

EFRAG Sustainability Board
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Dear members of the boards,

1. Tweeus is a Dutch consultancy firm with a focus on lease business and lease accounting. Tweeus is committed to good quality non-financial information in Annual Reports and has been involved in the very early stages of the European Reporting Lab from which the Climate-related Reporting was chosen as first priority.

In view of the historic focus and the important role leasing transactions play in the transition to a greener world, Tweeus provides the below comments and observations to Set One of the Exposure Drafts on Sustainability Reporting.

2. Overseeing global initiatives on Sustainability Reporting, three major actors stick out: the United States' Securities and Exchange Commission, SEC, the international ISSB and EFRAG drafting ESRS standards on the basis of Europe's CSRD legislation. Earlier initiatives like the Global Reporting Initiative, GRI, have been or are being incorporated in one of the three actors mentioned.

3. With the SEC covering a major part of global investment values and Europe developing a broader set of guidelines than SEC and ISSB, it looks like the attempts by ISSB fall short of gaining sufficient ground for an own set of standards. Jurisdictions outside USA and Europe may as well choose voluntary alignment with SEC and ESRS.

Tweeus has suggested to IFRS Foundation and ISSB to abort ISSB-own developments and have the IFRS Foundation stimulate the existing resources to work as closely as possible together with both SEC and EFRAG (for the E-element in the ESG domains);

4. Tweeus strongly support EFRAG's cooperation with SEC and ISSB and EFRAG should insist on an open and transparent inclusion of existing global regulatory developments of e.g. GRI and others.

The use of the skills developed by these early initiators of comprehensive value reporting need to be safeguarded and available to all actors. At the same time, costly and unnecessary overlay of management (ISSB Board) and staff actions should be prevented and/or better aligned.

5. Tweeus believes that an even better, holistic, approach is required to combine the themes in financial and sustainability reporting.

6. Based on above observations, Tweeus suggests

- a. EFRAG to coordinate requirements between its Financial Reporting and Sustainability Reporting Boards
- b. EFRAG to press the IFRS Foundation to improve focus on its financial accounting reporting duties
- c. EFRAG to improve the safeguards for limited SME reporting requirements in this early stage of Set One and fully commit to CSRD's requirements in respect of avoiding onerous (legal) reporting requirements in order to realize an high acceptance rate under all economic entities.
- d. EFRAG to consider proportionate reporting requirements of sustainability items in the Management Report.

7. The rationale for item 6a is among others, with a reference to IASB's Third Agenda Consultation and as an example the topic of Circularity, that a fundamental reset of required information is needed.

As far as the example of Circularity is concerned, it is one thing to report for sustainability purposes on the usage of physical assets for a longer term, usage by consecutive parties and/or with an ability to reuse components of the assets, it is another issue how to optimize financial accounting requirements for circular assets or components without impeding or distorting the financial structure of an entity's annual reports.

It is within EFRAG's mandate to convince the IFRS Foundation that proposed items in the Third Agenda Consultation (approved by now) are not sufficiently in line with sustainability reporting developments; one cannot simply stick to an agenda for a multi-years period without amendments in these agile times. Circularity might be one of the missing items, but other items from the ESRS Exposure Drafts may be identified as well.

8. The rationale for item 6b follows directly from the point mentioned under 7. Whereas EFRAG relies on the work of the IASB, the IFRS Foundation should focus all its efforts on financial reporting.

9. Reporting by SME's is not covered within the Set One Exposure Drafts and it may be felt that therefore requirements-to-be for SMEs may be(come) prohibitive. The CSRD has some say in this, but it requires inclusion into national law to implement; EFRAG should be clear how to support SMEs in the sustainability reporting transition early on; in ESRS terms: create a do-not-significantly-harm surrounding.

10. Another topic of concern is about materiality. There is the notion that first all information needs to be available to be able to assess whether items are material.

This results in an uncompromising level of detail which may become available over time but certainly shouldn't be required from the very start. And even then, judgement, discussions with assurers and the public (investors) will continue as an entity has to prove the relevance of (not) disclosed material information.

11. The rationale for item 6d is that the massive number of reportable items on sustainability, apart from who might or should provide assurance to the figures presented, requires a fundamental review of the way Notes to the (financial) statements are presented.

Imposing mandatory inclusion in the Management Report of all sustainability items is not helpful to have management identify itself with sustainability issues. It is better to have management identify a subset of issues that really have highest priority (inside-out) and largest impact for the entity (outside-in) and include that subset in the management report and all other reportable items further down the Notes.

12. Last but not least is the topic of boundaries of the value chain.

The assessment of boundaries to the value chain is a challenging area. It would be helpful to provide clarity on this issue as entities struggle to grasp the concept and are fearful of unnecessary discussion with in- and outsiders of the entity. One should avoid losing time on discussions in this area.

Should you wish to discuss the comments further, please, do not hesitate to contact.

Yours faithfully,

Henk Uunk, owner