

# Why the Revised ESRS are not delivering a simpler DMA

*Response to EFRAG Amended ESRS Exposure Draft July 2025 Public Consultation Survey curated by Donato Calace, Datamaran*

EFRAG's Basis for Conclusions (pp. 9–10) states that the “*lack of clarity*” around the operationalisation of the DMA was identified as “*a significant source of burden in practice*. In particular, “*the determination of matters (or topics) to be reported upon has been particularly intense, including for audit purposes*”, with “*excessive focus on process rather than outcome*”, resulting in “*disproportionate effort compared to the result.*”

To address this, the Basis for Conclusions explains that modifications have been introduced which “*should simplify the DMA process and enhance effectiveness of the materiality of information to a large extent.*”

## Scoring the Revisions

To test that claim, I reviewed each of the 15 revisions and scored them as follows:

- **+1** = effectively simplifies the process
- **0** = editorial or neutral change (no material effect)
- **-1** = adds complications to the process

If all 15 revisions genuinely simplified the process, the score would be +15. In practice, my analysis results in a score of +2 out of 15 – meaning the DMA is only about 13% simpler, far from “a large extent.”<sup>1</sup>

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<sup>1</sup> Of course this methodology has its limitations, such as assuming equal weight for each revision item. But so does measuring simplification by counting the number of datapoints, right?

Revision	Score	Rationale	Reference (Revised ESRS)
ESRS are a fair presentation framework	0	Useful principle in theory, but unclear practical implications. If anything puts even more emphasis on the importance of identifying, assessing, monitoring, and disclosing material IROs, which was already pivotal in the DMA process.	ESRS 1 16
Sub-sub topics now removed	1	Original AR 16 sustainability matters were overlapping and mixing different elements. Removing sub-sub topics removes complexity. Also clarified the illustrative nature of the list of topics. Hopefully, this will be enough for auditors to stop using it as a checklist.	ESRS 1 Appendix A
When only a sub-topic is material, the undertaking should limit the information reported to that sub-topic without triggering the reporting of all the datapoints in the relevant topical standard	0	Useful clarification, but already used in practice - not a new simplification measure	ESRS 1 50 AR 21
Gross vs Net impact assessment	-1	Adds yet another layer of analysis	ESRS 1 34-35
Governance oversight	0	Governance oversight requirements on material IROs originally under ESRS 2 GOV-2 are now under ESRS 2 GOV-1	ESRS 2 GOV-1
Annual update	0	No real change from the previous requirement	ESRS 1 29
New materiality of information principle	1	Materiality of information mechanism is now more visible (+1 simplification); however, the materiality test is still quite ambiguous (-1 complication)	ESRS 1 21
New materiality of information test	-1	Materiality of information mechanism is now more visible (+1 simplification); however, the	ESRS 1 21

Revision	Score	Rationale	Reference (Revised ESRS)
		materiality test is still quite ambiguous (-1 complication)	
Focus exclusively on "likely to arise" IROs in the value chain	0	This principle is already present in the current ESRS 1 para 39	ESRS 1 45
The undertaking is not required to assess every possible IRO	0.5	Potentially useful principle to use in pushing back on excessive auditors' requests. Unclear how it translates to practice.	ESRS 1 46
Use reasonable and supportable information that is available without undue cost or effort	0.5	Potentially useful principle to use in pushing back on excessive auditors' requests. Unclear how it translates to practice (the approach described in paragraph 89 is highly subjective).	ESRS 1 47
Clarification on the level of aggregation/disaggregation of IROs at the country, site, and asset level	1	Language on disaggregation has been relaxed, allowing for more opportunities to aggregate IROs when appropriate	ESRS 1 51-53
Bottom-up vs top-down approach	0	Already possible under the existing ESRS. Also, why keep the bottom-up approach if top-down is more pragmatic and is expected to deliver the same results?	ESRS 1 48 AR 17
No need to analyze every time horizon and each characteristic of severity unless more information is necessary	0	Useful in theory, but the ambiguity of "unless more information is necessary" is likely to raise questions with the auditors	ESRS 1 48 AR 18
The use of quantitative information or quantitative scoring is not required in all cases.	0	Useful in theory, but ambiguous in its application, and thus likely to raise questions with the auditors	ESRS 1 48 AR 19

**Total score: 2 / 15 ≈13% simplification.**

## Closer Look at Key Modifications

It is worth analyzing more closely the modifications concerning fair presentation, Gross v Net, materiality of information, and the new practical considerations section.

## 1. Fair Presentation

ESRS 1 16 now clarifies that the ESRS are a “fair presentation” standard. In accounting jargon, fair presentation frameworks are different from compliance-based standards as they focus on faithful representation, key characteristics of quality of the information, and management judgment rather than a detailed checklist of rules. In other words, in a fair presentation system, substance takes precedence over form. This is probably music for the ears of all those companies that went through the implementation of ESRS and have been vexed by auditors applying a very literal interpretation of the requirements, in particular on the DMA (I’m looking at you, auditors asking for IROs for each AR16 sub-sub topic).

However, despite Patrick de Cambourg’s [opinion](#), slapping the label “fair presentation” on top of the standards (it is literally header 2 in ESRS 1) doesn’t change the fact that the ESRS are still full of very specific and detailed requirements, including on the DMA process. The concern is that this inherent contradiction could potentially lead to even lengthier debates with auditors.

## 2. Gross vs Net Impacts

The Revised ESRS 34-35 seek to clarify how to take into account prevention, mitigation, and remediation measures when assessing negative impacts. Specifically, they indicate when assessment can be done on a net (taking into account mitigation/prevention actions) or gross (without taking into account mitigation/prevention actions) basis. In this effort to provide clarification, however, the Revised ESRS ends up adding yet another layer of analysis, as reporting companies will need to determine the assessment basis on their negative impacts. To quote one of the practitioners in our [Harbor](#) community: “*Now another dimension is added on top of the standard DMA exercise*”.

I translated the dense paragraphs into the following table for clarity:

Type of Impact	Action Considered	Assessment Basis	Source Text
Actual negative impacts	Mitigation/Prevention (taken before impact)	Net	<i>“The severity of the impact shall be evaluated considering the outcomes of any mitigation or prevention measures implemented before the impact occurred.”</i>

Type of Impact	Action Considered	Assessment Basis	Source Text
Actual negative impacts	Remediation (during reporting period)	Gross	<i>"If the undertaking has taken remediation actions during the reporting period to address actual negative impacts, these actions shall not be considered when assessing the materiality of the impact."</i>
Persisting actual impacts from previous years	Mitigation/Prevention (taken before impact)	Net	<i>"The severity of the impact shall be evaluated considering the outcomes of any mitigation or prevention measures implemented before the impact occurred."</i>
Potential negative impacts	Mitigation/Prevention (effective and not ongoing)	Net	<i>"When supportable evidence exists that mitigation or prevention actions taken reduce the severity and/or likelihood of potential negative impacts... the effect of these actions is considered in assessing the materiality of the impacts."</i>
Potential negative impacts	Mitigation/Prevention (effective but requires ongoing action)	Gross	<i>"If the undertaking needs to maintain significant ongoing mitigation and/or prevention actions... the impact shall be assessed without considering the mitigation and/or prevention actions."</i>
Potential negative impacts	Future Remediation or Policies	Gross	<i>"Future remediation actions and policies are not considered in the materiality assessment of potential impacts."</i>

An additional point of concern in this approach is the ambiguity of the formulation "significant ongoing mitigation and/or prevention actions". Determining what mitigation and prevention measures qualify as "significant" and "ongoing" clearly requires a judgment call, and it is very likely to generate long internal debates on what those characteristics mean, as well as raise questions from assurance providers.

### 3. Materiality of information

In the original ESRS, the materiality of information test is well hidden in ESRS 1 31, and 34. As a result, it has been barely used by Wave 1 reporting companies. It is then a welcome revision to introduce the new paragraph 21 in the Revised ESRS 1, clearly

spelling out the materiality of information filter. The revised ESRS also modifies the materiality of information test, now based on two alternative conditions:

*“Information is material when:*

- a) omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make based on those reports, including financial statements and the sustainability statement; or*
- b) It is necessary for users of general purpose sustainability statements to understand the undertaking’s material impacts, risks and opportunities and how it identifies and manages them.”*

While condition a) is effectively borrowed from the IFRS standards and thus relies on well established understanding of what “*general purpose financial reports*” are, who “*primary users*” are (i.e. investors and capital lenders), and which “*decisions*” it refers to (buy, hold, or sell equity or debt), b) is instead venturing in uncharted waters. Who are the “*users of general purpose sustainability statements*”? Are those different from the “*affected stakeholders*”? What are “*general purpose sustainability statements*”? And finally, most importantly, the test is predicated on a much broader and generic basis - “***understand the undertaking’s material impacts, risks and opportunities and how it identifies and manages them***” - compared to the more specific “*information that could reasonably be **expected to influence decisions***”. Arguably, the universe of information useful to “**understand**” IROs is much broader than the information “**expected to influence decisions**”, significantly diminishing the effectiveness of this new materiality of information filter, as it will be rather simple for auditors to insist that a piece of information is necessary to “**understand**” an impact, a risk, or an opportunity.

#### **4. Practical considerations**

This section includes several principles (rather than “practical considerations”) in 45-47 that are, in theory, useful to avoid overworking the DMA and pushing back excessive auditors’ requests, such as:

- Focus the value chain assessment on areas where material IROs are likely to arise (although this indication is already in the current ESRS 1 39 and that did not stop certain auditors from asking companies to include every supplier and customer in the scope of the DMA).
- The undertaking is not required to assess every possible impact, risk, and opportunity (everybody agrees, but how does this translate into practice?).

- use reasonable and supportable information that is available without undue cost or effort<sup>2</sup> (the definition of undue cost or effort in ESRS 1 89 is highly subjective).

Given their abstraction, the effectiveness of those principles dressed as practical considerations remains a question mark, especially considering the overreaching attitude auditors adopted in providing assurance to Wave 1 CSRD statements.

ESRS 1 48 and related application requirements then introduce measures through which “*the undertaking **may** avoid unnecessary complexity*”. The formulation based on “may” rather than “shall” already downgrades those measures to optional ones, which some auditors may interpret as: “only certain companies **may** use the lighter process described in ESRS 1 48, and there have to be companies out there that, in light of their complexity, reach, size, must do more than that”.

Similarly, AR 17 does nothing to remove the ambiguity: “*The undertaking **may** adopt a top-down or a bottom-up approach to perform its materiality assessment.*” This is really puzzling, considering the follow-up comment: “*Adopting a **top-down approach** may be **more pragmatic** and **reduce the complexity** of the process, and **is expected to lead to the same outcome** of the materiality assessment as the bottom-up approach.*” If that is the case, **why on earth is the bottom-up approach still in the standards?** Its presence, together with the “may” based language of these provisions, leaves a back door open to auditors to ask for a bottom-up approach whenever they deem it appropriate. More worryingly, one practitioner highlighted to me that certain auditors may even interpret this AR as a stress test, asking the reporting company to conduct both the top-down and bottom-up approaches and check that the results effectively match.

Additionally, AR 18 is worded in a highly problematic way. “***Unless more investigation is necessary to be able to determine that an impact, risk, or opportunity is material, then the undertaking does not need:***

- a) *to analyse every time horizon for all impacts, risks, and opportunities;*
- b) *(for impacts) to analyse separately each characteristic of severity*”

While a) and b) are welcome clarifications that can be used to effectively push back on certain auditors’ literal interpretation of the standards, making those 2 measures conditional on the ambiguous “**unless more investigation is necessary**” reduces substantially their reach. More importantly, considering that auditors may potentially ask for more investigation on any IRO, it’s probable that prudent

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<sup>2</sup> Editorial note: 45 (b) and 47 use inconsistent language to refer to “reasonable and supportable evidence (45 b) / information (47)”, with only 47 adding the reference to “undue cost or effort” - I assume it applies to both paragraphs.

companies may conclude that they do need to apply a) and b) just to be ready in case auditors request further investigation.

In short, while those practical considerations try to move in the right direction, their formulation in the Revised ESRS is not ambitious and clear enough to effectively deliver the necessary simplification.

Not by chance, those points have been largely echoed by the Datamaran community of sustainability practitioners on [Harbor](#).

## A simpler DMA is still possible

It's not all doom and gloom. There is still time for EFRAG to deliver a truly simplified DMA. At Datamaran, we recommend the following:

1. **Embrace a “fair presentation” regime.** Take a principle-based approach with less detailed requirements (see the next points for more details).
2. **Reconsider the Gross vs. Net debate.** Overworked rules risk generating time-consuming disputes internally and with auditors. A blanket rule, assessing all impacts on a gross basis, would simplify matters while allowing exceptions where companies provide justification.
3. **Reinstate decision usefulness.** It is unclear why the Revised ESRS departs from this well-established criterion in condition (b) under ESRS 1 21. A clearer test would be:  
*“Information is material when omitting, misstating, or obscuring it could reasonably be expected to influence decisions that primary users of general-purpose sustainability statements make, including decisions about the undertaking’s material impacts, risks, and opportunities.”*
4. **Clearly state the company’s exclusive role in making judgments.** Only the undertaking should make the following judgment calls:
  - a. Value chain areas where material IROs are likely to arise.
  - b. The number of IROs identified and assessed.
  - c. What constitutes “reasonable and supportable information available without undue cost or effort”.
5. **Strengthen Paragraph 48.** Replace “may” with “shall” to provide clear direction.



6. **Remove the bottom-up approach.** It is unnecessary and more burdensome than the top-down approach.
7. **Delete “unless more investigation is necessary” from AR 18.** This adds ambiguity and opens the door to excessive demands.

### **About Datamaran**

[Datamaran](#) is the first AI-powered sustainability platform to focus upstream of reporting, where critical business decisions are made. Trusted by global leaders, it equips executives with continuous intelligence on risks, regulations, and stakeholder expectations, embedding materiality, risk prioritization, and oversight into strategy and governance to drive resilience and long-term value.