# **TBC Feedback to EFRAG**

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# Materiality Assessment Implementation Guidance

## **Overarching Feedback**

* TBC welcomes EFRAG’s implementation guidance, which is often aligned with best practice and high levels of ambition. Additionally, the MAIG contains helpfully framed and answered FAQs.
* However, TBC notes that there are gaps within the guidance, including reference to relevant frameworks and approaches. For example, references to the Mitigation Hierarchy lacks detail regarding the definitions of each step and the order in which they should be taken (whereby avoidance is the most important step). Additionally, there is no reference to the LEAP approach of TNFD which is explicitly mentioned in the ESRSs and would act as practical guidance for implementation of MAIG for ESRS E4. It would also be preferential for commonality mapping to TNFD and SBTN to be mentioned within the MAIG.
* However, the MAIG reads like a legal explanatory text, rather than a practical and pragmatic guidance document. Whilst TBC recognise that this legalistic style might be intentional and in line with similar guidance for regulatory requirements, the non-authoritative role of the guidance should permit the MAIG to be easier to interpret and more business relevant. Currently the MIAG lacks business-relevant examples and a holistic narrative explaining how an undertaking can start and finish complying with CSRD.
* Some terms are left undefined – in figures and in the text.
* *A business is unlikely to finish reading the IG and feel able to start their CSRD journey.*

## Summary

## 1. Introduction

Feedback has not been given.

## 2. The ESRS approach to materiality

### 2.0 The ESRS approach to materiality.

* Paragraph 28 - please expand on what is meant by “objective information” (references elsewhere are to “quantitative information” – cf. also FAQ10).
* Paragraph 30 - Appendix B of ESRS 1 refers to “required qualitative characteristics of information”, rather than “required characteristics of quality”, which have different meanings. TBC would welcome clarification on what is meant by “required characteristics of quality”.

### 2.1 Implementing the concept of double materiality.

* Figure 1a would be clearer if supported by a hypothetical example, and an explanation of what is meant by "scope".
* In Figure 1b, the solid and dotted arrows referred to in the key do not seem to correspond to arrows in the figure itself.

### 2.2 Understanding key concepts for the materiality assessment.

* The table in this section should have a caption, otherwise it will get confused as "figure 3".
* Paragraphs 45 and 48 would be easier to understand if supplemented with relevant examples, which could be included in a separate text box.

### 2.3 Criteria to determine the materiality of information.

* This section could be supported by hypothetical examples and definitions to aid the reader's understanding of this section, for example:
  + Paragraph 50 – example of when a matter is material from both an impact and a financial perspective.
  + Paragraph 51 – definition of relevance, faithful representation, comparability, verifiability and understandability.

### 2.4 Scope of application of the materiality of information.

Feedback has not been given.

### 2.5 Datapoints derived from EU legislation.

Feedback has not been given.

### 2.6 Considerations for upstream/downstream value chain.

Feedback has not been given.

### 3. How is the materiality assessment performed?

### 3.0 How is the materiality assessment performed?

While undertakings are recommended to use the TNFD LEAP approach in ESRS 2 (AR 1), the MAIG does not specify how LEAP could be used to assess various sustainability matters (including biodiversity and ecosystems) in the materiality assessment. The MAIG should provide further guidance on how to apply the LEAP approach, potentially using the joint TNFD-EFRAG [commonality map](https://www.efrag.org/News/Public-469/EFRAG-and-TNFD-sign-a-cooperation-agreement-to-further-advance-Nature-related-Reporting) that has been in the process of development.

### 3.1 Step A: Understanding the context

* Given there is a timebound requirement to increase visibility in the value chain (ESRS 1 par. 132-133) and this is such a difficult topic to tackle, EFRAG should provide guidance on how to achieve increased visibility, perhaps by pointing to sector and industry body guidance on increasing traceability.
* Paragraph 67-69: Explicit reference to which points apply to which parts of the value chain would be very helpful. This information could be tabulated.

### 3.2 Step B: Identification of the actual and potential IROs related to sustainability matters

* This section would benefit from further guidance on screening approaches – e.g. a definition of “screening”, and complementary, business-relevant examples of the two approaches suggested in paragraphs 75 and 76.
* Paragraph 78 is vague – what is meant by facts and circumstances? Could the guidance provide examples here, or reference them in the FAQs?
* Paragraph 72: with sector-specific standards not expected before 2026, there is a risk that undertakings may find a long list of entity-specific matters challenging to assess and prioritise. In addition to referencing IFRS and GRI sector-specific guidance other sector-specific standards and guidance could be mentioned to support this process, for example the [set of publications](https://www.businessfornature.org/sector-actions) collected by Business for Nature.

### 3.3 Step C: Assessment and determination of material IROs related to sustainability matters

#### 3.3.1 Impact materiality assessment

Feedback has not been given.

#### 3.3.2 Financial materiality assessment

Feedback has not been given.

#### 3.3.3 Consolidating impact and financial materiality outcomes including their interaction

Feedback has not been given.

### 3.4 Step D: Reporting

Feedback has not been given.

### 3.5 Role and approach to stakeholders in the materiality assessment process

Feedback has not been given.

### 3.6 Deep dive on impact materiality: Setting thresholds.

* Paragraph 115 – This is stated vaguely, and could be rephrased to make clear that the best and most robust available evidence should be used when setting thresholds. There may often be uncertainties in assessing impacts, and exact quantification of impacts is not essential for determining materiality, but the level of uncertainty should be matched by the level of precaution in threshold setting (see also below).
* Paragraph 116 makes an important point, recognising that the three characteristics of severity are interdependent.
* Overall, the limited guidance on threshold-setting for impact materiality leaves open the risk that companies may set unjustifiably high thresholds for materiality. The guidance should instead encourage a precautionary approach. For example, activities taking place within biodiversity-sensitive areas should be considered to have potential material impacts, whether actual negative impacts are recorded or not (despite ESRS E4-5 defining ‘material sites’ as those that negatively affect these areas). It can be difficult to directly find cause and effect between business activities and biodiversity impacts, and impacts may occur in the future if the situation is not monitored. We suggest that the IG:
  + Provides more information on what evidence should be used to set thresholds, expanding on the term “objective information” and the contextual judgment based on “own specific facts and circumstances “.
  + Strongly recommends disclosure of the evidence supporting the decision on thresholds.
  + Provides case study examples of scale, scope and irremediability thresholds, illustrating how those can be determined.
  + Stresses the importance of external experts input in defining thresholds.

#### 3.6.1 Actual impacts

* Figure 4 – an explanation is needed of how the severity assessment component ratings are combined to give the overall Yes/No answer in the final column.

#### 3.6.2 Potential impacts

* Paragraph 120 – It would be helpful to have further guidance on how to calculate the likelihood of material impacts, illustrated by business-relevant examples.
* Figure 5 – need to add a key for the colour coding, which presumably aligns with that in Figure 4.

### 3.7 Deep dive on financial materiality: Setting thresholds.

* While paragraph 123 provides a useful distinction between the time horizons for financial statements and cumulative financial materiality, and hints on various elements of calculation, it does not refer to any specific method that could be used to assess financial materiality. For instance, TNFD proposes the methods of asset tagging and scenario analysis. In the absence of detailed guidance here, EFRAG could refer to other standards that do offer more guidance.
* Similarly, in paragraph 124 EFRAG is offering no guidance on whether there are relevant accounting approaches that can help undertakings account for effects stemming from dependence on ecosystem services. EFRAG could refer to existing environmental accounting (such as the emerging [ecosystem-centred accounting methods](https://hal.science/hal-04246177)) and valuation methods (such as developed by [the Capitals Coalition](https://capitalscoalition.org/)) and initiatives to guide those undertakings that wish to set ambitious accountability approaches.

## 4. How to leverage other sources?

Chapter 4 (like the MAIG document as a whole), is missing reference to the key frameworks of TNFD and SBTN. It would be helpful to reference the commonality mapping exercise underway between TNFD and EFRAG, to encourage uptake of useful guidance in other frameworks where commonality exists.

### 4.1 Leveraging the GRI standards

Feedback has not been given.

### 4.2 Leveraging the ISSB standards

* It would be useful to specify if SASB sectoral standards are recommended for ESRS reporting and to outline potential alignment with ESRS sector-specific standards.

### 4.3 Leveraging international instruments of due diligence

* If possible, it would be useful to reference and clarify the relationship with CSDDD (in more detail than is done in paragraph 7) and other relevant EU files, especially in relation to due diligence and transition planning requirements in ESRS.

## 5. FAQs

* Numbering of FAQs in the contents and main text body is not consistent.

### 5. 1 FAQS on impact materiality

* Feedback has not been given.

### 5. 2 FAQs on financial materiality

* Feedback has not been given.

### 5. 3 FAQs on the materiality assessment process

* Paragraph 160 - The acronym “M&A” needs to be defined.
* Paragraph 169 – the phrasing used in this paragraph is ambiguous – please expand on what is meant by “level of comfort”.

### 5. 4 FAQs on stakeholder engagement

* Feedback has not been given.

### 5. 5 FAQs on aggregation/disaggregation

* Feedback has not been given.

### 5. 6 FAQs on reporting

* Paragraph 219:
  + The terminology used for steps in the mitigation hierarchy (MH) is slightly inconsistent with that in ESRS (“avoidance, minimisation, restoration and rehabilitation of ecosystems, compensation or offsets”). Alignment would prevent potential confusion.
  + ESRS does not explicitly include the additional step of “[transform](https://tnfd.global/wp-content/uploads/2023/08/Recommendations_of_the_Taskforce_on_Nature-related_Financial_Disclosures_September_2023.pdf)”, which covers the ways organisations can contribute to needed systemic change inside and outside their value chains. We would suggest that the guidance recognises this additional step (as outside its scope but key for undertakings to align with broader goals for nature), referencing (for instance) the broadly recognised [ACT-D](https://www.businessfornature.org/high-level-business-actions-on-nature) (Assess, Commit, Transform, Disclose) framework.
  + There is no explanation that the MH is a framework for prioritising targets and actions, with avoidance given highest priority and compensation or offsets considered a last resort. This prioritisation of steps is central to the appropriate application of the mitigation hierarchy: while it is not made explicit in the ESRS, it would be valuable to remedy this here in the guidance.
  + It could also be useful to note that while the MH provides a robust conceptual foundation for planning and implementing mitigation actions, it is challenging to quantify impact mitigation from the avoidance step directly.
  + It would be helpful to provide definitions for each step in the mitigation hierarchy, particularly highlighting the difference between restoration and rehabilitation/remediation.
  + Additionally, it would be helpful to change the example given, so that each step has an example specific to one undertaking. We would recommend removing the example of an oil spill for the restoration step, as the MH applies to planned activities and not disaster response.

# Value Chain Implementation Guidance

## **Overarching Feedback**

* It would be helpful for EFRAG to refer to existing market initiatives that offer guidance and tools for sustainable/ethical value/supply chain management, such as [the Accountability Framework](https://accountability-framework.org/).

## Summary

## 1. Introduction

* Feedback has not been given.

## 2. Navigating Value Chain under CSRD and ESRS

### 2.0 Navigating value chain under CSRD and ESRS

* The wording of 20(d) is a little unclear and appears to intend to reference Appendix B of ESRS1 rather than Appendix C as stated – suggest to replace “of information set for in Appendix C" by “set out in Appendix B”, and to make clear that it is Appendix B that outlines the principles-based approach (if that is the intention).

### 2.1 What is the VC?

* The green explainer box on page 8 is very helpful.
* Clarification would be helpful on the meaning of "hot spots" in 28(a) and "key" in 28(b). We would recommend using plain English for translation purposes.
* Paragraph 31 – this is particularly important and well communicated.

### 2.2 Why does VC matter?

* Paragraph 33 - It would be helpful to have an explicit environmental example.

### 2.3 From own operations to value chain

* Feedback has not been given.

### 2.4 Which IROs in the VC to disclose?

* Feedback has not been given.

### 2.5 How do the transitional requirements work?

* Feedback has not been given.

### 2.6 What is the LSME cap and does it impact my disclosures?

* Feedback has not been given.

## 3. FAQs

### 3.3 FAQ 3

* Feedback has not been given.

### 3.4 FAQ 4

* Feedback has not been given.

### 3.5 FAQ 5

* To support undertakings’ prioritisation in gathering data, assessing IRO and designing of Policies, Actions and Targets (PAT), EFRAG should provide examples of high-impact commodities. In this respect, reference could be made to commodity-specific standards available in the market, such as the [Consumer Goods Forum guidelines](https://www.theconsumergoodsforum.com/what-we-do/implementation-support/) on soy or palm oil.
* Paragraph 118 has a useful clarification of the requirements of some parts of E4, but the conclusion that these paragraphs “do not necessarily result in the need to collect VC data from actors in the VC solely for the purpose of reporting” is confusing and may discourage ambition.
* Paragraph 114: The line "Therefore, where a PAT addresses all or some VC actors that should be disclosed" is unclear – should this read "Therefore, where a PAT addresses all or some VC actors, this should be disclosed"?

### 3.6 FAQ 6

* Feedback has not been given.

### 3.7 FAQ 7

* Paragraph 131 is very important for highlighting that value chain actors will often not be able to produce primary information on their impacts, and guiding how estimates and proxies can be used in such cases. In addition to the downstream example in par. 132, it would be helpful to provide an upstream example for the case when suppliers are not able to provide IPBES pressure information (e.g. land use/water use/pollution information). This may be more relevant to many undertakings.

### 3.8 FAQ 8

* Feedback has not been given.

### 3.9 FAQ 9

* Paragraph 144 needs more clarity - what is meant by indirect sources, and how do these differ from external data sources?
* Box ‘Examples of external data sources’: the content is vague and covers few and not necessarily the most useful data sources: suggest to expand this list with additional specific references.

### 3.10 FAQ 10

* Feedback has not been given.

# Draft List of ESRS datapoints

## **Overarching Feedback**

The ESRS E4 tab could be made more usable by:

* Ensuring that each row makes sense when read on its own: at present some information in the column “Names” must be understood in the context of other rows or the ESRS
* Providing definitions for categories in the “data type” column.

## 1. The Index Tab

* The colour coding table in the Index is slightly unclear, could there be a new colour code to identify which DPs are mandatory based upon which impact has been identified as material?

## 2. The ESRS E4 Tab

* ESRS E4-5 states "The undertaking shall report metrics related to its material impacts on biodiversity and ecosystems." It is clear that metrics should be reported for all material impacts. The datapoints in the ESRS E4 tab contain specific metrics that the ESRS either mandates or recommends, however they do not represent metrics covering **all possible impacts**. By not including or suggesting relevant metrics associated with **all** impacts, it appears that only relatively few metrics are required, risking the sheet becoming a tick-box exercise for impacts to measure. It should be clear in the spreadsheet/ supporting guidance that a metric should be presented for every material impact, not just those within the spreadsheet.