MSCI

8 August 2022

Mr. Hans Buysse
EFRAG (IVZW/AISBL)
35 Square de Meeûs
1000 Brussels (fifth floor)
Belgium

Submitted via EU Survey portal

Dear Mr Buysse,

Public consultation on first set of Draft European Sustainability Reporting Standards ("ESRS")

MSCI[1] is a leading provider of sustainability data and analytics to the global investment community and has collected climate and environment, social, and governance (ESG) related disclosures from thousands of companies globally for over two decades and developed tools to assist asset owners and managers in their analysis of climate and ESG risks and opportunities to their portfolios.

MSCI welcomes the publication of the ESRS. MSCI supports the efforts of the European Financial Reporting Advisory Group (EFRAG) to develop the ESRS to guide companies in scope of the EU Corporate Sustainability Reporting Directive (CSRD).[2] The sustainability information disclosed as a result of the ESRS will be critically important for investors and other users and will help direct capital towards those activities that will shape the transition to a more sustainable economy.

We are in broad agreement with the proposed requirements included in the various cross-cutting and topical ESRS and welcome the close alignment with the wider EU Sustainable Finance Action Plan, including the Sustainable Finance Disclosure Regulation (SFDR) and the EU Taxonomy for Sustainable Activities. We also welcome the effort to map the ESRS with global initiatives such as the Taskforce for Climate-related Financial Disclosures (TCFD)[3] and the International Sustainability Standards Board (ISSB) Exposure Drafts.[4]

Sustainability-related data should be consistent, comparable and timely. Investors and users would benefit from such disclosures by being able to better assess the nature, size and timing of the ESG risks faced by companies. The ESRS will also provide an important double materiality perspective, and promote disclosures regarding the sustainability-related impact that companies are having on the environment and communities they operate in.
We have four general comments set out below and offer more detailed responses to the ESRS in Annex I to this cover letter:

[1] MSCI ESG Ratings, research and data are produced by MSCI ESG Research LLC.
[2] Proposal for a Corporate Sustainability Reporting Directive (CSRD) (EU Commission | 21 April 2021)
[3] Task Force on Climate-related Financial Disclosures Guidance on Metrics, Targets, and Transition Plans (TCFD | October 2021)
[4] ISSB delivers proposals that create comprehensive global baseline of sustainability disclosures (ISSB | 31 March 2022)

1. Enhanced quantitative disclosures are critical for users
MSCI welcomes the comprehensive nature of the ESRS and the inclusion of detailed disclosure requirements across multiple topical ESG areas. However, to further enhance the comparability and consistency of the information being disclosed, we suggest that increased quantitative disclosures should be mandated. Not only will this lead to a more holistic approach to sustainability reporting by undertakings, but it will also enable users to better compare the relative performance of undertakings across the topical ESG areas. For example, undertakings should disclose a full breakdown of their Scope 3 emissions including all 15 categories of Scope 3 listed by the GHG Protocol; undertakings should disclose the number of grievances reported by workers in their value chain. We provide further examples of quantitative indicators in Annex I.

2. Avoid duplicating disclosure requirements across the ESRS
The ESRS should prioritize avoiding duplication in its disclosure requirements. A failure to do so would compromise the ESRS' principle of understandability. To ensure clear and concise information, the same information should not be required in multiple formats and different locations. For example, the ESRS requires an undertaking to disclose its flood-related risks in more than one place, thereby leading to potentially fragmented information and data gaps. For ease of understanding and to avoid repetition, we suggest the ESRS to streamline its disclosure requirements by either removing any duplications or explicitly allowing cross-referencing. We elaborate the same in our response to Question 21, 40 and 42 in Annex I.

3. Double materiality is welcome, but more detail is needed
MSCI welcomes the identification of double materiality as a key principle for the identification of sustainability information. Many investors are interested in the impact that undertakings are having on wider environmental, social and governance issues. To ensure the information being disclosed via this double materiality lens is practically feasible for preparers and usable by investors and other stakeholders, the ESRS should remove the scope for subjectivity in double materiality assessments by providing clearer application guidance for undertakings on what needs to be included or excluded. Furthermore, we are of the view that disclosure of double materiality should also focus on the positive impact of undertakings' performance, and not just on the risks.

4. Interoperability of the ESRS and ISSB standards
We believe that the ESRS and the ISSB Exposure Drafts share common ground on a number of important areas including objectives, core requirements and disclosure points. This will promote interoperability between the two for both preparers and users. Both the ESRS and the ISSB will use digital data taxonomies to enable structured electronic tagging of an undertaking's sustainability disclosures. To further enhance interoperability, we would encourage close alignment between the respective data taxonomies of the ESRS and the ISSB. This would facilitate comparability of data across undertakings. We elaborated the same in our response to Question 3 in Annex I.

While the ESRS covers a range of issues, we comment only on those matters where we believe MSCI's expertise and experience are most relevant. Please do not hesitate to contact us to discuss our submission.

Yours sincerely,

/s Linda-Eling Lee
Managing Director, Global Head of ESG & Climate Research
MSCI ESG Research LLC

Annex 1– MSCI response to the Draft ESRS (Section 1 and Section 2)

1A. Overall ESRS Exposure Drafts' relevance – Architecture

Cross-cutting and topical standards

Q1: In your opinion, to what extent do the structure and articulation of cross-cutting and topical standards adequately support the coverage of CSRD topics and reporting areas? (Select one that applies)

Not at all

To a limited extent with strong reservations

To a large extent with some reservations

Fully

No opinion

We are of the view that the comprehensive coverage of the draft ESRS, including the cross-cutting and eleven topical ESRS, adequately supports the sustainability reporting areas outlined in Articles 19(a) and 19(b) of the CSRD regulation. This can be seen in the table included in the ESRS Appendix II document.

Alignment and interoperability with international standards and frameworks

Q2: In your opinion, to what extent is the TCFD framework of reporting areas (governance, strategy, risk management and metrics/targets) compatible with the structure of the ESRS? (Select one that applies)

Not at all

To a limited extent with strong reservations

To a large extent with some reservations

Fully

No opinion

We acknowledge that the ESRS closely aligns with the TCFD recommendations, and that the TCFD was used as a foundational component of the ESRS proposals. As can be seen in the table included in the ESRS Appendix IV document, all TCFD disclosure recommendations are included in the Exposure Draft ESRS E1 Climate Change. This includes the adoption of all seven of the cross-industry metrics suggested by the TCFD. In fact, in many places, the ESRS goes further by adding more detailed reporting requirements, building on the EU's double materiality framework. To ensure complete alignment and consistency, we would recommend that the structure of the ESRS follow the exact same four pillars of the TCFD.

Q3: In your opinion, to what extent does the approach taken to structure the reporting areas promote interoperability between the ESRS and the IFRS Sustainability Exposure Drafts? (Select one that applies)

Not at all

To a limited extent with strong reservations

To a large extent with some reservations

Fully

No opinion

We believe that the ESRS and the ISSB Exposure Drafts share common ground on a number of important areas including objectives, core requirements and disclosure points. This will promote interoperability between the two for both preparers and users. To further enhance interoperability between the two Standards, we would encourage close alignment between the respective data taxonomies of the ESRS and the ISSB. Both the ESRS and the ISSB will use digital data taxonomies to enable structured electronic tagging of an undertaking's sustainability disclosures. In the case of the ESRS, the European Single Access Point (ESAP) will offer a single place for public financial and sustainability-related information about EU companies. Similarly, the ISSB is developing a sustainability disclosure taxonomy to facilitate the extraction and use of sustainability-related information disclosed through the ISSB Standards.

EU policies and legislation

Q4: In your opinion, have these European legislation and initiatives been considered properly? (Select one that applies)

Not at all
To a limited extent with strong reservations
To a large extent with some reservations
Fully
No opinion

We acknowledge that careful consideration has been given to ensure that the ESRS take into account other major pieces of EU regulation and legislation. As can be seen in Appendix III of the ESRS, the SFDR Principle Adverse Impact (PAI) indicators are covered by the ESRS disclosure requirements, thereby ensuring that financial market participants have the necessary information they need to meet their SFDR-related reporting obligations.

Q5: Are there any other European policies and legislation you would suggest should be considered more fully?

The ESRS should take into account the EU Corporate Sustainability Due Diligence (CSDD) Directive. On 23 February 2022, the European Commission adopted a proposal for the CSDD Directive, aimed at fostering responsible corporate behaviour by embedding environmental considerations and human rights into companies' operations and corporate governance. The CSDD Directive will ensure that these companies address and avoid adverse impacts, including along their value chains. Considering the similarities of scope and topics between the CSDD and the CSRD, we believe the ESRS should consider more fully the CSDD in the final Standard. As undertakings subject to the CSRD/ESRS will report on the CSDD requirements, consistency and alignment between the CSRD/ESRS and the CSDD is important.

Coverage of sustainability topics

Q6: In your opinion, to what extent does the proposed coverage of set 1 adequately address CSRD sustainability topics? (Select one that applies)

Not at all
To a limited extent with strong reservations
To a large extent with some reservations
Fully
No opinion

Please refer to our response to Question 1.

Q7: In your opinion, to what extent does the proposed coverage of set 1 (see Appendix I) adequately address SFDR reporting obligations? (Select one that applies)

Not at all
To a limited extent with strong reservations
To a large extent with some reservations
Fully
No opinion

Sustainability statements and the links with other parts of corporate reporting

Q8: Do you agree with the proposed three options?

Yes
No
No opinion

We agree with the EFRAG proposals that all disclosed information should be in a single and easy to access place such as a single identifiable place in the management report.

Q9: Would you recommend any other option(s)? If so, please describe the proposed alternative option(s)

Please refer response to Question 8

Q10: In your opinion, to what extent do you believe that connectivity between the sustainability reporting and other parts of the management report has been appropriately addressed? (Select one that applies)

Not at all

To a limited extent with strong reservations

To a large extent with some reservations

Fully

No opinion

Q11: In your opinion, to what extent does the incorporation of information in the Sustainability section by reference to other parts of the management report support cohesiveness throughout corporate reporting?

Not at all

To a limited extent with strong reservations

To a large extent with some reservations

Fully

No opinion

Q12: In your opinion, to what extent do the requirements and provisions on how to include monetary amounts and other financial statement-related quantitative data into sustainability reporting support connectivity with the financial statements? (Select one that applies)

Not at all

To a limited extent with strong reservations

To a large extent with some reservations

Fully

No opinion

Listed corporates generally provide guidance to the market on future financial performance. Therefore, including quantitative information, either as a single-amount or range, on the financial effects of ESG risks in near-term or medium-term outlook would be beneficial for users of financial statements and the financial markets. From a risk perspective, it would allow users of the financial information to run their own sensitivity analysis using key quantitative information provided through the sustainability reports by undertakings.

Q13: To what extent do you think that the principle of relevance of sustainability information is adequately defined and prescribed? (Select one that applies)

Not at all

To a limited extent with strong reservations

To a large extent with some reservations

Fully

No opinion

We agree with the inclusion in ESRS 1 of data “relevance” as a fundamental principle of information quality. To further strengthen the concept of “relevance” of sustainability information, we would strongly encourage adding a reference to “sector-specific” disclosures into ESRS 1 as a step to improve the relevance of disclosed data to users. This would also facilitate the integration of information quality in the sector-specific standards which EFRAG is currently developing.

Q14: To what extent do you think that the principle of faithful representation of sustainability information is adequately defined and prescribed? (Select one that applies)

Not at all

To a limited extent with strong reservations

To a large extent with some reservations

Fully

No opinion

Q15: To what extent do you think that the principle of comparability of sustainability information is adequately defined and prescribed? (Select one that applies)

Not at all

To a limited extent with strong reservations

To a large extent with some reservations

Fully

No opinion

We believe that in some places across the various cross-cutting and topical ESRS, there is scope to further enhance the principle of comparability of information by including disclosure requirements for undertakings to publish more quantitative indicators and metrics. See our response to Questions 40, 43, 45 and 46.

Q16: To what extent do you think that the principle of verifiability of sustainability information is adequately defined and prescribed? (Select one that applies)

Not at all

To a limited extent with strong reservations

To a large extent with some reservations

Fully

No opinion

Q17: To what extent do you think that the principle of understandability of sustainability information is adequately defined and prescribed? (Select one that applies)

Not at all

To a limited extent with strong reservations

To a large extent with some reservations

Fully

No opinion

To ensure clear and concise information, the same information should not be required in multiple formats and different locations. For ease of understanding and to avoid repetition, we suggest the ESRS to streamline its disclosure requirements by either removing any duplications or explicitly allowing cross-referencing. We elaborate the same in our response to Question 21, 40 and 42 in Annex I.

Double materiality

Q18: In your opinion, to what extent does the definition of double materiality (as per ESRS 1 paragraph 46) foster the identification of sustainability information that would meet the needs of all stakeholders? (Select one that applies)

Not at all

To a limited extent with strong reservations

To a large extent with some reservations

Fully

No opinion

MSCI welcomes the identification of double materiality as a key principle for the identification of sustainability information for all stakeholders. Integration of sustainability into investment practice can take multiple forms, with some investors interested in the impact their investee companies are having on wider environmental, social and governance issues. Investors who follow a more value-based and impact-driven approach in their investment decisions will benefit from more enhanced, comparable and consistent disclosure from undertakings from a double materiality perspective.

Q19: To what extent do you think that the proposed implementation of double materiality (as per ESRS 2-IRO 1, paragraph 74b(iii) and AG 61) is practically feasible? (Select one that applies)

Not at all

To a limited extent with strong reservations

To a large extent with some reservations

Fully

No opinion

To ensure the information being disclosed is practically feasible, the ESRS should ensure the following points.

- **Remove the scope for subjectivity in double materiality assessments**
  In addition to carrying out double materiality assessments on all mandatory disclosures, ESRS 2 includes a requirement for undertakings to also disclose the results of double materiality assessments on areas which are not covered by the ESRS (DR2-IRO3). This adds a layer of subjectivity to the double materiality assessment that undertakings would need to carry-out.
- **Disclosure of double materiality information should also focus on positive impact**
  ESRS 2 includes a requirement for undertakings to provide a description of the process they use to identify material sustainability impacts, risks and opportunities (DR2-IRO 1). However, as can be seen in paragraph 74(b) of ESRS 2, this requirement only refers to the prioritisation of negative impacts and does not refer to prioritisation of positive impacts. Such information would be useful for investors and users of the data to see how an undertaking is contributing positively to environmental, social and governance issues.

Impact materiality

Q20: In your opinion, to what extent is the definition of impact materiality (as per ESRS 1 paragraph 49) aligned with that of international standards? (Select one that applies)

Not at all
To a limited extent with strong reservations
<u>To a large extent with some reservations</u>
Fully
No opinion

We appreciate that the ESRS definition of impact materiality aligns broadly with the UN Guiding Principles on Business and Human Rights. However, we are also aware that differences exist between the ESRS and the GRI, which is a leading standards used globally for impact materiality. We would therefore encourage closer alignment of the ESRS definition with the Global Reporting Initiative's (GRI) existing definition of impact materiality to help reduce confusion for preparers and users, and help achieve consistency in the reporting of impacts.

Q21: To what extent do your think that the determination and implementation of impact materiality (as proposed by ESRS 1 paragraph 51) is practically feasible? (Select one that applies)

Not at all
To a limited extent with strong reservations
<u>To a large extent with some reservations</u>
Fully
No opinion

The ESRS should prioritise avoiding duplication in its disclosure requirements for impact materiality as much as possible. Although there are understandable overlaps between the four broad disclosure areas of ESRS 2 (General Disclosure Requirements; Strategy and Business Model; Governance; Materiality Assessment), we find that there are a number of similar looking requirements which are repeated across ESRS 2, including impact materiality. For example, DR2-SBM3 requires undertakings to disclose how sustainability impacts inform their decision to adapt their strategy and business model. In DR2-IRO1, undertakings are again asked to disclose information on initiatives taken to adapt their strategy and business model as a result of sustainability impacts.

For ease of understanding of the users and to avoid repetition, we suggest the ESRS to streamline its disclosure requirements by either removing any duplicated requirements across ESRS 2 or to explicitly allow cross-referencing, so an undertaking is not required to disclose the same information in two or more different sections.

Financial materiality

Q22: In your opinion, to what extent is the definition of financial materiality (as per ESRS 1 paragraph 53) aligned with that of international standards? (Select one that applies)

Not at all
To a limited extent with strong reservations
To a large extent with some reservations
Fully
No opinion

(Materiality) Rebuttable presumption

Q24: To what extent do you think that the (materiality) rebuttable presumption and its proposed implementation will support relevant, accurate and efficient documentation of the results of the materiality assessment? (Select one that applies)

Not at all
To a limited extent with strong reservations
To a large extent with some reservations
Fully
No opinion

Considering that the rebuttable presumption criteria will be a new concept for most undertakings, we are of the view that ESRS should provide more clarity on how it expects undertakings to apply it in their materiality assessments. For example, ESRS 2 (AG 75) states that undertakings which deem a particular ESRS requirement as "not material" can apply nil disclosure for that issue. However, another section of ESRS 2 (AG76) states that even when a specific ESRS requirement is considered "not material for the undertaking", it does not exempt the undertaking from reporting disclosures on the issue. We therefore are of the view that since specific indicators are identified to be relevant, rather than excluding a specific metric totally, it also includes the statement that it is 'not material for the undertaking' or some means for the users to distinguish that this specific disclosure is not material. As stated in paragraph 59 of ESRS 1, an undertaking would anyway have to undertake an assessment at this scale of granularity so this requirement would not be burdensome for the undertaking.

We believe that sector-specific ESRS would provide more practical guidance for undertakings on the requirements relating to rebuttable presumption, as this would include industry-related application guidance.

Q25: What would you say are the advantages of the (materiality) rebuttable presumption and its proposed implementation?

We acknowledge that one of the key advantages of the inclusion of rebuttable presumption in the ESRS is that it will more strongly encourage the disclosure of a uniform set of comparable and consistent data for all undertakings. This will ensure that at the minimum, a core set of information is published by all undertakings, hence allowing users to make a more comprehensive comparison of how undertakings are performing across sustainability matters. For example, it may remove the potential for undertakings to deny materiality for key data like Scope 3 GHG emissions. Ultimately, this is helpful for a wide range of stakeholders including investors and policy makers.

Q26: What would you say are the disadvantages of the (materiality) rebuttable presumption and its proposed implementation?

Disclosure of information which may not be material for all undertakings; this may dilute actual material information

Reporting boundary and value chain

Q28: In your opinion, to what extent would approximation of information on the value chain that cannot (practically) be collected contribute to the reporting of understandable, relevant, verifiable, comparable, and faithfully represented sustainability information? (Select one that applies)

Not at all
To a limited extent with strong reservations
<u>To a large extent with some reservations</u>
Fully
No opinion

MSCI acknowledges that the disclosure requirements of ESRS expands the traditional reporting boundaries of many undertakings. The reasons for this are listed in ESRS 1 Paragraph 64. We therefore believe that the use of approximated external data by undertakings can play a role in meeting this requirement, as the actual reported data may currently not exist. The use of approximated information will still enable investors and users to better understand the risk, opportunities and impacts along the undertaking's value chain. However, the benefits of approximated data for users depend on the quality and consistency of the data. We would welcome further clarification and guidance in the ESRS around the use of approximated data.

1C. Overall ESRS Exposure Drafts relevance – Exposure Drafts content

ESRS E1 – Climate change

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)				X	
B. Supports the production of relevant information about the sustainability matter covered			X		
C. Fosters comparability across sectors			X		

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion
D. Covers information necessary for a faithful representation from an impact perspective			X		
E. Covers information necessary for a faithful representation from a financial perspective					X
F. Prescribes information that can be verified / assured					X
G. Meets the other objectives of the CSRD in term of quality of information					X
H. Reaches a reasonable cost / benefit balance					X
I. Is sufficiently consistent with relevant EU policies and other EU legislation					X
J. Is as aligned as possible to international sustainability standards given the CSRD requirements			X		

Q40: Please, rate to what extent do you think ESRS E1 – Climate change

Physical Risk – Location of largest facilities
We believe that ESRS E1 includes a comprehensive set of disclosure requirements to enable users to better understand the material climate change risks faced by undertakings. This includes DR E1-15 which requires an undertaking to disclose the effects from its exposure to physical risks. This is in line with the TCFD's set of cross-industry metrics. We believe that this requirement should be enhanced by requiring undertakings to disclose the precise location of the undertaking's ten largest operations, properties or processes and resource withdrawal/consumption if the asset is extraction based (e.g., water facility). This will allow users to apply their own analysis to better understand potential vulnerabilities faced by the undertaking such as asset impairment or stranding, value of liabilities and costs to business interruptions.

Scope 3 Emissions – Consistency with GHG Protocol
We are pleased to see that DR E1-9 requires undertakings to not only provide their gross Scope 3 emissions, but also list the breakdown of their Scope 3 emissions into specific categories of Scope 3 emissions. However, we notice that DR E1-9 only states 5 of the 15 categories of Scope 3 emissions as listed by the GHG Protocol. We would urge that DR E1-9 requires a breakdown of all 15 categories of Scope 3 emissions and also to use the same vocabulary / terminology as the categories listed by the GHG Protocol to ensure familiarity for both preparers and users.

Streamline similar Disclosure Requirements to avoid duplication
Disclosure Requirements E1-1, E1-2, E1-3 and E1-4 are similar in content and could be merged into a single overarching requirement under "transition plans". Mitigation and adaptation-related actions plans, policies and targets can all be considered key elements of an undertaking's robust and credible transition plan, therefore grouping them together as one disclosure requirement that will not only streamline reporting for the undertaking but also allow users to identify information regarding an undertaking's transition plan more easily.

ESRS E3 – Water and marine resources

Q42: Please, rate to what extent do you think ESRS E3 – Water and marine resources

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)				X	
B. Supports the production of relevant information about the sustainability matter covered			X		
C. Fosters comparability across sectors			X		
D. Covers information necessary for a faithful representation from an impact perspective			X		
E. Covers information necessary for a faithful representation from a financial perspective					X
F. Prescribes information that can be verified / assured					X
G. Meets the other objectives of the CSRD in term of quality of information			X		
H. Reaches a reasonable cost / benefit balance					X
I. Is sufficiently consistent with relevant EU policies and other EU legislation					X
J. Is as aligned as possible to international sustainability standards given the CSRD requirements			X		

Avoid duplication of targets disclosure
DR E3-2 requires undertakings to disclose the water and marine resources-related targets it has adopted to meet its objectives. However, as can be seen in paragraph 21 of ESRS E3, this includes targets related to factors already considered in other ESRS such as reduction in use of plastics, reductions in GHG emissions, etc. To avoid duplication and confusion for users, we believe that ESRS E3 should only include disclosure requirements which are specific to water and marine resources, which includes commodities of marine origin.

Streamline the definition of water-risks
In the application guidance around conducting water-related risk assessments (AG 11), ESRS E3 includes a requirement for undertakings to carry out flood risks. We note however that flood risk is a climate-related physical risk and is included in ESRS E1 Climate Change. We would therefore encourage ESRS E3 to remove the reference to flood risk as this is already captured more appropriately under climate change disclosures. Duplication of information on flood risk by an undertaking in two or more different places may lead to confusion for user.

Clearer definition of key suppliers
ESRS E3 requires undertakings to disclose a description of how they carry out an assessment of the water-related impacts and risks associated with their “key suppliers”. However, ESRS E3 does not provide an exact definition of what is meant by “key suppliers”, and whether this only includes an undertaking’s Tier 1 suppliers (suppliers it directly does business with) or whether this also stretches to Tier 2 and Tier 3 suppliers further down the value chain. We believe that ESRS E3 should be exact in its definition of “key suppliers” (i.e. Tier 1, largest suppliers, etc).

ESRS E4 – Biodiversity and ecosystems

Q43: Please, rate to what extent do you think ESRS E4 – Biodiversity and ecosystems

	Not at all	**To a limited extent with strong reservations**	**To a large extent with some reservations**	**Fully**	**No opinion**
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)				**X**	
B. Supports the production of relevant information about the sustainability matter covered			**X**		
C. Fosters comparability across sectors			**X**		
D. Covers information necessary for a faithful representation from an impact perspective			**X**		
E. Covers information necessary for a faithful representation from a financial perspective					**X**
F. Prescribes information that can be verified / assured					**X**
G. Meets the other objectives of the CSRD in term of quality of information			**X**		
H. Reaches a reasonable cost / benefit balance					**X**
I. Is sufficiently consistent with relevant EU policies and other EU legislation					**X**
J. Is as aligned as possible to international sustainability standards given the CSRD requirements			**X**		

The disclosure requirements included in ESRS E4 are comprehensive in scope and ambition. With more than half of global GDP being dependent on biodiversity and nature, ESRS E4 will provide investors and users with much-needed information to better assess how an undertaking is affecting and being affected by nature-related risks and opportunities. We would encourage ESRS E4 to include the following recommendations:

Align closely with the work of the Taskforce on Nature-related Financial Disclosures (TNFD)
In Disclosure Requirements E4-1, E4-2, and E4-3, we welcome the alignment to broader EU and global frameworks on biodiversity, namely the Post-2020 Global Biodiversity Framework, EU Biodiversity Strategy for 2030 and all relevant UN Sustainable Development Goals (SDGs). In addition to these frameworks, we would also encourage the ESRS E4 to be closely aligned to the work of the TNFD. The TNFD is developing a framework to guide firms on how to assess and incorporate biodiversity risks and opportunities. ESRS E4 should explicitly include disclosure requirements which align with the four assessment phases of the TNFD, which are Locate, Evaluate, Assess and Prepare (LEAP).

Greater specificity around biodiversity metrics
We are encouraged to see requirements for undertakings to disclose information on three groups of biodiversity-related metrics: (a) pressure metrics; (b) impact metrics; and (c) response metrics. However, to ensure greater comparability and consistency of data, we would encourage ESRS E4 to clearly list specific metrics it expects all undertakings to report, such as deforestation and mining. According to the TNFD, there are more than 3,000 different nature-related metrics in use today by standards bodies, policy making and regulatory authorities and in major scientific reference reports.

Biodiversity cuts across other ESG areas
We agree with ESRS E4 that biodiversity is a cross-cutting issue linked to some of the other ESRS. These related ESRS have been listed in paragraph 6 of ESRS E4: (a) ESRS E1 Climate Change; (b) ESRS E2 Pollution; (c) ESRS E3 Water and Marine Resources; (d) ESRS 4 Resource Use and Circular Economy. We believe this cross-cutting approach will allow investors and users to assess an undertaking's biodiversity risks and opportunities in a holistic way.

In addition to these ESRS, we think there are other ESRS which are linked closely with ESRS E4 Biodiversity which should also be listed. DR E4-2 includes a requirement for undertakings to disclose policies which protect local communities from the social consequences of biodiversity and ecosystem change. Therefore, we believe undertakings should also take into consideration ESRS S3 Affected Communities when looking at this.

ERS E5 – Resource use and circular economy

Q44: Please, rate to what extent do you think ESRS E5 – Resource use and circular economy

We are encouraged to see ESRS E5 focus on the importance of reusable and renewable resources as part of a circular economy. Without a significant change in policies and corporate behaviour, global material use could rise from 89 billion metric tons in 2017 to 167 billion metrics tons in 2060 (Refer: OECD. Global Material Resources Outlook to 2060: Economic Drivers and Environmental Consequences. Paris: OECD Publishing, 2019). We would encourage ESRS E5 to include the following recommendations:

Disclose alignment with relevant SDGs
We would encourage ESRS E5 to include a requirement for undertakings to disclose their net alignment to UN SDG 12 (Responsible Consumption and Production) as part of their policies to manage resource use and circular economy (DR E5-1). We note that alignment to relevant Sustainable Development Goals (SDGs) is included as part of the requirements in other ESRS, for example ESRS E3 Water and Marine Resources asks undertakings to disclose their alignment to SDG 6 (Clean Water and Sanitation).

More focus on reusable and recyclable resources
DR E5-1 requires undertakings to disclose policies aimed at decoupling their economic activity from the extraction of non-renewable resources. However, it is unclear how to define materials such as metals and glass, which are highly reusable and recyclable. Undertakings that use only metals could feasibly create a collection, cleaning and reuse cycle with a near zero-waste loop, but still not use any materials that are usually classified as renewables. Therefore, we would encourage for there to be greater focus on reusable, recyclable zero-waste policies in ESRS E5.

Consistency with EU Circular Economy Action Plan
We would encourage ESRS E5 to take into account the requirements included in the EU Circular Economy Action Plan, adopted in early 2022. The elimination of single-use plastics and other resources is a key feature of this Plan, however there are no disclosure requirements in ESRS E5 which will require undertakings to explain their policies or plans to reduce single-use resources. This will enable consistency in regulatory expectations and also of disclosed information on resource use and circular economy by the undertaking.

ESRS S1 – Own workforce

Q45: Please, rate to what extent do you think ESRS S1 – Own workforce

We acknowledge the comprehensive nature of ESRS S1. It includes the largest number of individual disclosure requirements out of all of the topical ESRS, showing the importance of undertakings to disclose information on how it treats its own workforce. We believe ESRS S1 covers all important workforce related factors, and can be further enhanced through the recommendations below:

Include quantitative indicators to enhance workforce disclosure
To enhance the usefulness, comparability and consistency of workforce data, we believe that more quantitative indicators should be added to the disclosure requirements. Quantitative data can be supported with the more qualitative descriptions already included in ESRS S1. But voluminous qualitative disclosure alone may limit comparability, objectivity and usefulness. For example, DR S1-22 on collective bargaining coverage should include the number of union-related strikes the undertaking has faced, etc. Quantitative indicators like these would help measure the severity of workforce-related controversies related to an undertaking's practices.

Enhance disclosure requirements on workforce diversity
We note that ESRS S1 does not include any requirements for undertakings to disclose how they are actively looking to enhance workforce diversity, and more crucially the outcome of those policies. ESRS S1 only includes requirements for undertakings to describe how they are giving equal opportunities to their existing workforce, but does not go further to include targets aimed at boosting the diversity of their future workforce. Furthermore, many of the disclosure requirements only include undertakings to provide a breakdown by gender (DR S1-7 Characteristics of the Undertaking's Employees; DR S1-9 Training and Skills Development; and S1-18 Pay Gap Between Women and Men). These disclosures should also require a breakdown between other forms of workforce diversity such as ethnicity, nationality, sexual orientation etc.

ESRS S2 – Workers in the value chain

Q46: Please, rate to what extent do you think ESRS S2 – Workers in the value chain

Include quantitative indicators to enhance disclosure on value chain workers
The disclosure requirements of ESRS S2 are largely qualitative and lack the quantitative disclosure components that users will need to credibly assess and compare how undertakings are taking into consideration workers across their value chain. For example, quantitative indicators could include requiring undertakings to disclose the number of grievances reported each year and track the trend and scope (e.g. percentage of total key suppliers). These grievances could include allegations of unsafe working conditions, inadequate pay, excessive working hours, etc.

ESRS S3 – Affected communities

Q47: Please, rate to what extent do you think ESRS S3 – Affected communities

	Not at all	To a limited extent with strong reservations	To a large extent with some reservations	Fully	No opinion
A. Covers sustainability information required by articles 19a and 19b of the CSRD proposal (see Appendix II for CSRD detailed requirements)				X	
B. Supports the production of relevant information about the sustainability matter covered			X		
C. Fosters comparability across sectors			X		
D. Covers information necessary for a faithful representation from an impact perspective			X		
E. Covers information necessary for a faithful representation from a financial perspective					X
F. Prescribes information that can be verified / assured					X
G. Meets the other objectives of the CSRD in term of quality of information			X		
H. Reaches a reasonable cost / benefit balance					X
I. Is sufficiently consistent with relevant EU policies and other EU legislation			X		
J. Is as aligned as possible to international sustainability standards given the CSRD requirements			X		

We are broadly supportive of the suggested disclosures. Our recommendations to improve the quality of reported information in ESRS S3 are set out below:

Clearer definition of “affected communities”
DR S3-1 requires undertakings to disclose their policies related to affected communities. We acknowledge that the table in Appendix A of ESRS S3 provides a high-level definition of who is regarded as an “affected community”. However, without a clearer definition as to how the undertaking defines or identifies “affected communities”, this may lead to the omission of some affected communities, i.e. people affected by degraded water quality downstream or to people immigrating to the area. ESRS S3 may want to also define how undertakings identify proper community ‘representatives’ as not all ‘leaders’ speak for all affected peoples.

Disclose compliance with UN Guiding Principles
In DR S3-1, when stating its human rights policy commitments that are relevant to affected communities, we would recommend undertakings to also highlight compliance with the UN Guiding Principles on Business and Human Rights, instead of just the UN Global Compact. The UN Guiding Principles are the global authoritative standard on how undertakings manage their impacts on people and communities. This would also align with other EU policies such as the minimum safeguards within the EU Taxonomy Regulation.

Frequency of raised concerns is important
DR S3-3 requires undertakings to describe the channels it has in place for affected communities to raise concerns directly with the undertaking. The disclosure of this information will enable investors and users to assess if a particular undertaking is taking necessary steps to engage effectively with the local population. However, we believe that to enhance this disclosure requirement and to provide a more accurate view of the impact an undertaking is having on affected communities, DR S3-3 should also require the disclosure of how frequently concerns are raised by the communities via the channels put in place. Without such requirements around scope and frequency of practices, undertakings may just provide qualitative descriptions of initiatives they have put in place, without giving an indication as to their effectiveness.