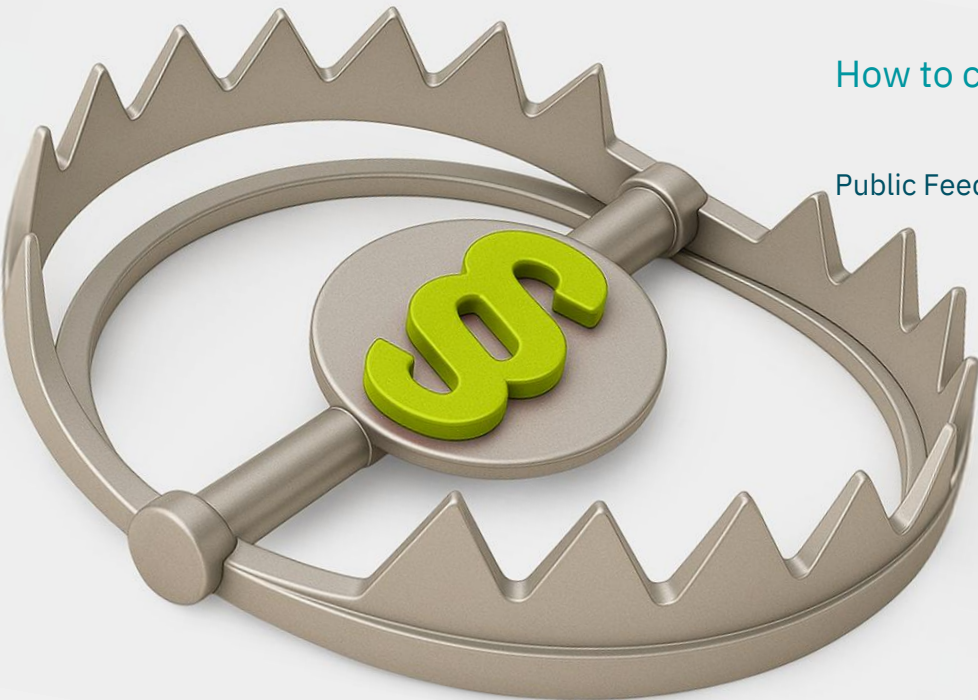


EFRAG & the EU at a crossroad: Feel-good vs. make-good economy

How to change the ESRS & CSRD to promote sustainability & competitiveness

Public Feedback of Positive Impacts (PI) GmbH to EFRAG/The European Union | location: Planet Earth | 29 Sept. 2025



EU choice: feel-good & decline vs. make-good & growth

FEEL-GOOD ECONOMY → RISKING ECONOMIC & SUSTAINABILITY DECLINE



- > Unclear accounting rules make **‘everybody’** accountable, thus, no one **‘responsible’**
- > **Additional burden for EU companies** that their non-EU competitors can spare
- > **Double Materiality** is often misunderstood & **not a strategic fit for most**
- > Overly complex & non-fitting rules risk fostering a **compliance mindset** and **cost burdens**
- > Reducing a customer’s negative impact does not, by itself, constitute a positive impact

“≠” = unequal

MAKE-GOOD ECONOMY → SMART CONNECTION OF GROWTH & SUSTAINABILITY



- > Clear **revenue-based accounting rules**: who pays decides
- > **Fair competition**, as non-EU competitors can be obliged to follow the same rules
- > **Pre-defined consensual KPIs** where we need to reach targets: no (!) entity materiality!!!
- > **Simple, minimalistic rules**, plus a voluntary framework that allows a strategic fit
- > Positive and negative impacts can occur along the entire value chain ≠ just downstream

About Positive Impacts[®] (PI[®])

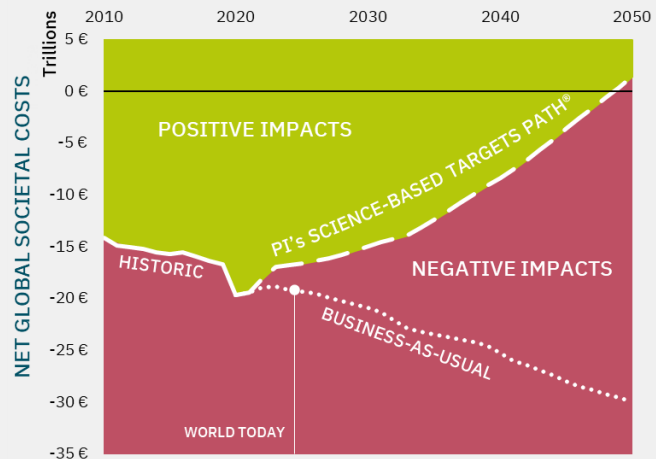
Positive Impacts® (PI®) provides guides for three challenges

THE PI® IMPACT ACCOUNTING FRAMEWORK

- > Allows to evaluate and forecast the **positive and negative impacts** of any economic activity¹ in a **science- and sustainability-context-based** way **without impact washing the results**



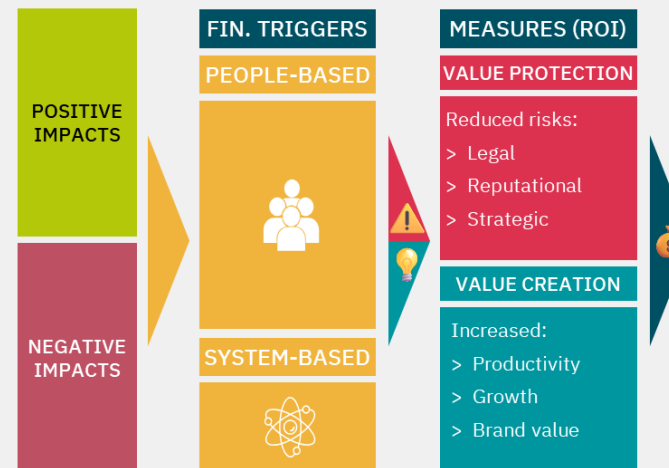
PI's IMPACT ACCOUNTING FRAMEWORK



THE PI® VALUE & RISK FRAMEWORK

- > Which of these impacts lead to **financial effects** 💰 / ⚠️ **risks** / 💡 **opportunities**?
- > How to integrate them into valuations and investment decisions?

EVALUATING RISKS, OPPORTUNITIES, AND ROI OF MEASURES

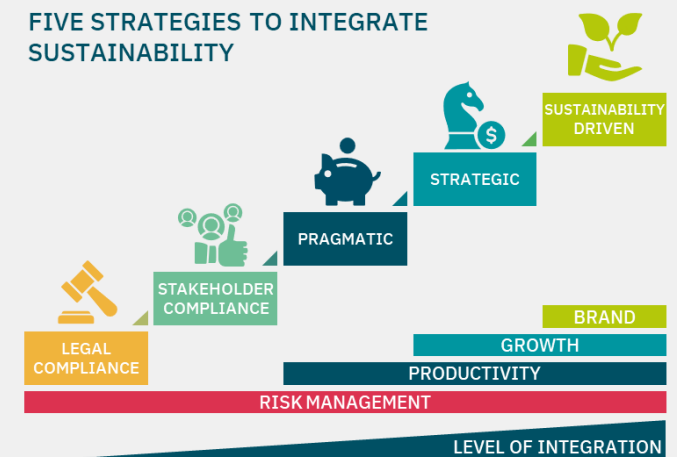


THE PI® STRATEGY FRAMEWORK

- > Which strategic ambition fits the risk/opportunity profile of the portfolio?
- > How to integrate this strategic ambition into business or investment strategy, governance, and processes?

PI®'s STRATEGIC AMBITION LEVELS

FIVE STRATEGIES TO INTEGRATE SUSTAINABILITY



1) Of any company, asset, product/service, anywhere in the global economy, i.e., on Planet Earth.

Feedback by Positive impacts[®] (PI[®]) to EFRAG & the EU

Clear accounting rules in times of geopolitical tensions

CURRENT ACCOUNTING APPROACH RISKS FOSTERING A 'FEEL-GOOD' DYNAMIC

- > Scope, part I: Materiality assessments are often misapplied, and even when properly conducted, the regulatory design risks producing structural unintended consequences (this will not change by making it top-down)
- > Scope, part II: Covering operations, upstream and downstream, for any economic activity along the value chain:
 - > Taking away accountability from those who make the economic decisions (i.e., buy or use a product): Allocating downstream accountability to producers, rather than the decision-makers who use or purchase products, can dilute accountability and allow responsibility to be shifted along the value chain¹
 - > Inconsistencies in scope application, e.g., by having two standards for working conditions (operations + upstream, but none for downstream), or the “highest paid ratio”, which can be improved by outsourcing low-wage work, risk creating symbolic outcomes rather than substantive progress. Over time, this may foster a compliance mindset, as managers struggle to grasp the framework’s overall logic

MAKE-GOOD ECONOMY USES MARKET-BASED INSTRUMENTS & CLEAR RULES

- > Mandatory scope should be revenue-based, i.e., each impact linked to revenue should be reported cradle-to-gate
- > Consensual ESG KPIs where society needs and wants to reach targets that can and need to be reported by any economic activity (to be found on the accounts of economic actors), e.g., GHG emissions (net)², water consumption, biodiversity (eutrophication, waste, afforestation), plus if deemed relevant, indicators on induced health-impacts, basic social topics, and net taxes paid³
- > Exclude performance KPIs that can be artificially adjusted by shifting impacts upstream in the value chain
- > Complementing the clear revenue-based accountability rules⁴ by an 80-20 rule and precise (transitional) requirements with moving thresholds where estimates are acceptable

¹ Examples: “it is the producer’s fault that I am using this product now”, or “it is the fault of the company that I bought a house far away from work and cannot walk there” (employee commuting); ² Yes, this should include carbon removal offsets, provided there are robust guarantees and sufficient buffers to ensure their effectiveness. The IPCC includes additional carbon sequestration in all <2°C scenarios, meaning someone must bear these costs. Moreover, carbon removals can be cross-cutting, supporting climate and biodiversity (e.g., by restoration global forest cover); ³ See www.positive-impacts.com/impacts/ for further examples and why taxes (net) should be added; ⁴ Where relevant (e.g., end-consumer products), this rule could, on a case-by-case basis, be supplemented by **separate transparency requirements** (informing the user) or **end-of-life incentives**. However, keeping cradle-to-gate (i.e., revenue) as the rule and not the exception to the rule!

No vs. Single vs. Double Materiality (CSRD!)

CURRENT APPROACH RISKS FOSTERING A 'FEEL-GOOD' DYNAMIC

Why is making double materiality mandatory not a good idea to help sustainability and the economy?

- > Requiring 50,000 companies to invest in topics that are not and are not expected to be financially material risks creating structural disadvantages and unintended negative growth effects
- > Non-EU companies will be able to mostly spare these costs, allowing them to offer products/services at lower costs, reaching higher market shares. This could worsen if EU consumers then face lower salaries/fewer jobs, which may increasingly turn to cheaper imports, which are unlikely to be more sustainable
- > This dynamic could trigger a vicious cycle that undermines the credibility of a 'sustainable economy', i.e., not leading to other economies wanting to follow the approach. This could then result in an overall less sustainable global economy, even if the EU would reach its Scope 1 target¹ by economic decline

MAKE-GOOD ECONOMY SETS THE SCOPE AND GUIDES STRATEGIC INTEGRATION

No(!) entity-specific materiality for regulation

- > Whenever possible within its mandate, EFRAG should apply the double materiality principle by defining what is impact-material from a societal perspective. We will not reach sustainability targets by preserving the current GDP allocation and attempting to make it 'sustainable' through a quasi-planning approach. For example, a house can be built with cement, with wood, or existing housing space can be used more efficiently, freeing resources for other purposes. The key is to create incentives and utilize market-based tools, as it is unrealistic to expect regulators to determine in advance how every economic actor will allocate future spending.²

Single or Double Materiality for voluntary reporting

- > For some organizations, double materiality may align with their strategy—for example, as a means to differentiate from competitors or to actively drive topics that are currently not financially material toward becoming so
- > Most organizations will recognize that high levels of transparency and comparability create financial implications through customer and investor responses, making a single-materiality approach the pragmatic choice for sustainability management
- > Others are likely to comply at only a basic level, providing data without integrating the information into strategic processes or broader reporting

¹ A key shortcoming of the Paris Agreement is its emphasis on Scope 1, overlooking that most GHG emissions are driven by purchasing decisions of economic actors rather than solely by rules of national governments; ² For example, the IEA underestimated the global PV share by several hundred percent. This illustrates the risks of basing regulatory judgments—such as those in the EU Taxonomy or SBTi—primarily on existing technology/forecasts.

Simple/minimalistic rules & a reporting framework that fits

CURRENT APPROACH RISKS LEADING TO A COMPLIANCE MINDSET

- > Complex rules, while well-intentioned, often appear disconnected from business realities. This can lead top management to treat them as a compliance exercise, producing large volumes of auditable documentation without driving meaningful change (essentially a box-ticking exercise)
- > This dynamic primarily benefits large consultancies, while organizations face significant cost burdens with limited added value for sustainability outcomes
- > Finally, we consider it important to clarify a potential misunderstanding: reducing a customer's negative impact does not automatically constitute a positive impact

MAKE-GOOD ECONOMY TRIGGERS COMPETITION AND ACTIVATES STRATEGY INTEGRATION

- > Simple rules, i.e., revenue = scope and a limited set of impact indicators, would reduce complexity a lot, triggering focus on what really matters to society overall (and not until the next election)
- > Top managers are highly capable decision-makers. Prescriptive one-size-fits-all approaches risk undermining their ownership and commitment
- > Sustainability is in >95% of the cases not about compliance, but about
 1. Performance (≠ 0/1) &
 2. Strategy (≠ everybody doing the same)

Both are concepts that are non-binary, i.e., not about compliance
- > A reporting framework that instead offers a basis to report on what top managers had the freedom to decide to do, including transparency requirements that prevent them from engaging primarily in symbolic reporting (e.g., setting operational targets while excluding significant upstream impacts), could instead activate them in contributing to the make-good economy
- > Refine the definition of **positive/negative impacts** to “actual or potential contributions to desired/undesired changes on the environment, people, and the economy that are at the discretion of the reporting organization”

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