05 August 2022

EFRAG Sustainability Reporting Board
35 Square de Meeûs
1000 Brussels
Belgium

European Sustainability Reporting Standard Exposure Drafts – DWS Comment Letter

Dear Ms Slok,

DWS welcomes the development of the EFRAG draft European sustainability reporting standards (ESRS) and the opportunity to provide comments. Our submission refers to the following consultation documents: ESRS 1 "*General Principles*", ESRS 2 "*General, strategy, governance and materiality assessment disclosure requirements*" and ESRS E1 "*Climate change*".

With € 833 bn[1] in assets under management across major asset classes and approximately 3,600 employees worldwide, DWS is one of the largest asset managers in Europe in the retail and institutional markets. As a global asset manager, with 24 branches domiciled across all regions including 14 branches in EMEA, nine in the Americas and one in Asia Pacific and as preparers of an integrated report, we have a clear preference for a standard that allows for disclosing sustainability related information which is consistent and comparable across different jurisdictions and markets.[2]

Consultation process

We understand the importance and the clear urgency for having the final ESRS published as soon as possible, and we acknowledge the challenges this can pose to the standard setting process. However, there is a need for a balanced approach to manage the public consultation process and ensure timely publication of high-quality documents, whilst providing stakeholders with sufficient time to review and submit comments. Therefore, we note with concern that the consultation period for such important documents is three weeks shorter than the standard minimum of 120 days.

Global alignment

Despite the growing importance of non-financial disclosures, the existing fragmentation of the sustainability reporting landscape creates difficulties and uncertainties in collecting and publishing comprehensive and comparable data. The variety of sustainability standards, frameworks, and definitions together with numerous different indicators and metrics create further challenges for companies to focus their efforts on strategic and meaningful disclosures.

DWS is supportive of universally aligned sustainability reporting requirements with streamlined and comprehensive processes that reduces the reporting burden, while leading to the development of a single integrated report which meets the multiple information needs of our stakeholders.

[1] As of 30 June 2022

[2] Our EU Transparency Register number is: 407652739335-34.

We are pleased to see that the recently reached agreement on the Corporate Sustainability Reporting Directive (CSRD) envisages alignment between the work of the International Sustainability Standards Board (ISSB) and EFRAG to avoid unnecessary regulatory fragmentation that may have negative consequences for undertakings operating globally. We strongly encourage EFRAG to continue its engagement in constructive dialogue with other sustainability reporting standard setters, such as the ISSB[3], to actively promote the concept of simplification and consolidation. We urge for a better global alignment of non-financial reporting requirements especially on materiality, terminology and definitions, frequency of reporting, assurance, metrics & targets, structure, and effective date.

In light of the above, we also highly appreciate the alignment of the draft ESRS with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), as well as the requirements and definitions of the IASB's Conceptual Framework for Financial Reporting (IAS 1 *Presentation of Financial Statements*, IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and IAS 10 *Events After The Reporting Period).* We also appreciate that the ESRS streamline and incorporate disclosure requirements from the Sustainable Finance Taxonomy - Regulation (EU) 2020/852, the Sustainable Finance Disclosures Regulation (SFDR) and the upcoming Corporate Sustainability Due Diligence Directive.

Materiality

We find that the double meaning of the term "*financial materiality*" as described in ESRS 1 and its use to describe two different concepts in the standards complicates the disclosure of financially material information and makes its interpretation by end users ambiguous. With this regard, we urge EFRAG to support consistent application of financial materiality globally by aligning the definition of financial materiality with the ISSB.

In addition, the definition of "*impact materiality*" includes *"[…] potential significant impacts […] over the short-, medium- or long-term."* This sets a very wide scope of possibly unlimited potential impacts which we consider impractical, where a number of methodologies could be used. We suggest a more precise definition of materiality, based on science, for which a close collaboration between reporting and the academic communities is required.

Complexity

It is highly likely that the overall high number of ESRS documents and disclosure requirements will increase the reporting burden, which could potentially have negative implications on the timing of reporting and the quality of information provided by reporters. While this approach may be comprehensive, the end-user will struggle to make sense of this complexity. We invite a simpler approach for issues that are material to investment decision-making since these decisions will have a material impact on the environment and society, so it is important to have full clarity of what is required by reporters. A materiality matrix, focusing on thresholds and boundaries would be advisable. This is of particular importance as information for several of the proposed mandatory disclosures is currently not available for many companies in scope of the CSRD.

[3] In line with the EFAMA and Eurosif consultation responses to the ISSB exposure drafts on sustainability reporting standards.

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We disagree that all mandatory disclosure requirements established by the ESRS shall be presumed material for all undertakings and we suggest working with the scientific community to carry out materiality assessments to identify relevant material topics in accordance with proven methodologies. In addition, we would like to request for EFRAG to provide a clear definition of the term "*rebuttable presumption*" and guidance (e.g., in form of a list in scope and out of scope for rebuttable presumptions) with explicit criteria and examples when such presumptions may be applied.

The ESRS requirement for adhering to the full set of cross-cutting, topical, sector agnostic and sector specific standards, together with further defined entity specific disclosures not covered by the ESRS would make sustainability reporting time consuming and resource intensive. The complexity of the standards in combination with the required level or details and granularity of disclosures would create further organisational challenges in establishing all necessary reporting and data collection systems.

The complex structure of the draft ESRS and the duplication of content in the cross-cutting and the topical standards on General, Strategy, Governance and Materiality Assessment, and Policies, targets, action plans and resources should be avoided by streamlining the text and eliminating repetition where possible.

As preparers, we would request EFRAG to provide a clearer and more practical overview of the disclosure requirements presented in a concise manner (e.g., as described in the EU Guidelines on reporting climate-related information[4], pages 19-25). We would also call for more concrete examples of risks and opportunities in the social and governance ESRS application guidance.

Unavailable information

The ESRS do not allow information to be omitted in legitimate cases, which is not feasible in practice. We urge EFRAG to make necessary amendments and to allow for exemptions under legitimate circumstances when data is incomplete or unreliable. It should be noted that the requirement for approximation of missing information in cases where data is unavailable for the upstream and downstream value chain goes against the faithful representation principle.

Location of information

As preparers of an Integrated Annual Report, we disagree with the requirement of a clear distinction between information resulting from the implementation of ESRS and other information included in the management report since this goes against the integrated reporting principle. We firmly believe that financial and sustainability information is connected, and this obligation might create "*ESRS-silo information*".

Climate change

For ease of application, we would recommend that the disclosure requirements for upstream and downstream value chain emissions are separated and described in more details.

[4] Guidelines on reporting climate-related information: https://ec.europa.eu/finance/docs/policy/190618-climate-related-information-reporting-guidelines_en.pdf

We appreciate the option for voluntary Scope 4 emissions (also known as "*avoided emissions*") disclosure and we suggest that paragraph 30 of the ESRS E1 should also make a reference to renewable energy production from renewable sources which is supplied to the grid in line with the GHG Protocol[5] requirements. The disclosure of Scope 4 emissions support greater transparency and captures the emissions of the entire value chain. In this respect, we would encourage adoption of mandatory avoided emissions disclosures when the methodologies mature to a point where there is one approved and standardised method for calculation.

Scope 3 emissions disclosure

Considering the sourcing complexity of Scope 3 emissions and reliance on upstream and downstream value chain data availability, we encourage EFRAG to allow sufficient time for data collection and disclosure. In addition, DWS supports the "*safe harbour*" principle included in the Climate-Related Disclosures proposed by the US Securities and Exchange Commission. The "*safe harbour*" provisions are key to address challenges associated with disclosures relying on difficult to obtain and/or uncertain information.

We remain at your disposal if you would like to discuss our response bilaterally or in a broader stakeholder consultation format.

Sincerely yours,

DWS Group GmbH & Co. KGaA

Darren Hackett,
Group Controller

Stefan Marx,
Head of Public Affairs and
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[5] A Corporate Accounting and Reporting Standard: https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf