IRC of SA comments to be submitted on the Exposure Draft ESRS for Certain Non-EU Undertakings in Accordance with Article 40a of the Accounting Directive (ESRS-40a).

This online submission was made using the prescribed form and answering the relevant question.

The Exposure Draft (ED) is available here

Some South African organisations (as third-country undertakings not listed in the EU) that generate net turnover in the EU exceeding E450m in each of the past two financial years, and that have either a branch or subsidiary with a net turnover exceeding E200m, may have to report applying the draft ESRS-40a standard. The branch or subsidiary will publish a regulatory sustainability report (called an ESRS 40a sustainability report) covering information on material impacts on people and the environment.

The IRC of SA made this submission to highlight the issues that applicable South African organisations may face and to emphasise that such information should be seen in the broader context of the organisation's wider reporting. Overall, the IRC of SA is supportive of the flexibility offered to local companies in choosing to adopt a 'mixed approach' in the determination and disclosure of impacts (i.e. this allows for EU-only impacts to be reported, except for climate which has to be reported on a global basis).

Question number	Question detail	Suggested IRCSA response
21	**Do you agree with EFRAG's implementation of Articles 40a–40d, particularly deleting risks, opportunities, resilience, dependencies and financial effects while retaining contextual financial information?**	Yes, the disclosure limit to impacts only may reduce the reporting burden on applicable non-EU ultimate parent undertakings. It may, however, increase the practical reporting burden on EU subsidiaries or branches in determining the EU-only impacts. The approach should, however, remain interoperable with global reporting frameworks, seek to avoid duplication, and preserve the disclosure of material information that is necessary for fair presentation.
22	**If no, would you retain any disclosure requirements that have been removed?**	N/A
23	**Do you have comments on added or amended paragraphs?**	No
24	**If yes, please specify why.**	N/A
25	**Do you support inclusion of a mixed approach option that permits EU-related impact reporting for some non-climate topics?**	Yes.
26	**Reasons supporting the mixed approach.**	We support the mixed approach because it offers applicable local companies the flexibility in choosing what suits them best and may reduce their reporting burden. It can also facilitate a targeted focus on EU-related impacts, appropriate for this regulatory sustainability report.
27	**Reasons for not supporting the mixed approach.**	N/A
28	**Explain reasoning and suggest improvements where the mixed approach is supported.**	We suggest that clearer guidance is needed on how entities should determine whether products and services are connected with the EU and whether their associated impacts can be meaningfully

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		identified and disclosed, with supportable evidence needed for assurance, to achieve faithful representation. A reporting scope and boundary matrix will also be useful for understanding the global and EU-only impacts disclosed, and their consistent application over time.
29	**Explain reasoning and suggest improvements where the mixed approach is not supported.**	N/A
30	**Specify anticipated challenges.**	///////The comparability among companies will lessen through the allowed flexibility as some impacts will be reported on at a global level and some on an EU-only level. For a company, the challenges may include: Tracing products sold through third-party distributors; identifying upstream and downstream employees and communities linked to EU entities; maintaining consistent boundaries across policies, actions, targets and metrics; and explaining mixed scopes without overwhelming or confusing users. The assurance challenges may include: Obtaining evidence over the EU-related impact boundaries; testing allocation methodologies; assessing the completeness of EU-related value-chain impacts; and evaluating consistency of scope across materiality assessments, disclosures and metrics.
31	**Do you agree with the principles-based definition of EU-related customer impacts?**	We support the inclusion of a principles-based approach to identifying products and services connected with the EU market. However, we suggest that the definition be supplemented by decision criteria and practical examples to support consistent application in complex multinational and value chain contexts.
32	**Recommend alternative factors for meaningful identification of EU-related impacts.**	Additional guidance and practical examples can improve consistency, comparability and assurance. This could be achieved by clarifying how it can be applied in complex multinational business and value-chain contexts.
33	**For preparers, do you intend to apply the mixed approach?**	N/A
34	**To which topic, sub-topic or group of impacts would you apply the mixed approach?**	N/A
35	**How would you apply the mixed approach?**	N/A
36	**For users, can a report with different global and EU-related boundaries be understood and compared?**	Understandability could be improved on clear disclosure of the report's purpose, the scope and boundaries of the material impacts disclosed, and the significant judgements applied. However, transparency alone will not eliminate the loss of comparability caused by the different boundary choices between undertakings or reporting periods.

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37	**Explain why.**	
38	**Suggest amendments to improve understandability and comparability.**	We suggest that the report should include a link to the group's overall corporate reporting suite, which can provide wider contextual information in understanding the group.
39	**Do you agree with reference to fair presentation in the reporting objective?**	Yes.
40	**Explain the fair presentation response.**	The inclusion of the entity-specific requirement can serve as a 'sense-check' or 'catch all' on the report information in that all material information is disclosed. However, more guidance could be given on when this requirement should come into play. Further, impacts that cannot be meaningfully geographically attributed should continue to be reported globally to achieve fair presentation.
41	**Should human rights impacts be excluded from the mixed approach and reported globally?**	Yes.
42	**Explain the human rights position.**	Human rights impacts should continue to be reported globally, reflecting the universal nature of human rights. It may be that significant impacts associated with an entity arise outside of the EU through global operations and value chains, and limiting disclosure to EU-related impacts may result in material omissions and reduce fair presentation.
43	**Should companies be able to limit disclosure without considering whether impacts can be geographically contained?**	No.
44	**Explain the geographical containment position.**	Companies will have to assess whether the specific impact can be meaningfully geographically contained before they limit disclosure to EU-related impacts. Where impacts are inherently global or arise across integrated value chains, an EU-only boundary may result in material omissions and reduce completeness, comparability and fair presentation and such impacts should be reported on a global basis.
45	**Can fair presentation be achieved under the mixed approach?**	Yes
46	**Explain whether fair presentation can be achieved.**	Fair presentation can only be achieved under the mixed approach if companies clearly explain the reporting boundaries used, the basis of identifying EU-related impacts, the assumptions, significant judgments and omissions, the relationship between EU-related and global disclosures, and provided material impacts are not excluded. If a geographical limitation results in the omission of impacts or materially affects users' understanding of the company's sustainability performance, global disclosure should be required.
47	**Do you agree with flexible topic, sub-topic or group-of-impacts scope choices?**	No.

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48	**Explain the response on flexibility.**	The group-of-impacts option is granular and creates opportunities for selective boundary setting. Suggest limit the option to whole topics, or at most clearly defined sub-topics, applied consistently to policies, actions, targets and metrics. Any exception should require a specific justification and disclosure of the effect on comparability and completeness.
49	**Preparer sub-question on using different scopes within the same topic.**	N/A
50	**Explain the topic and rationale for different scopes.**	N/A
51	**For preparers and assurance providers, are implementation challenges anticipated?**	N/A
52	**Select anticipated mixed-approach challenges.**	N/A
53	**Explain challenges and suggest improvements.**	N/A
54	**Specify metrics affected by allocation-key challenges.**	N/A
55	**Are BP-1 mixed-approach disclosures clear, feasible and sufficient?**	Partially agree.
56	**Suggest improvements to BP-1.**	BP-1 provides an appropriate foundation for explaining the mixed approach. However, without standardised information about reporting boundaries, judgements and limitations arising from the mixed approach, disclosures may be difficult to compare and assure.
57	**Do you agree with ESRS-40a 2 specifications for EU-related impacts?**	Partially agree. The specifications provide a practical framework for identifying EU-related impacts. Additional guidance would be helpful for multinational value chains, cross-border impacts and impacts affecting both EU and non-EU stakeholders. The specifications should also ensure that material impacts are not excluded solely because they originate outside the EU yet have significant consequences for EU stakeholders or markets or value chains. Clear decision criteria and illustrative examples would support consistent application, comparability and assurance.
58	**Select ESRS-40a 2 specifications with which you disagree.**	See answer to 59
59	**Explain disagreement and suggest improvements.**	While the specifications may reduce the reporting burden for non-EU parent companies, geographical limitation should not result in omission of material impacts that cannot be geographically contained or arise from integrated value chains. Clarification on circumstances where global reporting remains necessary to support fair presentation would be helpful.
60	**Do you agree with topical-standard specifications for EU-related impacts?**	Partially agree as the topical specifications support a proportionate approach. However, they would benefit from additional guidance to improve consistency across sectors, multinational operations and value chains.

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61	**Select topical specifications with which you disagree.**	
62	**Explain topical concerns and suggest improvements.**	Additional guidance is needed for cross-border impacts, integrated value chains and impacts affecting both EU and non-EU stakeholders. Clarification should be provided when global reporting remains appropriate. Practical examples would support consistent implementation.
63	**Should S1-6 to S1-16 metrics be disaggregated inside and outside the EU?**	Disaggregation metrics between EU and non-EU operations should only be required where the distinction is material to understanding workforce impacts or performance. Mandatory disaggregation for all entities would increase reporting burden while offering limited additional decision-useful information in many cases.
64	**Should all or only some S1 metrics be disaggregated?**	Only some metrics should be disaggregated. Disaggregation could, for example, be limited to workforce metrics where geographic differences are material to understanding the undertaking's impacts and performance. This would improve proportionality while preserving decision-useful information.
65	**Specify S1 metrics for disaggregation.**	Workforce metrics, such as, employee numbers and composition, collective bargaining coverage and social dialogue, diversity metrics, health and safety metrics, and remuneration-related metrics.
66	**Do you agree with the presentation requirements?**	Yes and we support the flexibility offered to preparers and appreciate the requirement for connected information.
67	**If no, explain why.**	N/A
68	**Provide suggested presentation amendments.**	
69	**Do you agree with Chapter 9.3 incorporation by reference?**	Yes.
70	**If no, identify areas of disagreement.**	N/A
71	**Explain and suggest improvements to incorporation by reference.**	
72	**Preparer question on avoiding double reporting with IFRS S1 and S2.**	N/A
73	**How should understandability and identification across frameworks be supported?**	Interoperability mapping of disclosures by EFRAG and the ISSB and the GRI. This can offer a single disclosure rather than repetition.
74	**Explain anticipated interoperability challenges.**	The main challenge is the potential divergence between EU-related ESRS disclosures and globally reported sustainability information under standards such as the ISSB and GRI. Different reporting boundaries and materiality definitions may increase complexity.

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75	**Suggest interoperability amendments.**	Refer to the answer for 73.
76	**Are incorporation-by-reference requirements sufficient for an understandable and auditable report?**	Yes, provided appropriate safeguards are in place.
77	**Suggest improvements for understandable and auditable incorporation.**	Clear cross-referencing is required and hyperlinks should link to the exact page or section. Mapping tables can be useful as an overall guide.
78	**For preparers, is use of EU-law terms and concepts as the default feasible?**	N/A
79	**If not feasible, identify affected disclosure requirements.**	N/A
80	**Are BP-1 paragraph 7 disclosures on approximations and estimations clear, feasible and sufficient?**	Broadly agree, however, additional implementation guidance and examples would support more consistent application, particularly regarding significant assumptions, methodologies and material sources of estimation uncertainty.
81	**Explain the response on EU-derived concepts.**	We support the retention of EU-derived concepts where necessary to meet specific EU regulatory objectives. However, greater alignment with internationally recognised sustainability reporting should be pursued. Clear definitions, implementation guidance and mapping to global standards would improve interoperability, reduce duplication and support more consistent reporting across jurisdictions.
82	**Provide any other comments or suggested improvements.**	We support EFRAG's objective of reducing the reporting burden for non-EU undertakings and simplifying the sustainability reporting requirements. Further simplification can be achieved through interoperability. To provide wider context for an ESRS-40a sustainability report, we suggest that a link to the group's broader corporate reporting suite should be provided.