SRA

EFRAG
Mr. H. Buysse,
President of the EFRAG Administrative Board
Square de Meeûs 35
B-1000 Brussels
Belgique

Dear Mr. Buysse,

The SRA (Dutch networkorganisation of 375 small and midsized auditfirms) welcomes the opportunity to respond on the draft European Sustainability Reporting Standards (ESRS) published for public consultation on April 27, 2022. The SRA believes mandatory sustainability reporting can contribute to accelerating the transition to a sustainable economy. The SRA understands the urgency and supports the development of mandatory sustainability reporting standards that ensure high quality, consistent and comparable reporting.

We value and appreciate the enormous amount of work done by EFRAG. The draft ESRS are substantive, ambitious and cover a wide range of ESG topics. And we notice that EFRAG made valuable adjustments to the draft ESRS compared to the previous version published. Given the magnitude of the standards and the relatively short consultation period the SRA has limited its response to what we believe are the effects that ESRS has on the SME market.

Fundamental concerns and suggestions for improvement
We have the following fundamental concerns with respect to the draft ESRS which we would like to express and also want to provide suggestions for improvement. We hope our views and feedback will help you strengthen the draft ESRS to a coherent set that will standardize sustainability reporting, contribute to accelerated transition to a sustainable economy and help redirect financial market funds to sustainable investments.

Our concerns and suggestions for improvement include:

1. Complexity: risk for quality

1.1. Number of requirements for first-time adopters

The current draft ESRS are very comprehensive and contain a high level of complexity and detail. This will be challenging for even the largest (listed) reporting companies. Furthermore, we are concerned that the disclosure requirements are overwhelming for non-listed large companies, especially for first time reporters, and may hinder access to relevant and concise information for users of the Sustainability Statements.

<u>Suggestion for improvement</u>
In order to help the large group of first-time adopters, we suggest to limit the number of mandatory disclosure requirements to disclosures on plans and policies and make other disclosure requirements voluntary. In the years after 2025 each year several voluntary disclosure requirements can be made mandatory forcing all companies to report on the full set of disclosure requirements a couple of years later. This will give companies time to implement the plans and policies needed and to implement an internal process for registration and reporting of sustainability information.

1.2. Inconsistent and infinite wording increases reporting complexity
In addition, we noted the use of infinite wording such as 'any' and 'all'. In the appendix we will add several examples. This infinite wording will result in high administrative burdens for preparers and will raise problems to audit the information. We also mention that wording is not always consistent which would not lead to concise and clear reporting standards.

Suggestion for improvement
We suggest to remove the infinite wording and to make sure that used wording and definitions are consistent.

2. High risk on trickle-down effect
The current draft ESRS request significant information on the impacts in the value chain. Our concern is that reporting companies may need to send out elaborate information requests to for example SME suppliers who are not yet equipped to report extensively on their sustainability performance. Unintentionally, the full administrative ESRS reporting burden would then shift from large companies to SMEs. SMEs may face a significant trickle-down effect while the European Commission intends that non-listed SMEs will not be required to report, and listed SMEs should report in a proportionate and relevant to the scale and complexity of the activities, and to the capacities and characteristics of the SMEs (art. 29c CSRD).

Suggestion for improvement
We believe the scope of the current CSRD proposal is at odds with the value chain reporting ambition. Consequently, this contradiction embedded in the CSRD proposal hampers an easy suggestion for improvement. However, given the current scope of the CSRD proposal and the value chain reporting ambition, we believe that value chain information should be at a less detailed level. This lowers the reporting burden that may inadvertently be placed on suppliers that fall outside the proposed scope of the CSRD. Furthermore, insight in the impact is necessary. We would advise EFRAG to analyse the impact of the CSRD and ESRS on SMEs. And advise EFRAG to review all disclosure requirements in the draft ESRS on the consequences for reporting companies and their suppliers in the value chain.

Please find a more in-depth elaboration of our concerns and suggestions in the appendix.

Ambitious timeframe: risk for high-quality standards
The need for a swift implementation of the EU sustainable finance package is clear. However, due process is needed for high-quality legislation, especially in a regulatory field under development such as sustainability reporting. High-quality standards will result in workable and high-quality reporting, will support auditability by assurance providers and will facilitate the transparency needs of stakeholders. Naturally, the CSRD prescribes a mandatory, ambitious timeframe. Unfortunately, we believe the timeline of the public consultation and subsequent changes to the standards to bring them to the final stage is extremely challenging. Therefore, we strongly recommend EFRAG to follow the core and more approach when presenting EFRAG's first batch of ESRS to the European Commission in November 2022. By simplifying and trimming down the ESRS to

the CSRD minimum we believe EFRAG will be able foster the quality of the ESRS and therewith of the sustainability reporting.

Our feedback is meant to help build the ESRS in such a way that the sustainability information in annual reports will be relevant, comparable and reliable for all stakeholders as of the implementation of CSRD and onwards.

Please feel free to contact us if you wish to discuss the contents of this letter.

On behalf of the SRA and the SRA Sustainability task force.

Yours sincerely,

Diana Clement,
Chairman SRA

APPENDIX

This appendix includes the fundamental concerns of the SRA followed by suggestions for improvement.

1. Complexity risk for quality

1.1. Number of requirements for first-time adopters

The current draft ESRS are very comprehensive and contain a high level of complexity and detail. This will be challenging for even the largest (listed) reporting companies with lots of experience in sustainability reporting. We fully understand the will to implement the ESRS standards to all companies on short notice however we are very concerned about the impact on those companies not in scope of the NFRD which have to start preparing sustainability statements over the financial year 2025. The majority of companies in scope have not even started with sustainability reporting at all which means that a lot of time, effort and money has to be spend on preparing for 2025. Given the large number of required disclosure requirements it is, in our opinion, not possible to be prepared at reasonable cost. We also have concerns whether the capacity in sustainability advisors and sustainability assurance providers will be sufficient to assist all companies to this extent within the short period of time left till 2025.

Suggestion for improvement

In order to help this large group of first-time adopters, we suggest to limit the number of mandatory disclosure requirements to mandatory disclosures on plans and policies and make other disclosure requirements voluntary. Current reporters of sustainability information can use the voluntary disclosure requirements leaving an option for first time adopters to be able to adopt only the mandatory disclosure requirements.

In the years after 2025 each year several voluntary disclosure requirements can be made mandatory forcing all companies to report on the full set of disclosure requirements a couple of years later. This will give companies time to implement the plans and policies needed an to implement an internal process for registering and reporting sustainability information.

1.2. Inconsistent and infinite wording increases reporting complexity

The ESRS contain several inconsistencies and infinite wording such as 'any' and 'all'. Examples of infinite wording can be found in ESRS S1, disclosure requirement S1-4 (heading/32), S2-4 (heading/26), S2-5. Not all terms are defined, for example 'other work-related rights' (S1-21, 98) is not defined. Within the ESRS S1 besides the similarly defined terms 'own workforce' and 'own workers' ESRS S1 also uses the (undefined) term 'own employees' (S1-10, S1-24) it is unclear if this is an inconsistency or a different term. Infinite wording, inconsistencies and unclarities in reporting hamper concise and clear standards. Consequently, difficulties will arise during the preparation of sustainability statements and discussions between preparers and auditor on the preferrable interpretation are foreseen, resulting in less comparable information.

Suggestion for improvement

We suggest to remove the infinite wording and to make sure that all terms are clearly defined and used in a consistent way.

2. High risk on trickle-down effect

The current draft ESRS request significant information on the impacts in the value chain. Our concern is that reporting companies may need to send out elaborate information requests to for example SME suppliers who are not yet equipped to report extensively on their sustainability performance. Unintentionally, the full administrative ESRS reporting burden would then shift from large companies to SMEs. SMEs may face a significant trickle-down effect while the European Commission intends that non-listed SMEs will not be required to report, and listed SMEs should report in a proportionate and relevant to the scale and complexity of the activities, and to the capacities and characteristics of the SMEs (art. 29c CSRD).

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We believe the scope of the current CSRD proposal is at odds with the value chain reporting ambition. Consequently, this contradiction embedded in the CSRD proposal hampers an easy suggestion for improvement. However, given the current scope of the CSRD proposal and the value chain reporting ambition, we believe that value chain information should be at a less detailed level. This lowers the reporting burden that may inadvertently be placed on suppliers that fall outside the proposed scope of the CSRD. Furthermore, insight in the impact is necessary. We would advise EFRAG to analyse the impact of the CSRD and ESRS on SMEs. And advise EFRAG to review all disclosure requirements in the draft ESRS on the consequences for reporting companies and their suppliers in the value chain.