Deutsche
Schutzvereinigung für
Wertpapierbesitz e.V.

Annex to DSW's reply to the ESRS consultation paper – survey 2

Question 15 and 117:
DSW would like to reiterate its concerns raised in its answers to the G1 standard (see question 49 in survey 1). An undertaking's governance forms the basis for its sustainable development. Good governance promotes accountability, transparency, efficiency and rule of law at all levels and allows efficient management of human, natural, economic and financial resources for equitable and sustainable development, guaranteeing civil society participation in decision-making processes. (M. Kardos, The reflection of good governance in sustainable development strategies (2012), https://www.sciencedirect.com/science/article/pii/S1877042812045600/pdf?md5=c0e7b3c9eed116ba2525973f65c054d0&pid=1-s2.0-S1877042812045600-main.pdf) For investors but also for other stakeholders, understanding the governance of a company is crucial as it provides the basis upon which sustainability activities are built and evaluated. Strong corporate governance indicates strong corporate culture, which in turn signals robust long-term resilience. DSW would therefore strongly recommend consolidating all governance-related DR in ESRS 2. Governance-related issues are genuinely cross-cutting and material for all undertakings.

According to CSRD Article 19b para. 1 (a), the Commission shall adopt delegated acts that "at least" specify information corresponding to the needs of financial market participants subject to the disclosure obligations of Regulation (EU) 2019/2088.(CSRD Proposal, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52021PC0189) This information is therefore considered essential. Especially disclosures with regard to climate change have been identified by stakeholders as critical to push the transformation towards a sustainable economy. The transformation of the economy needs to be encompassed by a robust governance of undertakings. We therefore urge EFRAG to give the highest priority to ESRS E1 and ESRS G1. In that context, DSW is very concerned that the G1 standard may be subject to revisions, because of amendments to the final version of Article 29b (2) (c) (i) CSRD, especially the deletion of the word "including" ("The reporting standards shall … specify the information that undertakings are to disclose about the following governance factors: (i) the role of the undertaking's administrative, management and supervisory bodies, including*with regard to sustainability matters, and their composition, and their expertise and skills to fulfil this role or access to such expertise and skills"). This may lead to a deletion of standards G3, G5, G6 and maybe also G4 while the remaining standards may be moved to ESRS 2 or left in G1. While we would – as stated above – welcome the integration of G1 into ESRS 2, we would consider the deletion of large parts of the G1 DR as a huge step backwards in the quality of governance reporting.

While disclosure is lacking on outcomes, the whole set of G1 provides a good picture about an undertaking's governance processes. Furthermore, in its current form, ESRS would require undertakings to report on governance topics in the

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management report only. Such a consolidated reporting is needed, as a respective EU-wide requirement does currently not exist. In Germany, for example, the corporate governance report or the remuneration report do not necessarily have to be included in the management report, leaving the corporate governance information scattered, i.e. difficult to retrieve for investors. (Article 20 (2) of the Accounting Directive leaves it to Member States to permit the corporate governance statement to be set out either in a separate report published together with the management report OR in a document publicly available on the undertaking’s website, to which reference is made in the management report.)

Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW), 08. August 2022