

CONSULTATION RESPONSE

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

Section 1 – Overall ESRS Exposure Drafts' relevance

August 2022

The information contained in this response is provided for informational purposes only and should not be construed as legal advice on any subject matter. Except where expressly stated otherwise, the opinions, recommendations, findings, interpretations and conclusions expressed in this response are those of PRI Association, and do not necessarily represent the views of the contributors to the response or any signatories to the Principles for Responsible Investment (individually or as a whole).

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 1 of EFRAG's public consultation on the first set of Draft European Sustainability Reporting Standards (ESRS): Overall ESRS Exposure Drafts' relevance.

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

CONTENTS

INTRODUCTION.....	5
ABOUT THIS CONSULTATION.....	5
KEY RECOMMENDATIONS	6
DETAILED RESPONSE	8
1A. Overall ESRS Exposure Drafts' relevance – Architecture	8
Cross-cutting and topical standards.....	8
Alignment and interoperability with international standards and frameworks	8
Consideration given to EU policies and legislation	10
Coverage of sustainability topics.....	12
Sustainability statements and the links with other parts of corporate reporting	14
1B. Overall ESRS Exposure Drafts relevance – Implementation of CSRD principles	17
Characteristics of information quality	17
Double materiality.....	20
Impact materiality	21
Financial materiality.....	24
(Materiality) Rebuttable presumption	25
Reporting boundary and value chain	27
Time horizon.....	29
Disclosure principles for implementation of policies, targets, action and action plans, and resources.....	30
Bases for preparation	32
1C. Overall ESRS Exposure Drafts' relevance – Exposure Drafts content.....	34
ESRS 1 – General Principles	34
ESRS 2 – General, strategy, governance and materiality assessment	35
ESRS E1 – Climate change	38
ESRS S1 – Own workforce	41
ESRS S2 – Workers in the value chain.....	45
ESRS S3 – Affected communities.....	48

ESRS S4 – Consumers and end-users.....	52
ESRS G2 – Business conduct	55

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 Section 1C of this 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

The PRI is broadly supportive of the ED ESRS and views them as a significant step towards providing responsible investors with the information needed to effectively consider sustainability-related risks, opportunities and impacts in their decision-making.

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

- Include a fourth presentation option which allows for disclosure under the TCFD recommendations' core elements (governance, strategy, risk management and metrics & targets), to improve alignment between reporting under ESRS and the International Sustainability Standards Board Exposure Drafts (ISSB EDs) – cf. Question 9.
- Include additional guidance and disclosure requirements on: (i) considering interlinkages between risks, opportunities and impacts arising from all sources, such as management decisions; and (ii) aggregating risks, opportunities and impacts to measure total financial consequences and impacts on people, planet and the environment (cf. Question 10). This would help to ensure that information on various sustainability issues is not reported in silos.
- Include additional guidance on assessing materiality, including on how to evaluate sustainability risks, opportunities and impacts against the parameters provided within ED ESRS 1 (scale, scope and remediability for sustainability impacts and the magnitude of financial effects for risks/opportunities), to ensure consistency across undertakings (cf. Questions 19, 21 and 23).
- Recommend that undertakings consider the following aspects when assessing materiality, such that relevant information is provided to users of reporting:

- actual and potential adverse impacts under the proposed [Corporate Sustainability Due Diligence \(CSDD\) Directive](#) (cf. Question 5); and
- sustainability matters arising from subsidiaries (cf. Question 21).
- Require disclosure on policies to monitor compliance with the UN Guiding Principles on Business and Human Rights (UNGPs), since the UNGPs are the global authoritative standard on how companies manage impacts on people (cf. Questions 47-48).
- Require disclosures on changes to social issues-related targets during the reporting period and the rationale for these, which reflect the dynamic relationships between undertakings and their affected stakeholders (cf. Questions 45-48).
- Include guidance on how to undertake the materiality assessment for political engagement, lobbying or advocacy activities.

Finally, while investors would benefit from corporate reporting in line with the detailed requirements in the ED ESRS, we recognise that a lack of corporate readiness may impact the quality and comparability of disclosures. Therefore, EFRAG should consider the maturity of industry practice, as well as current and forthcoming issue-specific standards and frameworks such as the ISSB EDs, as it further develops the ESRS. It should also seek to prioritise information needed by investors to meet their own reporting obligations, such as mandatory Principal Adverse Impact indicators under the Sustainable Finance Disclosure Regulation (SFDR) and reporting under the Taxonomy Regulation, considering the content and timing of these data needs.

For more information, contact:

René van Merrienboer

Acting Director, Sustainable Markets
rene.van-merrienboer@unpri.org

Susanne Dräger

Senior Specialist, Sustainability Reporting
susanne.draeger@unpri.org

Content development

Benjamin Taylor

Analyst, Driving Meaningful Data
benjamin.taylor@unpri.org

Adams Koshy

Senior Specialist, Sustainability Reporting
adams.koshy@unpri.org

Elise Attal

Head of EU Policy
elise.attal@unpri.org

Nikolaj Halkjaer Pederson

Senior Lead, Human Rights
nikolaj.halkjaer@unpri.org

Betina Vaz Boni

Senior Associate, Governance
betina.vaz.boni@unpri.org

DETAILED RESPONSE

1A. OVERALL ESRS EXPOSURE DRAFTS' RELEVANCE – ARCHITECTURE

Cross-cutting and topical standards

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

- **Cross-cutting ESRS** which:
 - Establish the general principles to be followed when preparing sustainability reporting in line with the CSRD provisions
 - Mandate Disclosure Requirements (“DRs”) aimed at providing an understanding of (a) strategy and business model, (b) governance and organisation, and (c) materiality assessment, covering all topics
- **Topical ESRS** which, from a sector-agnostic perspective:
 - Provide topic-specific application guidance in relation to the cross-cutting DRs on strategy and business model, governance, materiality assessment
 - Mandate DRs about the undertaking’s implementation of its sustainability-related objectives (i.e. on its policies, targets, actions and action plans, and allocation of resources)
 - Mandate performance measurement metrics.

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

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

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

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

In our view, reporting areas covered under Articles 19a, 29a and 29b of the provisionally agreed CSRD text are **fully addressed** in the categories and content within cross-issue and issue-specific ED ESRS.

Alignment and interoperability with international standards and frameworks

Article 19b paragraph 3a of the CSRD requires that “When adopting delegated acts pursuant to paragraph 1, the Commission shall take account of the work of global standard-setting initiatives for sustainability reporting, and existing standards and frameworks for natural capital accounting, responsible business conduct, corporate social responsibility, and sustainable development.” ESRS EDs were drafted accordingly, with the objective of fostering as much alignment as possible considering the constraints imposed by other provisions included in articles 19a and 19b as per the

CSRD proposal. Details of these provisions and how they are covered by the ESRS EDs can be found in Appendix I.

The structure and organisation of the reporting areas was one aspect of alignment to which particular attention was paid. Thus, the two categories of standards are organised to cover the reporting areas in relation to governance, strategy, assessment/management of impacts, risks and opportunities, and targets/metrics (as considered by the Task Force on Climate-Related Financial Disclosures - TCFD and source of inspiration for the ISSB EDs). A detailed mapping of the ESRS EDs disclosure requirements with TCFD recommendations and with ISSB EDs can be found in Appendices 5 and 6.

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

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

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

In our view the TCFD recommendations' core elements are broadly compatible with the content of the ED ESRS. Sections on 'governance', 'metrics' and 'targets' are compatible with equivalent sections in the ED ESRS, and we note that:

- disclosures related to strategy are captured within ED ESRS 2 sections on strategy and business model(s), and ED ESRS 1 sections on policies and action plans; and
- disclosures related to risk identification, assessment, prioritisation, monitoring and management would be captured under ED ESRS 2 reporting on the materiality assessment, and ED ESRS 1 sections on policies, targets and action plans.

However, signatory feedback has indicated the benefits of further alignment in the presentation of the core elements of the TCFD recommendations. We recommend that **a fourth presentation option should be afforded to undertakings to allow for reporting under the TCFD recommendations' core elements** – this is further detailed in our response to Question 9 within this section.

Finally, we note that [Appendix 4](#) of the consultation clearly illustrates overlaps and differences between TCFD recommendations and ED ESRS (cross-issue and climate) along each of the TCFD recommendations' four pillars. **This document should be updated once finalised ESRS are published**, as this would help to prevent confusion and duplicative disclosures and thereby reduce the understandability of reporting for users.

Q3: in your opinion, to what extent does the approach taken to structure the reporting areas promote interoperability between the ESRS and the ISSB EDs?

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

Please explain your reservations or your suggestions for improvement or any other

comment you might have

Interoperability is typically understood as information being collected which can support disclosure under one or more reporting regimes – allowing for comparability of data across jurisdictions. This is a key concern for investors to ensure comparability of data across their portfolio when their investments are across jurisdictions.

We encourage close engagement between EFRAG and the ISSB to ensure interoperability of sustainability reporting standards, enable comparability and limit the reporting and assessment burden – on both entities operating across multiple jurisdictions and investors processing data on investments in multiple jurisdictions. These recommendations are in line with our recent statement with other leading financial market participants, which called for stronger alignment of regulatory and standard setting efforts¹.

In our view the ISSB EDs are broadly compatible with the content of the ED ESRS. Sections on 'governance', 'metrics' and 'targets' are compatible with equivalent sections in the ED ESRS, and we note that:

- disclosures related to strategy are captured within ED ESRS 2 sections on strategy and business model(s), and ED ESRS 1 sections on policies and action plans; and
- disclosures related to risk identification, assessment, prioritisation, monitoring and management would be captured under ED ESRS 2 reporting on the materiality assessment, and ED ESRS 1 sections on policies, targets and action plans.

However, signatory feedback has indicated the need for improved alignment between the ESRS and ISSB EDs. We recommend that **a fourth presentation option should be afforded to undertakings to allow for reporting under the TCFD recommendation's core elements** – this is further detailed in our response to Question 9 within this section..

In addition, we note that [Appendix 5](#) of the consultation clearly illustrates overlaps and differences between ISSB EDs and ED ESRS (cross-issue and climate) at the disclosure requirement level. **This document should be updated once finalised ESRS and IFRS Sustainability Disclosure Standards² are published** as this would help to prevent confusion among preparers and duplicative disclosures reducing the understandability of reporting for users.

Furthermore, to ensure interoperability, **the ESRS and IFRS Sustainability Disclosure Standards' digital taxonomies³ should be aligned to the greatest possible extent**. This would mitigate comparability risks arising from structural differences and facilitate analysis by reporting users.

Finally, we recognise that ESRS and ISSB EDs are still subject to change. To ensure interoperability at all levels **it will be important to consider industry-based metrics included within ISSB EDs as sector-specific ESRS are produced, as well as forthcoming issue-specific IFRS Sustainability Disclosure Standards** – requiring close coordination between EFRAG and the ISSB.

Consideration given to EU policies and legislation

Article 19b paragraph 3 of the CSRD also requires that “When adopting delegated acts pursuant

¹ [IFAC WBCSD PRI Call for Alignment](#)

² 'IFRS Sustainability Disclosure Standards' refer to finalised versions of the ISSB EDs.

³ Both EFRAG and the ISSB intend to create digital taxonomies enabling structured electronic tagging of a company's sustainability disclosures.

to paragraph 1, the Commission shall take account of:

- *the information that financial market participants need to comply with their disclosure obligations laid down in Regulation (EU) 2019/2088 and the delegated acts adopted pursuant to that Regulation - Sustainable Finance Disclosure Requirements;*
- *the criteria set out in the delegated acts adopted pursuant to Regulation (EU) 2020/852 - Taxonomy Regulation;*
- *the disclosure requirements applicable to benchmarks administrators in the benchmark statement and in the benchmark methodology and the minimum standards for the construction of EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks in accordance with Commission Delegated Regulations (EU) 2020/1816*8, (EU) 2020/1817 and (EU) 2020/1818 - Benchmark Regulation;*
- *the disclosures specified in the implementing acts adopted pursuant to Article 434a of Regulation (EU) No 575/2013; Prudential requirements for Credit Institutions and Investment Firms;*
- *Commission Recommendation 2013/179/EU; European Commission recommendation on the life cycle environmental performance of products and services;*
- *Directive 2003/87/EC of the European Parliament and of the Council; GHG allowance Directive;*
- *Regulation (EC) No 1221/2009 of the European Parliament and of the Council; EMAS regulation.*

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

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

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

To ensure that financial sector entities comply with sustainability disclosure requirements laid out in legislation such as SFDR and the Taxonomy Regulation in the most effective and efficient manner, the regulatory framework within the European Union must ensure that regulation, directives and standards are coherent – creating an end-to-end sustainability reporting system aligning corporate and investor disclosure. Such coherence is also needed to ensure that CSRD disclosures are decision-useful for investors.

For the most part, European legislation and initiatives have been appropriately considered in elaborating ED ESRS. However, in some cases more could be done to ensure compatibility between the ESRS and European legislation such as the Taxonomy Regulation – see our response to Question 36 (Section 1B) on action plans, Questions 47-48 (Section 1C) on policies related to affected communities and consumers/end-users, and Question 39 (Section 3B) on exposure to climate-related opportunities.

Furthermore, under Article 29(b) paragraph 3 of the provisionally agreed CSRD text, when adopting ESRS through delegated acts the European Commission would need to take account of information needed by financial market participants to comply with their disclosure obligations. To achieve better coherence between CSRD reporting and investor reporting, **we recommend that SFDR Principal Adverse Impacts and the EU Taxonomy are included as potential reference**

sources of information for identifying impacts within the ED ESRS 1 Appendix C:

‘Explanations on sustainability due diligence’. This would help to ensure consistency in the materiality assessment by investors and their portfolio companies, which is needed for an end-to-end sustainability reporting system.

Finally, to facilitate the materiality assessment process and better align this with the EU regulatory framework and widely recognised sustainability goals, **we recommend that EFRAG publish a list of relevant EU and intergovernmental instruments, goals and frameworks to be considered by undertakings during materiality assessments.** Since these elements are already captured within issue-specific ED ESRS, such a list would simply bring these elements together in one document and reflect any updates to the ESRS, helping to ensure they are assessed together and reflected in the sustainability statements where material.

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

The ED ESRS should better consider the European Commission’s proposed [Corporate Sustainability Due Diligence \(CSDD\) Directive](#).

We note that under Article 11 of the proposed CSDD Directive companies would need to report on matters covered by the Directive, to be specified in forthcoming delegated acts adopted by the European Commission, provided these companies are not subject to reporting requirements under Articles 19a and 29a of Directive 2013/34/EU (CSRD requirements). For comparability of reporting across CSDD and non-CSDD undertakings, we recommend that **EFRAG ensures maximum possible alignment between ESRS disclosure requirements and disclosure under the CSDD**, when the latter is finalised.

Furthermore, as acknowledged within the CSDD proposal, general alignment between the future ESRS and CSDD is crucial to ensuring proper information collection for reporting purposes under the ESRS and better identification of adverse impacts under the CSDD Directive [cf. page 4].

Therefore, under the ESRS undertakings should be required to:

- consider actual and potential adverse environmental and human rights impacts under the proposed CSDD (as laid out in the proposal [Annex](#)) in the materiality assessment – as a substantial contribution to severity (impact materiality) and potentially incurring reputational risks / sanctions (financial materiality); and
- consider material sustainability matters arising from subsidiaries in the materiality assessment – this point is further elaborated in our response to Question 21 (Section 1b).

Without these provisions there is a risk that entities would incorrectly deem adverse impacts relevant to the proposed CSDD and/or arising from subsidiaries to be non-material, and therefore not report on these impacts. This could lead to a disconnect between identification and remediation actions taken under the proposed CSDD, which are relevant for investment decision-making, and information reported under the ESRS.

Coverage of sustainability topics

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

In terms of timing of adoption of European sustainability reporting standards, article 19b paragraph 1 of the CSRD requires the Commission to adopt:

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

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

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

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

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

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

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

There is clear alignment between the sustainability topics to be covered under Article 29b of the provisionally agreed CSRD text and issue-specific topics covered by the ESRS.

Overall these topics are adequately addressed. However, we have indicated where we believe that relevant information is missing from the proposed disclosures in response to questions on issue-specific disclosure requirements.

On financial sector reporting, we note that the general structure of issue-specific disclosures is suitable for financial institutions and recognise that sector-specific disclosures will be specified in future ED ESRS.

However, given fundamental differences to the business models and existing disclosure obligations facing real economy undertakings and financial institutions, certain cross-sector metrics are likely to provide limited insight into the material sustainability risks, opportunities and impacts of financial institutions. For instance, this would apply to energy consumption and Scope 1&2 GHG emissions, which are currently proposed for climate-related reporting.

As such, **forthcoming financial institution-specific ED ESRS should clarify which sector-specific metrics can be used to replace, or complement, cross-issue disclosures** – similar to guidance provided within paragraphs B15-16 of the ISSB's [Exposure Draft IFRS S2 Climate-related Disclosures](#) (ED IFRS S2).

It will be equally important to avoid duplication of reporting, and to ensure connectivity, between the ESRS and existing and emerging European sustainability reporting regulations facing financial

institutions. This will require close coordination between the standard-setter and European financial regulators.

Finally, we recommend that **sector-specific ED ESRS should clarify financial sector nuances regarding the value chain definition**. In particular, the ED ESRS should clearly specify the disclosure requirements for which data from portfolio companies would need to be considered (e.g. Scope 3 GHG emissions), and which requirements can be reported against at entity level, to ensure that material sustainability matters are identified and reported on appropriately by financial services firms.

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

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

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

As shown in [Appendix 3](#) of the consultation, the ED ESRS contain performance metrics needed by Financial Market Participants (FMPs) to disclose Principal Adverse Impact (PAI) indicators under the SFDR. Furthermore, we welcome that ED ESRS contain information needed by investors to assess undertakings' impacts on people, planet and the environment, and that issue-specific ED ESRS consistently specify where indicators would support FMPs in their disclosures under SFDR.

Please note that all recommendations provided in response to Question 4 would also apply to this question.

Sustainability statements and the links with other parts of corporate reporting

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

- *a single separately identifiable section of the MR;*
- *four separately identifiable parts of the MR:*
 - *General information*
 - *Environment*
 - *Social*
 - *Governance*
- *one separately identifiable part per ESRS in the MR.*

The first option is the preferred option. When applying the other two options the entity shall report a location table to identify where disclosures are presented in the MR.

In order to foster linkage throughout the undertaking's corporate reporting, ESRS 1 also:

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

Q8: Do you agree with the proposed three options?

- **Yes**
- No
- No opinion

Q9: would you recommend any other option(s)? If so, please describe the proposed alternative option(s)

We recommend that **a fourth presentation option should be afforded to undertakings to allow for reporting under the TCFD recommendation's core elements (governance, strategy, risk management and metrics & targets).**

This would entail reporting under five separately identifiable parts of the management report:

- four sections following the TCFD recommendations' core elements, with the 'risk management' category adjusted to 'risk, opportunity and impact management' to better reflect ESRS content; and
- the inclusion of an additional 'general features' section to capture general characteristics of the business and the sustainability report, since this information would need to be reported under ED ESRS but not ISSB EDs.

Currently there is a presentational disconnect between the ED ESRS and ISSB EDs, with categories of information to be provided varying between the two sets of EDs:

- ESRS – strategy & business model(s), governance, materiality assessment, policies, targets and action plans.
- ISSB – four TCFD recommendations' core elements (governance, strategy, risk management and metrics & targets).

Signatory feedback has indicated the benefits of further incorporation of the core elements of the TCFD recommendations within the ESRS, and alignment between the ESRS and ISSB EDs. Our proposed fourth option would lead to:

- lower transaction costs for preparers operating both within and outside the EU;
- improved comparability of reporting for users from a presentational perspective;
- improved connectivity of reporting, with all relevant sustainability issues and interactions between these covered under each section; and
- further evidencing the existing degree of alignment between ED ESRS and ISSB EDs.

Furthermore, we note that the Guidelines on reporting climate-related information⁴ published by the European Commission have integrated this approach, recognising the wide use of the TCFD Recommendations.

This presentation option could reference analysis within Appendices 4 and 5 of the consultation, once these are updated to reflect the final ESRS and IFRS Sustainability Disclosure Standards (as recommended in our responses to Questions 2 and 3 within this section), to guide preparers in disclosing ESRS information against the TCFD recommendations' core elements.

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

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

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

The draft standard currently requires undertakings to disclose on sustainability as a separate element of the management accounts, rather than an integrated disclosure. Feedback from PRI signatories has indicated the importance of ensuring reporting is integrated, given the interdependence between reporting on the wider business and sustainability-related matters.

In particular, there is no reference to connectivity with the management report, outside of explicit disclosure requirements specified by the ESRS. According to Article 19 (chapter 6) of the Directive 2013/34/EU (on the contents of the management report) paragraph one states that '*[t]he management report shall include a fair review of the development and performance of the undertaking's business and of its position, together with a description of the principal risks and uncertainties that it faces.*' This contextual information is relevant to investors to better understand and interpret the sustainability-related disclosure. **We recommend undertakings are required to cross-reference from the sustainability reporting to these elements of the management accounts.**

However, in order for connectivity to be achieved within the management reporting, we believe that a pre-requisite is cohesiveness between the sustainability reports, especially to provide a clear link from sustainability reports to the financial statements and other parts of the management account (paragraph 131a and 131b). We do not believe there is sufficient guidance currently in the ESRS on how: (i) undertakings should consider interlinkages between risks, opportunities and impacts, outside of adverse impacts from actions or action plans (paragraph 125 and 126); and (ii) to aggregate these risks, opportunities and impacts (for example) to measure the total financial consequences and impacts on people, planet and the environment.

We **recommend disclosure of interlinkages and aggregate risks, opportunities and impacts that is at least qualitative disclosure and (where possible) quantitative or monetary disclosure.** In terms of presentation, our recommendations depend on the presentation format applied by the entity, whether: included within the sustainability report (under paragraph 148a); the general information section (under paragraph 148b); or in ESRS 1 (under paragraph 148c).

⁴ [European Commission \(2019\), Guidelines on reporting climate-related information.](#)

Although we recognise that practice is still developing on how best to approach this type of disclosure, it is important for the ESRS to (at the very least) include qualitative requirements to expand the narrative included in the sustainability report. This is necessary to ensure that information on various sustainability issues is not reported in silos, but instead linked to provide investors with an overall picture of risks, opportunities and impacts upon which investment decisions can be made.

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

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

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

See comments raised in response to Question 10 above. We believe that stronger connectivity will support cohesiveness.

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

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

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

Not applicable

1B. OVERALL ESRS EXPOSURE DRAFTS RELEVANCE – IMPLEMENTATION OF CSRD PRINCIPLES

Characteristics of information quality

Article 19a paragraph 2 of the CSRD proposal states that ‘the sustainability reporting standards referred to in paragraph 1 shall require that the information to be reported is understandable, relevant, representative, verifiable, comparable, and is represented in a faithful manner.’

As a consequence, ESRS 1 - General principles defines how such qualities of information shall be met:

- *Relevance is defined in paragraphs 26 to 28*
- *Faithful representation is defined in paragraphs 29 to 32*

- *Comparability is defined in paragraphs 33 and 34*
- *Verifiability is defined in paragraphs 35 to 37*
- *Understandability is defined in paragraphs 38 to 41*

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

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

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

The PRI fully supports the concept of ‘relevance’ as proposed. We welcome the strong alignment between this definition [ESRS 1, 26-28] and the definition of ‘relevance’ within paragraphs C4-8 of the ISSB’s [Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information](#) (ED IFRS S1).

The main deviations from the definition under ED IFRS S1 are that relevance under ED ESRS 1 would depend on both financial and impact materiality [ED ESRS 1, 26], and on the information needs of multiple user stakeholders [ED ESRS 1, 28]. We recognise these differences as defined by the context and scope of the standards and not compromising alignment between them.

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

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

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

The PRI makes one recommendation (below) on the concept of ‘faithful representation’. We welcome the current level of alignment between this definition [ED ESRS 1, 29-32] and the definition of faithful representation within ED IFRS S1 [C9-C15].

We recognise that under the ED ESRS 1 definition, ‘completeness’ (a component of faithful representation) would refer to material aspects related to reportable content [30], as opposed to material information necessary to understand risks/opportunities under ED IFRS S1 [C11]. We support this distinction as completeness should apply holistically across the sustainability report.

However, we note that the definition of ‘accuracy’ (a further component of faithful representation) [32] is weaker than the definition included within ED IFRS S1 [C15]:

- **ED ESRS 1:** ‘Accurate information implies that the undertaking has implemented adequate processes and internal controls to reduce errors or material misstatements. As such, estimates should be presented with a clear emphasis on their possible limitations and associated uncertainty’ [32]

- **ED IFRS S1:** Provides a list of factors that make information accurate including factors related to estimates / approximations / forecasts [C15(c-d)] as under ED ESRS 1, but also factors related to factual information [C15(a)], descriptions [C15(b)] and assertions [C15(e)].

We recommend that the definition of accuracy within ED ESRS 1 is aligned with the equivalent definition in ED IFRS S1, since the concept of accuracy should apply to information beyond estimates / approximations / forecasts.

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

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

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

The PRI fully supports the concept of ‘comparability’ as proposed. We welcome the strong alignment between this definition [ED ESRS 1, 33-35] and the definition of ‘comparability’ within ED IFRS S1 [C17-C20].

The main deviation from the definition under ED IFRS S1 is that comparable information under ED ESRS 1 would need to be consistent over time [33], meaning that the same approaches or methods have been used for the same sustainability matter [ESRS 1, 34], and to the greatest extent possible presented in a way that enables comparisons between undertakings.

The PRI supports this approach, as improving consistency of information improves its decision-usefulness for investors, and does not believe this difference compromises alignment between the standards.

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

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

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

We welcome the current level of alignment between this definition [ED ESRS 1, 35-37] and the definition of faithful representation within ED IFRS S1 [C21-C24].

We recognise that under the ED ESRS 1 definition, unlike under ED IFRS S1, verifiable information would need to be traceable – this is a prerequisite of information being auditable [37]. We recognise this difference as defined by the context and scope of the standards and do not believe it would compromise alignment between the standards.

However, we note that ED IFRS S1, unlike ED ESRS 1, provides examples of ways to enhance the verifiability of information, such as information reviewed and agreed by the Board or Board

committees [C23(c)]. **In our view such ‘sources of verifiability’ should also be specified within ED ESRS 1**, since this ensures that reported information is indeed verifiable by users of the reporting.

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

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

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

The PRI fully supports the concept of ‘understandability’ as proposed. We welcome the strong alignment between this definition [ED ESRS 1, 38-41] and the definition of ‘understandability’ within ED IFRS S1 [C17-C20].

Double materiality

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

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

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

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

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

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

N/A

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

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

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

Overall, most of the proposed implementation of double materiality is practically feasible. Our recommendations for changes are outlined below:

- On 'equal consideration of impacts with which the undertaking is involved through its activities as well as a result of its business relationships' as per AG61a (ESRS2) the undertaking needs to report clearly which entities along its value chain has been assessed, to ensure consistency of the reported data. This concern has already been captured under paragraphs 67 and 68 of ED ESRS 1, where guidance is provided when data is not directly available. This disconnect could result in inconsistent reporting by undertakings, which could adversely affect the comparability of the data for investors. **We recommend that cross-reference is included in AG61a to ED ESRS 1 to ensure consistent reporting on the value chain.**
- The disclosure requirement in paragraph 74b(iii) of ED ESRS 2, 'how the prioritisation of negative impacts reflects their relative severity and likelihood', requires the undertaking to consider an aggregate measure of severity (i.e. scale, scope and remediability) and likelihood. Guidance on how to undertake these assessments or methodology on how to aggregate towards a measure that can be prioritised is missing. This risks consistency of the data reported by entities, and thereby comparability of the data for investors. **We recommend that further guidance and methodology is provided by the standard setter on how to assess severity.**
- The disclosure requirement on how undertakings have determined which sustainability risks, opportunities and impacts are material [ED ESRS 2, 74(b)] only refers to prioritisation of negative impacts and does not refer to prioritisation of positive impacts. This is unclear and could result in inconsistent data for investors. **We recommend that this requirement is explicitly expanded to also include positive impacts.**

Impact materiality

A definition of impact materiality is given by ESRS 1 paragraph 49: 'a sustainability matter is material from an impact perspective if the undertaking is connected to actual or potential significant impacts on people or the environment over the short, medium or long term. This includes impacts directly caused or contributed to by the undertaking and impacts which are otherwise directly linked to the undertaking's upstream and downstream value chain.'

A description of how to determine impact materiality and implement impact materiality assessment can be found in ED ESRS 1 paragraph 51 and is complemented by ED ESRS 2 Disclosure Requirement 2- IRO 1, paragraph 74b(iii), AG 64 and AG 68.

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

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

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

We welcome the overall alignment between the ESRS' definition of impact materiality and the [UN Guiding Principles on Business and Human Rights](#) (UNGP) definition, which recognises the same three elements – cause, contribute and/or link – and recognise that the ESRS definition is largely aligned with our understanding of impact materiality. For example, although the definition refers to 'undertakings' upstream and downstream value chain, [which are] not limited to contractual relationships" in contrast to the term 'business relationship' in the UNGPs, our assessment indicates that the definition in paragraph 49 of ED ESRS 1 is aligned with the UNGPs, as specified under the key concepts of the [Corporate Responsibility to Respect Human Rights: An Interpretive Guide](#).

However, we have reservations about the use of the term 'significant'. Although paragraph 48 specifies that "*the terms significant and material have the same meaning when referring to impacts, risks and opportunities in ESRS*", the use of the term in paragraph 49 is likely to cause confusion to undertakings and may risk consistency of the application and comparability of the resulting disclosure for investors. **As a result, we recommend the term significant is removed from this definition and cross-reference is added to the results of the undertaking's own materiality assessment following paragraph 58 (i.e. a threshold and/or other criteria).**

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

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

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

The determination of impact materiality is largely clear as ED ESRS 1 paragraph 51 specifies this should be based on severity (i.e. scale, scope and irremediable character, for actual and potential) and likelihood (for potential only).

However, the standard is not specific about the determination for positive impacts (whether actual or potential), in contrast to the Appendix B of ESRS 2. **We recommend that the paragraph is updated in line with AG64c(ii) of ED ESRS 2 to state that positive impacts should consider scale and scope of impact.**

We also have concerns about the implementation of impact materiality. Overall, we believe the standard does not provide sufficient guidance to support an undertaking's management in interpreting severity and likelihood and could risk the consistency and comparability of the resulting data for investors.

There is also a level of uncertainty in the implementation for specific issues/topics. For instance, using the example given in paragraph 51 on potential human rights impacts, severity would take precedence over its likelihood. However, there is no guidance on how this could be applied

consistently in the issue-specific standards. **We recommend that the ESRS include guidance that builds on our first recommendation (on guidance of severity and likelihood) with issue-specific support, including factors that management should consider when determining the relative weight.**

We also **recommend that additional guidance is provided on how the parameters for scale, scope, irredeemable character and likelihood should be implemented by undertakings.** For instance, this guidance should:

- note that 'scale', 'scope' and 'irremediability' should always be judged against recognised national, regional and/or global standards, goals and thresholds. For example, social issues should refer to global human rights standards, such as the International Bill of Human Rights and ILO core Conventions;
- include a list of global standards, goals and thresholds that should be referenced by undertakings for each issue; and
- note that the scale of an impact should be higher where:
 - the impact leads to non-compliance with EU/international laws or national, regional and/or global standards, goals and thresholds relevant to the issue – note that in the case of social issues some flexibility may be needed, as any negative impact would imply that international standards were not fully complied with; and
 - the impacted medium, such as ecosystems or people, are vulnerable – specifying that in the case of social issues, as part of the international human rights framework, instruments exist that detail the rights and special considerations that should be given to specific groups such as indigenous people children and ethnic / religious minorities.

Finally, we welcome the proposal that undertakings would need to consider in the materiality assessment the impacts that are directly caused or contributed to by the undertaking in its own operations, products or services (for instance, child labour in the supply chain is directly linked to products [50]); and impacts otherwise 'directly linked' to the undertaking's upstream and downstream value chain and not limited to contractual relationships [49]. The notion of impacts 'caused and contributed to' and 'directly linked' impacts is aligned with the UNGPs [cf. p13], and would help to ensure that all material impacts are reported.

However, we note that it is unclear whether sustainability matters arising from subsidiaries would need to be considered by all undertakings in the materiality assessment. In ED ESRS 1 it is clarified that reporting boundaries for sustainability reporting must be the ones retained for the financial statements, expanded to the upstream and downstream value chain [63]. It is also noted that entities accounted for under the proportional consolidated method, which would include subsidiaries, would be considered as part of the boundary for the consolidated portion [63]. However, undertakings would also have the option to employ the equity method [63], which would not necessarily account for subsidiaries. We note that a similar approach is taken within ED IFRS S1 [37].

While this level of flexibility is both needed and consistent with reporting on value chain definition under ED ESRS 2 [14-17], there is a risk that undertakings fail to consider material impacts arising from subsidiaries, leading to relevant information not being reported. Furthermore, it could lead to incoherence with the [proposed CSDD Directive](#) which would require that impacts arising from subsidiaries are considered in the identification process [Art 6(1)].

Therefore, **we recommend that ESRS 1 explicitly requires inclusion of subsidiaries within the boundaries of assessing impact materiality, unless the subsidiary is separately disclosing in compliance with the standards.**

Financial materiality

A definition of financial materiality is given by ED ESRS 1 paragraph 53: ‘a matter is material from a financial perspective if it triggers or may trigger significant financial effects on the undertaking, i.e., it generates risks or opportunities that influence or are likely to influence the future cash flows and therefore the enterprise value of the undertaking in the short, medium or long term, but it is not captured or not yet fully captured by financial reporting at the reporting date.’

A description of how to determine financial materiality and implement financial materiality assessment can be found in ESRS 1 paragraphs 54 to 56 and is complemented by ED ESRS 2 Disclosure Requirement 2-IRO 1, paragraph 74b(iii), AG 65 and AG 69.

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

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

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

The key international standard to compare on (financial) materiality is the ISSB definition in ED IFRS S1 paragraph 56.

We recognise that there is a key conceptual difference between the ISSB’s definition and the ESRS definition. The ISSB considers information to be material if that information can be expected to influence primary users’ assessments of the enterprise value of the undertaking, putting the perspective of primary users at the core of the definition of materiality. This differs from the definition in ESRS, which makes no reference to users and instead focuses on sustainability matters that can influence enterprise value.

We do not believe this will result in major differences in the implementation of the concept and consider these two standards to be well aligned on its definition of financial materiality.

However, we are concerned about the use of the term ‘significant’ in the ESRS definition in paragraph 53. Although paragraph 48 specifies that *‘the terms significant and material have the same meaning when referring to impacts, risks and opportunities in ESRS’*, the use of the term in paragraph 53 may lead to inconsistency of its application and therefore lack of comparability for users of this information. **As a result, we recommend the term significant is removed from this definition and cross-reference is added to the results of the undertaking’s own materiality assessment following paragraph 58 (i.e. a threshold and/or other criteria).**

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

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

Please explain your reservations or your suggestions for improvement or any other

comment you might have

Overall we believe the majority of the points raised in paragraphs 54 to 56 are practically feasible. Two potential concerns on the feasibility of the approach, that could affect the consistency of the data reported to investors, include:

- The reference to the 'capitals' approach may cause some confusion as this refers to a broad frame of reference. The multi-capital approach includes information that is financially material but also refers to information that will only meet the impact materiality requirement. For example, this is clearly specified in the Technical Collaboration Group (TCG) [Background Paper on Capitals](#) prepared for the International Integrated Reporting Council (IIRC) [page 17]. The current reference to 'capitals' implies that only elements of this would be accounted for under this section on financial materiality. **We recommend editing the text to state, that the "...latter factors are a part of what is more broadly referred to as 'capitals'..."**.
- The two groups listed in paragraph 55 both refer to the potential financial risks, rather than referring to the opportunities to (for example) from obtaining resources at a lower cost from new sources or through a long-term agreement with current suppliers. **We recommend the description of the two groups are expanded to reference both risks and opportunities.**

(Materiality) Rebuttable presumption

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

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

The combination of the two is designed to make sure that the entity will report on its material impacts, risks and opportunities, but on all of them.

The assessment of materiality applies not just to a given sustainability matter covered by a given ESRS (like ESRS E3 on biodiversity for example), but also to each one of the specific disclosure requirements included in that ESRS. However, this excludes the cross-cutting standards and related disclosure requirements, which are always material and must be reported in all cases.

When a sustainability matter is deemed material as a result of its materiality assessment, the undertaking must apply the requirements in ESRS related to these material matters (except for the few optional requirements identified as such in ESRS). Conversely, disclosure requirements in ESRS that relate to matters that are not material for the undertaking are not to be reported.

The (materiality) rebuttable presumption mechanism described in ED ESRS 1 paragraphs 57 to 62 aims at supporting the implementation and documentation of the materiality assessment of the undertaking at a granular level.

ED ESRS 1 paragraphs 58 to 62 describe how to implement the rebuttable presumption principles. In particular, the undertaking shall assess for each ESRS and, when relevant, for a group of disclosure requirements related to a specific aspect covered by an ESRS if the presumption is rebutted for (i) all of the mandatory disclosures of an entire ESRS; or (ii) a group of DR related to a specific aspect covered by an ESRS, based on reasonable and supportable evidence, in which case it is deemed to be complied with through a statement that: the ESRS or the group of DR is 'not material for the undertaking'.

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

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

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

A key concern we have is that an undertaking, when complying with ED ESRS 1 paragraph 62, can exclude disclosure requirements or individual data points without disclosing that these are 'not material for the undertaking' – even though it would be required to complete the materiality assessment down to the indicator level of granularity [ED ESRS 1, 59]. For an investor, the resulting risk is that data collected is not reported consistently across undertakings and could affect their decisions if reporting is not transparent - say if metrics are aggregated but not comparable.

As these specific indicators have been identified to be relevant, we **recommend that rather than an undertaking excluding a specific metric entirely, it too includes the statement that it is 'not material for the undertaking' or some means for the users to clearly distinguish that this specific disclosure is not material.** As stated in paragraph 59, an undertaking would have to complete an assessment at this scale of granularity anyway so this should not add to the burden of the undertaking.

We also **recommend that ESRS 1 paragraph 59 reflects the wording in ED ESRS 2 paragraph 77(c)**, where undertakings must not only disclose the statement 'not material for the undertaking', but also 'the reason why it is rebutted'. This is a key inconsistency in the disclosure requirements between ED ESRS 1 and 2.

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

The advantages are:

- We recognise that the starting point within the ESRS is that all disclosure requirements should be mandatory. As a result, the rebuttable presumption reduces the reporting burden on undertakings as it focuses their disclosure on data that its management considers material to its business, based on the thresholds and criteria it applies under paragraph 58. As this information is material for management, we believe that investors are also likely to deem this information relevant to their decision-making. Therefore, while the rebuttable presumption differs from the approach to materiality within ISSB EDs, we recognise this difference as defined by the context and scope of the standards.
- This transparency of the undertaking's materiality assessment ensures verifiability of the data for investors – in compliance with paragraph 77(c) of ED ESRS 2 and bar the comment raised in Question 24 in this section. This may be of importance to some investors, where companies in the same 'peer group' or sector differ in their assessment of materiality (i.e., some deem information to be material and others do not).

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

The disadvantages are:

- For investors, the application of the undertaking's materiality assessment, which underpins the rebuttable presumption, means they would have to compare each undertaking's 'thresholds and/or criteria' (paragraph 58) to ensure data is comparable. As noted in our response to Question 24 in this section, there is also a potential gap in the verifiability of the data for investors with the provision that disclosure of immateriality is not required for specific indicators or metrics.
- The requirement to explicitly rebut materiality for disclosure requirements in the ESRS and provide supporting evidence will increase the reporting burden for undertakings by expanding the length and complexity of reporting compared to other approaches to materiality – such as the approach to materiality within ISSB EDs. It could also reduce the understandability and ease of use of this information by users of the full reports. However, this depends on how the sustainability reports are ultimately structured and may not be a concern for users that rely on the digital platforms to access this information.

Q27: how would you suggest it can be improved?

Regarding the consistent application by undertakings of criteria/thresholds for the materiality assessment, we believe this will require good practice to develop, which must also be informed by what investors deem relevant – including for their disclosure requirements within the EU. We do not see a role for the standard setter to specify thresholds or criteria, as this will not be sufficiently granular to account for differences in the context (sector, business operations etc.) of undertakings. **Instead, we recommend that further guidance is provided on implementing the materiality assessment** to improve comparability of reporting. For instance, such guidance should recommend that when setting criteria / thresholds undertakings consider the underlying parameters used to determine the materiality of risks, opportunities and/or impacts specified within ED ESRS 1 – this should also be reflected in the ED ESRS 1 materiality guidance.

This is in line with our recommendations for the ISSB ED in response to the ISSB's consultation on ED IFRS S1, as we recognise that establishing thresholds and/or a criteria to determine materiality would have to be done under both standards. However, unlike the ESRS, the ISSB EDs do not currently require disclosure of these thresholds and/or criteria.

To tackle the point on the understandability and ease of use of the information disclosed, we recommend that **disclosure requirements for which materiality has been rebutted and associated justifications of immateriality should be included within separate sub-sections to material information, and that the ESRS digital taxonomy should allow users to distinguish this information with ease (using appropriate tags).**

Reporting boundary and value chain

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

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

Due to the dynamics and causal connections between levels within the undertaking's reporting

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

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

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

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

We believe it is important to highlight that this data, even if an approximation, is better than having no data at all for investors looking to understand the risks, opportunities and impacts along the undertaking's value chain. However, we recognise that the information may not be able to meet all of the qualitative criteria, particularly faithful representation if it is not complete, and may not be comparable between undertakings.

However, as noted above the data would be relevant and, depending on the implementation by the undertaking, it could also be understandable, neutral and accurate to the extent feasible for the undertaking. Finally, verifiability of the data is enabled by the disclosure requirements in paragraph 68, where an undertaking must disclose *'the relevant information and indicators for which an approximation has been used, and the planned actions to reduce the missing data in the future'*.

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

The examples listed in paragraph 67 refer to *'internal and external information, such as peer groups or sector data'*. These are currently generic references and **we recommend specific examples are included to improve consistency of reporting, and thereby support comparability of the data for investors.** Potential additions could include:

- intensity values (e.g. by tonnes or product or revenue) of supply chain impacts reported publicly by peers or by other organisations on an undertaking's peers; and
- transpose intensity values from other sectors that have similar exposure, in terms of geography, sustainability-related issues etc.

This is not intended as a comprehensive list of examples.

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

- Not at all
- **To a limited extent with strong reservations**
- To a large extent with some reservations

- Fully
- No opinion

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

Our assessment below focuses on qualitative criteria we have identified as having not been met by the disclosure requirements.

- Understandable – It is unclear if data following the current guidance would be clear and concise as there are multiple possible factors that could require an undertaking to report information beyond the entity level. This includes where required by ESRS topical/sector requirements, laws, regulations and/or other requirements. **We recommend the standard specifies a consistent set of criteria that undertakings should consider as a decision-tree based on the multiple factors already listed.**
- Verifiable – We believe that aspects of the disclosure (under paragraph 73, 76 and 77) are verifiable, but when an undertaking is required to disaggregate information by country, site or significant asset given laws, business practices etc. (paragraph 74) there is no disclosure requirement to report on these reasonings. **We recommend that paragraph 74 is amended to include disclosure on the reasoning for this disaggregation.**
- Comparable – We believe paragraph 76 may risk comparability as it leaves flexibility to an undertaking's management to consider potential '*dynamics and causal connections*'. Although this flexibility is valuable to reflect the entity's context, **we recommend that to improve consistency, more detailed examples are included in the standard to inform undertakings.**

Time horizon

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

- *One year for short term*
- *Two to five years for medium term*
- *More than five years for long-term*

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

- Yes
- No
- No opinion

Please explain why

We support the proposal to define short-, medium- and long-term horizons for sustainability reporting purposes, as this will ensure consistent and comparable data in reporting across time and across undertakings, which in turn will inform investors' assessments.

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

- Yes
- No
- No opinion

Please explain why

We do not agree with the range for each time horizon as we believe these are too prescriptive and therefore do not consider the fixed ranges to be suitable for all issues and contexts in the ESRS.

The latter point is demonstrated by the inconsistency within the drafts when applying the time horizons in the ESRS on climate change (E1) and biodiversity and ecosystems (E4). For reporting on climate transition events (paragraph AG 18 of ESRS E1), climate targets (paragraph AG 30 of ESRS E1) and biodiversity targets (paragraph 34 of ESRS E4), ESRS E1 and E4 define the short term as 1-5 years, the medium-term as 5-10 years and the long term as 10 years or more.

For the disclosure requirements on targets, we recognise that paragraph 84 of ESRS 1 allows the undertaking to look beyond the prescribed horizons and '*adopt time horizons that reflect its strategic planning horizons and resource allocation plans*'. However, we believe this caveat is likely to cause confusion for investors (and other users) of the reporting when the ESRS defines fixed ranges for each horizon with no caveats stated (or cross-referenced) in paragraph 83.

Instead, we **recommend that ESRS 1 defines a minimum for each time horizon**:

- Short term: N/A
- Medium term: Over 2 years
- Long term: Over 5 years

This would allow for a level of consistency in reporting against these time horizons, whilst ensuring flexibility to reflect on issue-specific contexts and accommodate for the caveats specified in paragraph 84. This recommendation is also in line with our recommendations in response to the ISSB's consultation on ED IFRS S1.

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

Please see our response to Question 32.

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

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

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

DP 1-1 on policies adopted to manage material sustainability matters describes (paragraphs 96 to 98) the aspects that are to be reported for the relevant policies related to sustainability matters identified as material following the materiality assessment performed by the undertaking.

DP 1-2 on targets, progress and tracking effectiveness defines (paragraphs 99 to 102) how the undertaking is to report measurable outcome-oriented targets set to meet the objectives of policies, progress against these targets and if non-measurable outcome-oriented targets have been set, how effectiveness is monitored.

DP 1-3 on actions, action plans and resources in relation to policies and targets defines (paragraphs 103 to 106) the aspects that are to be reported by the undertaking relating to actions,

action plans and resources in relation to policies and targets adopted to address material impacts, risks and opportunities.

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

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

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

The PRI supports suggested disclosures on policies, as they would provide investors with decision-useful information on how material sustainability matters are being addressed by the undertaking. This is needed to assess future resilience and sustainability-related impacts.

In particular, we welcome that disclosures would specifically apply to policies for addressing an undertaking's material sustainability matters [AG1-3], enhancing the relevance of reporting.

Our sole recommendation concerns reporting on scope of policies in terms of operations, value chain and business relationships covered [97(b)]. **In our view, undertakings should justify their chosen scope**, and link this rationale to the results of the materiality assessment. Investors need this information to assess whether policies cover the right aspects of the value chain, and by extension whether they are suitable in addressing the material sustainability matters to which they relate. In addition, failure to disclose why policies have a certain scope could risk comparability of reporting on objectives between similar undertakings.

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

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

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

The PRI supports the proposed disclosures on targets. These would provide investors with relevant information on an undertaking's anticipated future performance in addressing material sustainability-related matters, as well as the feasibility of targets. We also welcome the alignment of these disclosures with those proposed in ED IFRS S1 and IFRS S2.

In addition, undertakings would be required to specify the methodologies and significant assumptions used to define targets [100(e)], adding a layer of verifiability to reporting.

Our sole recommendation concerns reporting on how targets are defined. Under the current proposal these would include, where applicable, *'selected scenarios, data sources, alignment with science-based methodologies and national, EU or international policy goals'* [100(f)].

Because it is not entirely clear what is meant by 'alignment' in this section, there is a risk that undertakings interpret this differently, with consequences for comparability of reporting. For instance, some may report on the alignment of scenarios used to define targets, while others may report on alignment of the targets themselves.

We recommend that undertakings should report on alignment of sustainability targets with national, EU or international policy goals, and where relevant explain how alignment has been determined, since investors are increasingly assessing portfolio alignment with long-term regional and international sustainability goals / thresholds.

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

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

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

The PRI supports proposed disclosures on action plans and resources allocated. These would provide investors with an in-depth understanding of exactly how strategies to address material sustainability matters will be implemented, notably including individual actions for this purpose and their expected outcomes [104-105].

Furthermore, we welcome that resource allocation would need to be provided in terms of capital and operational expenditure across relevant time horizons as this would help to improve comparability of reporting across undertakings.

However, investors also need to understand whether and to what extent efforts to address material sustainability matters are themselves aligned with environmental and social goals – this information is relevant from the impact materiality perspective and should be specified in the sustainability statements.

Therefore, **undertakings should be required to report: (i) a ratio of capital expenditure as part of action plans against total Taxonomy-aligned capital expenditure; and (ii) a ratio of operational expenditure as part of action plans against total Taxonomy-aligned operational expenditure**. This would also improve connectivity of reporting with disclosures under the [Taxonomy Regulation](#).

Bases for preparation

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

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

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

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

- Yes
- No
- I do not know

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

Our recommendations are specified below:

- Paragraph 108(a): **we recommend that a clear distinction is not required, but rather the undertaking references where information is for the implementation of ESRS.** This is to ensure that information remains integrated with wider reporting.
- Paragraph 112: **we recommend that the standard specifies what it refers to as ‘nature and the factors of the estimation uncertainty’.** For example, whether this requires the undertaking to report if the estimation uncertainty is expected to create an over/underestimate, or if this refers to what are the drivers of this uncertainty.
- Paragraph 116: **we recommend that the qualitative or narrative information on potential consequences is specified to include the consequences on both current and historic periods.** This information will be relevant to investors as many consider historic information when assessing the performance and/or trends of an undertaking, to inform their investment decisions.
- Paragraph 117: **we recommend that the standard requires disclosure on at least the last five years, where feasible for the entity.** This will also align the disclosure with disclosure requirements when prior period errors occur (see paragraph 121). We recognise the statement in paragraph 124 that the standard approaches estimates differently to errors, but irrespective of the source of the change, many investors need consistent and comparable data over time to inform their investment decisions. If the preparation change will result in changes to historic results, this information is relevant to investors.
- Paragraph 126: we recognise that the scope of the adverse impacts of material financial risks is on actions or action plans that generate them, which is a narrower scope of the trade-offs recognised by ED IFRS S1 [paragraph 21(c) and 44(b)]. As the information on actions and action plans are unique to the ESRS, this information and granularity is of relevance to investors’ assessment of undertakings’ disclosure. We do not believe that comparability of the data will be affected as long as entities are transparent about the source of the trade-offs – including (for example) from actions or action plans. No further recommendations are made on the ESRS.
- Paragraph 128: **we recommend that the undertaking should also ensure that the assessment of the severity and likelihood of impacts that specific subsidiaries are exposed to is not biased – it is not just the identification of the material impacts, risks**

and opportunities. This data is relevant to an investor as it could result in outcomes that are geographically concentrated, especially if a subsidiary is located separately from the rest of the consolidated business and/or if the subsidiary is exposed to different impacts, risks and opportunities compared to the rest of the business.

1C. OVERALL ESRS EXPOSURE DRAFTS' RELEVANCE – EXPOSURE DRAFTS CONTENT

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

- *when sharing comments on a given ESRS Exposure Draft, as much as possible, reference to the specific paragraphs being commented on should be included in the written comments,*
- *in the questions asked for each ESRS about the alignment with international sustainability standards, these include but are not limited to the 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.*

ESRS 1 – General Principles

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

- *when reporting under European Sustainability Reporting Standards;*
- *on how to apply CSRD concepts;*
- *when disclosing policies, targets, actions and action plans, and resources;*
- *when preparing and presenting sustainability information;*
- *on how sustainability reporting is linked to other parts of corporate reporting; and*
- *specifying the structure of the sustainability statements building upon the disclosure requirements of all ESRS.*

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

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

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

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

Overall, ED ESRS 1 is strongly aligned with ED IFRS S1.

As set out in our response to Section 1b of this consultation, ED ESRS 1 is mostly compatible with disclosure requirements set out in ED IFRS S1. We recognise that most differentiation between the draft standards is driven by differences in their underlying scope and context, and do not believe that these differences would fundamentally compromise compatibility between the standards.

However, we have recommended that ED ESRS 1 is better aligned with ED IFRS S1 to improve the quality of reporting under the ESRS in our responses to Question 14 on faithful representation and Question 16 on verifiability (Section 1b); and Question 9 on sustainability reporting against other standards (Section 3a).

ESRS 2 – General, strategy, governance and materiality assessment

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

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

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

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

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

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

Suggested disclosures under ED ESRS 2 would cover sustainability topics included within Articles 19a and 29a of the [provisionally agreed CSRD text](#).

Furthermore, we note that several ED ESRS 2 disclosures would support reporting under SFDR, including:

- reporting on the interaction between sustainability risks/opportunities/impacts and the strategy and business model [DR2-SBM 2 and 3] – as explained in response to Questions 13-14 (Section 3a) this is relevant for SFDR disclosures on how principal adverse impacts are identified / prioritised, describing these impacts and actions planned / underway to address them [Art 4(2)], and explaining how sustainability risks are integrated into investment decision-making process [Art 3(1)]; and
- disclosures on the process and parameters underlying the materiality assessment are consistent with, and would support, reporting under Article 7 of SFDR on methodologies to identify and assess principal adverse impacts – as further explained in our response to Question 20 (Section 3a).

The PRI is broadly supportive of the suggested disclosures. Our recommendations to improve the quality of reported information on these topics are set out below and outlined in further detail within our response to Section 3a questions on individual disclosure requirements within ED ESRS 2.

Our key recommendations are:

- As detailed in our response to Question 9 (Section 3a), where undertakings report under generally accepted sustainability pronouncements of other standard setting bodies and non-mandatory guidance:
 - **undertakings should be required to meet the characteristics of information quality [Section 2.1 in ED ESRS 1],** such that all information disclosed by undertakings is relevant, verifiable and comparable to investors; and
 - **undertakings should need to specify which standards or parts of standards have been disclosed including what technical guidance has been followed,** such that investors are able to understand the completeness or basis of the disclosures.
- On governance-related disclosures:
 - **improved connectivity is needed between reporting on sustainability-related governance in ED ESRS 2 and general governance in ED ESRS G1,** notably on internal control processes – this is further outlined in our response to Questions 15-16 (Section 3a); and
 - **additional disclosures should be required on the rationale, method and challenges presented by the incorporation of ESG metrics in executive pay,** as this is relevant for investors' understanding and assessment of sustainability-related remuneration – this is further outlined in our response to Question 18 (Section 3a).
- As detailed in our response to Questions 20-21 (Section 3a), on reporting related to the materiality assessment:
 - **undertakings should be explicitly required to identify and engage with relevant stakeholders as part of the materiality assessment, and to 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](#).
 - **additional guidance should be included on calculating and disclosing current and potential financial effects of sustainability-related risks and opportunities,** to improve consistency of reporting across undertakings; and
 - **disclosures should be harmonised across impacts and risks/opportunities where relevant,** to improve comparability of reporting on all sustainability matters.

ESRS E1 – Climate change

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

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

This [draft] standard derives from the [Draft] Corporate Sustainability Reporting Directive stating that the sustainability reporting standards shall specify which information to disclose about climate change mitigation and climate change adaptation.

This [draft] standard covers Disclosure Requirements related to 'Climate change mitigation', 'Climate change adaptation' and 'Energy'.

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

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion	Not applicable
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)			X			

B. Supports the production of relevant information about the sustainability matter covered				X		
C. Fosters comparability across sectors			X			
D. Covers information necessary for a faithful representation from an impact perspective				X		
E. Covers information necessary for a faithful representation from a financial perspective			X			
F. Prescribes information that can be verified / assured			X			
G. Meets the other objectives of the CSRD in term of quality of information				X		
H. Reaches a reasonable cost / benefit balance					X	
I. Is sufficiently consistent with relevant EU policies and other EU legislation			X			

J. Is as aligned as possible to international sustainability standards given the CSRD requirements			X			
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Please share any comments and suggestions for improvement you might have relating to the above questions, referring explicitly to the part of the question you are providing comment

Suggested disclosures under ED ESRS E1 would cover sustainability topics included within Articles 19a, 29a and 29b of the [provisionally agreed CSRD text](#).

The PRI is broadly supportive of the suggested disclosures. Our recommendations to improve the quality of reported information on these topics are set out below and outlined in further detail within our response to Section 3b questions on individual disclosure requirements within ED ESRS E1.

Our key recommendations are:

- on exposure to physical risks, **a further set of metrics should be included to better reflect how undertakings are exposed to physical risks**, including asset location data of an undertaking's main facilities, operations and leading suppliers located in an area at risk of extreme weather events, how physical risk is assessed and considered in companies' business interruption plans, current and predicted financial losses from extreme weather events and anticipated future financial impacts based on the results of physical risk-focused scenario analysis – this is further outlined in our response to Question 37 (Section 3b);
- on target-setting, **undertakings should be required to disclose the base scenario used to assess 1.5°C alignment of emissions reduction targets**, where such alignment is reported – this is further outlined in our response to Question 25 (Section 3b);
- on calculating and reporting locked-in GHG emissions, **further guidance should be included to improve comparability of reported figures**, given the novelty of this disclosure area – this is further outlined in our response to Question 23 (Section 3b);
- when reporting performance metrics on energy consumption and potentially stranded assets, **undertakings should need to explain how these were calculated to ensure verifiability of reporting** – this is further outlined our response to Questions 27 and 38 (Section 3b);
- on greenhouse gas emissions, **undertakings should be required to use the Greenhouse Gas Protocol Corporate Standard to calculate and disclose these**, in order to ensure alignment with international standards and, by extension, comparability of reporting at the international level – this is further outlined in our response to Questions 29-32 (Section 3b);
- on potential financial effects from climate-related opportunities, **potential market size of 'green products' should be put into perspective against planed future EU Taxonomy-aligned turnover**, as this would better indicate an undertaking's willingness to pursue such opportunities, and the alignment of this strategy with environmental objectives – this is further outlined in our response to Question 39 (Section 3b).

ESRS S1 – Own workforce

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

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

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

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

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

This [draft] Standard covers an undertaking's "own workforce", which is understood to include both workers who are in an employment relationship with the undertaking ("employees") and non-employee workers who are either individuals with contracts with the undertaking to supply labour ('self-employed workers') or workers provided by undertakings primarily engaged in 'employment activities' (NACE Code N78).

This [draft] Standard does not cover (i) workers in the upstream or downstream undertaking's value chain for whom neither work nor workplace are controlled by the undertaking; or (ii) workers whose work and/or workplace is controlled by the undertaking but are neither employees, nor individual contractors ("self-employed workers"), nor workers provided by undertakings primarily engaged in "employment activities" (NACE Code N78); these categories of workers are covered in ESRS S2 Workers in the Value Chain.

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

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

A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)				X		
B. Supports the production of relevant information about the sustainability matter covered			X			
C. Fosters comparability across sectors			X			
D. Covers information necessary for a faithful representation from an impact perspective			X			
E. Covers information necessary for a faithful representation from a financial perspective			X			
F. Prescribes information that can be verified / assured			X			
G. Meets the other objectives of the CSRD in term of quality of information			X			

H. Reaches a reasonable cost / benefit balance					X	
I. Is sufficiently consistent with relevant EU policies and other EU legislation			X			
J. Is as aligned as possible to international sustainability standards given the CSRD requirements			X			

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

Suggested disclosures under ED ESRS S1 would cover sustainability topics included within Articles 19a, 29a and 29b of the [provisionally agreed CSRD text](#).

The PRI is broadly supportive of the suggested disclosures. Our recommendations to improve the quality of reported information on these topics are set out below:

- Disclosure Requirements S1-3 on channels for own workers and workers' representatives to raise concerns; S1-4 on targets related to managing material negative impacts, advancing positive impacts and managing material risks and opportunities; and S1-11 on performance of the health and safety management system
 - In our view **these disclosures should also cover further relevant aspects of health and wellbeing, such as mental health.**
- Disclosure Requirement S1-4 on targets related to managing material negative impacts, advancing positive impacts and managing material risks and opportunities
 - We note that under paragraph AG57 undertakings would disclose whether and the extent to which targets are defined in terms of the intended outcomes to be achieved for own workers. However, according to international standards – UNGPs and OECD Guidelines – the responsibility (or overall target) for companies is to respect the human rights of people that may have already been or may be affected in the future by their activities – including own workers. As such, if the target-setting terminology is to be used in this context, **it should be clarified that in the case of targets focusing on impacts undertakings should report on outcome-oriented targets, and on how target-setting contributes to outcomes and to the overall responsibility to respect the rights of stakeholders.**
 - Additionally, the risk and impact profile of any company when it comes to their relationship with their own workers will be dynamic – both due to internal and external factors – and hence any target-setting approach should be agile to be able to pivot to the most severe risks and impacts in a given situation. As such, **undertakings should**

be required to report on any changes to targets during the reporting period and the rationale for these.

- Disclosure Requirements S1-7 on characteristics of the undertaking's employees; S1-9 on training and skills development indicators; and S1-18 on pay gap between women and men
 - We note that undertakings would only be required to provide a breakdown by gender of: (i) permanent, temporary, non-guaranteed hours, full-time and part-time employees [51]; and (ii) average number of training hours per person [57(b)]. On pay gap reporting, this would only need to be done by gender [81(a)].
 - This can be quite limiting when considering the whole breath of Diversity, Equity and Inclusion (DEI) issues. **Therefore, reporting on characteristics of an undertaking's employees, training and skills development indicators and pay gap should be done for other DEI characteristics, such as age, race/ethnicity, disability and sexual orientation.**
 - Where information cannot be collected, such as for race and ethnicity due to legislation, we welcome the recognition of socio-economic background as a 'diverse group' category. There is a clear lack of diversity and inclusion of this group in workforces. Socio-economic background is also a category which often intersects with other characteristics, such as race & ethnicity, gender and ability.
 - In addition, **entities should be required to disclose 'inclusion metrics'**, which are not currently included in the ED. These go beyond workforce composition data and instead look at the treatment of staff across the recruitment, retention and promotion employee lifecycle, and how this is broken down across different characteristics and identities. Metric examples may include the return rate from parental leave for men and women, and the growth rate from early career to mid- and senior roles and retention rate of employees belonging to 'diverse group categories' (e.g. LGBTQ+ employees).
 - Furthermore, **entities should consider the intersectionality of diversity factors** (e.g. gender, ethnicity, disability, national origin, administrative status, religion and sexual orientation) to understand how this affects the experience of underrepresented backgrounds in the workplace, and **disclose related intersectional data.**
 - Finally, **when referring to gender, guidance should be included to explain if gender refers to the binary category of male/female, or if it includes other forms of gender identity.**
- Disclosure Requirement S1-8 on characteristics of the undertaking's employees
 - We note that the ED would cover non-employee workers, 'who are either individuals with contracts with the undertaking or workers provided by undertakings primarily engaged in employment activities' [5]. It would not cover 'workers in the undertaking's upstream or downstream value chain for whom neither work nor workplace are controlled by the undertaking, or workers whose work and/or workplace is controlled by the undertaking but are neither employees, nor individual contractors' [6].
 - In our view this description should be clearer and **specify whether independent contractors would be included under ED ESRS S1 reporting.** Otherwise, there is a risk that some undertakings include these categories and others do not, incurring a lack of comparability in reporting.
- Disclosure Requirement S1-14 on fair remuneration
 - Undertakings would need to report the percentage of own workers whose wage is below the 'fair wage' and name the countries in which the lowest wage for their own workers is below the 'fair wage' [72].

- We note there is a lack of clarity around what constitutes a fair wage, with a considerable level of flexibility afforded to its calculation [AG141]. In addition, there is an inconsistency between use of 'fair wage' terminology here and 'living wage' terminology in the [Corporate Sustainability Due Diligence Directive \(CSDD\) proposal Annex](#) [page 3]. **In our view the ED should reference 'living wage' instead of 'fair wage', as this is more coherent and is defined by affording workers a decent standard of living.**
- Disclosure Requirement S1-15 on social security eligibility coverage
 - In our view, **undertakings should also report on actions taken to ensure that all workers have access to 'basic minimum social security' as a minimum safeguard in line with the relevant ILO social security instruments.** All workers are entitled to social security, regardless of contractual status. This is relevant because undertakings that avoid establishing contractual relationships (or equally set up ambiguous contracts with no or limited social security clauses) with workers who may not be eligible for social security coverage can exacerbate the vulnerability of some of the most vulnerable and precarious workers, and therefore at a heightened risk of exploitation including forced labour and modern slavery.
 - This is particularly relevant for workers in high-risk sectors, workers under contingent or ambiguous contractual arrangements, migrant workers, and/or workers exposed to decent work deficits whose situation can be ameliorated through robust social security when such risks are identified.
- Disclosure Requirement S1-19 on employment of persons with disabilities
 - Undertakings would need to report the percentage of persons with disabilities amongst its own workforce, and the total number of own workers with disabilities broken down by gender [93].
 - In our view, the **disclosure of people with disabilities should also be disaggregated by level of seniority as a way to measure the inclusion of people with disabilities within the undertaking.**
 - In addition, **undertakings should be recommended to consider reporting on metrics such as retention and promotion of people with disabilities,** by adding this as an optional disclosure within the ED.
- Disclosure Requirement S1-20 on differences in the provision of benefits to employees with different employment contract types
 - We note that differences in benefits would need to be reported for employees with temporary, part-time and/or non-guaranteed hour contracts [96].
 - In our view **the scope of non-guaranteed hour contracts should be expanded to include independent contracts.**

ESRS S2 – Workers in the value chain

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

- *how the undertaking affects workers in its value chain through its own operations and its upstream and downstream value chain (including its products and services, its business relationships and its supply chain), in terms of material positive and negative actual or potential adverse impacts;*

- any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts;
- the nature, type and extent of the undertaking's material risks and opportunities related to its impacts and dependencies on workers in the value chain, and how the undertaking manages them; and
- the effects of risks and opportunities, related to the undertaking's impacts and dependencies on workers in the value chain, on the undertaking's development, performance and position over the short-, medium- and long-term and therefore on its ability to create enterprise value.

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

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

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

This [draft] standard covers all workers in the undertaking's upstream and downstream value chain who are or can be materially impacted. This also includes all non-employee workers whose work and/or workplace is controlled by the undertaking but are not included in the scope of "own workforce" ("own workforce" includes: employees, individual contractors, i.e., self-employed workers, and workers provided by third party undertakings primarily engaged in 'employment activities'). Own workforce is covered in ESRS S1 Own workforce.

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

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

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

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

Suggested disclosures under ED ESRS S2 would cover sustainability topics included within Articles 19a, 29a and 29b of the [provisionally agreed CSRD text](#).

The PRI is broadly supportive of the suggested disclosures. Our recommendations to improve the quality of reported information on these topics are set out below:

- Disclosure Requirement S2-1 on policies related to value chain workers
 - We recognise the ED ESRS 1 provision that undertakings would need to consider in the materiality assessment the impacts that are directly caused or contributed to by the undertaking in its own operations, products or services, and impacts otherwise 'directly linked' to the upstream and downstream value chain and not limited to contractual relationships [49]. In our view **this guidance is worth reiterating and adapting to ED ESRS S2 on value chain workers**, in order to ensure that all undertakings are considering the right set of workers and relationships in their reporting.
 - In addition, there is a lack of clarity around the scope of value chain workers. In our view **this should be clarified to ensure that workers covered by all contract types are adequately included in the scope of reporting**.
- Disclosure Requirement S2-4 on targets related to managing material negative impacts, advancing positive impacts and managing material risks and opportunities
 - We note that under paragraph AG48 undertakings would disclose whether and the extent to which targets are defined in terms of the intended outcomes to be achieved for value chain workers. However, according to international standards – UNGPs and OECD Guidelines – the responsibility (or overall target) for companies is to respect the human rights of people that may have already been or may be affected in the future by their activities – including value chain workers. As such, if the target-setting terminology is to be used in this context, **it should be clarified that in the case of targets focusing on impacts undertakings should report on outcome-oriented targets, and on how target-setting contributes to outcomes and to the overall responsibility to respect the rights of stakeholders**.
 - Additionally, the risk and impact profile of any company when it comes to their relationship with communities will be dynamic – both due to internal and external factors – and hence any target-setting approach should be agile to be able to pivot to the most severe risks and impacts in a given situation. As such, **undertakings should be required to report on any changes to targets during the reporting period and the rationale for these**.

ESRS S3 – Affected communities

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

- *how the undertaking affects its local communities through its own operations and its upstream and downstream value chain (including its products and services, its business relationships and its supply chain), in terms of material positive and negative actual or potential adverse impacts;*
- *any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts;*

- the nature, type and extent of the undertaking's material risks and opportunities related to the undertaking's impacts and dependencies on affected communities, and how the undertaking manages them; and
- the effects of risks and opportunities, related to their impacts and dependencies on local communities, on the undertaking's development, performance and position over the short-, medium- and long-term and therefore on its ability to create enterprise value.

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

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

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

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

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

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

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

Suggested disclosures under ED ERS S3 would cover sustainability topics included within Articles 19a, 29a and 29b of the [provisionally agreed CSRD text](#).

The PRI is broadly supportive of the suggested disclosures. Our recommendations to improve the quality of reported information on these topics are set out below:

- Disclosure Requirement S3-1 on policies related to affected communities
 - Under paragraph 14 undertakings would report on human rights policy commitments relevant to affected communities to monitor compliance with the UN Global Compact principles and OECD Guidelines for Multinational Enterprises.
 - We recommend that **companies should also report on policy commitments to monitor compliance with the UN Guiding Principles on Business and Human Rights (UNGPs)**. The UNGPs are the global authoritative standard on how companies manage impacts to people (including communities) and hence should be given special mention here. This would also align with other EU policies and legislation (for example the minimum safeguards within the EU Taxonomy Regulation).
- Disclosure Requirement S3-2 on processes for engaging with affected communities about impacts
 - Under paragraph 19 undertakings would be required to explain whether and how the perspectives of affected communities inform their decisions or activities.
 - **This text could be strengthened to reflect undertakings' degree of alignment with the UN Declaration on the Rights of Indigenous Peoples and the UN guidance on free, prior, and informed consent.**
 - In our view this would be mainly around: (i) the right to object, which includes not using confidentiality clauses when engaging or when reaching agreement with local communities; and (ii) oversight and review of agreements, which should ensure that all agreements are recorded including the terms and the scope of the agreement – in case the scope or terms of the agreement change, the agreement should be considered null and the communities should be engaged again to achieve a new formalised agreement.
- Disclosure Requirement S3-4 on targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities
 - We note that under paragraph AG43 undertakings would disclose whether and the extent to which targets are defined in terms of the intended outcomes to be achieved for communities. However, according to international standards – UNGPs and OECD Guidelines – the responsibility (or overall target) for companies is to respect the human rights of people that may have already been or may be affected in the future by their activities – including affected communities. As such, if the target-setting terminology is to be used in this context, **it should be clarified that in the case of targets focusing on impacts undertakings should report on outcome-oriented targets, and on how target-setting contributes to outcomes and to the overall responsibility to respect the rights of stakeholders.**
 - Additionally, the risk and impact profile of any company when it comes to their relationship with communities will be dynamic – both due to internal and external factors – and hence any target-setting approach should be agile to be able to pivot to the most severe risks and impacts in a given situation. As such, **undertakings should be required to report on any changes to targets during the reporting period and the rationale for these.**
- Disclosure Requirement S3-5 on taking action on material impacts on affected communities and the effectiveness of those actions
 - This Disclosure Requirement, and in particular paragraph 34, articulates community impacts mainly in relation to physical proximity – for example through land acquisition, construction and operations. We agree that these types of community relationships carry significant potential for risks and should be highlighted.

- However, it would also be useful to recognise the increased importance of digital relationships, where technology companies can have negative impacts on communities through their products and services even if they are not their direct customers or users. For example, the presence of discriminatory or hateful content against a specific ethnic or religious group on a social media or traditional media platform. A wider framing of community relationships would enable better reporting on impacts across sectors.
- Therefore, when describing approaches to taking action in relation to specific material negative impacts on communities [34(b)] and ensuring the availability and effectiveness of remediation [34(c)], **ED ESRS S3 should explicitly require undertakings to disclose this information about material impacts on communities via products and services, extending beyond direct customers or users.**

ESRS S4 – Consumers and end-users

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

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

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

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

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

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

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

H. Reaches a reasonable cost / benefit balance					X	
I. Is sufficiently consistent with relevant EU policies and other EU legislation			X			
J. Is as aligned as possible to international sustainability standards given the CSRD requirements			X			

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

Suggested disclosures under ED ESRS S4 would cover sustainability topics included within Articles 19a, 29a and 29b of the [provisionally agreed CSRD text](#).

The PRI is broadly supportive of the suggested disclosures. Our recommendations to improve the quality of reported information on these topics are set out below:

- Disclosure Requirement S4-1 on policies related to consumers and end-users
 - Under paragraph 13 undertakings would be report on human rights policy commitments relevant to consumers / end-users to monitor compliance with the UN Global Compact principles and OECD Guidelines for Multinational Enterprises.
 - We advise that **companies should also report on policy commitments to monitor compliance with the UN Guiding Principles on Business and Human Rights (UNGPs)**, as set out in our response to Question 47 within this section.
- Disclosure Requirement S4-4 on targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities
 - We note that under paragraph AG41 undertakings would disclose whether and the extent to which targets are defined in terms of the intended outcomes to be achieved for consumers and end-users. However, according to international standards – UNGPs and OECD Guidelines – the responsibility (or overall target) for companies is to respect the human rights of people that may have already been or may be affected in the future by their activities – including consumers and end-users. As such, if the target-setting terminology is to be used in this context, **it should be clarified that in the case of targets focusing on impacts undertakings should report on outcome-oriented targets, and on how target-setting contributes to outcomes and to the overall responsibility to respect the rights of stakeholders**.
 - Additionally, the risk and impact profile of any company when it comes to their relationship with consumers and end-users will be dynamic – both due to internal and external factors – and hence any target-setting approach should be agile to be able to pivot to the most severe risks and impacts in a given situation. As such, **undertakings**

should be required to report on any changes to targets during the reporting period and the rationale for these.

- Consumers and end-users related specific application guidance on ED ESRS 2 Disclosure Requirements IRO 2 and 3 on the outcome of the assessment of material sustainability impacts, risks and opportunities
 - Under this ED, undertakings would be required to provide a brief description of the types of consumers and end-users subject to material impacts by their operations through the value chain, in accordance with the list of types of consumers and end-users provided in the standard [AG9(a)].
 - In our view **additional categories should be represented in this list to better reflect material sustainability impacts of undertakings**, including: (i) unintended harmful application of products – e.g. a pharmaceutical company that eventually finds out their products are being (mis)-applied in a system of capital punishment; and (ii) harmful consequences due to non-access by certain population groups – e.g. for sectors such as health care (including pharmaceutical companies), housing, water utility and transport.

ESRS G2 – Business conduct

The objective of this [draft] standard is to specify disclosure requirements for the undertaking to provide information about its strategy and approach, processes and procedures as well as its performance in respect of business conduct.

This [draft] standard derives from the [Draft Corporate Sustainability Reporting Directive] stating that the sustainability reporting standards shall specify information to disclose about business ethics and corporate culture, including anti-corruption and anti-bribery.

In general, business conduct covers a wide range of behaviours that support transparent and sustainable business practices to the benefit of all stakeholders. This [draft] standard focusses on a limited number of practices as follows:

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

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

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

Note that our response below specifically addresses DR G2-9 on political engagement and lobbying activities.

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

A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)				X		
B. Supports the production of relevant information about the sustainability matter covered			X			
C. Fosters comparability across sectors				X		
D. Covers information necessary for a faithful representation from an impact perspective			X			
E. Covers information necessary for a faithful representation from a financial perspective			X			
F. Prescribes information that can be verified / assured					X	
G. Meets the other objectives of the CSRD in term of quality of information			X			
H. Reaches a reasonable cost / benefit balance					X	

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

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

The PRI welcomes the inclusion of the disclosure requirements of political engagement and lobbying activities.

PRI's report on the investor case for political engagement⁵ highlights that corporate lobbying and other means of political engagement can be legitimate and facilitate informed public policy debates. However, when they are not carried out in a responsible, fair, and transparent manner, they can result in policy capture or distort democratic processes. Such political engagement activities can also impede progress on sustainability challenges like climate change⁶ and contribute to systemic risk for investors.

Enhanced corporate disclosure can enable investors to assess company positions on key sustainability issues, corporate channels used to influence policymaking and raise their collective voice when corporate actions are not in line with their stakeholders' long-term interests and sustainability ambitions.

Investors are seeking to understand from companies how, and the extent to which, political engagement and political contributions are overseen by boards of directors.⁷ Additionally, the International Corporate Governance Network recommend that companies should assign the ultimate accountability to the board for approving the company's policies for political activity and for overseeing the implementation of these policies.⁸

To this end, the PRI welcomes the disclosure requirement on oversight of political engagement and lobbying activities in paragraph **48(a)**⁹. However, signatory feedback has indicated a need for

⁵ Principles for Responsible Investment (2022), The investor case for responsible political engagement (2022), available at <https://www.unpri.org/download?ac=15716>.

⁶ Principles for Responsible Investment (2018), Converging on Climate Lobbying: Aligning Corporate Practice with Investor Expectations, available at https://www.unpri.org/Uploads/g/v/q/PRI_Converging_on_climate_lobbying.pdf.

⁷ Principles for Responsible Investment (2018), Converging on Climate Lobbying: Aligning Corporate Practice with Investor Expectations, available at https://www.unpri.org/Uploads/g/v/q/PRI_Converging_on_climate_lobbying.pdf.

⁸ International Corporate Governance Network (2017), Political Lobbying and Donations, available at <https://www.icgn.org/sites/default/files/2021-06/ICGN%20Political%20Lobbying%20%26%20Donations%202017.pdf>

⁹ The disclosure required by paragraph 46 shall include: (a) the representative(s) responsible in the administrative, management and supervisory bodies for the oversight of these activities; and (b) on financial or in-kind contributions: i. the total monetary value of financial and in-kind political contributions made directly and indirectly by the undertaking aggregated by country and/or type of recipient/beneficiary; ii. where appropriate, how the monetary value of in-kind contributions was estimated; iii. the total monetary

increased transparency on how entities ensure alignment between these activities and sustainability-related strategic decisions and policies. We believe this requirement should be strengthened by **requiring undertakings to report specifically on:**

- board oversight of political engagement and lobbying activities;
- the governance processes in place to monitor and identify inconsistencies between companies' policies and practices, and the political engagement activity of trade associations the undertaking is a member of.

The PRI also welcomes the disclosure requirement on paragraph 49, under which undertakings would report the main topics covered by political engagement, lobbying or advocacy, as well as its main positions on these topics, where these activities are deemed material per ED ESRS 2¹⁰.

However, we recommend that ED ESRS G2 **should contain more robust application guidance on how to undertake the materiality assessment for political engagement, lobbying, or advocacy activities** (e.g., considering the individuals/organisations targeted; the importance of the topics in public policy) to support companies and investors' understanding and application of the disclosure requirement.

Further guidance is crucial to improve transparency and prevent the undertaking from using the materiality argument to not disclose information on their political engagement activities relevant to the different users of the reporting. If the undertaking does not conduct any significant political engagement and lobbying activities, then a corresponding statement explaining this should suffice.

ADDITIONAL RECOMMENDATIONS

Third parties, particularly trade associations, can play a critical role in public policy debates by engaging policy makers on a range of business-relevant issues, and, in turn, encouraging a more supportive regulatory environment for corporate profitability. Companies often benefit from belonging to associations because they offer a cost-effective way to pool resources and engage on issues of importance to the industry.¹¹ However, in the context of political engagement, investor concern arises when such associations act for short-term gain at the cost of long-term risk to shareholder value and when these associations pursue political engagement which is not consistent with the member companies own policy positions.

If companies and investors do not monitor the political engagement activity of their associations, there is a risk that inconsistent lobbying leads to divergence from international standards such as the Paris Agreement. In fact, InfluenceMap's research¹² finds that some powerful industry groups have pushed back on key parts of the European Commission's "Fit for 55" package policy. Such instances present a strong case for companies to review their memberships regularly and address any misalignments on positions related to climate goals or other sustainability topics.¹³

amount of financial and in-kind lobbying or advocacy expenses (both internal and external); and iv. the total amount paid for membership to professional or advocacy associations.

¹⁰ Where political engagement, lobbying or advocacy are determined to be material per ESRS 2 General, Strategy, Governance and Materiality Assessment Disclosure Requirements, the undertaking shall provide the following additional information about its activities: (a) the main topics covered by such activities; and (b) its main positions on these topics.

¹¹ Principles for Responsible Investment (2018), Converging on Climate Lobbying: Aligning Corporate Practice with Investor Expectations, available at https://www.unpri.org/Uploads/g/v/q/PRI_Converging_on_climate_lobbying.pdf.

¹² InfluenceMap (2021), Industry Associations and European Climate Ambition, available at <https://influencemap.org/report/Trade-Associations-and-their-Climate-Policy-Footprint-067f4e745c9920eb3d5aa5b637511634>.

¹³ Principles for Responsible Investment (2022), The investor case for responsible political engagement (2022), available at <https://www.unpri.org/download?ac=15716>.

Therefore, the PRI recommends that undertakings should be required to:

- publish a list of memberships of industry associations and other third-party groups involved in policy-related advocacy;
- describe the methodology for compiling this list;
- disclose (i) the (mis)alignment (or absence of) between the undertaking's key policy positions and activities and the positions and activities of industry associations the undertaking is a member of; and (ii) whether and how potential misalignments are addressed; and
- publish leadership positions (e.g., positions on the board or key committees) held by staff members in industry associations and other third-party groups involved in policy-related advocacy.