

EFRAG's Public Consultation 2024

Assoholding is the trade association of investment holding companies (SMEs, corporations, family business enterprises), and its main purpose is to represent the interests of these entities at various institutions (Parliament, Government, and other institutions and trade associations). It aims to conduct information and research activities on relevant legislation, both primary and secondary, and provide interpretative guidelines to ensure the correct application of legal rules by its members. We also engage in learning and dissemination activities on key topics related to tax and legal management.

Assoholding fully supports the development of the Corporate Sustainability Reporting Directive (CSRD) carried out by EFRAG, as reflected in the Draft European Sustainability Reporting Standards (ESRS). This initiative addresses the clear and growing need for sustainability information, which is expected to continue to increase for various reasons. While we appreciate the effort put into developing these high-quality standards, we wish to express general comments and concerns on the most critical points.

In light of what we are going to discuss, we support the European Union's ambition to develop a corporate sustainability reporting regime based on the double materiality principle. This has the potential to contribute to a global system that facilitates comparability and analysis, enhances transparency, and acknowledges that businesses and trade are global.

1) Harmonization between sustainability report and financial report

Listed and non-listed companies, based on their size, are required to prepare multiple documents in addition to the annual financial statements, including the Management Report, Corporate Governance Statement, and Auditor's Report.

In addition to the sustainability report, information related to sustainability issues, particularly governance aspects, is included in these other documents.

For instance, the Corporate Governance Statement could require the inclusion of information strictly related to corporate sustainability:

- The structure of the share capital, restrictions on the transfer of securities, significant interests in the capital, and restrictions on voting rights. These aspects significantly influence decision-making stability and the long-term focus of companies, thus facilitating the implementation of sustainable growth policies and the creation of long-term value.
- Measures such as employee share ownership systems and agreements between companies and directors regarding compensation in case of resignation or dismissal without just cause. These elements are essential to promote more transparent, fair, and responsible



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governance that considers the interests of all stakeholders and ensures the protection of minorities.

- Adherence to codes of conduct on corporate governance, within which the ethical and social responsibilities of the company and the values it promotes are defined. This represents an indicator of the company's commitment to sustainable practices.
- Existing risk management and internal control systems related to the financial reporting process must necessarily include the identification and management of risks related to ESG issues, from an integrated compliance perspective.
- The composition and functioning of the administrative and supervisory bodies directly influence the firm's capability to promote sustainable growth.

While the ESRS standards for preparing the sustainability report are already well standardized, thereby promoting transparency and comparability, it is necessary to enhance the harmonization between the sustainability report and the annual financial statements

Objectives and proposals: Assoholding proposes to harmonize the regulations regarding the various reports that companies are required to produce, particularly the management report, corporate governance report, and sustainability report.

Specifically, it is necessary to adapt the structure and content of the financial report by considering the new sustainability report, to avoid repetition and incoherence.

Given the central role that sustainability reporting has assumed and will continue to develop over time, it is desirable to recognize it as the primary document in the field of governance. The sustainability report would thus incorporate other documents, such as the management report and the corporate governance statement, given their close connection to the company's sustainability.

In this way, companies would disclose a single document instead of multiple ones, directed to all stakeholders rather than focusing exclusively on shareholders, with sustainability as the guiding theme and interpretive key of the report.

This measure will facilitate the preparation of these reports, reducing the management and drafting burdens on companies. It will also ease subsequent analysis by stakeholders, promoting coherence and consistency among the different reports, both at the individual company level and within the sector.

2) Enhancing Comparability

The ESRS standards aim to promote comparability both with information provided by the company in previous periods and with information provided by other companies, particularly those with similar activities or operating in the same sector. Comparability is encouraged by ESRS standards through the prioritization of quantitative information and the establishment of targets and metrics used by companies to measure their performance concerning various sustainability issues.

Sustainability reporting is structured based on a single macro-list of material topics at the level of the reporting entity (company/group), regardless of the operational segment that originates



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the material topic. It is clear how aggregate reporting of this type could dilute the perception of some ESG impacts, risks, and opportunities (IRO) of a complex organization operating in multiple market segments.

Objectives and Proposals: Assoholding proposes that the criteria for relevance and reporting of non-financial information should be reviewed to make sustainable disclosure more uniform and comparable across time and space. Given the wide variety and complexity of activities characterizing each company and, in particular, the difficulty in reporting sustainability issues, it could be useful to establish specific indices based on sectoral, geographical, and dimensional characteristics. This would guarantee an adequate level of reliability of the information and maintain greater standardization, at least among operators with similar characteristics.

3) Implement a unique and commonly accepted definition of materiality, along with specific criteria for its determination.

There have been various definitions of materiality from multiple authors and authorities over time, resulting in a plethora of institutional definitions. This poses a risk as the meaning of the term becomes difficult to understand. Generally, materiality refers to the significance of creating lasting value, extending beyond the short term. However, materiality is a relative concept, with judgments varying among management, auditors, and users based on different interests and motivations.

In accounting, materiality entails avoiding the insertion of insignificant information to prevent redundancy and enhance the comprehensibility of financial statements, or when there isn't a sufficient level of reliability in their evaluation. In the context of economic-financial evaluation, materiality is more comparable and measurable, based on quantitative aspects.

When analyzing the broader impact of the corporate ecosystem on the environment and stakeholders, beyond immediate profitability, several challenges arise:

- Non-financial information cannot always be expressed monetarily.
- Non-financial information often pertains to the long term, and issues may be material even without an immediate impact on the organization.
- Non-financial information often stems from a life cycle approach; therefore, obtaining information about external events and phenomena is necessary for accurate evaluation.

Objectives and proposals: Assoholding believes it is necessary to adopt a common international definition to precisely outline the concept of materiality and its application in sustainability reports, considering company size. Furthermore, it is deemed useful to establish criteria for identifying the relevance and importance of ESG (Environmental, Social, and Governance) issues, especially considering stakeholders' expectations and priorities, as well as the company's sector and activities.



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4) Review of the dual (double) materiality analysis

The ESRS principles do not impose a specific process or management method for materiality assessment. Every business has its own peculiarities, making standardization of the assessment process difficult.

Although the materiality analysis is characterized by a dual perspective, it is designed by standard setters to produce a single set of indicators representative of all ESG impacts and material topics. This is in stark contrast to IFRS 8, which, conversely, allows for more complex, multifaceted, and heterogeneous reporting of all the different business activities of an organization. Segment Reporting required by IFRS 8, "Operating Segments," indeed mandates companies to present detailed information on the different operating segments from a financial reporting standpoint, enabling stakeholders to better understand the composition and performance of the company.

Objectives and proposals: Assoholding believes that the scope of inclusion of material topics for the purposes of the double materiality matrix must be expanded to include more information relating to the company's economic characteristics to duly consider the relevance of the operating sectors and their implications at the IRO level (Impacts, Risks, and Opportunities). Building on the earlier discussion regarding comparability over time and space of the sustainability report, the application of more quantitative financial indices, within the context of the dual materiality matrix, would facilitate comparison between different documents and their evaluation regarding the concrete impact of socio-environmental policies on the company. Sustainability reporting is structured based on a single macro-list of material topics at the level of the reporting entity (company/group), regardless of the operational segment that originates the material topic. It is evident how aggregate reporting of this type could dilute the perception of some ESG impacts, risks, and opportunities (IRO) of a complex organization operating in multiple market segments. The introduction of the financial dimension and more quantitative indices in defining the materiality matrix could mitigate, at least in part, this risk."