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EFRAG Sustainability Reporting Board
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Dear members of the Sustainability Reporting Board,

BSR is a global business network dedicated to advancing just and sustainable business, working with our 300+ member companies and other partners from our offices in Europe, North America and Asia. Corporate disclosure and measurement of environmental, social and governance (ESG) topics are a critical building block to the creation of a just and sustainable world, which is BSR's mission.

We believe that effective mandatory sustainability reporting standards will enable companies to better understand and manage sustainability risks, opportunities, and impacts, resulting in improved business and sustainability performance. In addition, comparable, consistent, and reliable sustainability disclosure will enable informed decision-making by investors, contributing to the shift towards a just and sustainable economy and the achievement of the EU's social and environmental goals.

We commend EFRAG for its important leadership in developing the first set of standards as part of the full set of European Sustainability Reporting Standards (ESRS).

BSR would like to draw attention to some aspects of the standards that we believe could be improved to enable better sustainability performance, including (1) the granularity of the requirements, (2) alignment with other standards, (3) the definition of materiality, (4) the rebuttable presumption concept, (5) the presentation of the standards, (6) the application of the concepts of boundaries, restatements, and value chain, (7) the use of estimates, (8) targets, (9) the overall format of the statements, (10) the phasing in of disclosures, and (11) the use of entity-specific disclosures.

We offer these comments in the service of improved reporting standards that are best positioned to achieve our shared desired outcome of improved sustainability performance by companies and the achievement of EU sustainability policy objectives. BSR's comments draw upon 30 years of experience working with our global member companies on a wide range of sustainability topics and practices. Our point of view is anchored in our hands-on experience in supporting companies implementing best practices regarding globally accepted standards to advance sustainability within companies, including extensive experience in reporting and disclosure.

(1) Granularity of the disclosure requirements

The disclosure requirements outlined in the exposure drafts demand a level of detail and specificity that goes beyond standard reporting practices, even those of advanced reporters. While BSR appreciates that the standards should be ambitious as well as specific and prescriptive to deliver comparable disclosures, we question whether all the elements of each disclosure are in fact decision-useful for stakeholders. We have also found that several disclosures seem too academic in nature and would be hard for companies to report on in a meaningful and practical manner. For example, disclosure requirements related to processes for engaging with value chain workers (S2-2), channels for value chain workers to raise concerns (S2-3) or the application guidance on the relationship between material risks and opportunities arising from impacts and dependencies on value chain workers and its strategy and business model (S2 – AG 7-8) remain too conceptual and will be difficult for many companies to apply. *Please refer to both part 11 of this letter on feasibility and phasing-in of disclosure and our survey submission for additional feedback on topic specific disclosure requirements.*

BSR fears that the high level of depth and detail will result in companies prioritizing disclosure compliance over performance improvement. We support the disclosure requirements to the extent that compliance with them does not (1) overshadow the most decision-useful information and (2) divert resources away from sustainability performance improvement. There is an opportunity to streamline and simplify the disclosures by further aligning the disclosure requirements to GRI's core reporting requirements (rather than GRI's recommended or optional indicators), or by applying a phased-in reporting approach that focuses on "must-have" disclosures rather than "nice-to-have" disclosures.

(2) Alignment with other standards

There is an opportunity to further align the disclosure requirements with established standards (such as the GRI) and emerging reporting standards (such as the SEC's draft climate rule and IFRS Standards). We believe that harmonization is fundamentally important to creating a system that maximizes impact and achieves efficiency and comparability. Even minor differences in language between different reporting standards present the risk that companies will need to spend time and resources developing different disclosures concerning the same topics but for different jurisdictions. We invite EFRAG to further work towards the alignment of outlined disclosure requirements with those of the IFRS Sustainability Reporting Standards and the SEC climate rule. We also invite EFRAG to carefully consider GRI's comment letter for detailed alignment to the GRI standards. BSR also supports GRI's feedback to clearly label disclosure requirements in the ESRS that have been leveraged from the GRI Standards.

(3) Double materiality

BSR fully endorses the concept of double materiality. We support the requirement that companies should assess financial and impact materiality in separate assessments and clarify to the report user whether a topic is material from a financial perspective, an impact perspective, or both.

However, we believe that the proposed definition of impact materiality is too broad and lacks the concept of prioritization. It will be challenging for companies to identify and establish thresholds for potential significant impacts in the long term, as the likelihood of impact increases over time. We believe the GRI's definition of materiality is clearer and more focused, and we encourage EFRAG to align the definition of impact materiality with the GRI's definition. The GRI standards are the world's most widely used standards for sustainability reporting, and many companies are already familiar with or are using the GRI's definition of impact materiality. Harmonizing materiality definitions will lower the barrier to implementation, and achieve the priority goal of harmonization, which will be especially helpful given the rapid timelines for ESRS implementation.

Similarly, we encourage EFRAG, the ISSB and the SEC to align their definitions of financial materiality because multiple definitions will make it difficult for companies to report across jurisdictions. Absent an explicit common definition of the financial materiality, BSR recommends that EFRAG work with jurisdictions to ensure that reporting against one regulator's materiality definition or requirements satisfies the requirements of another, or is accepted by them. In conclusion, BSR advocates for a definition which should be consistent, interoperable, and substitutable.

Lastly, we believe that EFRAG should also clarify and provide additional guidance for report preparers on how to conduct a double materiality assessment. In the draft standards, guidance on how to conduct a materiality assessment is spread out across many disclosure principles, disclosure requirements, application guidance, and topical standards, making it hard to understand the requirements. Companies would benefit from additional guidance, similar to how the GRI provides guidance on impact materiality in GRI 3 Material Topics 2021 (p. 7-15).

(4) Rebuttable presumption

BSR does not support EFRAG's proposal of the rebuttable presumption. We believe it will be difficult and resource intensive for companies to prove a topic is not material based 'reasonable and supportable evidence', adding an unnecessary layer of complexity. Companies may be pressured to report on topics that are not relevant to them because they are unsure how to prove a topic does not meet their thresholds for materiality, leading to less concise, less focused, and less decision-useful reporting.

We think the concepts of materiality and thresholds are best applied at the level of a topic (defined as sub-sub-topics in the standards, e.g., forced labor, anti-corruption, etc.) rather than at the level of an individual disclosure requirement. We suggest revising the language (General Principles, paragraph 59) to clarify that the materiality assessment is applied to topics, rather than individual disclosure requirements.

(5) Architecture and presentation of the standards

There is an opportunity to streamline the standards to avoid duplication and make them easier to understand and navigate for report preparers. BSR is concerned that the overall presentation of the standards results in unnecessary duplication of content within the cross-cutting and topical standards, and this is especially the case for general strategy, governance and materiality, policies, targets, action plans and resources. These are repeated throughout, and for clarity BSR agrees with GRI's feedback that they should be consolidated in the cross-cutting standards.

(6) Boundaries, restatements and value chain

BSR agrees that the boundary for the sustainability statement should mirror that of financial reporting, extended to the company's upstream and downstream value chain.

However, the concepts of boundary become complicated to apply in the case that a company undergoes mergers and acquisitions throughout the year. Companies go through mergers and acquisitions on a frequent basis, sometimes with multiple small entities. While the draft standards request estimates in the reporting boundary, we believe overusing estimates could be misleading and unhelpful. It would be a cause for adding additional disclaimers and footnotes to explain how the estimates were developed, instead of simply explaining the reason for not including them. BSR suggests establishing thresholds for when an entity could be considered out of scope for disclosure.

Lastly, the draft standards require that in the event the reporting boundary changes from one year to the next, a company would need to restate past data to align to the current year's boundary. BSR feels that this could be misleading as it is not indicative of past performance. BSR supports GRI and the ISSB's handling of restating data, which requires the restatement of data when there are changes in the reporting period, in measurement methodology, or definitions used.

(7) Estimates

BSR feels that the current exposure drafts rely too heavily on the use of estimates when data is not available or difficult to collect. We believe that EFRAG should propose a "comply or explain approach" via omissions for disclosures beyond a core set, in line with the approach of the GRI standards.

Relying on estimates can be misleading and, in some cases, could lead to claims of greenwashing. Companies should be given the opportunity to explain that although data is not available in the short term, it will be made available over time, and include the timebound steps the company is taking to close the data gap. This would enable accountability for a company's actions, and also signals that the company is prepared to take the necessary steps to ensure data integrity and reliability, rather than a reliance on estimates which may or may not have a large margin of error.

In the case the use of estimates is required, companies should be able to use a limited-liability statement, but it is not clear from the current exposure drafts whether this is permitted.

(8) Targets

According to ESRS 1, if there are no targets in place, the company needs to provide reasons why 1) a target may not be applicable, 2) whether there are plans for targets in the future, and 3) why a company may not choose to use a target (ESRS 1, paragraph 101). We believe this sets an unreasonable expectation that companies should be setting measurable outcome-based targets across all risks, opportunities and impacts. There is a risk that this will result in companies establishing targets across several topics where targets may not be relevant, meaningful, or useful.

(9) Format of statements

BSR believes that the standards should allow more flexibility with regard to referencing disclosures inside of the management report. This would improve the overall usability and avoid duplication within the management report when information is found in other sections. Companies should be allowed to provide detailed information (e.g., detailed descriptions of policies, or workforce data broken by country of operation) in annexes to improve the readability of the report.

(10) Feasibility and Phasing-in

BSR was pleased to see that the provisional agreement on the CSRD has phased-in disclosures related to a company's value chain. This development was a necessary step to ensure that companies will have sufficient time to put in place systems to reliably collect data and engage with their stakeholders across the value chain.

We recommend identifying within the standards additional disclosures as optional or consider phasing in certain topic-specific standards or disclosure requirements (e.g., biodiversity disclosures; especially those which relate to target setting and deviate from TFND recommendations). In many cases, protocols for reporting on such topics are immature, which risks mandating disclosure of information that may be less than fully accurate. Considering all disclosure requirements must be audited, we believe it is important to consider a more scaled approach.

(11) Use of entity-specific disclosures

As per ESRS 1 paragraph 153-154, it is unclear whether it is proposed to completely phase out entity-specific disclosures over time as sector specific standards are created. BSR feels that companies should be allowed to continue to disclose entity-specific information as they deem it relevant and appropriate. In many cases, even sector-specific disclosures do not accurately account for a company's full assessment of the impact on a particular topic. This will likely continue to be relevant as companies continue to grow, expand, and pursue new business models and strategies. It is in the best interests of all stakeholders to receive concise and applicable disclosures for each company that fits that company's specific context via entity-specific disclosures.

In conclusion, BSR strongly commends EFRAG for the tremendous effort which went into creating these sector agnostic standards. BSR is looking forward to the continued development of the ESRS and will eagerly await the final drafts. We believe that these exposure drafts are an important first step toward achieving our common goal of improved company disclosure and sustainable outcomes for all. We encourage EFRAG to take these comments into consideration when finalizing the exposure drafts and to work towards increased alignment with other global frameworks and standards (i.e., SEC, ISSB and GRI) to maximize the efficiency, effectiveness and impact of reporting and disclosure to advance resilient business and a more just and sustainable world.

Sincerely,

Aron Cramer

President and CEO

BSR