



KPMG EMA DPP Limited  
15 Canada Square  
London E14 5GL  
United Kingdom

EFRAG  
35 Square de Meeûs  
1000 Brussels (fifth floor)  
Belgium

2 February 2024

Dear Mr de Cambourg

### **Draft EFRAG ESRS Implementation Guidance**

We appreciate the opportunity to comment on EFRAG's first three draft ESRS Implementation Guidance documents, namely *Draft EFRAG IG 1: Materiality assessment implementation guidance*, *Draft EFRAG IG 2: Value chain implementation guidance* and *Draft EFRAG IG 3: Detailed ESRS datapoints implementation guidance*. We have consulted with, and this letter represents the views of, the KPMG network.

We welcome EFRAG's efforts to develop guidance on materiality and value chain as interpretations of these areas will be critical in supporting consistency and comparability in reporting. The guidance will also be critical in determining whether ESRS deliver the interoperability and cost-benefit balance expected from the CSRD that was reflected in the changes made to promote interoperability in the final Delegated Acts.

### ***Materiality guidance: Further work needed on clarity, comparability and interoperability***

We welcome the progress made to date on the materiality guidance, however, there are areas where further development is needed to enable companies to interpret and apply the standards consistently:

- *In relation to financial materiality:* There remain a few key areas (which we have highlighted in the detailed comments attached to this letter and/or shared in the survey) where interpretations of financial materiality could differ between ESRS and the ISSB Standards, threatening interoperability. To support the amendments that were made to the final Delegated Acts, we suggest that the areas of potential differences in interpretation are addressed in the implementation guidance in order to achieve CSRD's interoperability objectives.

- *In relation to impact materiality:* Further guidance is needed to address potential expectation gaps and differences of opinion over how impact materiality judgements should be made – e.g. should risks be identified on a gross basis. We have highlighted these areas in further detail in the appendix.

Addressing these concerns could help improve reporting consistency and support the delivery of high-quality assurance services.

***Value Chain guidance: Further refinements are needed***

The value chain guidance has been developed in a useful direction. However, there are areas where further refinement is needed. Based on the detailed comments we have identified, most attention is needed in the following areas:

- Operational control – e.g. some of the guidance appears to only relate to environmental matters;
- Treatment of joint ventures and associates; and
- The basis for assessing the ‘reasonable effort threshold’ and its link to the materiality guidance.

***List of datapoints: Need to reflect the ESRS requirements more accurately***

We appreciate the work done to provide a complete list of ESRS datapoints contained in the sector-agnostic standards. We have provided detailed comments in the appendix below where further clarification or enhancement is needed.

Our detailed comments on the draft guidance are attached to this letter and/or shared in the survey.

Please do not hesitate to contact Christian Zeitler ([czeitler@kpmg.de](mailto:czeitler@kpmg.de)) or Ramon Jubels ([jubels.ramon@kpmg.nl](mailto:jubels.ramon@kpmg.nl)) if you wish to discuss any of the issues raised in this letter.

Yours sincerely



Christian Zeitler

KPMG EMA DPP Limited

## Appendix – Detailed comments on the Draft EFRAG ESRS Implementation Guidance

### Draft EFRAG IG 1: Materiality assessment implementation guidance

#### *Align the guidance on financial materiality with IFRS S1*

Interoperability with IFRS Sustainability Disclosure Standards is critically important to both users and preparers. We are therefore pleased to see that EFRAG intends financial materiality under ESRS to be aligned with IFRS S1.

To reflect alignment between financial materiality requirements in the ESRS and ISSB Standards, we concur that EFRAG's Implementation Guidance should be aligned, to the greatest extent possible, with the IFRS S1 Application Guidance on materiality. Differences in application guidance between the two sets of standards can result in different interpretations which would undermine interoperability and comparability in practice.

We highlight four key aspects of financial materiality judgements where we think that enhancements to the Draft Implementation Guidance are critical to support consistent implementation of ESRS and enable full interoperability in practice. Without these enhancements, as illustrated below, it might be expected that a significantly greater volume of information would need to be reported as being 'financially material' under ESRS:

1. *How should financial materiality judgements take account of users' information needs:*

To provide an objective basis for making materiality assessments, IFRS S1.B3-B17 explains the user decisions and assessments that material information should support under the ISSB Standards. Because investors may have diverse information needs, this guidance is helpful in establishing a core set of needs on which companies should focus their materiality judgements. We suggest EFRAG includes similar guidance as the question of how primary user needs should be considered is not elaborated in ESRS 1 or the Draft Implementation Guidance.

2. *Whether financial materiality judgements should meet primary users' common information needs or whether they should meet all primary users' information needs:*

The volume of information needed to meet all primary users' information needs will generally be significantly greater than that required to address primary users'

common information needs. IFRS S1.B18 explains that individual primary users' needs do not need to be met under the ISSB Standards. For example, this means that companies can focus materiality judgements on the needs of long term, value-based investors rather than providing a wider set of information to support specialist investor analysis. We suggest that EFRAG incorporates a similar explanation in its Implementation Guidance.

3. *Whether financial materiality judgements should take account of the timing of financial effects:*

Under IFRS S1, financial materiality judgements take account of the effect of information on primary users' assessments of the amount, timing, and uncertainty of future net cash flows to the entity. The 'deep dive on financial materiality' in the Draft Implementation Guidance refers to the consideration of 'likelihood' and 'magnitude of financial effect' but does not explain whether the timing of the effect should be considered beyond explaining that all time horizons are to be considered. Without guidance on this, stakeholders might conceivably think companies are not permitted to take account of discounting when making financial materiality judgements, potentially significantly increasing the volume of information considered financially material under ESRS. We suggest that EFRAG clarifies this matter in its Implementation Guidance.

4. *Whether companies have discretion when setting criteria and thresholds for assessing financial materiality:*

The 'deep dive on financial materiality' in the Draft Implementation Guidance discusses how companies might set criteria and thresholds for assessing financial materiality. In addition, ESRS 1.AR15 refers to 'likely to materialise' and the 'less likely than not' thresholds. There is a risk that the thresholds described in ESRS 1 might be interpreted to override the user-focused definition of financial materiality in the standard. We suggest clarification would be helpful over whether the criteria and thresholds set by a company are consistent with the ESRS definition, and hence also with the requirements in IFRS S1 which are also user focused.

***Impact materiality guidance needs further work to support consistent application***

We would expect impact materiality judgements to involve balancing the information needs of different stakeholders and groups of stakeholders. The ESRS 1 permission to use thresholds would seem to support this by allowing entities to use discretion when assessing impact materiality. On the other hand, because the standard does not

explain how different stakeholder needs should be considered, some may expect that all stakeholders needs must be met. This expectation gap is not resolved by the ‘Deep dive on impact materiality’ in section 3.6 or the FAQ 16 on stakeholder prioritisation. We recommend that EFRAG provide clear guidance to address:

- the basis on which key stakeholders or groups of stakeholders should be identified; and
- how to resolve apparent differences or conflicts in stakeholders’ views on what information should be considered.

***Guidance on whether impacts should be considered on a gross basis needs to be clarified and extended to cover risks***

We welcome the explanation that environmental impacts are assessed on a gross basis. It would also be helpful for guidance to explain whether risks and opportunities should be considered on a gross basis using the definition for financial materiality.

Further, it is unclear whether the use of the term ‘general principle’ in IG1.215, when discussing that environmental impacts are considered gross, is intended to imply that there are exceptions to the rule.

We appreciate EFRAG’s intention to clarify whether the guidance is applicable to social matters. We recommend that future guidance is also expanded to include governance matters.

**Draft EFRAG IG 2: Value chain implementation guidance**

The proposed guidance on value chain is helpful in highlighting some important features of ESRS, notably:

- The alignment of the value chain definition with the ISSB and GRI Standards (IG2.21, panel).
- That ESRS do not require information on each and every actor in the value chain (IG2.28), and that relevant impacts in the value chain are those that are connected with the undertaking, which includes when they are either caused by or contributed to, or that are directly linked to the undertaking’s operations, products or services through a business relationship (IG2.71).
- That the ‘LSME Cap’ in Article 29(b)4 of the CSRD is applicable to any disclosure that will require the reporting entity to request information from the SMEs in their value chain if such information goes beyond the disclosures required in the Listed SME Standard (LSME) (IG2.67).

- That determination of the ‘reasonable effort threshold’ for obtaining information involves balancing the reporting burden of obtaining direct data and the potential lower quality of the information resulting from not undertaking that action (IG2.136).

We also welcome EFRAG’s recognition that actors in the value chain may not yet be able to quantify their impacts (IG2.129).

We have identified several areas where clarification or further guidance would be helpful.

### ***Further clarification and guidance is needed for operational control***

The guidance seems to expand the concept of operational control beyond the specific uses in some of the environmental standards. For example, only ESRS E1, E2 and E4 mention operational control, but the guidance appears to relate it to all environmental matters and even some social matters. Clarification is needed on the basis for extending operational control to other environmental and social standards as well (see IG2.45 and IG2.47).

It is unclear how the concept of operational control relates to the definition of ‘employees’ in the glossary. We suggest the guidance explicitly states where in the standards the concept of operational control should be applied and how.

### ***Meaning of ‘reasonable effort’ needs further explanation***

It would be helpful for the basis for judging the ‘reasonable effort threshold’ to be linked more clearly to the materiality guidance to avoid different interpretations of how ‘reasonable effort’ and the benefit of the information to stakeholders should be balanced.

### ***The intent of the guidance for joint ventures and associates needs clarification***

It is unclear how to report information relating to a joint venture or associate. This is because joint ventures and associates may be both investments, and suppliers or customers. This is conflicting with the guidance that indicates companies should treat them either as one or the other. Clarifying this is particularly important for companies in the financial sector.

### **Draft EFRAG IG 3: Detailed ESRS datapoints implementation guidance**

#### ***List of datapoints needs to reflect the ESRS requirements more accurately***

We appreciate the work done to provide a complete list of ESRS datapoints contained in the sector-agnostic standards. We note that further clarification and mapping is needed to ensure consistency with the precise requirements of the standards.

- We have identified instances where the description of the datapoints in the list may not be fully aligned with the ESRS requirements; for example, the description of the datapoint in row E32 of ESRS 2 MDR sheet in the ESRS 2 MDR sheet 'Disclosure of how stakeholders have been involved in target setting' should be aligned with ESRS 2 paragraph 79(e) 'whether and how stakeholders have been involved in target setting for each material sustainability matter'.
- Certain datapoints including voluntary disclosures are missing from the list of ESRS datapoints; for example, six voluntary datapoints are missing (three datapoints for CapEx and three for OpEx) from ESRS E4.AR18.
- Certain voluntary disclosures are not marked as voluntary; for example, the datapoint included in row E42 of ESRS 2 MDR sheet arising from the disclosure requirement of ESRS 2.81(a).

Further detailed comments are shared in the survey.