ 29 of Commission Notice C/2024/6691.

[2] For example, during the first 3 years of implementation of ESRS, if, after making every reasonable effort, the company is unable to collect or estimate the required data points, those data points could be omitted. Similarly, if, on an on-going basis, significant transactions and/or events take place during the year having as consequences that, after making every reasonable effort, the company is unable to collect or estimate the required data points in relation to those transactions or events, the disclosure of the required data points could be postponed by a maximum of 12-month from the transaction date.

to express their views, and for those views to be considered by EFRAG and by the European standard-setter, being the European Commission with scrutiny by the Council and the European Parliament.

We strongly support ongoing dialogue with a broad range of stakeholders to identify issues and discuss potential solutions.

We would welcome the opportunity to discuss these observations and recommendations in more detail at your earliest convenience.

On behalf of the European Contact Group,

Isabelle Tracq-Sengeissen
ECG Chair

The European Contact Group is registered under number 0633841538-63 in the EU Transparency Register.