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EFRAG consultation on European Sustainability Reporting Standards Exposure Drafts

A Eurelectric response paper

July 2022

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:
- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

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WG Financial Regulation & Market Integrity
WG Social Sustainability

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EFRAG's consultation on European Sustainability Standards Exposure Drafts

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Eurelectric – the European sector association representing the electricity industry - fully supports the overall aim of the CSRD, to enable companies to better report reliable and comparable sustainability information to financial market participants, with the establishment of a set of common sustainability reporting standards to help achieve this.

The European Sustainability Reporting Standards should aim at helping companies provide information that is proportionate, understandable, verifiable and comparable. Excessive reporting obligations discourage investment, including investment to reach sustainability objectives.

In this paper, we highlight European power sector's main feedback points on the exposure drafts that we believe are important for the future reporting of sustainability information by our members.

Our feedback below is based on the following understanding/assumptions:

- All disclosure requirements, deemed to be material by a company (using the concept of double materiality), shall be presented in the 'Management Report', which is to be understood as the Management Review section of the Annual Report.
- Reporting sustainability information in a separate report will no longer fulfil requirements due to the draft CSRD amending Article 19a of Directive 2013/34/EU.

General comment

The framework is comprehensive and rather complex in its structure.. The level of detail stipulated by the disclosure requirements will not allow stakeholders to get a high-level overview of the business and its performance. This would go against the efforts made by companies in recent years to improve the readability and usability of the annual reports with a strong focus on key users' needs. We call on EFRAG to ensure that the European Sustainability Reporting Standards help companies provide information that is proportionate, understandable, verifiable and comparable and ensure a reasonable administrative burden not to discourage investment. Below, you will find concrete proposals from our side to simplify and streamline the framework, while also giving the reporting companies some discretion over what information is prominently featured in presenting the situation of the company.

As another general reflection, many terms in the framework are used interchangeable leaving doubts about their precise meaning and definition. A longer phase-in period is therefore foreseen either de facto or as an anchored way forward, cf. also specific comment below.

Furthermore, we suggest not to encourage organizations to approximate data. Asking organizations to approximate missing information in cases where data is unavailable for the upstream and downstream value chain goes against the objective of faithful representation and comparability.

Comparability with international standards & alignment with EU legislation

The power sector needs a strong alignment of sustainability standards globally to avoid a fragmentation of reporting requirements around the world. To do so, EFRAG should closely follow and take into account the ongoing work of the Global Reporting Initiative (GRI), the International Sustainability Standards Board (ISSB) and Greenhouse Gas Protocol (GHGP) on global sustainability reporting standards. Despite good intentions, deviation from these global standards unnecessarily hinders the implementation of an effective and appropriate disclosure of ESG-related information. Thus, in cases of differences between the standards, it should only be 'add-ons', eliminating any conflicts or incompatibility. Further, in the case where some European sustainability reporting standards would go beyond global standards, such disclosure requirements should be accompanied by a phase-in approach, not least because it will require ambitious and wide-ranging IT implementation.

An example of information where the proposed standards go further than current international standards and where there is a need for reconsidering whether the information requirements are going too far is that required by the governance standards (2-GOV #2-4) concerning the manner senior executives and other internal staff interact with the governance bodies on sustainability matters, etc. Therefore, in order to guarantee international alignment, we strongly encourage making interoperable standards (EFRAG, IFRS, SEC).

An example of where the proposed standards go further than international standards and where a phased-in period could be relevant is the detailed information on the value chain (e.g. types of entities, contractual terms) bearing in mind the wide number and range of suppliers that exist in the supply chains of the vast majority of companies. Another example is Disclosure Requirement 2-SBM 2 (– Views, interests and expectations of stakeholders) requiring additional information on stakeholder views, interests and expectations and how the strategy and business model(s) are impacted by these (e.g., stakeholders' current views of the undertaking's strategy and business model(s), the recent evolution of these views, how and what steps it has taken to amend its strategy and business model(s) to address these)

Last but not least, a strong alignment with the CSDD directive and national due diligence initiatives should be guaranteed to reduce reporting burden.

Presentation of the sustainability statements

Disclosing this information in the Management Report at the level of detail stipulated by the disclosure requirements will not allow stakeholders to get a high-level overview of the business and its performance. This would go against the efforts made by companies in recent years to improve the readability and usability of the annual reports with a strong focus on key users' needs. Such efforts have led to easily readable annual reports which are recognised by users of these reports. One key element here has been the ability to avoid over-granular information in the

Management Report and instead supplement this with a sustainability report on the website as a separate report even though it is a part of the annual report and is filed on the same date.

As an example, the standard requires detailed information on policies. We agree that policies can be relevant for external stakeholders. However, e.g. allocation of responsibilities, third-party standards of conduct used, etc. are quite granular information which blurs the main issues and it, thus, stands to reason that this information should only be disclosed via a link to a homepage or similar.

In our opinion, reporting all ESG disclosure requirements in the Management Report is not feasible, regardless of the presentation options:

- Option 1 (i.e. separate sustainability section),
- Option 2 (i.e. four separate sections – general, environment, social, governance)
- Option 3 (i.e. information located standard by standard or groups of disclosures with a reference table).

Eurelectric therefore strongly recommends a 4th Option. Thus, in **place of the requirement to disclose all sustainability information within the Management Report, we shall urge for a 4th option allowing for more flexibility as to where the information must be presented** (i.e. to allow for a summary in the annual report and retain the current ability to report detailed sustainability information in a separate report(s) coordinated with the Management Report and jointly released.) In order to achieve this, we would suggest the following, building on the structure outlined in ESRS 1 6.2 and duplicated in ESRS DR2-GR 1 6c (cf. also Q9 of the EFRAG consultation):

Proposed amendment:
"The undertaking shall disclose the presentation option selected for its sustainability statements from the four available options:
…
(d) integrating the general information into the corresponding elements or logical parts of the management report and/or provide the information in separate, identifiable parts of the management report. Information in the topical ESRS's can also be provided as separate and identifiable notes after the notes to the financial statements e.g. the performance measurement disclosures and associated data tables. This could also include a specific disclosure covering the policies required under different ESRS's. In this case, the notes shall also include an index to general information integrated into the management report and the identifiable sections of the topical standards."

Rationale:
The fourth option is envisaged to support the understandability of the annual reporting package and to foster integration and thus the connectivity between sustainability reporting and financial reporting. Indeed, this option will allow the undertaking to provide a more complete picture of the business model, risk descriptions etc. Allowing for information in a separate disclosure section supports the readability by ensuring that the management report is not cluttered by long data appendixes. This will support the transition to a more sustainable economy by encouraging a more integrated approach. Since information is going to be digitally tagged, accessibility for professional users will be further supported by the opportunity of extracting the information through ESAP and the possibility of reordering as they find it necessary for their data analysis purposes.

In other words, the idea behind Option 4 is thus not to publish less information but to **increase readability and usability through references and appropriate placement** of the information in question. All done, in a background where the disclosure of data will be audited by a third party.

Double materiality principle

Eurelectric generally supports the overarching concept and definition of double materiality and rebuttable presumption to help scope the topics a company needs to report on and to what level of granularity.

However, we would welcome further clarifications on the definition of double materiality and disagree with having to write explicit statements in the Management Report for those ESRS or group of disclosure requirements that are "not material for the undertaking" (ESRS 1 § 59) and thereby not reported on. It should be implicit that if a standard or set of disclosure requirements are not disclosed in the Management Report, they have been assessed by the company as not material, and the reasonable and supportable evidence for this has been presented to the auditors. This would be comparable to the existing approach in financial reporting where only relevant, material information is reported, without explicit reference to what is not material. **Furthermore, we encourage that the thresholds and/or criteria used to determine when a disclosure requirement is "not material for the undertaking" (ESRS 1 § 58) should not have to be explicitly disclosed by the company.**

In addition, we very much support the CSRD allowing for the materiality assessment and reporting on a company group level. It will otherwise have disrupted the readability and overview of the company's ESG efforts and performance besides being resource-intensive for companies to report on a subsidiary level.

We agree that there can be special situations where it makes good sense to report on subsidiary level for certain information. However, this should only be the case in very specific situations. Hence, guidance leaving any doubt in this regard would be appreciated as terms and wording in the CSRD leaves uncertainty with regard to how 'particularly significant' and 'substantially different' shall be interpreted

Connectivity with financial statements

Eurelectric supports the concept of cross-referencing between monetary amounts included in the sustainability section and relevant line items in the financial statements, as this will promote further coherence between sustainability and financial information. However, it may not be relevant or possible for some companies to disclose a monetary amount for specific disclosure requirements. **Furthermore, we believe that financial reconciliation for some of the disclosure requirements/data points to specific line items in the financial statements will likely not be possible for some companies.**

For example, disclosure requirement S1-9 (training and skills development indicators) § 57 (c) requires a disclosure of average expenses on training per FTE and a reconciliation of the total expenses with the most representative amount in the financial statements. In such a case, disclosing the number of training hours per person should be sufficient.

Moreover, we argue against the current approach of interlinkage of financial and sustainability information in the case proposal to use different consolidation boundaries (financial statements use full consolidation, sustainability report add companies under equivalent/partial consolidation).

As they will not provide comparable values and for each value (CAPEX/OPEX) reconciliation with reasoning with financial statements would be needed and could provide issue with assurance.

Practical challenges for non-employee workers in the undertaking's own workforce

We acknowledge that using non-employee workers in the undertaking's own workforce could be a way to circumvent the rules related to workers in the undertaking's own workforce (S1-7 and S1-8). However, in practical life such non-employee workers in the undertaking's own workforce are not part of the systems dealing with its workforce and, thus, information cannot be extracted to the same level of detail as it is the case for the company's own workforce.

We are aware that it is a challenge to make requirements able to handle this practical circumstance. However, we shall urge EFRAG to look for ways to relax the data requirement on non-employee workers in the undertaking's own workforce, possibly through an obligation for the third-party assurance to validate that there is no evidence of this semi-external workforce being used to conceal information related to own workforce.

Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability

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