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Submitted electronically to [this survey](#)

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Dear Patrick,

Response to the [Draft] EFRAG IG 1: *Materiality assessment implementation guidance (MAIG)*

EFAA appreciates the opportunity to provide our comments to the [\[Draft\] EFRAG IG 1: *Materiality assessment implementation guidance*](#) (MAIG).

The European Federation of Accountants and Auditors for SMEs (EFAA) represents accountants and auditors providing professional services primarily to SMEs both within the European Union and Europe as a whole. Constituents are mainly small practitioners (SMPs), including a significant number of sole practitioners. EFAA's members, therefore, are SMEs themselves, and provide a range of professional services (e.g., audit, accounting, bookkeeping, tax, and business advice) to SMEs. EFAA currently represents 15 national accounting, auditing, and tax advisor organisations with more than 380,000 individual members.

GENERAL COMMENTS

Think Small First

EFAA is concerned to ensure that policy, regulation, and professional standards and guidance are scalable and proportionate to the capacities of SMPs and their SMEs clients **as well as** tailored to the needs and characteristics of SMPs and SMEs. We strongly encourage a 'Think Small First' approach, developing straightforward regulation and standards for SMEs and SMPs and then scaling up to suit larger more complex companies and practices. We suggest that this approach extends to guidance.

Role of SMPs in Sustainability Reporting

SMPs are a key preparer of sustainability reports of SMEs. SMEs, especially non-listed ones that will populate the value chain of companies in scope of the CSRD, often look to their external accountants, typically SMPs, to prepare their financial reports. These SMPs are perfectly placed – given their understanding of the SME client, given their expertise in reporting, given their ethical compass - to help SMEs prepare sustainability information and reports. In short EFAA believes it is likely, highly likely, that many if not most non-listed SMEs that choose to publish sustainability reports in accordance with the VSME will rely on SMPs to prepare and provide assurance on their reports.

Role of Implementation Guidance

EFAA welcomes the MAIG. We have been advocating for such guidance – non-authoritative guidance that clarifies and illustrates – since such guidance is crucial to the timely, consistent, and effective implementation of the European Sustainability Reporting Standards (ESRS). We look forward to similar guidance to support the SME sustainability reporting standards, especially the one for voluntary use by non-listed SMEs (VSME).

Coordination of Implementation Support

EFAA welcomes the European Commission (EC) and EFRAG’s focus on developing comprehensive implementation support for the ESRS. This support is essential for timely and robust adoption and implementation of the ESRS. Therefore, we strongly support the launch of EFRAG’s *ESRS Q&A platform* to complement the implementation guidance. The platform’s stated aim is “to collect and answer technical questions that remain unresolved after thorough analysis by stakeholders to support the implementation of ESRS”. We understand that EFRAG will regularly publish batches of Q&A.

While strongly supportive of the implementation support, we are concerned at the risk of duplication and repetition, and even contradictions, between the implementation guidance and Q&As. Furthermore, as the EC has yet to clarify the status of the respective pieces of implementation support, we foresee the risk of confusion. Some FAQs might need to be reframed as simply guidance. EFAA suggests that when the ESRS are first reviewed and revised any clarifications could be incorporated into the standards themselves leaving the IGs to focus on explaining and illustrating how to make judgements. Some FAQs might simply be added to the *ESRS Q&A platform*.

Overall Impression

In large part the MAIG has the attributes essential for being useful guidance. It is concise and uses straightforward, easy to understand language. We like that the MAIG includes separate sections on clarifications and on FAQs. It provides clarification on the core elements of the materiality assessment as well as setting out good practice steps to help preparers design and perform the process.

Notwithstanding its merits, the MAIG can be improved prior to its final publication and under ‘Specific Comments’ below we explain how.

SPECIFIC COMMENTS

Value Chain

EFAA is especially concerned to ensure that there is sufficient guidance around value chain reporting not least because many, if not most or all, companies that are within scope of the ESRS will seek information from non-listed SMEs in their value chain. While we welcome the [Draft] EFRAG IG 2: *Value chain implementation guidance* we urge EFRAG to provide more guidance and illustrative examples on how to incorporate the value chain when making materiality assessments.

Addressing the value chain is especially challenging for large multinational enterprises (MNEs), as they typically have large and complex value chains, and financial institutions. For example, [Holcim](#) has

approximately 100,000 Tier 1 suppliers of which 85% are non-listed SMEs. We believe there needs to be more guidance on how far up or down the value chain the preparer should go.

Groups and Consolidations

EFAA believes that in due course more guidance will be needed on consolidation, including making group materiality assessments and reporting consolidated information, and accordingly propose EFRAG consult with the EC on whether it has the mandate to do so.

In the meantime, for the MAIG, we suggest EFRAG provides more guidance and illustrative examples including on the following: the "significant differences" between material impacts, risks and opportunities at group level and at one or more of the subsidiaries; approaches and considerations in determining material risks and opportunities for the group; how to consolidate impacts, risks and opportunities; and setting thresholds, including whether they should be set at group or subsidiary level.

Users and Affected Stakeholders

EFAA appreciates the inclusion of 3.5 *Role and approach to stakeholders in the materiality assessment process* in the MAIG. While we welcome the clarification that the materiality assessment considers affected stakeholders, we believe there is a need to link the reporting to the users of the report. We believe that all the users of the sustainability report should be included amongst the various groups of stakeholders considered during the materiality assessment process. If not, then we risk having situations where the views of "other users of sustainability statements" do not align with those of "affected stakeholders." This then presents the question whether such users should be considered in the materiality assessment and in the determination of what information to report and, furthermore, whether trade-offs are to be made between the views of different stakeholders.

EFAA also urges EFRAG to provide more guidance and illustrative examples on stakeholder engagement including, for example, the extent to which a preparer should rely on stakeholder engagement, how far they should go, how to select stakeholders so that the outreach and analysis is objective and without bias, and any references to other sources that may help inform the process.

International Alignment

EFAA welcomes the close dialogue and collaboration between EFRAG, the International Sustainability Standards Board (ISSB) and the Global Reporting Initiative (GRI). This has been instrumental in ensuring the maximum possible interoperability of the various sets of sustainability standards. However, we question why there appears to have been little if any collaboration in the development of EFRAG's implementation guidance (MAIG and VCIG). The ESRS and ISSB use the same terminology and definition for "financial materiality" and see merit in aligning guidance on the financial aspect of double materiality. Therefore, we urge EFRAG to engage with the ISSB and GRI to ensure that their sets of guidance are aligned: alignment of guidance, in addition to that of the standards, will ensure consistent application of the respective standards.

CONCLUDING COMMENTS

We trust that the above is clear but if you have any questions, please do not hesitate to contact us.

Yours faithfully,

Salvador Marin

President

Paul Thompson

Technical Director