

EFRA  
35 Square de Meeûs  
1000 Brussels  
Belgium

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Side 1/2

## FEEDBACK TO DRAFT IMPLEMENTATION GUIDANCE DOCUMENT

Denmark has a high number of 'investment holding companies', which are characterised by an ownership structure where the ultimate ownership is typically held by either an enterprise foundation or a small group of individuals, usually comprised of one or more families, company founders, or a combination of these. The investment holding company's capital and basic foundation typically started with one underlying main activity, the returns of which have built up a larger capital over time, which the owner company/enterprise foundation, for reasons of diversification and risk management – and in accordance with their business model – has wanted to reinvest in other independent companies/activities (more or less related to the original main activity). The result is, in corporate law, a group where one main owner (enterprise foundation or holding company) ultimately controls a number of underlying, but otherwise separate companies and groups (often called "portfolio companies").

This letter represents the views of the largest of such investment holding companies in Denmark, including the holding companies of Mærsk and the LEGO Group, as well as other large investment and holding companies. We have worked together to interpret the requirements of the CSRD and ESRS for our specific business model to ensure our undertaking of the DMA identifies the material IROs, links it to the strategy and business model, and that the subsequent reporting is of value to stakeholders. We have the below comments to Draft EFRA IG 1 Materiality Assessment Implementation Guidance (MAIG), which we believe would provide increased clarity to the requirements of CSRD and the ESRS.

## BACKGROUND

Investment holding companies differ from traditional holding companies and conglomerates in several crucial aspects. These differences are evident in their distinct business models and in the exercise of their influence as an active owner through their governance models.

Investment holding companies are characterised by:

- A group governed by company law, where one main owner (enterprise foundations or holding company) ultimately, under company law, controls a number of underlying, but otherwise separate, companies and groups (portfolio companies).
- The portfolio companies have their own independent boards, leadership, and reporting. The investment holding company is represented in the board and drives its active ownership through this governance structure.
- As an active owner, the investment holding companies support the portfolio companies in their goals and development to secure and stimulate the portfolio companies as separate independent entities with their unique characteristics, goals and business models.

- To this end, the investment holding company engages with the portfolio companies with a focus on the companies' strategy, finances and governance, but does not have operational control.
- The basis for this approach is the arm's length principle, where the investment holding companies respect the obligations, rights and autonomy of both the board, in the defined governance structure, and possibly the interests of other shareholders.
- The individual portfolio companies have their own, separate, financial and ESG reporting, aimed at fulfilling the needs of their specific stakeholders.

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## COMMENTS FOR DRAFT EFRAG IG 1: MATERIALITY ASSESSMENT IMPLEMENTATION GUIDANCE

- **MAIG Chapter 3.6 Deep dive on impact materiality: Setting thresholds, example §3.6.2:** A more nuanced example would be relevant, considering what would influence changes in material outcomes due to changes in circumstances such as acquisitions i.e. what is material at a standalone company level might not hold the same materiality in a group setting, given, for example, higher thresholds of materiality.
- **MAIG Chapter 5.1 FAQs on impact materiality, i.e. §141:** It is considered useful if the MAIG include descriptions of the boundaries of 'own operations' in the case of 'portfolio companies' with independent boards and management (i.e. where the investment holding company does not have power to direct). For example, the employees at portfolio company level will not be considered to be employees of the investment holding company.
- **MAIG Chapter 5.3 FAQs on the materiality assessment process, FAQ 13:** Highlights that there is no prescribed process for the materiality assessment as no one process fits all undertakings, including diversified global undertakings i.e. operating in different sectors or countries. The FAQ could further nuance this chapter by emphasising that the IROs identified in the double materiality for diversified global undertakings assessment should ultimately reflect/link to the business model of the parent company.
- **MAIG Chapter 5.3 FAQs on the materiality assessment process, FAQ 13:** It is considered valuable to further incorporate examples of 'top down' approaches to conducting the materiality assessment and include explanations of situations (such as investment holding companies) where this would be most useful. It is further deemed relevant for the guidance to include more nuances on the balancing of both 'top down' and 'bottom up' approaches to double materiality assessment to best accommodate certain business models.
- **MAIG Chapter 5.6 FAQs on reporting, FAQ 22 §212:** Further examples on consolidation and disaggregation are needed. While consolidating monetary currencies is possible, combining ESG data in the same way will result in information this is meaningless for stakeholders. For example, reporting a gender pay gap ratio as one number by taking the median employee remuneration across several companies in a ratio to the highest paid individual in one of the companies would be irrelevant. Here it would need to be reported separately per company in the group to be meaningful.