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MINISTERIO
DE ASUNTOS ECONÓMICOS
Y TRANSFORMACIÓN DIGITAL

icac Instituto de Contabilidad y Auditoría de Cuentas

Comment Letter on the EFRAG public consultation on European Sustainability Reporting Standards (ESRS)

European Financial Reporting Advisory Group
35 Square de Meeüs
Brussels B-1000
Belgium

Madrid, 8th August 2022

Dear Madam/Sir,

First of all, the ICAC would like to express that it fully supports the development of the Corporate Sustainability Reporting Directive (CSRD) carried out by the EFRAG reflected in the Draft European Sustainability Reporting Standards (ESRS). This initiative gathers the clear increase in the need for information on sustainability, which is expected to continue to grow for a broad range of reasons.

The non-financial, environmental, social and governance (ESG) performance of organizations is becoming more and more important to a variety of stakeholders, who are showing an increased interest in sustainability-related issues, due to both ethical and social motivations and their ability to alter companies' financial results. The decisions that are made in the financial markets are exponentially incorporating sustainability information into the analyzed data and a higher quality information is needed to improve the functioning of these markets. In addition, public authorities require this information to be accurate to help them define their actions, in particular to comply with the sustainability strategies of the European Union.

For this reason, the ESRS have been drafted considering EU policies and legislation. However, the ICAC recommends a revision to harmonize the terms already present in the EU regulation to facilitate the implementation of ESRS, for instance, taking into account the Corporate Sustainability Due Diligence Directive (CSDDD). In addition, we suggest that some of the current legislation be

C/ HUERTAS, 26
28014 MADRID
TEL.: 91 389 56 00
FAX: 91 429 94 86

more fully integrated in the ESRS, especially to avoid double reporting requirements of information when developing the sector-specific sustainability standards, for example, regarding to the ESG information requirements of Pillar 3 disclosures for financial institutions pursuant to the Capital Requirements Regulation.

In the light of the above we support the European Union's ambition to develop a corporate sustainability reporting regime based on the double materiality principle, with the potential of contributing to the global system that facilitates comparability and analysis, improve transparency, businesses and trade are global.

The ESRSs are consistent with other existing or planned international standards as the project published by the International Sustainability Standards Board (ISSB), although with some remarkable differences. We encourage a continuous process of convergence between both normative frameworks. Furthermore, recognizing that ISSB deals only with financial materiality, while ESRS has a double materiality perspective, it seems logical to expect that companies reporting under ESRS would also address ISSB requirements (however, the opposite is not likely by design), also considering that the ISSB proposal deals with a restricted scope compared to the ESRS. The fact that there is a strong alignment with the Global Reporting Initiative (GRI) is also appreciated, since the standards proposed by the GRI are to date widely accepted at the international level.

Between the significant differences, probably the most important relates to the consideration of the dual perspective of materiality and the materiality and the views, interests and expectations of all stakeholders. The expected benefits on the overall quality of sustainability reporting and, in particular, on its credibility with stakeholders, in our opinion, justify the potential costs to be borne.

Notwithstanding, we are aware of certain aspects that can be a major challenge for companies, especially for those companies that are less familiar with this type of information.

This is the case of the materiality assessment process in its dual dimension. Given that double materiality is a complex concept and the related application guidance seems limited and not detailed enough to implement a systematic and comparable process across undertakings, it appears that companies will need more guidance on how to conduct the materiality assessment.

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Other issues to mention are the extent of the information in the value chain (topics to be considered in the value chain and definition of the information to be acquired from these topics), or metrics that involve forward-looking analysis or assumptions about forecasted scenarios that leave a higher level of discretion with respect to the methodologies, content and presentation format of the proposed information, are issues that may compromise the principles of reliability and comparability. Accordingly, we encourage further guidance to help the preparers of the sustainability information to address these challenges.

The problem of a broad discretion for methodologies, for example, can be mentioned in ESRS 4 Biodiversity and Ecosystems, where the application guidance exposes different frameworks, data bases and tools without international agreed methodologies. Approved methods and KPIs need to be provided to the preparers in order to ensure data quality and avoid concerns about the information comparability.

Furthermore, we would like to point out the concerns about the level of detail and granularity of the draft ESRS. This level of detail and granularity may demand companies to ensure that they have adequate internal control systems and human resources are in place to monitor and manage the required information, especially those metrics that require accounting in non-financial units.

The foregoing is combined with the ambitious timeline proposed for the entry into force of the ESRS, which leaves scarce time for organizations to put in place the necessary reporting and data collection systems, and with the requirements of information in the value chain which leverage the complexity with high granularity. Therefore, it would be advisable to review some of the detailed information requirements to establish a reasonable ratio cost/benefit and, at the same time, not to undermine the quality of the information.

Having these reasons in mind, the ICAC reckons that the possibility for the implementation of phasing-in options relating to the most challenging requirements would be reasonable in the context of the sector agnostic standards, allowing more time to provide more guidance on the sector specific standards and widening the period for companies to prepare for this new framework with early application permitted.

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28014 MADRID
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We would like to finalize by acknowledging the work done by EFRAG PTFESRS, which has carried out a rigorous process of reviewing and harmonizing standards on corporate sustainability reporting in a short period of time, with the effort of providing the draft standards following a comparable architecture.

Please don't hesitate to contact us if you would like to clarify any point of this letter.

Yours sincerely,

Santiago Durán Domínguez

Chairman of the ICAC

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