

Prof Dr Kerstin Lopatta
Acting Chair
Sustainability Reporting Board
European Financial Reporting Advisory Group
(EFRAG)
35 Square de Meeûs
1000 Brussels
Belgium

Subject: EIOPA comments to the EFRAG consultation on European sustainability reporting standards – Exposure drafts ESRS 1 and ESRS 2

Dear Prof. Dr. Lopatta,

The European Insurance and Occupational Pensions Authority (EIOPA) welcomes the opportunity to comment on the EFRAG's Exposure Drafts (EDs) on the ESRS.

EIOPA strongly supports the improved transparency that will result from the Corporate Sustainability Reporting Directive (CSRD). Insurance undertakings play a significant role in achieving the objectives of the European Green Deal. In particular, increased transparency on corporates – investee companies - will help assess sustainability risks which may impact on financial stability and will enable to achieve the objectives of the EU Sustainable Finance Action Plan, such as the prevention of greenwashing.

EIOPA welcomes the consistency of the ESRS with other EU policy requirements such as the Sustainable Finance Disclosure Regulation (SFDR) and the Taxonomy Regulation. The data on the corporate's impact on the environment and society will also be useful for the disclosures of investors, such as insurance undertakings and pension funds, on the Principal Adverse Impacts of their investments under the Sustainable Finance Disclosure Regulation.

EIOPA provides below its comments to few number of EDs focusing on ESRS 1 '*General principles*' and ESRS 2 '*General, strategy, governance and materiality assessment*'.

EDs ESRS 1 '*General principles*' and ESRS 2 '*General, strategy, governance and materiality assessment*'

Alignment and interoperability with international standards and frameworks [survey Q3]

EIOPA supports the work on European standards on sustainability reporting. The ESRS should first and foremost serve the objectives of the CSDR and more broadly of the EU Green Deal and the Sustainable Finance Action Plan.

In order to ensure consistency with sustainability-related standards at international level, EIOPA calls on EFRAG to improve the alignment with the ISSB's ED IFRS S1. EIOPA takes note of EFRAG

reconciliation table in Appendix V of the Cover Note, but believes more alignment is needed in terms of the terminology used when referring to the same concepts, for instance the concept of financial materiality. EIOPA encourages EFRAG to seek a closer cooperation with the ISSB during the finalization of their Standards and to agree on a common reconciliation table with the ISSB.

EIOPA also supports the CSRD objective that European standards should reduce the risk of inconsistent reporting requirements on undertakings that operate globally by taking into account the content of global baseline standards to be developed by the ISSB, to the extent that the content of the ISSB baseline standards is consistent with the EU's legal framework, the objectives of the European Green Deal and the corresponding language in the European ESRS standards.

EIOPA welcomes the double materiality approach embedded in the CSRD, as sustainability matters may become material when they translate into effects on people or the environment (impact materiality) or on the financial position of the undertaking (financial materiality). In addition, EIOPA notes that sustainability impact may become financially material when it translates into financial effects. The relationship between these two aspects of materiality would merit more clarification in the ESRS standards and also in the IFRS Sustainability Standards. That would help in improving the consistency between the two sets of standards.

Materiality assessment

It is crucial that EFRAG provides adequate guidance to issuers on how to implement the materiality process.

EIOPA noted that in the basis for conclusions of ESRS 1 EFRAG explains that the rebuttable presumption was considered "necessary and appropriate to manage the amount of mandatory disclosure requirements under ESRS". EIOPA is of the view that materiality considerations should not be intended as a way to primarily reduce the reporting burden or pursue proportionality purposes.

Reporting boundary and value chain [Survey Q28]

The draft ESRS defines the reporting boundary expanding the scope of the financial statements to the upstream and downstream value chain. Due to the lack of guidance and criteria for identifying the value chain and the process to be followed for the identification, it is not straightforward to determine to what extent would approximation of information on the value chain that cannot practically be collected, contribute to adequately represent sustainability information as intended by the standards.

Application guidance

EIOPA suggests that all requirements are presented in the ESRS and that the application guidance is limited to the provision of explanations and guidance. At the moment, the application guidance seems to also include requirements.

Prioritisation/ phasing-in [Survey Q57]

EIOPA recommends providing companies with sufficient time to implement the ESRS to ensure that the reporting is not too burdensome.

Yours sincerely,



Petra Hielkema

EIOPA Chairperson

CC: Saskia Slomp, EFRAG CEO