



# EFRA<sup>G</sup>'S REVISED AND SIMPLIFIED DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS (ESRS)

Issued 29 September 2025

ICAEW welcomes the opportunity to comment on the revised and simplified Exposure Drafts of the European Sustainability Reporting Standards (ESRS) published by The European Financial Reporting Advisory Group (EFRAG) on 31 July 2025, a copy of which is available from this [link](#).

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## ANSWERS TO SPECIFIC QUESTIONS

### MATERIALITY

#### *Part 2: General Feedback*

**Question 11: Do you agree that the proposed amendments have sufficiently simplified the DMA process, reinforced the information materiality filter and have succeeded in striking an acceptable balance between simplification and robustness of the DMA? Do you agree that the wording of Chapter 3 of ESRS 1 is sufficiently simplified?**

1. We disagree.
2. We acknowledge that more prominence has been given to the materiality of information as a general filter. This is welcome. It helps to clarify the reporting purpose and will be an important improvement over the existing standards. However, while the text of the revised standard appears simpler, in our view the underlying assessment remains complex. We believe that EFRAG could more clearly articulate the DMA process. The process could be explained with reference to the definition of materiality in the ISSB Standards so that preparers better understand the differences between the two approaches in practice. We also suggest the use of diagrams is explored to help communicate the concept more clearly and reduce the risk of differences in interpretation.
3. We note that there are requirements, for example the reporting metrics required by ESRS S1 Own Workforce, which appear more prescriptive than we would expect from a principles-based approach under a fair presentation framework. The fact that these requirements introduce reporting thresholds (i.e. a breakdown by country for those countries in which 10% or more of the undertaking's employees are located) appears inconsistent with an emphasis on the materiality of information as a general filter.
4. We are concerned that, as a result of the above, the application of ESRS will be treated by preparers as more as a compliance exercise than one where materiality is at the forefront of decisions about what to disclose. If so, this is likely to diminish significantly the usefulness of the information disclosed.

**Question 12: Do you agree that the new guidelines clarify how to consider remediation, mitigation and prevention implemented actions in the DMA, contributing to more relevant and comparable reporting?**

5. We disagree.
6. We suggest that EFRAG revises paragraphs 34-36 of ESRS 1 and the accompanying guidance in Appendix C, which we find to be overly complex and difficult to interpret.
7. We have also heard concerns that the comparability of information disclosed by companies within the same industry sector could be undermined as a result of preparers interpreting the standard in different ways.
8. We would like to see a clearer set of principles that help preparers consider how to address mitigation actions and allow for the application of judgement in respect of fact and circumstances.
9. We suggest that EFRAG considers possible simplification though the alignment of ESRS requirements with the interpretation given by the ISSB's Transition Implementation Group (TIG). This concluded that judgements about whether to disclose information about risk mitigation activities should be based on whether omitting, misstating or obscuring such information could reasonably be expected to influence the decisions of primary users. EFRAG may also want to consider this in the context of risks and opportunities as well as impacts.

## UNDERSTANDABILITY, CLARITY AND ACCESSIBILITY OF THE STANDARDS

### ***Question 15: Do you agree that these proposed amendments achieve the desired level of clarity and accessibility?***

10. We partially agree and partially disagree
11. We find the standards (commenting on ESRS 1 and ESRS 2 only) to be an improvement from the existing ESRS and are particularly pleased to see the removal of 'may disclose' datapoints, as well as the relocation of the 'shall disclose' datapoints to the main body of the standard. The fact that there have been significant changes to the standards, however, means there could be unintended consequences and new questions of interpretation (as raised in our answers to Q11, Q12, Q25). We urge EFRAG to carefully consider all feedback received.

## INTEROPERABILITY

### ***Question 21: Enhanced interoperability with the ISSB's Standards IFRS S1 and S2***

#### ***Do you agree that these proposed Amendments achieve an appropriate balance between increasing interoperability and meeting the simplification objectives?***

12. We disagree
13. Ultimately, we would strongly favour the use of ISSB Standards as a baseline for the ESRS, whereby amendments and additions are made for requirements over and above the ISSB's global baseline. This would help to simplify the standards, reduce unnecessary divergence, and enable users to more clearly understand the reporting of sustainability information. Although this approach has not been taken forward, we believe there is still significant scope for greater alignment and suggest this is prioritised to reduce complexity and confusion for both preparers and users. We are particularly concerned by the proposed reliefs that would result in new and significant interoperability differences and suggest that these are reconsidered. We would also like to see greater alignment in the following areas:
  - ESRS 1, paragraph 21. The language used to define material information is similar but not the same as the ISSB's language, resulting in questions over interpretation.
  - ESRS 1, paragraph 28. The setting of qualitative and/or quantitative thresholds to determine IROs is likely to constitute a fundamentally different approach to the ISSB.
  - ESRS 1, paragraph 34 –36. The gross versus net considerations regarding impact materiality may benefit from being aligned with the ISSB's TIG interpretation on the matter to reduce confusion.
  - ESRS 2, paragraph 23 on anticipated financial effects. We would like to see requirements here aligned as closely as possible with the ISSB Standards, including with IFRS S1 paragraph 37(b) that requires an entity to use an approach that is commensurate with the skills, capabilities and resources that are available to the entity.
  - ESRS E1, AR19-20, GHG emission boundary – instead of mandating a single financial control approach, we would prefer interoperability to be prioritised and call for full alignment with the approach in GHG Protocol/IFRS S2 provisions.

## ESRS BEING A 'FAIR PRESENTATION' FRAMEWORK

***Question 25: Do you agree that explicitly requiring to adopt fair presentation in preparing ESRS sustainability statements will support a more effective functioning of the materiality filter, therefore enabling more relevant reporting and reducing the risk of excessive reported information?***

14. We partially agree and partially disagree.
15. We consider that ESRS should be a fair presentation framework and are supportive of amendments to clarify this. However, we note that the language used to describe what is meant by fair presentation differs from the ISSB's definition. We would support full alignment with the ISSB's language, which mirrors the financial reporting definition and is therefore widely understood.
16. We also suggest that EFRAG reviews the implications of clarifying the fair presentation framework within the context of other requirements. For example, requirements to provide entity-specific information is already embedded within the fair presentation requirement (as it is in the ISSB Standards) and is therefore difficult to understand why it remains a separate requirement. Similarly, it is difficult to understand how the proposed relief regarding the reporting of acquisitions and disposals interacts with the fair presentation framework. We would expect that a reporting entity that makes a material acquisition or disposal during the year should disclose sustainability information related to that acquisition under a fair presentation framework. We accept that it may be difficult to acquire that information at the same level of detail as businesses owned for a full year but would expect that reasonable estimates should be possible and that uncertainties associated therewith could be disclosed and, where necessary, restated later. This would more closely mirror fair presentation requirements in financial statements.