

EFRAG Sustainability Reporting Board
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Comments regarding the EFRAG IG1-3 implementation guidance documents

The Confederation of Danish Industry (DI) welcome the opportunity to comment on the three implementation guidance documents.

DI supports the efforts of EFRAG to provide implementation guidance and support and recognise the importance of the three first guidance documents. The documents contain valuable guidance and assistance for preparers, auditors and users on selected areas, but DI would like to point out a few areas where clarifications or improvements/modifications would improve the guidance without making substantive changes to the drafts.

General comments

We fully support the disclaimer in the documents calling for preparers to *“exercise their own judgment in applying ESRS”* (disclaimer of draft IG1 and IG2); and *“an undertaking, based on its specific facts and circumstances, shall design a process that is fit for purpose, including consideration of the depth of the assessment”* (IG 1, paragraph 27 and IG2, paragraph 79).

The draft IG’s provide generic and high-level examples where in particular the IG2 seems mostly relevant to a production entity which many entities can relate to but can be difficult for other types of entities to apply. It is our understanding, that the IG’s are only providing overall guidance and examples and that it is not EFRAG’s intention to establish a framework that covers all types of businesses or sectors. However, we believe that by including examples pertaining to e.g., the wholesale/retail industry, consultancy businesses, conglomerates or other sectors the guidance could become even more useful. We elaborate on this below.

Approach and process to determine Business Models, Value Chain and assess materiality

The IG1 and IG2 are closely interdependent on each other as the outlining of the value chain and the identification of the gross list of IRO's leads to a final materiality assessment. In our opinion a process illustration as the one provided in IG1, paragraph 64, is helpful.

To highlight the dependencies, we suggest adding a specific paragraph describing, that each reporting entity should first define its own reporting entity (including operationally controlled entities) and its specific business model and subsequently based on that work it defines its value chain, assess its gross list of sustainability matters and finally conclude on double materiality based on its own circumstances. There will therefore be a large variety in the business models and materially matters identified between different reporting entities.

It is our understanding that IG1 and IG2 assumes that the business model of the reporting entity is defined before initiating the process illustrated in IG1, paragraph 64. If this is correctly understood, we suggest adding this as first step (before Step A) in the illustration and that the process thereby should include the following 5 steps:

- **Step 1:** Define the Business Model of the reporting entity. This step should include consideration of the fact, that the reporting and business model of the group may look different than the business model for subsidiaries (and subsidiary groups) and that it is not a simple addition of all the underlying activities.
- **Step 2:** Definition of Value Chain – including breadth and depth – based on this business model.
- **Step 3:** IRO identification linked to the Business Model based on the Value Chain. i.e., the “Gross list of IRO's”
- **Step 4:** DMA-assessment of the Gross list of IRO's linked to the Business Model leading to the “List of material IROs”
- **Step 5:** Evaluation of whether further iterations of step 2-4 is needed, including whether material IRO's for activities in the group not covered by Business Model needs to be addressed individually and will be material on group level.

The key element in this approach is the linkage to the Business Model leading to potentially different IRO-identifications for different business models, and consequences on the ability to use the exemptions in article 19 (a) (9) and article 29(a) (9).

We believe the approach (step 1-5) highlighted above is aligned with the model in IG1 paragraph 64, but more clearly illustrate the starting point. We also believe the reporting standards and the guidance documents are built on this premise and suggest that the model is expanded to reflect the five steps in the approach described above.

In addition, we suggest improving the definition of the VC provided in IG2, FAQ 1, paragraph 71 – 74, to include guidance on where it may begin and may end based on the undertakings business model, and through that its ability to make impacts and decisions-making.

Examples provides and implication of the Business Model on value chain definitions and materiality assessments for more types of activities

The descriptions and examples provided in IG1 and 2 are mostly based on a production company with a relatively simple and clear value chain. We support using the production company as the base-example across the IG 1 and IG2. We do, however, suggest adding a few short, illustrative descriptions of areas/dilemmas of consideration for other types of business to support the description, for example to support IG2, paragraph 23-27. Such examples could cover:

- A company in the **wholesale/retail sector group** and the difference in consideration between
 - o having a few very large suppliers (typically a wholesaler), where it may not be relevant to look through that supplier due to lack of leverage, and
 - o a very large number of suppliers and/or a large number of SKUs
- A company/group providing **consultancy or advisory services**, and thus the reach of value chain depending on their advice based how these are applied.
- A **Conglomerate** within two (or more) different sectors in order to illustrate how to work with and address more than one value chain.
- An **investment (holding)company** that invests in a number of portfolio entities where it does not participate in the operations of the entities, but only provides financial investment and strategic ownership.

Structure of the documents, interdependencies, and reference between section

We appreciate that the use of FAQ provides an easy reference to the specific areas within the guidance documents. In this regard we would propose to create better coherence between the two parts of the guidance document, by including the key statements provided in the FAQs in the primary part of the document and to make specific reference to the elaborated explanation in the FAQ. Our opinion is that this a minimum, could be done by adding the topics dealt with in the FAQ to the last paragraph of each section, which refers to the additional guidance in the FAQs.

We have noted that the language of the IG's in certain areas is hard to understand. This is in particular the case in the descriptions of financial materiality, among other in IG 1, section 3.3.2, paragraph 87 – 94, and section 5.2., paragraph 154 – 158. We suggest that these sections are reviewed, and the language is carefully considered also having the difference between financial materiality, cf. ESRS 1, section 3.5, paragraph 47-51, and anticipated financial effect related to opportunities, cf. ESRS 1, section 7.8, paragraph 109, in mind to avoid confusion.

The guidance provided in IG1 and IG2 is circular. This is for example the case in IG2, FAQ 1, paragraph 71-74, which answers the question “Where does the VC begin and end?” with a description of how the undertaking identifies and assess material IROs. IG1, section 3.2, step B “Identification of the actual and potential IRO's related to sustainability matters”, paragraph 71, however, describes that the undertaking identifies the material IROs across the value chain. The description in IG1 thereby assumes that the undertaking already knows its VC when it identifies

the IRO, whereas IG2 defines the VC through the identification for IRO. We believe the suggested changes to enhance the guidance on the approach and process to determine Business Models, Value Chain and assess materiality, cf. above, would limit the issues around the circularity and improve understanding the connectivity between the guidance in IG1 and IG2. We do, however, suggest that the documents are reviewed to identify and consider other possible circularities.

Examples illustrating the VC and IROs when more entities within the same group structure reports individually.

We suggest adding an example, that illustrates the impact on the value chain definition, level of materiality and other elements in a group where both the parent entity and a subsidiary submits a (consolidated) sustainability report, i.e., both a full group reporting and a separate subsidiary group reporting is submitted. Our understanding is that the topics/impacts considered material in the subsidiary group reporting is not automatically considered material on full group level, and that the “own operation” on subsidiary group level does not include the parent entity nor sister entities.

In Denmark, we have several entities that are fully owned by EU/non-EU groups and that expects to (continue to) submit a sustainability report themselves. Thus, it is important for them to understand the interrelations in terms of “own activity” vs. value chain as well as the interrelations on IROs and the materiality assessment. In our opinion, this would depend on the understanding of the relationship to the “business model” as highlighted above, as we believe the “business model” is the overall deciding factor for the specific reporting. This reading is supported by the bottom-up approach in IG1 whereby a subsidiary reporting could inform the parent group in their materiality assessment.

Furthermore, more guidance on the extent a subsidiary/parent can make use of for instance each other’s stakeholder engagements etc. would be helpful.

Guidance on divergent business activities in a subsidiary

We find that the guidance on how to report on divergent activities in a subsidiary, including whether and how this affects reporting on metrics, could be improved. We would assume that a metric that is material in a specific subsidiary would not necessarily trigger a general reporting across the group. Rather, this will depend on the materiality analysis performed at group level. When drafting the guidance, it may be helpful to illustrate a conglomerate and/or an entity with a main activity and a small subsidiary with a completely divergent activity.

Translations

We understand that EFRAG will not translate the documents and we agree that translation is not a part of the EFRAGs task. However, we find translations important and very helpful given the broad user group of the reporting standards and their difficulties in understanding technical English legislation and guidance. We encourage EFRAG to push for the EU-Commission (potentially together with national authorities) to translate these essential guidance documents.

Kind regards
Confederation of Danish Industry

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