

8 August 2022

EFRAG
35 Square de Meeûs
1000 Brussels
Belgium

RE: Draft European Sustainability Reporting Standards

BlackRock is pleased to have the opportunity to respond to the Consultation on European Sustainability Reporting Standards, issued by the European Financial Reporting Advisory Group (EFRAG). We strongly support efforts to improve sustainability reporting and view EFRAG's draft reporting standards as an important contribution to a multi-year, multi-jurisdiction effort towards improving the availability, quality, comparability, timeliness, and interoperability of sustainability. We welcome the incorporation of the core tenets of the Task Force on Climate-Related Financial Disclosures (TCFD) framework, which we believe provides an effective global sustainability reporting framework. We see opportunity for further alignment, by following a comparable architecture.

As a publicly traded asset management firm, we write this letter from two perspectives: (i) as a fiduciary investor that uses sustainability data and disclosures in our investment and stewardship processes on behalf of our investment clients; and (ii) as a public issuer responsible for making disclosures to our shareholders and other stakeholders. Because we invest on behalf of clients with a variety of long-term financial objectives, in our role as a fiduciary, we engage in investment processes that weigh a variety of investment factors, risks, and opportunities, including those related to sustainability. As a publicly traded issuer, we are committed to providing meaningful sustainability information to all our stakeholders. Our own sustainability reporting, which is aligned with the recommendations of the TCFD, is available in [BlackRock's 2021 TCFD Report](#).¹ As both an investor and an issuer, we are guided by our fundamental conviction that reliable, comparable, and consistent disclosures by companies are essential for investors to accurately integrate sustainability risks and opportunities into their investment decision-making processes.

Our comments target high-quality sustainability-related disclosures, built on a global baseline set of standards, while creating the flexibility necessary for continuing development of creative, pragmatic, best practices.

We value the opportunity to provide our considerations on the consultation, and welcome further discussion on any of the points that we have raised.

Yours sincerely,

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¹ Further, our [2021 Sustainability Disclosure](#) includes reporting aligned with the SASB Standards for Asset Management & Custody Activities, as well as reporting on additional sustainability topics that matter most to our stakeholders. The SASB Standards provide a roadmap for reporting to investors focused on achieving disclosure that is useful, cost-effective, industry-specific, evidence-based, and informed by market practitioners. We see the TCFD Recommendations and the SASB Standards as complementary. For more information, see our Investment Stewardship Commentary: [Sustainability Reporting: Convergence to Accelerate Progress](#).

Introduction

BlackRock manages assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, alternatives, and multi-asset strategies. Our clients, the asset owners, include pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world. Because our clients have diverse financial objectives, we consider a variety of investment factors, risks, and opportunities, including those related to sustainability.

Investors on behalf of clients are not just looking for more data on sustainability; they need high-quality information that is (1) relevant to understanding risks and opportunities, and (2) reliable, timely, and comparable across jurisdictions. Investors also recognize that data and risk methodologies related to sustainability data are still evolving. As a fiduciary to our clients, BlackRock has engaged with companies on sustainability disclosure over the past five years. We have observed continuous development of reporting tools, and improvements in the quality of disclosure over time.

We have separately responded to the International Sustainability Standards Board's (ISSB's) Exposure Draft [ED/2022/S1 on sustainability-related financial information](#)² and [ED/2022/S2 on climate-related disclosure](#)³ – as well as the climate-related disclosure proposal by the US Securities and Exchange Commission (SEC), [Enhancement and Standardization of Climate-Related Disclosures for Investors](#)⁴ – and urge EFRAG to continue its efforts to align with the global baseline sustainability reporting standards being developed by the ISSB, and take a building blocks approach to additional reporting requirements. In particular, we recommend that EFRAG:

Remain aligned with the TCFD framework

We view EFRAG's draft Sustainability Reporting Standards as an important contribution to a multi-year, multi-jurisdiction effort towards improving the availability, quality, comparability, timeliness, and interoperability of sustainability related disclosures. Further, we welcome the incorporation of the core tenets of the TCFD framework, which we believe provides an effective global sustainability reporting framework.⁵ However, while the reconciliation table provided in [Appendix IV](#) is helpful, we believe it would aid preparers and users of sustainability reporting if EFRAG reporting standards could be aligned more closely with the four-pillar structure of the TCFD. This could be achieved by treating 'Governance' as a cross-cutting standard. This more closely reflects the centrality of governance to the TCFD framework, as well as other standards in development, such as by the ISSB. While governance is often thought of as the 'G' in 'ESG' investing, seeking to understand the quality of company's governance has been a longer standing component of investing, with the management of environmental and social risks and opportunities being important parts of this.

Redouble efforts to seek alignment between the EFRAG standards and those of the ISSB, as the extraterritorial scope of CSRD increases the risk of conflicts with the legal frameworks of other jurisdictions

The extraterritorial scope of the Corporate Sustainability Reporting Directive (CSRD)⁶ is likely to impact a considerable number of international firms who will be required to report against the EFRAG standards in addition to their respective

² See [BlackRock's response](#) to ED/2022/S1 on sustainability-related financial information

³ See [BlackRock's response](#) to ED/2022/S2 on climate-related disclosure

⁴ See [BlackRock's response](#) to US SEC proposal on Climate-Related Disclosures for Investors

⁵ See TCFD, Recommendations of the TCFD (June 2017).

⁶ We note that the [final text for the CSRD](#) was agreed between the European Parliament, Council and Commission in June 2022, and awaits formal vote in the plenary of the Parliament, following translation into the languages of the European Union.

national or regional reporting frameworks. These firms will need to navigate multiple standards with potentially substantial differences, such as scope of assurance requirements, approach to financial statement disclosure and materiality definitions, that may be difficult to reconcile and result in unduly burdensome compliance costs. In addition, as an investor in non-EU firms that may become subject to the scope of the CSRD, we believe that these requirements bring specific challenges for firms domiciled in jurisdictions without binding net zero legislation in place, as many are still in the early stages of developing the reporting infrastructure and resources that would be necessary for compliance. Further, since the CSRD was concluded little more than a month before the deadline for comments on the 13 EFRAG standards, non-EU firms may not yet have had sufficient time to engage fully with the proposals. In our view, the significant potential for conflicts in legal regimes and limited timeframe for analysis of the proposals further emphasizes the critical need for alignment with work by the ISSB to develop global baseline standards for sustainability reporting and we urge EFRAG to continue its efforts in the area. We also urge EFRAG to consider these factors when developing standards for non-EU companies.

Provide flexibility for value chain disclosures, including Scope 3 GHG emissions, given the emerging methodologies and lack of direct control by companies over this data

With regard to a company's reporting boundary, we welcome the recognition in [ESRS 1 – General principles](#) that data on risks and opportunities upstream and downstream in a company's value chain may be outside its direct control, and that collecting related information may at times be impractical, i.e. where the company is unable to collect the necessary information after making every reasonable effort. Given the methodological complexity and lack of direct control by companies over the requisite data, we support the “comply or explain” approach to Scope 3 greenhouse gas (GHG) emissions disclosure, outlined in the CSRD. This flexible approach will give issuers the opportunity to develop the resources to comply with best practices as they emerge.

Permit companies to determine the most appropriate definitions of short-, medium- and long-term for reporting purposes

Our preference is not to set finite definitions of short-, medium- and long-term timeframes for reporting purposes, but to understand companies' efforts to assess and manage material sustainability risks and opportunities over the years, as they manage their sustainability risks. Consistent with guidance from TCFD, specifying exact timeframes across sectors could hinder organizations' consideration of risks and opportunities specific to their businesses, or result in duplicative reporting. In practice, we find that companies already typically provide targets over meaningful timeframes in their voluntary disclosures. We do not observe a strong need for timelines to be synchronised, and believe companies should continue to be able to define their own timeframes according to the life of their assets, the profile of the sustainability-related risks they face, and the sectors and geographies in which they operate.

We comment below in further detail on both the cross-cutting standards, which establish the principles to be followed when preparing sustainability reporting in line with the CSRD provisions, and the topical standards. Our comments target high-quality sustainability-related disclosures, built on a global baseline set of standards, while creating the flexibility necessary for continuing development of creative, pragmatic best practices.

Response to Draft European Sustainability Reporting Standards

BlackRock welcomes the stated intention of the CSRD – the legislative text establishing the key principles of the EU sustainability reporting framework – ‘to contribute to the process of convergence of sustainability reporting standards at global level’, by supporting the work of the ISSB.⁷ We echo the sentiment of the May 2022 Communique of the G7, which highlighted the need for standard setters to leverage ISSB’s baseline in the interests of interoperability of national, regional and international standards, and in order to ‘minimise fragmentation of reporting requirements, reduce reporting burdens, and enable the availability of consistent sustainability information for users.’⁸

This is particularly important given that CSRD brings into scope a potentially very large number of international companies that do business in the EU.⁹ They will in many cases need to reconcile the reporting requirements defined by EFRAG with their own national or regional sustainability disclosure regimes. In the interests of a coherent outcome for both preparers and users of sustainability reporting, and to meet the policy objective of reliable, comparable, and consistent disclosures, we urge EFRAG to work in close partnership with the ISSB. With regard to sustainability disclosure to date, BlackRock has been pleased to observe that an increasing number of issuers are using the TCFD framework to provide more detail to their stakeholders, in disclosures that are becoming increasingly robust over time.¹⁰ We welcome EFRAG’s adoption of core principles of the TCFD framework which we note have also been adopted into the ISSB baseline standards.¹¹

Further, we believe it is critical that sustainability disclosure frameworks include private companies – above an appropriate threshold – as well as public companies, to avoid unintended consequences in the capital markets such as (1) the sale of physical assets to private companies to avoid disclosure, and (2) private companies being potentially disincentivized from going public, decreasing choice for public market investors. We therefore welcome the proportionate inclusion of private companies within the scope of CSRD, and EFRAG’s sustainability reporting standards. In offering our support for EFRAG’s efforts to define the information that issuers should incorporate in their CSRD disclosures, we make the following recommendations.

Cross-cutting standards

With regard to a company’s reporting boundary, we welcome the recognition in [ESRS 1 – General](#) that risks and opportunities upstream and downstream in a company’s value

⁷ As stated in EU [Corporate Sustainability Reporting Directive](#) (CSRD): To avoid unnecessary regulatory fragmentation that may have negative consequences for undertakings operating globally, European standards should contribute to the process of convergence of sustainability reporting standards at global level, by supporting the work of the International Sustainability Standards Board (ISSB). European standards should reduce the risk of inconsistent reporting requirements on undertakings that operate globally by integrating the content of global baseline standards to be developed by the ISSB, to the extent that the content of the ISSB baseline standards is consistent with the EU’s legal framework and the objectives of the European Green Deal.

⁸ In May 2022, [The G7 Finance Ministers and Central Bank Governors issued a Communique](#) referring to the work of the ISSB *We urge the ISSB and national and regional standard-setters as well as other reporting initiatives to actively cooperate in the process of elaborating the baseline with the aim of reaching standards that can be implemented globally. The baseline should be practical, flexible and proportionate and ultimately suitable for small- and medium-size enterprises and enable jurisdictions to implement the baseline and a more extensive approach to supplement the baseline. We encourage countries to prepare or continue to prepare the ground for usage of the baseline, aim to ensure interoperability of national and regional standards and the global baseline in order to minimise fragmentation of reporting requirements, reduce reporting burdens, and enable the availability of consistent sustainability information for users. We encourage the ISSB to continue its work on sustainability reporting standards beyond climate, such as nature and social issues.*

⁹ Above a net EU turnover of more than EUR 150m.

¹⁰ As long-term investors on behalf of our clients, we look to companies to help their investors understand how climate risks and opportunities are integrated into their governance, strategy, and risk management, as well as to provide Scope 1 and 2 GHG emissions disclosures, and meaningful short-, medium-, and long-term science-based reductions targets, where available for their sector. While recognizing the measurement challenges, we also look for disclosures on how companies are considering Scope 3 GHG emissions, particularly where material.

¹¹ We see the TCFD Recommendations and the SASB Standards as complementary. For more information, see our Investment Stewardship Commentary: [Sustainability Reporting: Convergence to Accelerate Progress](#).

chain may be outside its direct control, and that collecting related information may at times be impractical, i.e. where the company is unable to collect the necessary information after making every reasonable effort. In this case we support the acceptance of approximation based on the use of reasonable information, such as peer group or sector data, where this is meaningful, and the option to explain if it is not. In particular, we support the “comply or explain” approach to Scope 3 GHG emissions disclosure, outlined in the CSRD. For the largest companies in sectors that are heavy emitters of GHGs, there is likely to be relevant data available to make comparisons, while we recognize this may be more difficult for smaller, more specialised firms. The expectation to comply would therefore be greater for largest firms. We believe a flexible approach will give issuers the opportunity to develop the resources to comply with best practices as they emerge.

While [ESRS 1 – General principles](#) defines short-, medium- and long-term for reporting purposes as one year, two to five years, and more than five years, respectively, BlackRock’s stewardship team generally considers a slightly wider range of up to five years as short term, five to ten years as medium term, and 10+ years as long term.¹² Ultimately however, our preference is not to set finite timelines, but to understand companies’ efforts over the years, as they manage their sustainability risks. Consistent with guidance from TCFD, specifying exact timeframes across sectors could hinder organizations’ consideration of risks and opportunities specific to their businesses. We encourage companies to decide how to define their own timeframes according to the life of their assets, the profile of the sustainability-related risks they face, and the sectors and geographies in which they operate.

Topical, sector agnostic standards

Environmental standards

As a long-term investor on behalf of our clients, we recognize that climate risk is investment risk, and view the management of risks and opportunities related to climate change ([ESRS E1](#)) and the preservation of natural capital (ESRS E2, E3, E4 and E5) as essential to many companies’ ability to deliver long-term value. We note that the development of disclosure standards related to climate is at a more advanced stage, internationally, than other aspects of sustainability – although we recognise that certain metrics and methodologies are still actively evolving, particularly in the area of Scope 3 GHG emissions. Our *Principles for High-Quality Climate-Related Disclosures*, below, have guided BlackRock’s response to the climate-related disclosure proposal by the US SEC, [Enhancement and Standardization of Climate-Related Disclosures for Investors](#),¹³ and ISSB Exposure Draft [ED/2022/S2](#) on climate-related disclosure, and we believe are also relevant to the [ESRS E1 on climate change](#).

Principles for High-Quality Climate-Related Disclosures

- **TCFD alignment:** We support disclosure frameworks aligned with the TCFD framework and sector-specific metrics, such as those that will be taken forward by the ISSB. The TCFD framework has incorporated market feedback and attracted widespread support because of its relative simplicity and consistency.¹⁴ Our experience is that it results in clear disclosures that allow investors to assess how

¹² As defined in BlackRock’s Investment Stewardship [Engagement Priorities, 2022](#)

¹³ [BlackRock’s response to the SEC’s Climate Disclosure proposal](#) was submitted on 17 June, 2022, and is available at: <https://www.blackrock.com/corporate/literature/publication/sec-enhancement-and-standardization-of-climate-related-disclosures-for-investors-061722.pdf>

¹⁴ As a founding member of the TCFD, BlackRock has been a strong supporter of the framework since its inception. To date, BlackRock has published two standalone TCFD-aligned reports, which we believe reflect our commitment to managing our organization in line with our sustainability objectives. In both years, BlackRock provided disclosure in line with the eleven TCFD Recommendations and the Supplemental Guidance for Asset Managers, including scenario analysis. See TCFD, *Implementing the Recommendations of the Task Force on Climate-Related Financial Disclosures* (Oct. 2021) (the “[TCFD Implementing Recommendations](#)”).

companies are adapting their business models to respond to climate-related risks. We believe TCFD provides an effective global sustainability reporting framework.

- **Global baseline standards with industry-specific guidance:** We strongly support a global baseline of climate-related disclosure standards to enable investors to make more informed decisions. We urge regulators to work with market participants and standard setters, like the ISSB, to continue developing industry-specific guidance.
- **Flexible approach to improving disclosures:** We believe that regulators should allow for a “comply or explain” regime (consistent with the TCFD framework) for disclosure areas, such as certain metrics and targets, that are still actively evolving. This regime will allow companies to provide the disclosures or explain why they cannot. A flexible approach to disclosure will likely encourage more and more companies to provide such disclosures.
- **Distinction between Scope 1&2, and Scope 3 disclosures:** We support quantitative disclosure aligned with the Greenhouse Gas Protocol (“GHG Protocol”). As investors, we use GHG emissions estimates to size an issuer’s climate-related exposure. Specifically, we look to companies to provide Scope 1 and 2 GHG emissions disclosures, and meaningful short-, medium-, and long-term science-based reductions targets, where available for their sector. As investors, we use Scope 3 emissions as a proxy metric (among others) for the degree of exposure companies have to carbon-intensive business models and technologies. However, we do not believe the purpose of Scope 3 disclosure requirements should be to push publicly traded companies into the role of enforcing emission reduction targets outside of their control. Given methodological complexity for Scope 3 emissions and the lack of direct control by companies over the requisite data, our investors believe the usefulness of this disclosure varies significantly right now across industries and Scope 3 emissions categories. We encourage regulators to adopt a disclosure framework that accounts for this significant variation. Under this framework, companies would disclose emissions estimates for any of the fifteen Scope 3 categories that are material to them. If none of the fifteen categories are material, or if companies are not yet capable of estimating their Scope 3 emissions, they would have the option of explaining why that is the case.
- **Consistency across public and private markets:** Mandating reporting by companies across both public and private markets is critical to averting unintended consequences in the capital markets such as (1) the sale of physical assets to private companies to avoid disclosure, and (2) private companies being potentially disincentivized from going public, decreasing choice for public market investors. Uniform disclosures would also provide market participants with a clearer understanding of how the transition to a lower carbon economy is progressing across the entire economy. The absence of consistent private and public market disclosure standards forces public companies to step into the role of policing their value chain partners and clients through negotiating the implementation and monitoring of the data they need for their own disclosures, such as private companies’ GHG emissions reporting.
- **Protections from liability:** The liability attached to climate-related disclosure should be commensurate with the evolving nature of that disclosure to encourage rather than discourage higher-quality disclosure. We urge regulators to adopt a liability framework that provides meaningful protection from legal liability for disclosures provided in good faith while standards continue to evolve, and that gives companies the flexibility they need to develop their disclosures without imposing a chilling effect.
- **Adequate time for companies to develop high-quality disclosures:** Climate related disclosures often require companies to collect and aggregate data from

various internal and external sources. Practical realities of data-collection and reporting do not cleanly line up with financial reporting cycles. Giving companies adequate time (e.g., 120 days) after their fiscal year-end to accurately collect and analyze this data will increase the quality of the climate related information investors receive. This timeline should still result in companies producing climate-related data in advance of their annual meetings, giving investors time to assess it before making proxy voting decisions.

- **Adhering to relevant materiality thresholds:** Finally, we believe companies' climate-related disclosure obligations in their annual and quarterly reports should be linked to relevant materiality thresholds. Materiality thresholds will assist investors in identifying those companies that consider climate-related risks material to their operations and in evaluating the impact of those risks on companies.

Permitting disclosure according to [ESRS E1](#) on climate change in the location best aligned with the liability considerations relevant to a specific national jurisdiction, whether or not that is inside of the annual management report, will encourage issuers to make more robust climate-related disclosures (including with respect to newly implemented emission targets, scenario analyses and transition plans). Giving issuers more time after the deadline of their management report to prepare the information required, as proposed above, will also increase the quality and accuracy of the climate-related information that investors receive. We expect this need for flexible reporting locations to persist through other topics as regulators in other jurisdictions begin to contemplate them.

Beyond climate, BlackRock considers the draft environmental standards topics of pollution ([ESRS E2](#)), water and marine resources ([ESRS E3](#)), biodiversity and ecosystems ([ESRS E4](#)), and resource use and circular economy ([ESRS E5](#)) within [our approach to natural capital](#). We view natural capital as encompassing the supply of the world's natural resources from which economic value and benefits can be derived - such as forests, oceans, and fresh water - and the biodiversity that supports these ecosystems.¹⁵

As an investor, we look to companies to disclose detailed information on their approach to managing material natural capital-related business risks and opportunities. It has historically been difficult to assess the value of natural capital to companies as reporting methodologies are still nascent. This gap is beginning to be addressed, most notably by the efforts of the Taskforce on Nature-related Financial Disclosures (TNFD)¹⁶, which launched in June 2021, and intends to develop, by September 2023, "*a framework for organizations to identify, assess, manage, and report on their impacts and dependencies on nature, aiding in the appraisal of nature-related risks and opportunities and thereby redirecting global financial flows away from nature-negative outcomes and towards nature-positive outcomes.*"¹⁷

We support the development of standards for reporting on environmental issues, including and beyond climate-related disclosures. We encourage alignment of the EFRAG

¹⁵ According to the International Integrated Reporting Council (IIRC), natural capital refers to "all renewable and non-renewable environmental stocks that provide goods and services that support the current and future prosperity of an organization." Natural capital includes air, water, land, forests and minerals, and biodiversity and ecosystem health.

¹⁶ In June 2021, the TNFD was formally launched to address the lack of consistent information available to financial institutions on how nature impacts a company's immediate financial performance, or the longer-term financial risks that may arise from how a company depends on and impacts nature. Backed by the G7 Finance Ministers and G20 Sustainable Finance Roadmap, the TNFD aims to develop and deliver a risk management and disclosure framework to help companies to report, and act on, natural capital risks. BlackRock is contributing to the TNFD along with several other natural capital initiatives such as the Principles for Responsible Investment (PRI) Sustainable Commodities Working Group, Global Canopy Aligned Accountability project, and the World Economic Forum (WEF) Biodiversity Finance Working Group.

¹⁷ See [BlackRock response](#) to consultation on technical scope of TNFD, March 2021.

environmental standards with both the TCFD and TNFD, as relevant, and see a need for flexibility as data and methodologies continue to develop.

Social standards

We believe that, to advance long-term shareholders' interests, companies should consider the interests of their key stakeholders.¹⁸ In our experience, companies that build strong relationships with their stakeholders are more likely to meet their own strategic objectives, while poor relationships may create adverse impacts that could expose companies to legal, regulatory, operational, and reputational risks and jeopardize their long-term success. While it is for each company to determine its key stakeholders based on what is material to its business, we believe they are likely to include the areas identified by EFRAG as employees ([ESRS S1](#)), suppliers ([ESRS S2](#)), communities in which a firm operates ([ESRS S3](#)), and clients and consumers ([ESRS S4](#)), and support the development of reporting standards for these topics.

As an investor, we look to companies to demonstrate a robust approach to human capital management with regard to their own workforce.¹⁹ This includes disclosing the actions they are taking to support a diverse and engaged workforce, and how that aligns with their strategy and business model, as well as how the board oversees management's approach to due diligence and remediation of adverse impacts to people arising from their business practices. We also look to companies to articulate how they address adverse impacts that could arise from their business practices, and to implement, to the extent appropriate, monitoring processes to identify and mitigate potential adverse impacts and grievance mechanisms to remediate any actual adverse material impacts.²⁰ We also look at specific metrics and data points covering human capital, business practices and other social considerations, and therefore welcome the efforts from EFRAG and other standard setters to improve the quality and comparability of the information disclosed by companies. We urge standard setters to ensure that disclosure standards related to social issues are targeted enough to result in high-quality, comparable information that helps investors to understand and integrate related risks and opportunities into their investment decision-making processes.

Given the extraterritorial scope of CSRD, we urge EFRAG to consider how the standards for social disclosures will apply to non-EU companies, for whom local rules and regulations may differ significantly. Further, despite best efforts, companies reporting under CSRD may be unable to access information that companies in their value chain are not required to disclose under their own domestic framework. While we engage with companies in our investment stewardship role and integrate such considerations in our investment decision-making processes, we lack authority to direct companies to address weaknesses in their business practices. Rather, the responsibility for managing business practices – including those related to social topics – lies with boards and management of companies and the governments that regulate them. Governments and other public policy makers are responsible for implementing and enforcing relevant laws and regulations in their respective markets.

Governance standards

Governance ([ESRS G1](#)) is the core structure by which boards can oversee the creation of long-term value and the management of material business risks and opportunities, including those related to sustainability factors material to a company's business model. While it is now often thought of as the 'G' in 'ESG' investing, seeking to understand the quality of company's governance has been a much longer standing component of

¹⁸ See also [Larry Fink's 2022 Letter to CEOs](#), which expands on this theme.

¹⁹ See [our approach to engagement on human capital management \(HCM\)](#).

²⁰ See BlackRock Investment Stewardship's [Global Principles](#) for further details.

investing, and asset managers have well-developed stewardship practices centred on governance considerations.

Governance is also central to the existing TCFD recommendations, as well as all standards in development. We believe that well-managed companies will deal effectively with material environmental and social factors relevant to their businesses, and uphold robust business conduct principles and processes ([ESRS G2](#)). Appropriate risk oversight of sustainability considerations stems from this construct. We therefore support transparent disclosure of a firm's governance model, which we believe is essential for investors to effectively evaluate companies' strategy and business practices related to material sustainability risks and opportunities. Further, while the reconciliation table provided in [Appendix IV](#) is helpful, it would aid preparers and users of sustainability reporting if EFRAG reporting standards could be aligned more closely with the four-pillar structure of the TCFD. This could be achieved by treating 'Governance' as a cross-cutting standard. This more closely reflects the centrality of governance to the TCFD framework, as well as those in development, such as by the ISSB.

As outlined in our [Global Principles](#), BlackRock's investment stewardship function advocates for continued improvement in companies' reporting, and encourages companies to use the framework developed by the TCFD to disclose their approach to ensuring they have a sustainable business model and to supplement that disclosure with industry-specific metrics such as those identified by SASB and being taken forward by ISSB. While the TCFD framework was developed to support climate-related risk disclosure, the four pillars of the TCFD – Governance, Strategy, Risk Management, and Metrics and Targets – are a useful way for companies to disclose how they identify, assess, manage, and oversee a variety of sustainability-related risks and opportunities.

Further, we recognize that some companies may already disclose governance of sustainability related risks and opportunities using different standards, which may be required by regulation, or one of a number of private standards. We encourage recognition by EFRAG of comparable standards, and compliance by reference. We agree that companies should disclose the corporate governance code, policy or practices employed, and in our own stewardship engagement, further ask companies to disclose the industry initiatives in which they participate, any peer group benchmarking undertaken, and any assurance processes to help investors understand their approach to sustainable and responsible business practices.

BlackRock agrees that the performance of the board in its advisory and oversight roles is critical to the successful management of sustainability related risks and opportunities, with appropriate board composition, director nomination processes and diversity policy an important part of this. When nominating new directors to the board, we ask that there is sufficient information on the individual candidates so that shareholders can assess the suitability of each individual nominee and the overall board composition. These disclosures should give an understanding of how the collective experience and expertise of the board aligns with the company's long-term strategy and business model.

Our stewardship function already asks boards to disclose how diversity is considered in board composition, including demographic and professional characteristics. We assess a board's diversity in the context of a company's business model, strategy and domicile, with reference to local market regulation and best practice; we consider board gender diversity to be globally relevant and also look for other forms of diversity consistent with local best practices. Over time, greater diversity in the board room can also promote greater diversity and resilience in the leadership team, and the workforce more broadly. That diversity can enable companies to develop businesses that more closely reflect and resonate with the customers and communities they serve. We therefore also value disclosures regarding diversity beyond boards.

We believe transparency on policy positions is important for companies' credibility and reputation. BlackRock comments on policy topics through our ViewPoint and Spotlight series of papers, responds to public consultations such as this one, and submits comment

letters across a range of financial services topics. Our policy analysis is published widely – on our [website](#), in public forums, in speeches and in the press – to foster dialogue within the industry and with policymakers. However, a wide variety of activities could potentially be included under ‘lobbying and advocacy activities’, including constructive engagement on policy issues, and in light of legal requirements to register with national trade bodies in some sectors and jurisdictions. A more targeted definition of the activities to be reported would therefore help ensure that disclosures are sufficiently targeted as to be useful, without limiting normal engagement with public authorities.

Care should also be taken to ensure that the application of a materiality threshold to disclosures related to policy advocacy topics do not have the unintended consequence of chilling constructive engagement. We further note that the materiality of a policy engagement topic may vary over time, in relation to the issue it addresses, or the stage of a national or international policy making process.

Finally, we believe that the requirement to report on membership fees paid to professional associations may be excessive relative to the objectives of this reporting standard. Companies in all sectors are members of professional associations for a wide range of reasons – from business networking, the development of professional standards, information-sharing and staying abreast of policy and industry developments, or even regulatory requirements, in many jurisdictions, that firms join the relevant professional body in that country. We urge EFRAG to ensure that standards are targeted enough to result in high-quality, comparable information.

Conclusion

BlackRock is pleased to have the opportunity to respond to EFRAG’s consultation on European Sustainability Reporting Standards. We welcome the incorporation of the core tenets of the TCFD framework into EFRAG’s standards, and see opportunity for further alignment of the disclosure architectures, such as by treating ‘Governance’ as a cross-cutting standard.

We view EFRAG’s draft European Sustainability Reporting Standards as an important contribution to a multi-year, multi-jurisdiction effort towards improving the availability, quality, comparability, timeliness, and interoperability of sustainability related disclosures. However, the extraterritorial scope of CSRD increases the importance of EFRAG alignment with ISSB, to mitigate the risk of conflicts with the legal frameworks of other jurisdictions.

The topical standards grouped into Environmental, Social and Governance clusters reflect many of the issues that BlackRock has considered as part of its investment and stewardship practices, and we are pleased to provide our perspectives. However, investors are not just looking for more data on sustainability; they need high-quality information that is (1) relevant to understanding risks and opportunities, and (2) reliable, timely, and comparable across jurisdictions. We urge EFRAG to ensure that standards are targeted enough to result in high-quality, comparable information that helps investors to understand and integrate sustainability risks and opportunities into their investment decision-making processes.

We thank you for taking the time to review our input and are happy to be of further assistance as this consultation process proceeds.