

EFRAG Sustainability Reporting Board  
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February 2, 2024

## EFRAG Survey on (draft) IG 1 MAIG

FSR – Danish Auditors would like to congratulate EFRAG for the work done to produce a guideline on materiality assessment (MA) for the reporting in accordance with the European Sustainability Reporting Standards (ESRS).

In general, we find the guidance well-structured and largely applicable for the MA-process to be performed to meet the requirements of the ESRS.

Our feedback in the survey concerns mainly the following:

- the application of financial materiality,
- the scope of entity-specific disclosures and the application of those in combination with the transitional provisions and the recently approved delay of the sector-specific disclosures,
- the role of affected stakeholders vs. users in the materiality assessment,
- the principles of consolidating data for metrics in groups with divergent activities, such as conglomerates.

The comments on the above, together with a few other points, has been provided across the chapters of the MAIG. We've found that you may benefit from systematic feedback to each chapter, paragraph, or FAQ rather than by each matter of concern. Still, we encourage you to consider our response to the survey in its entirety to get the full picture of the feedback.

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### Comments on the Summary of the MAIG

No comments.

### Comments on Chapter 1 of the MAIG

No comments.

### Comments on Chapter 2 of the MAIG

**Paragraph 29**, mandatory Disclosure Requirement IRO-1 of each topical ESRS should be added.

We do not fully understand **paragraph 30**. In our view, consistency in the MA-process for internal and external reporting should be required only for the identification and assessment of IRO. In terms of thresholds for the materiality of information, i.e. the level of aggregation and which disclosures on material IRO to be included, we find that in many cases thresholds for external reports being subject to the external users' information needs, will be different than the

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thresholds used for information needs of management and business functions, depending on the sustainability matter and the type of disclosure.

In general, we miss a clear distinction between potential and anticipated financial effects.

**Chapter 2.1** (paragraphs 33-40) does not sufficiently explain how the combination of likelihood of occurrence and the potential magnitude of financial effects shall be considered when it comes to applying the two criteria for financial materiality in ESRS 1, paragraphs 48 and 49. We tend to believe that 'potential' is any event with less than 50% likelihood of occurrence while 'anticipated' is an event expected to occur with more than 50% likelihood. Depending on the magnitude of financial effects from an event, information about both potential and anticipated financial effects can influence the decisions of users (paragraph 48). However, only probable events (more likely than not to occur) could reasonably 'be expected to' trigger financial effects on the undertaking (paragraph 49). We suggest illustrating this in a figure showing the range of possible outcomes of risks and opportunities, for example:

Magnitude	Financial effects	
	Potential	Anticipated
High	Potential, not anticipated, but decision-useful (material, cf. ESRS 1, paragraph 48)	Anticipated and decision-useful (material, cf. ESRS 1, paragraphs 48 and 49)
Medium	Potential, not anticipated, but may be decision-useful (material, cf. ESRS 1, paragraph 48)	Anticipated and may be decision-useful (material, cf. ESRS 1, paragraphs 48 and 49)
Low	Potential, not anticipated, and most likely not decision-useful (not material)	Anticipated but most likely not decision-useful (not material)

Low 50% High Likelihood

As for likelihood we would tend to conclude that the border between potential and anticipated is sharp at 50% likelihood ('expected' being more likely than not). As for magnitude the threshold for financial effects being capable of influencing decisions of users will depend on the financial position and other fact and circumstances of the undertaking.

According to ESRS Disclosure Requirements on financial materiality, only the anticipated financial effects (and current, if any), shall be disclosed. It is not clear to us, if, where, and how, entities shall provide the conclusions of the MA-process in cases where financial effects have below 50% likelihood, i.e. not anticipated, but are decision-useful in terms of magnitude of a potential event.

**We call** for setting this out clearly in chapter 2 of the MAIG.

For **reporting on opportunities**, we miss a reference to the restrictions in ESRS 1, paragraph 109.

In general, we do not find the examples in **paragraph 37** very useful. We recommend including scenarios of higher relevance and likelihood of occurrence to more entities. In addition, we do not see how the financial effects of the two examples can be anticipated, if at the reporting date no financial effects of the negative impacts are expected by the undertaking, i.e. less than 50% likelihood. Also, the magnitude of the financial effects in each of the examples is not apparent.

In **paragraph 41**, please state the sustainability factors defined in Article 2, point (24) of the SFDR-regulation. It will be helpful for others than experts of that regulation.

**Paragraph 50** states that primary users of general-purpose financial information are financial materiality focused. This is not in line with the conception of the EU-regulators as expressed in recital 9 of the CSRD, according to which the perspective of investors is double, while civil society actors focus on impact materiality. It should be emphasized that investors indeed have a double materiality perspective, although focus and materiality level on impacts may be different than of civil society actors and other users. In addition, we do not find that this paragraph sufficiently explains what factors or criteria make information significant (ESRS 1, paragraph 31 (a)) and how information entails the capacity of meeting the decision-making needs of users (ESRS 1, paragraph 31 (b)). As for decision-usefulness, we miss a connection between the capacity of information to be decision-useful and the qualitative characteristics of information. We miss also examples of the cases where, in accordance with this paragraph, information is significant but not relevant for users' decision-making.

In **paragraph 57**, we recommend adding the fact that also IRO-1 of each of the topical ESRS shall be reported irrespective of the outcome of the MA-process, re. ESRS 1, paragraph 29.

### Comments on Chapter 3 of the MAIG

According to **paragraph 62**, an undertaking shall consider the full scope of ESG-matters as listed in ESRS 1, paragraph AR 16, as well as any other matter being material from an entity-specific perspective. We believe it should be '*any other sustainability matter*'.

The guidance on entity-specific matters continues in **paragraph 72**. We find a need to limit the scope of sustainability matters to be considered in the MA-process for entity-specific disclosure. According to Article 29b (1) of the Accounting Directive (2013/34/EU), the ESRS shall specify the information that undertakings are to report in accordance with the Directive's Articles 19a and 29a. Article 29b (2) then includes three lists of the environmental factors, social and human rights factors, and governance factors, for which the disclosure requirements shall be specified. Although the scope of topics and sub-topics for some factors is open (environmental factors) and for some very specific (social, human rights and governance factors), the lists are exhaustive ('the following'). On this background, **we question** whether ESRS can require entity-specific disclosures of sustainability matters that are not within the compass of the exhaustive lists of ESG-factors in Article 29b.

**We call** for a clear expression in the MAIG of whether the **transitional provision** in ESRS 1, chapter 10.4 (with the list of phased-in Disclosure Requirements in ESRS 1, Appendix C), take precedence over the requirement in ESRS 1, paragraph 11, to provide additional entity-specific disclosures.

In general, we encourage EFRAG to voice the fact that Commissioner McGuinness has underlined the need to translate the legal and regulatory framework for sustainability reporting into real operational success (source: EFRAG news 29 March 2023). This position is supported by the European Parliament's public statement that the approved delay of the Commission's adoption of the first set of sector-specific standards should enable companies to focus on the implementation of the first set of general ESRS adopted on 31 July 2023 (source: EP press release 24 January 2024). On this background, **we also call** for the MAIG leaving some room for undertakings to gradually extend disclosures on identified and assessed IRO on sustainability matters relevant to their sector. In this connection, an elaboration on '*an appropriate set of additional disclosures*' in ESRS 1, paragraph 131 (b), will be very useful, if laid out in the light of the regulators' appreciation of the need to postpone sector-specific standards.

**Paragraph 88** states that the undertaking shall set thresholds for likelihood and magnitude for risks and opportunities. As per our comment to paragraphs 33-40 above, we tend to believe that

the threshold for 'anticipated' financial effects will always be at 50% likelihood, why only thresholds for magnitude shall be applied.

**Paragraph 92** is incomplete by only expressing financial materiality to be based on the decision-usefulness of the information (ESRS 1, paragraph 48). The paragraph lacks the second criteria by which a sustainability matter is material from a financial perspective when it triggers or is reasonably expected to trigger material financial effects on the undertaking, i.e. current and anticipated financial effects (ESRS 1, paragraph 49).

We find **paragraphs 95-96** difficult to understand, particularly the designated role of management to assess and validate the completeness of the list of material IROs. On which basis and by which criteria should management perform such assessment and validation of IROs? The message need be clearer here.

In **chapter 3.3.2**, we miss a paragraph on the restrictions on reporting on opportunities in ESRS 1, paragraph 109.

**Paragraph 97**, mandatory Disclosure Requirement IRO-1 of each topical ESRS should be added.

**Chapter 3.5** is insufficient in explaining why ESRS 1, paragraph 22, defines two groups of stakeholders: affected stakeholders and users of sustainability statements. **Paragraph 108** indicates that the role of users is to support the assessment of financial materiality. We find this view of users is too limited and **we call** for a more logical association of each of the two groups of stakeholders to each step of the MA-process, whereby we believe the process can be more efficient with effective results.

When comparing **figure 4 and figure 5**, we do not understand why potential impacts to a higher degree are material than current impacts, given same severity. This conclusion can be drawn by the example of impact 1 in figure 4, which is deemed not material with the higher level of scale, scope and irremediability being medium, whereas in figure 5 the medium severity level (level 3) is coloured red, i.e. material, when the likelihood is high (level 4 and 5). In figure 5, even severity at the lower end (level 2) is considered material at likelihood level 5.

## Comments on Chapter 4 of the MAIG

No comments.

## Comments on Chapter 5.1 of the MAIG

No comments.

## Comments on Chapter 5.2 of the MAIG

We find the paragraphs answering **FAQ 3** (paragraphs 154-156) hard to understand and suggest redrafting the entire answer to the question. A graphical illustration of the difference between the scope of financial materiality for sustainability and for information to be included in the financial statements, could enhance the understandability.

In **paragraph 155**, we do not understand the following statement: *'As a result, when defining the thresholds for financial materiality used in the preparation of the sustainability statement, inspiration could be drawn from the criteria and thresholds used in the preparation of the financial statements.'*

In **paragraph 156, point (a)**, we're not comfortable with the 'disclosures of potential financial effects', considering that only 'anticipated financial effects' shall be disclosed according to the Disclosure Requirements of the topical ESRS. We do not fully appreciate how potential financial

effects that are not anticipated (i.e. not more likely than not), would meet the criteria of being *'reasonably expected to result in financial effects'*. We do agree, though, that potential financial effects even if not anticipated also can be decision-useful information to users, depending on the potential magnitude of the effects. Please also refer to our comments to chapter 2.1 above.

In **paragraph 156, point (c)**, we fail to see why only future events may trigger anticipated sustainability-related risks and opportunities, since also past events could trigger anticipated financial effects in the future (which is in fact stated in paragraph 158). Please also consider the wording: anticipated risks and opportunities vs. anticipated financial effects. As we see it, risks and opportunities either exist or can arise, on which financial effects can be potential or anticipated depending on the likelihood of occurrence.

In **paragraph 158, point (c)**, please elaborate on *'factors of value creation'*, as the scope may not be sufficiently clear from the single example provided.

### Comments on Chapter 5.3 of the MAIG

We do not find a clear definition of *'reporting date'* in the ESRS, although the meaning can be concluded from the context when the term is used in the standards. However, we suggest to clarify in the MAIG the meaning of reporting date and how to deal with information received after the end of the reporting period but before the issuance of the management report, e.g. insights relevant to the identification and assessment of IRO.

In general, we agree to the answer to **FAQ 8** (paragraphs 162-165), but we are concerned about the lack of limits to sustainability matters and information to be considered in the attempt to meeting the comprehensive requirements of ESRS. Please see our comments above to paragraph 72, the transitional provision in ESRS 1, chapter 10.4, and the political appreciation of the challenges of implementing the ESRS in full scope.

In **FAQ 14** (paragraphs 183-185), we pay attention to the fact that Article 29b (2) in the Accounting Directive sets a limit to the scope of ESG-factors for which the ESRS shall specify the information that undertakings are to report in accordance with Articles 19a and 29a of the Accounting Directive. It would be worth mentioning this fact to limit the scope of entity-specific disclosures. Please also see our comment above to FAQ 8.

### Comments on Chapter 5.4 of the MAIG

In the answer to **FAQ 15** (paragraphs 186-188), **we call** for some nuance to the answer as to the different roles of affected stakeholders and users in the MA-process. We find it important to explain how engagement with affected stakeholders can inform the process of identifying and assessing impacts, while engagement with users can inform the process of assessing financial materiality and the materiality of information. Please see our comment above to chapter 3.5.

We find the answer to **FAQ 16** (paragraphs 189-192) insufficient because it only addresses the prioritisation of affected stakeholders for the process of identifying and assessing impacts. In our view, it is equally relevant to address how the various groups of users should be prioritised in assessing the materiality of information. We pay attention to the fact that the regulators have already made a prioritisation of users in recital 9 of the CSRD, which the answer should be aligned with. According to this, the regulators have prioritised investors and civil society actors by designating these two group of users as the primary groups of users. In this recital, we also see a prioritisation of investors in connection with their information needs on risks and opportunities, which we think is worth bringing forward in the answer to FAQ 16.

### Comments on Chapter 5.5 of the MAIG

We pay attention to the fact that the quotation in **paragraph 196** of ESRS 1, paragraph 54, does not reflect the exact wording in the ESRS. Please make a clear distinction between the legal text and any non-binding addition of examples.

In the answer to **FAQ 19** (paragraphs 200-203), we do not find it sufficiently explained why the business segment as the starting point for disaggregation of (at least) disclosures related to risks and opportunities (the outside-in perspective) is not appropriate. Also, we recommend underlining in the answer that determination of the appropriate level of disaggregation should be based on the undertaking's assessment of the users' needs of information to understand the undertaking's impact on sustainability matters, and the risks and opportunities of those to the undertaking, cf. the main objective of the sustainability reporting as stated in Articles 19a (1) and 29a (1) of the Accounting Directive.

### Comments on Chapter 5.6 of the MAIG

In **FAQ 22** (paragraphs 210-214), **we question** how EFRAG can conclude that data for the entire group shall be included in the metrics once a metric is determined to be material as stated in **paragraph 210**. We agree that ESRS 1, paragraph 62, states that the sustainability statement will be for the group, if the reporting entity is a parent undertaking. In addition, ESRS 1, paragraph 102, states that the assessment of material IROs shall be performed at consolidated level. We do not, however, find any general rules on consolidation in the ESRS, which **we have called for** in consultations on the draft ESRS. We are not fully convinced that ESRS 1, paragraph 62, is sufficient to conclude that metrics in all cases shall include data for the entire group.

Even if the sustainability statement of a parent will be for the group, the activities of the group may be so divergent that the users' understanding of IROs<sup>1</sup> is not dependent upon whether metrics within the various business lines are determined at group level. According to **paragraph 213**, policies, actions and targets may only cover the "problem area" and thus reflect only the activities within the group covered by those policies, actions and targets. We learn from ESRS 2, paragraph 70, that metrics and targets relate to each material sustainability matter, and from ESRS 2, paragraph 75, that metrics are used to evaluate the performance and effectiveness of the undertaking's actions (or perhaps lack of actions) in relation to material IROs. Hence, we are not convinced that the requirement of including all data for the group in metrics is compliant with the objective of metrics to serve as performance indicators for sustainability matters for which material IROs have been identified. We tend to believe that the scope of consolidation of data for metrics should be driven by what is necessary to understand the IROs of each separate line of business in a group with highly divergent activities, such as a conglomerate.

We encourage EFRAG to reconsider the answer to **FAQ 22**, and particularly whether **paragraph 210** goes too far in its conclusion based on ESRS 1, paragraph 62. It may be sufficient to meeting the objectives of the sustainability reporting to include data for metrics covering all activities within each separate line of business identified in a group with divergent activities, such as a conglomerate, whereby the metrics of each business model can be more directly associated with the identified material IROs within each of the business models presented.

### Contact information

If you have any questions or would like to discuss some of the above comments, please do not hesitate to contact me at [lfr@fsr.dk](mailto:lfr@fsr.dk).

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<sup>1</sup> The main objective of sustainability reporting, cf. Articles 19a and 29a of the Accounting Directive

Kind regards,

FSR – Danish Auditors

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