

For
EFRAG Sustainability Reporting Board
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DK NFM comments on the ESRS revised and simplified Exposure Drafts

The Danish National Funding Mechanism for EFRAG (DK NFM) welcomes the opportunity to comment on the draft ESRS. DK NFM recognizes and supports the efforts of EFRAG in simplifying the ESRS and we welcome the new structure, the streamlined standards and the reduction of datapoints.

While we support the reduction in overall length of the standards of over 55%, and the total reduction of disclosures by 68%, we need to stress that there is no 1:1 correlation between these numbers and the actual burden reductions for reporting entities. Based on discussions with several of the largest Danish entities, their analysis and initial assessment of applying the amended standards, it is our conclusion that the draft standards will only result in very limited administrative burden reductions for the reporting entities – and likely only around 5-10 pct.

The reduction in data points, must materialize in actual burden reductions. To ensure this, we propose the following main changes:

- overall, the standards must ensure a reporting focused on the ***principal (most severe) impacts and the most significant risks and opportunities***. To achieve this, a revised materiality threshold must be adopted, requiring disclosures only on impacts with significant effects and of risks and opportunities of strategic importance to the business model of the preparer. In addition, the report should only include disclosures that are indispensable for the understanding of the entity's IROs and clearly necessary for users' decision-making.
- clear criteria for the ***needs of primary user groups*** for decision-making and understanding shall be elaborated in order to determine whether those needs can be considered met. This includes limiting users of general-purpose sustainability statements to those having, or potentially having, a financial or social engagement with the undertaking, i.e. to primary user groups.
- the ***user group for impact materiality*** remains overly broad, which may lead to extensive and unfocused sustainability reporting not aligned with the revised materiality threshold proposed above. Although we understand that a broader range of stakeholders might use sustainability statements, it is essential to narrow down this user group to streamline the reporting.
- the description and definition of ***fair presentation*** need to be amended to define a fair presentation of the sustainability report in its entirety for the topics covered by the CSRD, rather than a focus on a fair presentation of each individual IRO and its related disclosure requirements. This would require changes to ESRS 1, paragraph 16 and 18, and consequential changes to the definition of faithful representation in Appendix B. It must be made absolutely clear that fair presentation is used as an overall assessment to see if additional information is

needed and to more easily leave out information which is not found material and/or not reliable by the reporting undertaking in the assessment of materiality of information as defined in ESRS 1, section 3.1. We do not find this sufficiently clear in the current description and therefore recommend that EFRAG state this more clearly in the standards.

- additional principles for **entity-specific information** must be incorporated with reference to a revised materiality threshold, clear criteria for primary user group's information needs, a narrowing down of the user groups in scope, and the fair presentation framework for the entire report, cf. above, which in combination should result in very limited entity-specific disclosures being necessary in most cases. Reporting according to the standards should, generally, provide a complete set of decision-useful information for the primary user groups, while additional entity-specific information would usually only be relevant when the reporting entity needs to provide information on specific sub-topics beyond the requirements in the AR. To avoid – indirectly – expanding the reporting requirements beyond the content of the standards all references to other standards, except for the GHG protocol, should be removed from the standards and considered incorporated either as part of the Basis for Conclusion or as examples in the Non-Binding Illustrative Guidance.
- the description of **gross/net** should be amended, making it clear that the outset of the materiality assessment of *actual* impacts should always be based on the business as established and as it is operating throughout its normal operating businesses (e.g. including environmental approvals/rights to produce, H&S measures and other procedures and controls in place). Similarly, assessment of *potential* impacts, risks and opportunities should take preventive and remediating actions into consideration when such are established and the entity has the ability and intention to activate those if/when relevant. Where mitigation has successfully taken place there is no real risk and thus nothing to report on. Against this backdrop, we suggest deleting the proposed detailed rules about when mitigation activities can and cannot be taken into account. The preparers should be able to use the most meaningful and relevant assessment methodology provided it is explained in the sustainability reporting. In this regard, we note that ISSB as well leaves it to the preparers' judgment as to whether and how to consider risk mitigation activities.

The Danish business community is deeply concerned about the requirement to disclose **anticipated financial effects**. Such information is highly dependent on estimates and a large variety of possible developments and outcome, which cannot be reliably projected and for this reason subject to significant uncertainty. Anticipated financial effects would therefore not provide reliable insights for investors or other users, due to their potential variability. Disclosing premature information on matters that are not yet actively incorporated in the entity's financial planning may involve a measurement uncertainty and thus lead to unprecise or even unreliable information that may not only mislead stakeholders but also expose companies to reputational and legal risks associated with misinterpretation. Furthermore, the Market Abuse Regulation (MAR) would require that the issuer continuously and upon any change to the disclosed financial effects communicates these to the market, leading to excessive and disproportionate burdens. We appeal for **a thorough investigation and debate** about what the requirement on anticipated financial effects in reality entails, involving not only the Commission but also ESMA, EBA and other relevant bodies. If the requirement to disclose anticipated financial effects remains, then Option 2 (qualitative information) is highly recommended.

As mentioned earlier, we still see a need to delimit **value chain reporting for financial institutions** as well as resolving the issues for **Investment Holding Companies**. If no

solution is provided at level 1, there is as a minimum a need for a general provision in ESRS 1 that allows financial institutions to adapt their sustainability reporting, including value chain reporting, to the specificities of financial institutions and that the issues around business model is addressed for the Investment Holding Companies to ensure that the qualitative criteria of relevance and reliability are satisfied for these types of entities.

As a final remark, we understand and appreciate, in principle, that EFRAG is providing additional detailed rules, where uncertainty has prevailed, but we encourage EFRAG to consider adopting a more ***principle-based approach***. If solid principles are established, for example regarding materiality and fair presentation, the need for detailed rules will be reduced. Detailed rules cannot be established to cover all situations anyway.

The standards must promote and encourage a more focused, relevant and value creating sustainability reporting. Having said this, we overall believe that with our proposed changes, the basis for achieving this can be improved – all in line with maintaining transparency in support of the European Green Deal.

Kind regards,
The Danish Funding Mechanism

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