

Comment Letter on the Draft Revisions to the European Sustainability Reporting Standards (ESRS)

Dear EFRAG Team, Dear Commissioner Albuquerque,

The Finance Executives Association (FEA), a network of large Dutch listed companies, appreciates the opportunity to comment on the draft revisions to the European Sustainability Reporting Standards (ESRS). We recognise the thoughtful effort behind these changes, which reflect EFRAG's continued responsiveness to preparers' concerns and its commitment to building a reporting framework that is both robust and practicable. The consultative and transparent process followed reinforces Europe's ambition to align corporate reporting with the objectives of the EU Green Deal.

Simplification while providing decision-useful information

We welcome the revisions aimed at improving the structure, clarity, readability, and usability of the standards. Clearer articulation of the interaction between cross-cutting and topical standards, and enhanced focus on materiality represent a constructive evolution. These revisions promote disclosures that are more relevant and easier to apply, while still supporting transparency and accountability – thereby still providing decision-useful information.

The shift away from a checklist-style framework towards one based on professional judgment and fair presentation is, in our view, a positive development. This approach enables preparers to concentrate on what is genuinely material to stakeholders, rather than expending resources on exhaustive compliance.

Although 57% of data points have reportedly been removed, we note that these were primarily in voluntary or supplementary areas. We therefore do not view this as a reduction in completeness, but rather as a gain in flexibility in structure and presentation. The volume of disclosures may not decrease significantly, as the amendments do not reduce reporting efforts related to metrics and, in some cases, even increase them due to expanded scope. However, the revised standards allow more flexibility to communicate strategy, impact, and direction, rather than relying solely on standard templates.

In this letter, preparers request clarification and guidance on several areas. In response, we believe the priority should be to improve clarity within the standards themselves and limit reliance on external materials. Where guidance is provided, it should be clearly identified as non-binding to avoid misinterpretation. Areas that attract frequent requests for clarification should inform future revisions of the ESRS.

Further improvements are possible

1. Double Materiality

The refinement of the Double Materiality Assessment (DMA) is welcomed. The simplification of its presentation, the introduction of the fair presentation principle, and the flexibility to use top-down or bottom-up approaches support more focused and context-relevant reporting. The consolidation of materiality definitions is also helpful.

Nonetheless, several issues remain. The absence of clearly defined thresholds for materiality could lead to inconsistent interpretations and unnecessarily broad disclosures. While the availability of different assessment approaches is useful, inconsistent application may result.

The requirement for annual reassessment and the application of the materiality filter also raises practical questions. If only information linked to impacts, risks, or opportunities (IROs) qualifies for disclosure, large parts of the dataset risk being filtered out.

The framework does not clearly distinguish when to assess impacts on a gross basis (before actions) versus net (after actions), raising the risk of inconsistent interpretations. Current guidance, including Appendix C, is considered complex and would benefit from simplification - possibly through visual aids such as flowcharts. More precision is also needed in how to evaluate severity, including the scale, scope, and irreversibility of impacts.

Clarity is also needed on the treatment of impacts that emerged during the reporting period and how to apply the concepts of severity and likelihood in tandem. Finally, we recommend stricter use of terminology, particularly to distinguish clearly between risks and actual impacts.

We encourage further alignment with IFRS on financial materiality. Preparers would also benefit from clarification on how to assess mitigation and prevention activities, particularly where impacts fall below the materiality threshold.

In summary, while the revisions mark progress, clearer definitions and boundaries are required to ensure consistent, meaningful, and comparable reporting.

2. Burden reliefs

Preparers support the introduction of relief mechanisms, particularly those addressing data quality, scope limitations, and recent acquisitions. These changes are a step toward making the standards more feasible to implement without compromising their underlying objectives.

However, the criteria for invoking the “undue cost or effort” exemption remain vague, creating potential for overuse and challenges during assurance. In practice, the overall reporting burden remains high: few metrics have been removed, some disclosure requirements were moved from “may” to “shall”, and some new ones added, which - contrary to the objective - increases complexity. Many of the reliefs are procedural or temporary rather than structural, and the documentation required to justify their use may create additional audit challenges.

Clearer expectations and greater guidance are also required on scope exclusions, how to account for joint ventures, and the integration of acquired entities.

We also note the need for clearer explanation on how to disclose the financial effects of sustainability risks, and how to reconcile this with the fair presentation principle. More flexibility around timelines and data quality reliefs would be helpful in ensuring that the standards remain both usable and feasible.

Preparers suggest other efficient means of reporting burden reduction. For example, through use of centralised data. Calculating “adequate wage” individually leads to patchy results; a standardised country dataset would save time, cut costs, and improve comparability. The same applies to inputs like emission factors.

Overall, the relief measures are welcome, but further refinements are needed to clarify their scope, simplify application, and align them more closely with existing standards.

3. Global alignment and interoperability

Preparers strongly support closer alignment between EFRAG and the ISSB, as improved interoperability promotes comparability, reduces duplication, and facilitates implementation. However, material differences remain.

Key issues include the treatment of GHG emissions boundaries. While EFRAG defaults to the financial control model, many companies currently follow the operational control model under the GHG Protocol (as permitted by IFRS S2). Requiring both boundaries could lead to confusion and duplicative reporting. The use of subjective triggers, such as “complex ownership structures,” introduce auditability concerns. A single harmonised emissions boundary across ESRS and IFRS SDS would help ensure consistency.

Regarding acquisition reporting, we believe the IFRS requirement that sustainability-related disclosures cover the same reporting entity as the financial statements is impractical. In many cases, the acquired company may lack ESG data systems. EFRAG’s more pragmatic approach is preferable here, and we support deviation from IFRS on this point.

Further, the ESRS should be consistent with other relevant European regulatory standards to promote coherence and efficiency across reporting requirements. It should also align in approach and terminology with other authoritative frameworks, including those that are industry specific.

Although alignment with global standards remains a key goal, true interoperability will require further simplification, clearer guidance, and fewer jurisdiction-specific requirements.

4. Fair Presentation

The incorporation of the fair presentation principle is a welcome development. It supports a more flexible and meaningful approach to sustainability reporting, better aligned with the principles underpinning IFRS S1 and S2. It also enables more proportionate disclosures, avoiding unnecessary cost and effort where appropriate.

However, the concept needs clearer boundaries. Its application in areas such as ESRS 2, where materiality is not clearly defined, risks undermining consistency and comparability. In the absence of minimum requirements - especially for high-priority metrics such as GHG emissions - there is potential for under-reporting.

Preparers also point to a lack of clarity on how to balance the information needs of financial and non-financial stakeholders.

We recommend aligning fair presentation definition with the ‘true and fair view’ principle used in financial reporting under IFRS, and defining a clear baseline for fair presentation tied to a company’s business model. An operational and principle-based definition of fair presentation would reduce subjectivity and facilitate audit and supervisory oversight. We encourage EFRAG or the European Commission to provide structured guidance in this area.

5. Forward-looking financial disclosures

FEA members aim for maximum interoperability between the ESRS and the IFRS SDS standards. On the topic of Anticipated Financial Effects (AFE) there is concern over the absence of a standard and tested way to calculate these AFE. This could result in very diverging results for companies in the same industry. Therefore, we suggest starting with qualitative disclosures and

advance to quantified disclosures the moment a methodology has been road tested and has undergone a sound due process.

Mandating figures at this stage may reduce the usefulness of reports rather than enhance it.

Closing Remarks

We appreciate the opportunity to contribute to this important consultation and have provided detailed feedback to Parts 2 and 3 separately. Please note that this letter and our detailed responses reflect the current views of the FEA members and that we look forward to continuing to share our experience as practitioners with all our stakeholders.

Should further discussion be helpful, we remain available to clarify or elaborate on any of the points raised.

Yours sincerely,
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Chairman FEA

FEA signatories

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