



Mr Patrick de Cambourg
Chair
EFRAG Sustainability Reporting Board
35 Square de Meeûs
1000 Brussels

29th January 2024

Re: EFRAG Consultation on Draft Materiality Assessment Implementation Guidance, Draft Value Chain Implementation Guidance and Draft List of ESRS datapoints Implementation Guidance

Dear Patrick,

OIC is pleased to have the opportunity to provide its comments on the three draft implementation guidance.

General considerations

OIC has highlighted, during past consultations, the importance of EFRAG developing guidance on the most critical issues of the ESRS standards, such as materiality assessment and value chain, with the aim to help preparers in the implementation of the standards. Therefore, the development of materiality assessment and value chain implementation guidance by EFRAG is very appreciated, since they undoubtedly provide a useful reference for operators.

However, the expectation of the operators is that these guidelines can represent a tool to be applied in the implementation of ESRSs. To this end, it seems necessary to enrich the guidelines with more examples, at least on the most critical issues. On this point, it is noted that in para. 18 of the materiality assessment implementation guidance, EFRAG recognizes that *“market practice is currently developing for double materiality assessment and there are still no examples of sustainability statements prepared under the ESRS.”*

Although it is expected that the sector-specific standards will provide more detailed examples, we strongly recommend to evaluate the inclusion of examples on the issues reported below which would contribute to give a concrete idea of the application of the disclosure requirements, promote comparability, without undermining the principle that the assessments are always made at entity-specific level and is based on judgement.



Furthermore, in line with a comment already expressed by the OIC in the past, we highlight the need to continue working on interoperability with the ISSB, also with regard to the development of the implementation guidelines.

Finally, given that the guidelines should address critical issues of the standards, a more appropriate consultation period is recommended in the future.

Having said all that, please find below specific comments that take into account the contributions of our stakeholders represented in the OIC governance, which include the main categories of Italian industrial and financial operators.

Specific aspects on Materiality Assessment Implementation Guidance

Chapter 2 - Lack of examples of impacts without financial consequences

The guidance contains examples of impacts with financial implications, and of risks that do not arise from the impacts but from the undertaking's dependencies on natural and human resources.

There seems to be a lack of examples of impacts without financial consequences. Considering that double materiality is the key element that distinguishes the European approach from the ISSB global baseline approach, it would be useful to include examples of the application of materiality concept without financial effects in the guidance.

Chapter 3 – Adequacy of the materiality assessment process

The guidance contains a section on setting thresholds for the impact materiality. We agree with the flexible approach followed by the guidance, since setting thresholds of a given phenomenon depends on the specific context of each undertaking which has to exercise its own judgement.

However, it is expected that more precise indications on determining such thresholds will be provided in the sector-specific standards, leveraging features that undertakings, operating in the same sector, have in common. This, together with practices that will be consolidated in the coming years, is necessary to favour, at least at sector level, greater comparability in the materiality assessments.

Chapter 3.5 - Stakeholder engagement

The stakeholder engagement process assumes particular importance as part of the materiality assessment process, especially with regard to methods and timelines of their engagement. Also with reference to this aspect, the guidance leaves flexibility to undertakings.

It would be appropriate to evaluate whether it would be useful to include examples in the guidance on how to engage stakeholders and on the contribution that the dialogue with stakeholders can give in the different steps of the materiality assessment process. This could be useful especially to undertakings that are preparing to implement the sustainability disclosure requirements for the first time.

Chapter 5 FAQ 2 “What is meant by the undertaking being “connected” with an impact?”

Para. 146 of the guidance includes an example of impact "connected to the undertaking" in which the undertaking should consider the impacts generated jointly with other undertakings operating in the same geographical area, although they are not linked by any business relationship to that undertaking. It is noted that para. 43 of ESRS 1 provides the following: *“Impacts include those connected with the undertaking's own operations and upstream and downstream value chain, including through its products and services, as well as through its business relationships. Business relationships include those in the undertaking's upstream and downstream value chain and are not limited to direct contractual relationship”*.

Therefore, the example in para. 146 evidently refers to a relationship that does not seem to be in line with the standard because it assumes that connection exists even when the undertaking is not linked to another entity by a business relationship. If confirmed, this would be an interpretation that goes beyond the content and the spirit of the standard as it would require to consider material also situations in which business relationships do not exist. In addition, such an interpretation would create an excessive and indeterminable expansion of the impacts to be reported, with negative consequences also in terms of comparability.

Chapter 5 FAQ 5 “Is the material information for financial statements the same as for the sustainability statement?” and FAQ 6 “Is financial materiality for sustainability reporting limited to effects presented in financial statements?”

The guidance includes two FAQs on financial materiality (FAQ 5 and FAQ 6) which highlight the differences between information that is likely to be financially material for the financial statements and the information that is likely to be financially material for the sustainability statement.

This topic is sensible. This is because there may be situations in which a financial risk for the undertaking could only be highlighted in the sustainability report and not in financial statements. This implies that strong evidences are needed to justify that the financial statement does not report the same risk.

It would be appropriate for the guidance to provide concrete examples of such phenomena that produce potential financial effects in a time frame such as to be reported in the sustainability report but of which there is no evidence in the financial statements. Examples obviously compliant with accounting standards.

Moreover, we observe that the completeness of the guidance on this profile can be useful, among other things, for the project on connectivity between financial information and sustainability information.

Chapter 5 FAQ 17 “What is the role of silent stakeholders and how to consider them?”

The guidance also addresses the engagement of silent stakeholders, a topic that is not easy to understand and which it is appropriate for the guidance to deal with.

However, examples would be needed to understand which categories of silent stakeholders could be, other than nature - the only case indicated both in standards and in the guidance - and the process which has to be followed to identify them.



Specific aspects on Value chain implementation guidance

Chapter 2.3 Operational control

Standards use the concept of group as defined in the Accounting Directive (parent undertaking and all its subsidiaries) to define the perimeter of the reporting entity. Therefore, all other investments (for example, associates and joint arrangements) are excluded from the concept of group/perimeter of the reporting entity.

The ESRS E1, E2 and E4 also provide that non-controlled undertakings are also included among the "own operations" of the reporting entity where operational control exists.

Having said that, the inclusion of investments in joint operations in the scope of the reporting entity in the first box of the figure on page 14 seems to be in contradiction with the concept of the group. Joint Operations are considered own operations, for ESRS E1, E2 and E4, only if operational control exists.

Furthermore, we believe inappropriate to include leased assets in that box of the figure as it does not concern undertakings to be included/excluded in/from the scope of the reporting entity but rather concerns how the GHG emissions deriving from the use of a specific asset should be considered. With regard to the concept of operational control, it is noted that the definition provided in standards is quite broad and could be differently interpreted when implemented. Therefore, further examples would be useful to reduce the risk of different interpretations.

Moreover, it is noted that the guidance, in paragraphs 45 and 47, provides that there may be further circumstances, different from those referred to in the ESRS E1, E2 and E4, where the concept of operational control should be applied. On this point, doubts arise as to whether this extension is in line with standards or whether it instead requires their amendment.

Chapter 3 FAQ 6 "Should VC information be included for Metrics Disclosure Requirements?"

The guidance requires undertakings to integrate the information required by standards with entity-specific value chain metrics if there are material impacts regarding the value chain that are not addressed, or are not sufficiently addressed, by the sector-agnostic standards.

This provision seems to introduce a specific obligation for the undertaking to provide entity-specific value chain metrics which however would contradict the approach followed in the final delegated acts of limiting quantitative information extended to the value chain to two metrics regarding the climate change standard.

Specific aspects on List of ESRS datapoints implementation guidance

We believe that the guidance can be a useful reference for preparers who thus have the complete list of datapoints included in the standards.

However, it should be noted that the treatment of Application Requirements (AR) is not clear as in some cases the AR paragraphs constitute a separate datapoint, while in other cases they integrate the relevant datapoint required by the standard. The explanatory note accompanying this guidance does not provide any indication in this regard.



Furthermore, we suggest that the guidance provides an indication, for each datapoint, whether it is mandatory (i.e. to be reported regardless of the materiality assessment analysis) or whether the information is subject to materiality assessment.

In case you wish to discuss these issues further, please do not hesitate to contact us.

Yours sincerely,

Michele Pizzo

President of Board of Directors

A handwritten signature in black ink, appearing to be 'M. Pizzo', is written over the typed name and title.