

EFRAG Sustainability Reporting Board
35 Square de Meeüs
1000 Brussels
Belgium

2 February 2024

TIAG/KKO

DK NFM comments on EFRAG IG1-3 implementation guidance documents

The Danish National Funding Mechanism (DK NFM) welcomes the opportunity to comment on the three implementation guidance documents.

DK NFM 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, although high-level, guidance and assistance for preparers, auditors and users on selected areas.

DK NFM supports the guidance but 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*” (para. 27 of draft MAIG and para. 79 of draft VCIG).

The draft IG’s provide generic and high-level examples where in particular the VCIG 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 a number of examples pertaining to eg. the wholesale/retail industry, consultancy businesses, conglomerates or other sectors the guidance could become even more useful. We elaborate on this in the end of this document.

Further, we find that future and timely elaboration of specific guidance for financial institutions is important and necessary given the fundamental roles financial institutions play in financing the economy and thus the diversity of financial institutions’ loans and investments. Such separate and financial institutions-tailored guidance should be

prepared in close cooperation with the Financial Institutions Advisory Panels which EFRAG is in the process of setting up, and as soon as it is practically possible.

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.

Transitional provisions

We call for a clear expression in the MAIG of whether the transitional provisions in ESRS 1, chapter 10.4 with the list of phased-in Disclosure Requirements in Appendix C of ESRS 1, take precedence over the requirement in ESRS 1, paragraph 11, to provide entity-specific disclosures. Some guidance on how to apply the transitional provisions related to entity-specific disclosures in ESRS 1, chapter 10.4, will be highly appreciated.

In addition, we do not find that the guidance on the transitional requirements in paragraph 57-66 in IG2 provides sufficient clarification on the requirement in ESRS 1, para 133. We believe paragraph 62 should be expanded to explain what information undertakings should provide if they do not have sufficient reliable in-house data for reporting on the full value chain, but nevertheless are expected to report on the *"datapoints derived from other legislation, as listed in ESRS 2, app. B"*. We suggest adding that this is acceptable and the undertaking in this situation shall apply the requirements mentioned in IG2, para 60 – i.e. give explanations on efforts, plans etc.

We furthermore suggest adding an explanation of the fact, that portfolio coverage will be incomplete and gradually increase as more and more counterparts disclose information. Thus, it should be clearly stated that this is in line with expectations.

Structure

We appreciate that the use of FAQs 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.

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 IG1, section 3.3.2, paragraph 87 – 94, and section 5.2., paragraph 154 – 158. We suggest to review these sections, and consider the language carefully, also keeping in mind 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 to avoid confusion.

We note that IG1 and IG2 outline different ways to approach materiality and value chain assessment. It may be helpful to ensure that the examples do not contradict each other

and we suggest that the documents are reviewed to identify and consider such possible contradictions and circularities.

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.

Business Model, VC and MA – Approach and Process

The IG1 and IG2 are closely interdependent as the outlining of the value chain and the identification of the gross list of IRO's shall in conjunction lead to and finalize the materiality assessment of which information is to be presented to users. In our opinion a process illustration as the one provided in IG1, paragraph 64, is helpful.

It is our understanding that IG1 and IG2 set off on the premise that the business model of the reporting entity, where relevant, is usually described before initiating the process illustrated. If this is correctly understood, we suggest adding this as a first step (before Step A) in the illustration.

We furthermore suggest adding a paragraph describing, that a useful approach may be for the reporting entity to 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.

Examples for specific businesses/types of activities

While, as above mentioned, we fully support the disclaimer in the documents calling for preparers to *“exercise their own judgment in applying ESRS”* 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”*, we believe that the descriptions and examples provided in IG2, as these are mostly based on a production company with a relatively simple and clear value chain, may be enhanced by adding a few short, illustrative descriptions of areas/dilemmas of consideration for other types of businesses 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 having a few very large suppliers (typically a wholesaler) and a very large number of suppliers
- A company/group providing **consultancy or advisory services**, and thus the reach of value chain depending on their advice based on 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 (strategic) portfolio entities where it does not participate directly in the operations of the entities, but only provides financial investment and strategic ownership.

We believe that by having such different types of entities in mind when drafting the text and looking at the examples, the documents would provide a better and more useful guidance. Examples covering the different types of financial institutions (credit institutions, insurance companies and capital market companies) shall be incorporated into the separate financial institutions-tailored guidance as mentioned above.

Kind regards,
The Danish Funding Mechanism

Finance Denmark
Martin Thygesen

Insurance & Pension Denmark
Anne Barrett

FSR – Danish Auditors
Lisbeth Frederiksen

Danish Chamber of Commerce
Mikkel Møller Rasmussen

Confederation of Danish Industry
Kristian Koktvedgaard