



PUBLIC CONSULTATION ON THE FIRST SET OF DRAFT ESRS

THE POSITION PAPER OF IMPRONTA ETICA

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The initiative and its strategic importance: coherence and enabling framework

We are living in a **historical era of profound change** in which sustainability is increasingly recognized as strategically important and companies as the main driving force for a new development paradigm. Through clear and coherent legislation, **Europe is leading a new sustainable development model**. In this context, Impronta Etica believes that the European Commission and EFRAG works are an important revolution able to change the current paradigm and push companies to approach sustainability in a more strategic and integrated way.

Impronta Etica believes that the draft standards published by EFRAG (ESRS) are **consistent** with the Commission's proposal for a Corporate Sustainability Reporting Directive (CSRD) especially the general structure of ESRS, the selection of environmental, social, and governance (ESG) criteria and the importance given to the concept of double materiality.

The ESRSs are also **aligned with other European policies** such as the European taxonomy and the Financial Services Sustainability Disclosure Regulation (SFDR), which aim is to maximize the transparency of financial markets. Moreover, the connection between the ESRS and **other reporting standards** is overall clear and consistent, especially with the Global Reporting Initiative (GRI) - the main standard framework used by companies – there is an important link even if it can be improved.

Impronta Etica agrees with the **structure of ESRS** and considers the **principles** on which the draft standards are based relevant and fundamental in order to prepare a Sustainability Report with quality information. A relevant aspect is represented by the concept of **double materiality**, an ambitious concept able to guide companies towards a more strategic approach to sustainability. However, in order to apply double materiality, companies need to implement a specific capacity-building process.

How to make the change effective: practicability, feasibility, and alignment

To make the change effective, it is necessary to improve the **practicability, feasibility, and usability of the proposed standards**. The terminology and the language used in the text of the ESRS are not always clear then applicable to companies. The transition to ESRS will be difficult for all companies, which will have to get used to a new way of reporting their information. For this reason, there is a need to **structure an adequate capacity-building process**, especially for those companies that have not yet approached the issue. Impronta Etica believes the **indications must be given in a clear, concise, and coherent way** so that they can be easily understood and applicable by all. If this does not happen, the main risks are two: on the one hand, this can encourage the dynamics of greenwashing and on the other, this can mean an excessive increase in costs for businesses.

A positive evaluation is therefore recognized regarding the general structure identified by EFRAG, but Impronta Etica believes there is a need to clarify the **connection and the relationship between cross-cutting, topical, and sector standards** in which the boundaries are not always clear.

Although Impronta Etica agrees with the selection and definition of the general principles, there are some elements of **contradiction** within the draft of the standards themselves. More specifically, the **characteristics of information quality are not consistent with what is then required in the specific disclosures**, thus not guaranteeing a correct application of the principles themselves.

The ESRSs provide that the reporting boundary of the company also includes the upstream and downstream **value chain**. Impronta Etica considers this aspect **particularly challenging** for many companies that with difficulty can expand their reporting boundaries and reach quality information from their value chain. In this sense, companies must identify a new relationship with their external stakeholders who are not always sensitive to the issues and are so characterized by a lack of culture about sustainability issues.

Moreover, Impronta Etica notes a **lack of coherence and alignment between the ESRS and the International Sustainability Standards Board (ISSB) of the IFRS**, and the emission reduction targets established by the **Science Based Target Initiative (SBTI)**, defined to support companies to lead the way to a zero-carbon economy.

Finally, **the structure of the ESRS is particularly rigid** and, in some cases, it limits the narration of the data, the explanation of how the process was developed, and what the data refers to. In this sense, there is a **risk of losing valuable information**, useful for understanding the sustainability approach of the organization. This is also correlated to the choice to include the Sustainability Report within the Management Report.

Impronta Etica's proposals

Considering what is described above, **Impronta Etica suggests:**

1. **Prioritization of material topics.** Recognizing the importance of double materiality as a strategic element, Impronta Etica suggests allowing companies to freely structure their Sustainability Report by prioritizing the topics based on their strategic importance for the business.
2. **Glossary and definition.** To allow greater understanding and clarity, as well as greater usability of the documents, Impronta Etica suggests using hyperlinks - where necessary - to make references to other parts of the document and to better define some concepts (such as concepts of "reasonable", "verifiable" and "approximation") also through a clear, concise and coherent glossary, having as a reference the concrete applicability of the terms.
3. **Guidelines and practical tips.** To facilitate the real application of the standards, Impronta Etica suggests specifying how the ESRSs should be concretely applied also through the definition of guidelines, practical tips, toolkits, comparison tables between standards, and so on. These tools would allow companies to better understand the relationship between other standards.
4. **Simplify the ESRS.** Greater harmonization and simplification of ESRS is recommended. In this sense, Impronta Etica suggests highlighting more what is necessary to apply in mandatory terms and giving less but clear and concrete information.
5. **International vision.** Many companies impacted by the CSRD are inserted in international contexts. For this reason, Impronta Etica suggests taking into consideration the international contest and especially aligning the ESRS with the work of the International Sustainability Standards Board (ISSB) of the IFRS.
6. **Capacity-building process and multi-stakeholder dialogue.** Impronta Etica suggests improving the relationship and the collaboration between companies and institutions in order to create and implement an adequate capacity-building process for organizations. In fact, in this delicate phase, it is particularly important to accompany companies - especially companies that are at the beginning

of this path - which need to adapt to the new regulation. Furthermore, Impronta Etica suggests activating capacity-building initiatives in synergy with other stakeholders, especially with the value chain as this can be particularly critical for many companies.

In conclusion, regarding the **application timeline**, Impronta Etica agrees with the political agreement recently reached by the European Parliament and European Council on the timing of implementation of the CSRD and consequently of the ESRS. In particular, Impronta Etica believes that the deadline identified are coherent and represent a strong cultural stimulus for companies. Moreover, we must take into consideration the fact that even if Europe gives some time to companies to adapt, **the market is already asking for this kind of information** and so companies have to align with the expectation of their stakeholders. However, Impronta Etica believes that for some topics a gradual approach is necessary. For example, about expanding the boundaries including the upstream and downstream value chain, Impronta Etica suggests implementing a **gradual extension** based on the influence power that companies have on the external stakeholders and viceversa. The stronger the influence power is, the easier it will be to reach the data that the companies need from the stakeholder, on the contrary, companies with a low influence power need more time and an adequate culture and capacity building to reach that information.



Impronta Etica
via Toscana 19/a
40069 Zola Predosa (Bo)
info@improntaetica.org
www.improntaetica.org