

JBCE FEEDBACK ON THE REVISION OF THE EUROPEAN SUSTAINABILITY REPORTING STANDARDS (ESRS)

INTRODUCTION

The Japan Business Council in Europe (JBCE) welcomes the opportunity to comment on the European Commission's proposed Delegated Regulation amending Delegated Regulation (EU) 2023/2772 as regards the simplification of certain sustainability reporting standards (ESRS)¹. JBCE supports the European Union (EU)'s objective of enhancing transparency and comparability through the Corporate Sustainability Reporting Directive (CSRD)².

However, we believe that certain aspects still require further amendment to address the complexities and alignment gaps with other international standards, and to reduce the heavy burden of validation, including data collection and analysis. We are also concerned that certain ESRS requirements may affect the competitiveness of EU industry due to the stringency of the disclosure requirements. JBCE lists these issues and their possible solutions below.

KEY MESSAGES

JBCE encourages:

- ❖ Further improvement of interoperability with ISSB standards.
- ❖ The flexible application of the provision of "information materiality" that allows undertakings to disclose supplementary non-material information where appropriate.
- ❖ The proportionate and consistent application of limited assurance, supported by clear interpretative guidance.
- ❖ Other technical and implementation improvements.

¹https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/16775-Revised-European-sustainability-reporting-standards_en

² Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 as regards corporate sustainability reporting
<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022L2464>

Further improvement of interoperability with ISSB

JBCE welcomes the European Commission's efforts to improve interoperability between ESRS and ISSB standards. However, JBCE believes that there remains room for further improvement and that ESRS-specific granular data requirements still require companies to conduct additional calculations and data collection. As a result, companies preparing disclosures under ISSB standards must establish additional processes to comply with ESRS requirements, leading to a duplicative reporting burden in practice. While recognising the importance of certain EU-specific disclosures and datapoints that support EU policy objectives, JBCE believes that further alignment with ISSB standards would help reduce implementation burdens.

Examples of areas where further datapoint-level alignment between ESRS and ISSB standards would be beneficial include:

- **Workforce-related disclosures (ESRS S1):** Compared with ISSB-based disclosures, ESRS requires more highly granular workforce-related datapoints, including detailed classifications of employees and non-employees, collective bargaining coverage, social dialogue, and gender pay gap calculations, which often require companies to redesign existing global HR data structures.
- **Energy consumption and mix disclosures (ESRS E1-7):** ESRS requires highly detailed classifications of energy consumption by energy source, including disaggregation of fossil fuels by type. In practice, companies often need to obtain additional information from energy providers and conduct manual allocation calculations, resulting in a significant additional operational burden compared with ISSB requirements.

JBCE encourages not only further datapoint-level alignment, but also consideration of a longer-term direction toward further operational integration between the two frameworks. JBCE also recommends that this approach be reflected in the development of NESRS. This would represent a pragmatic step toward achieving both efficiency for preparers and transparency for capital markets, while continuing to provide investors with high-quality, decision-useful information.

Flexibility in applying the principle of “information materiality”

The revised ESRS draft states that “the undertaking shall not disclose information prescribed by an ESRS disclosure requirement or datapoint if that information is not

material” (section 3.1.1, paragraph 24). While JBCE understands the intention behind this provision, we believe that companies should retain a certain degree of flexibility to disclose information, where appropriate, even if such information is not assessed as material under ESRS.

In practice, sustainability reports are often expected to address information needs from a broad range of stakeholders, including rating agencies whose criteria are not necessarily aligned with material topics. As a result, companies may need to disclose certain non-material information in parallel with ESRS disclosures.

In this context, a strict interpretation of this provision may unintentionally increase the administrative burden by requiring companies to prepare separate disclosures for different stakeholders. JBCE therefore encourages a more flexible approach, allowing companies to include supplementary non-material information where considered appropriate.

A consistent and proportionate application of limited assurance

Although the CSRD is intended to be subject to limited assurance, in practice, many preparers experience a more conservative evidence burden than expected, reflecting differences in interpretation and assurance practices. This results in levels of data accuracy and documentation that exceed what was originally envisaged under the CSRD.

We understand that the revised ESRS aims to reduce reporting burdens by removing non-material datapoints and avoiding unnecessary disclosures. To ensure this objective is achieved in practice, newly introduced concepts and requirements in the revised ESRS should be properly reflected in the applicable auditing and assurance standards. Especially, we welcome the concepts of “undue cost or effort” and “omission of information.” However, there remains a significant degree of interpretative flexibility.

To avoid inconsistencies in interpretation and practical application among assurance providers, we believe that measures to enhance interpretability should be provided, including sufficient interpretative guidance for assurance providers. Such guidance should support a proportionate and consistent application of the assurance and would also help reduce unnecessary burden on assurance service providers.

Furthermore, we recommend that disclosures prepared in accordance with ISSB standards should, where relevant, be permitted to be referenced and relied upon for assurance purposes under ESRS, without requiring additional measurement or verification for the same datapoints. Achieving alignment with ISSB also in the area of assurance would contribute significantly to reducing the burden on undertakings.

Other technical and implementation improvements

ESRS 2: Paragraph 31 of Disclosure Requirement SBM-3

31. If the undertaking determines that it need not provide quantitative information about the **current financial effects** or **anticipated financial effects** of a **risk** or **opportunity** for any of the reasons specified in paragraphs 28 and 29, it shall:
- (a) explain why it has not provided quantitative information;
 - (b) provide qualitative information about those **financial effects**, including identifying line items, totals and subtotals within the related financial statements that are likely to be affected, or have been affected, by that risk or opportunity; and
 - (c) provide quantitative information about the combined financial effects of that risk or opportunity with other risks or opportunities and other factors, unless the undertaking determines that quantitative information about the combined financial effects would not be useful.

Although companies may explain why quantitative information regarding the current financial effects or anticipated financial effects of a risk or opportunity cannot be provided, they are still required to disclose a certain level of quantitative information. JBCE believes that, where a company has already explained the reason why it cannot provide quantitative information, qualitative disclosure should not contain additional quantitative elements, in order to reduce the burden on companies.

ANNEX II : Table 2 – Glossary of terms defined in ESRS

Key material	Materials, substances, components or products which are essential for the undertaking's ability to manufacture or deliver its products or services, identified through a managerial assessment which considers: (a) internal factors, such as volume, cost, operational criticality, or strategic importance; and (b) external factors, including environmental and social impacts such as stakeholder expectations, regulatory demands or reputational relevance. Examples include, but are not limited to, silicon (materials), electrolytes (substances), micro-capacitors (components) and smartphones (products).
Key product	Products that are central to the undertaking's value creation or strategic objectives, identified through a managerial assessment which considers: (a) internal factors, such as contribution to revenue, profitability, innovation, or operational continuity; or (b) external factors, including environmental or social impacts such as stakeholder perceptions, regulatory demands or reputational significance.

If the undertakings identify ESRS E5 'Resource Use and Circular Economy' as a materiality, they sometimes face difficulties in distinguishing between "key materials" and "key products" in E5-4 'Resource inflows'. According to the draft Annex II 'Aggregated acronyms and glossary of terms', the definition of key material and key product shows as described in the table above. Since key material also includes the case of "product" such as smartphones, this causes certain confusion to the undertakings that are

preparing the sustainability report. As a principle, “products” should be excluded from the definition of key material and reported as the category of the key product.

ESRS 5: Disclosure Requirement E5-4

Disclosure Requirement E5-4 – <i>Resource inflows</i>	
12.	The objective of this DR is to provide an understanding of the undertaking’s resource inflows . This includes information about the types and circularity of resources entering the undertaking.
13.	The undertaking shall disclose the following information:
(a)	the key materials used, providing for each a concise description and specifying any critical raw materials and strategic raw materials it contains;
(b)	the total weight of all key materials;
(c)	a breakdown of each key material, expressed in weight or as a percentage of the total weight of all key materials; and
(d)	the secondary resources used, expressed in weight or as a percentage of the total weight of key materials.

According to the ESRS requirements, key materials must be specifically identified and disclosed in the form of weight data, in line with the current requirements, even though this information would be highly confidential for the undertaking. Currently, there is no specific exemption allowing for their reporting on a qualitative basis as a Confidential Business Information (CBI). This requirement is new and even wave 1 companies have not yet disclosed this information in their current reporting. With regard to critical raw materials and strategic raw materials covered by Regulation (EU) 2024/1252³, if certain rare metals or precious metals used in business operations are identified as a key material by undertaking, reporting and disclosing their usage weight information could give rise to speculation by third parties. This could potentially expose EU-based companies and markets to undesirable threats.

To allow for redaction on the grounds of CBI, we propose adding the following sentence to paragraph 12 of disclosure requirement E5-4 ‘Resource inflows’.

- *“If key materials are identified as confidential business information, qualitative information should be disclosed.”*

We understand that undertakings may omit information that could seriously harm their commercial position, or information corresponding to intellectual capital, intellectual

³ Regulation (EU) 2024/1252 of the European Parliament and of the Council of 11 April 2024 establishing a framework for ensuring a secure and sustainable supply of critical raw materials and amending Regulations (EU) No 168/2013, (EU) 2018/858, (EU) 2018/1724 and (EU) 2019/1020Text with EEA relevance.
https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202401252

property, etc., under the 'omission of information' provision set out in ESRS 1. We are concerned, however, that interpretations may differ among assurance providers, and that, as a result, the omission of weight data relating to key materials may not necessarily be accepted by assurance providers in practice.

Conclusion

JBCE welcomes the direction of the revised ESRS and supports the objectives of its frameworks. However, several areas have been identified where further improvements would help ensure the practical operability of the framework and avoid unintended reporting burdens. JBCE urges EU policymakers to take these considerations into account in the ongoing revision process, in order to ensure coherent, effective, and practical sustainability reporting.

ABOUT JBCE

Founded in 1999, the Japan Business Council in Europe (JBCE) is a leading European organisation representing the interests of over 110 multinational companies of Japanese parentage active in Europe. Our members operate across a wide range of sectors, including information and communication technology, electronics, chemicals, automotive, machinery, wholesale trade, precision instruments, pharmaceuticals, textiles, and glass products.

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