

First set of draft ESRS

General presentation and cross cutting standards

Meeting with the Member States

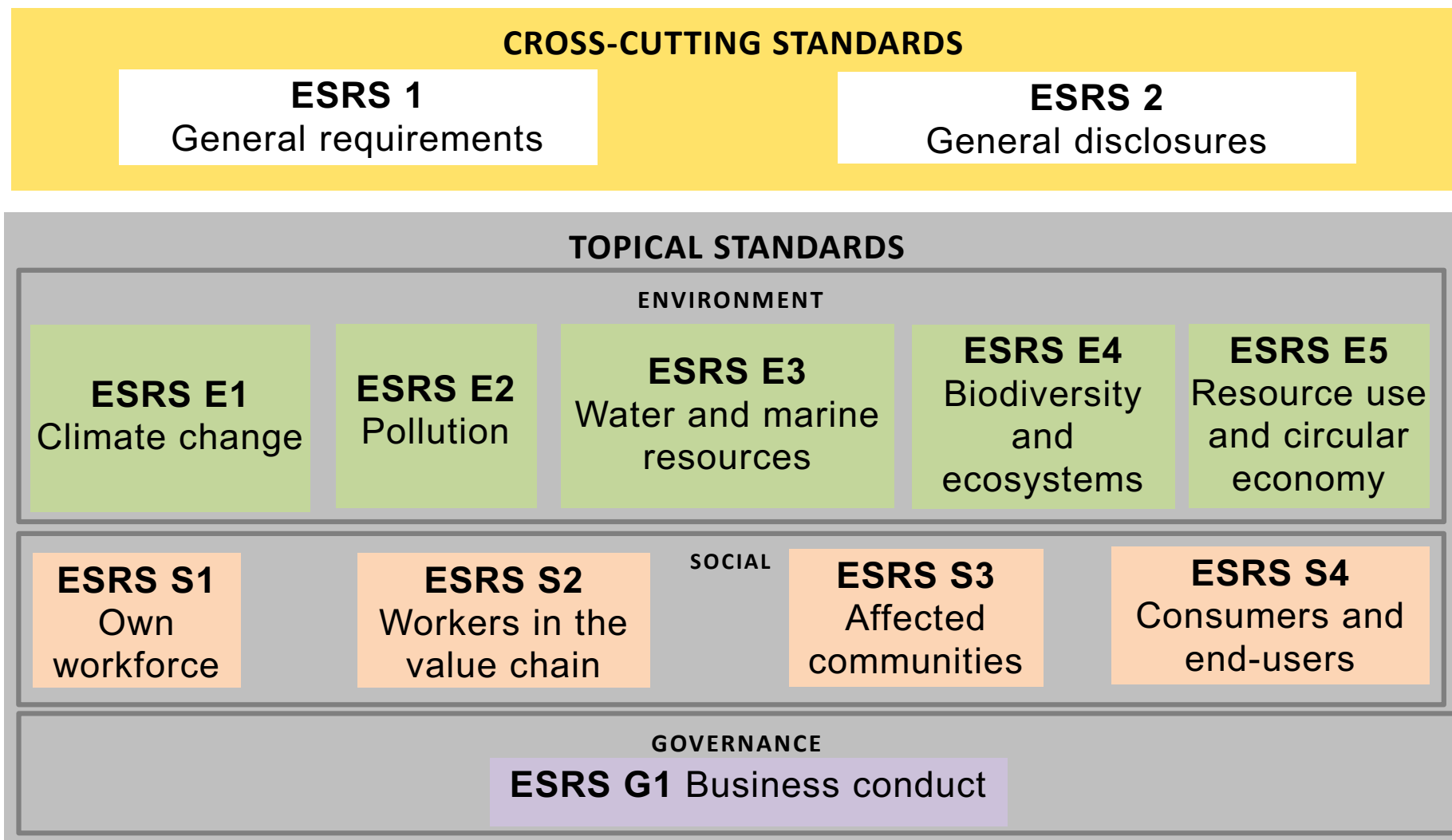
15 December 2022



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FIRST SET OF DRAFT ESRS: THE STANDARDS



PHASED ENTRY INTO APPLICATION: Staggered approach

- Financial year 2024 – Companies "in scope of NFRD"
- Financial year 2025 - Other large companies
- Financial year 2026 - Listed SMEs: FY 2026 including further opt-out provisions
- Financial year 2028 - Non-EU companies with branches/subsidiaries

FIRST SET OF DRAFT ESRS: THE PACKAGE

- ✓ Cover letter
- ✓ Due process note
- ✓ Explanatory note, including its Annex, of how draft ESRS take account of the initiatives and legislation listed in Article 29b CSRD
- ✓ EFRAG's Cover Letter on the Cost-benefit analysis of the First Set of draft ESRS and Cost-benefit analysis of the First Set of draft ESRS prepared by CEPS and Milieu
- ✓ First set of 12 draft ESRS to be issued as delegated Acts
 - Appendix I –Disclosure Requirements, Application Guidance index
 - Appendix II – CSRD requirements for the development of sustainability reporting standards and their coverage by the draft ESRS
 - Appendix III – Datapoints in accordance with EU laws in the ESRS
 - Appendix IV – TCFD Recommendations and ESRS reconciliation table
 - Appendix V – IFRS Sustainability Standards and ESRS reconciliation table
 - Appendix VI – Acronyms and glossary of terms

SIMPLIFICATIONS AND KEY CHANGES FROM EXPOSURE DRAFTS

1. Materiality approach

- The rebuttable presumption mechanism has been replaced by materiality approach, combined with a list of mandatory items
- Mandatory datapoints: ESRS 2, EU regulation datapoints (i.e. SFDR, Pillar 3 for banks, EU benchmark regulation), ESRS E1, for 250+ employees: S1.1/1.9
- Flexibility granted to disclose the outcome of the double materiality assessment
- Value chain refocused wording with emphasis on materiality

2. Significant streamlining of datapoints

- The number of disclosure requirements reduced from 136 in the April EDs to 82 (inc enhancing alignment with ISSB/GRI)
- Number of datapoints reduced by nearly half

3. Final text of the CSRD June 2022

- 3-year transitional provisions for value chain information
- "Value chain cap" to be implemented in the LSME standard
- Governance factors limited to governance of sustainability matters. Merger of G1 into ESRS 2.

4. Global alignment

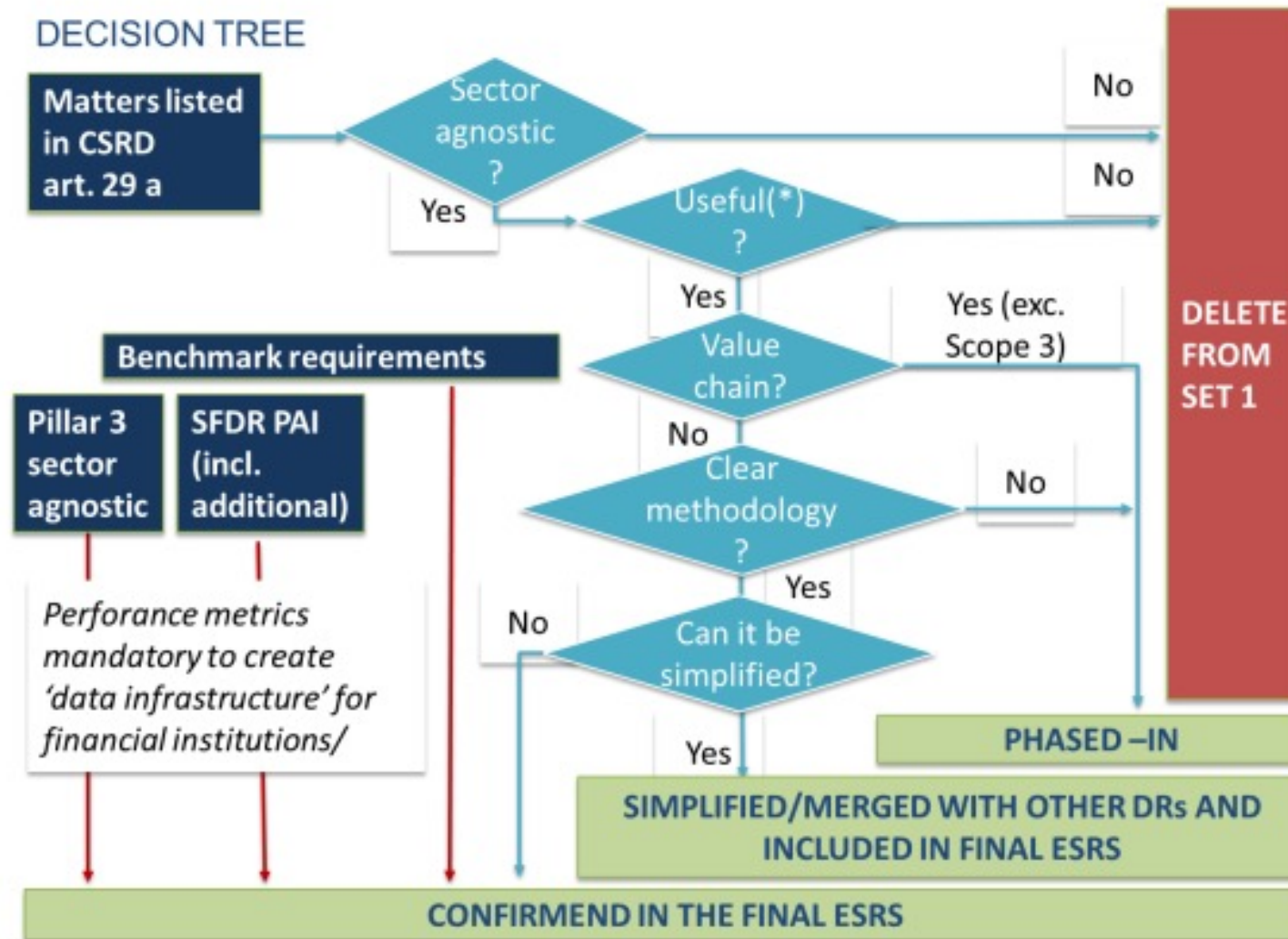
- Significantly increased alignment with IFRS and GRI

5. Transitional provisions

- Value chain postponed to take account of the difficulties companies may face in obtaining information, especially in the first few years. "Phase in" from 1 to 3 years for a number of datapoints (inc financial effects) to increase time for difficult areas

DECISION TREE FOR SIMPLIFICATION PROCESS

DECISION TREE



A structured methodology to conduct relevance and proportionality analysis and achieve the simplifications.

(*) Is each datapoint essential for fair depiction of the matter? Is it needed for international alignment?

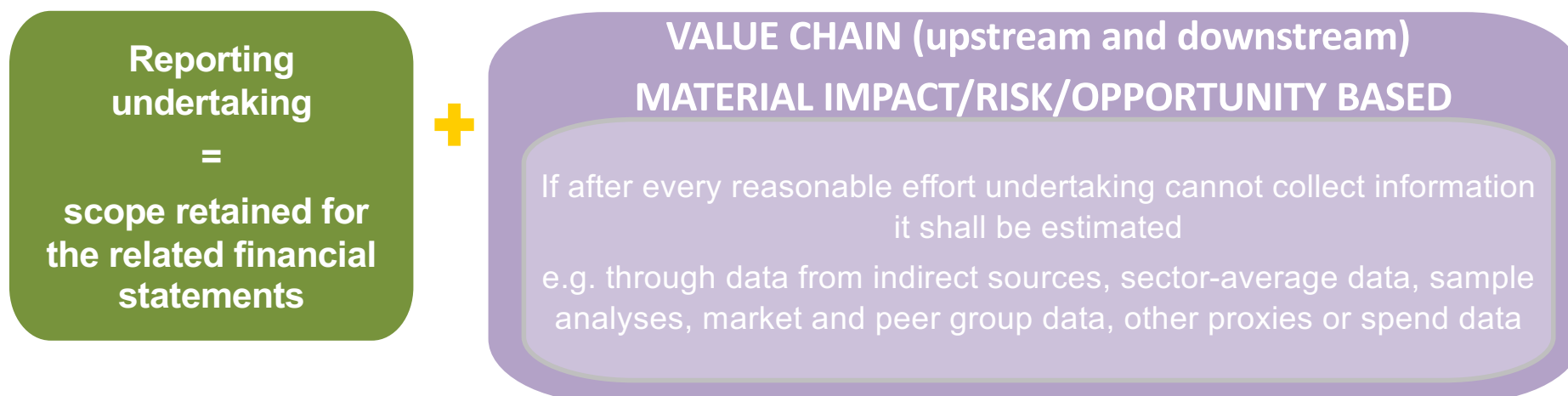
ESRS TAKE ACCOUNT OF THE INITIATIVES AND LEGISLATIONS IN ARTICLE 29 B OF THE CSRD

- Sustainability related disclosures in the financial sector (SFDR)
- Sustainable Finance Taxonomy
- EU Climate transition benchmarks and EU Paris-aligned Benchmarks
- Capital requirements regulation (CRR)
- Commission Recommendation of 9 April 2013 on the use of common methods to measure and communicate the life cycle environmental performance of products and organisations
- EU Emissions Trading Scheme (EU-ETS)
- European Climate Law
- EMAS III
- EU Whistleblowing Directive
- Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)
- GHG Protocol
- Transparent Project and Natural Capital Protocol
- Recommendations of the Task Force for Nature Related Financial Disclosure (TNFD)
- Global Reporting Initiative (GRI) Standards
- UN Sustainable Development Goals
- UN Guiding Principles on Business and Human Rights
- OECD Guidelines for Multinational Enterprises
- UN Global Compact
- Tripartite Declaration of Principles of the International Labour Organisation concerning Multinational Enterprises and Social Policy, and the Fundamental Principles and Rights at Work (ILO core conventions)
- ISO 26000 standard on social responsibility
- UN Principles for Responsible Investment
- ICGN Global Governance Principles

Relationship between the above initiatives and the relevant ESRS described/explained in the [explanatory note](#).

APPROACH TO VALUE CHAIN FOCUSED ON MATERIALITY (1/2)

- Incorporation of value chain information not required for each disclosure
- Language has been refocused to include value chain information only when specific provisions in the topical standards require to do so in the preparation of a specific disclosure and, in general, limited to impacts, risk or opportunity that are material.
- **Value chain:** *Information about the reporting undertaking provided in the sustainability statements shall be **extended** to include information on the **material impacts, risks and opportunities** connected to the undertaking through its direct and indirect business relationships in the upstream and/or downstream value chain. (ESRS 1 para 67)*
- **Impacts** include those caused or contributed to by the undertaking and those which are directly linked to the undertaking's own operations, products, or services through its business relationships



APPROACH TO VALUE CHAIN FOCUSED ON MATERIALITY (2/3)

- **Policies, actions and targets**, the undertaking's reporting shall include value chain information to the extent that those policies, actions and targets do involve actors in the value chain.
- **Metrics**, in many cases, in particular for environmental matters for which proxies are available, the undertaking may be able to comply with the reporting requirements without collecting data from the actors in its value chain, for example, when calculating the undertaking's GHG Scope 3 emissions.
- Most of the metrics in the sector-agnostic standards are limited to the own operations (no value chain).

For the first 3 years if information is not available

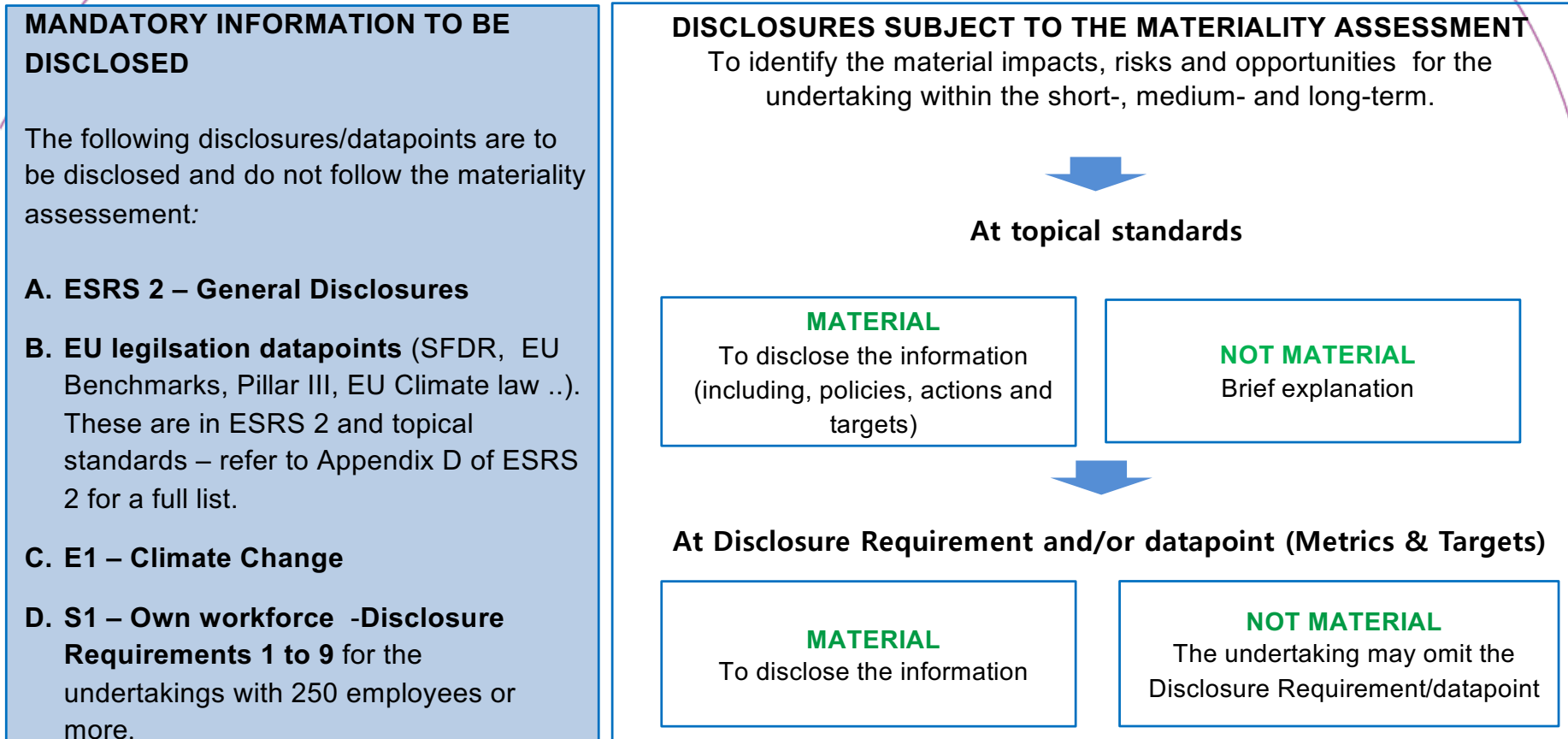
ESRS 1 para 133

the undertaking shall explain the efforts made to obtain the value chain information, the reasons why this information could not be obtained, and the plans of the undertaking to obtain such information in the future. Regardless of these limitations, the undertaking is expected to use in-house available value chain information

ESRS 1 para 134

- a) no reporting metrics in the value chain (except for EU law datapoints- ESRS 2 Appendix C);
- b) option to limit to information available in-house when applying ESRS 2 and the policies, actions and targets disclosures on topical standards for material impacts, risks and opportunities

DOUBLE MATERIALITY



- Content Index / List of all Disclosure Requirements reported
- When a topic (ESRS) is not material, brief explanation required

DUE DILIGENCE PRINCIPLES

Alignment with international instruments **UN Guiding Principles on Business and Human Rights** and the **OECD Guidelines for Multinational Enterprises**

0. Embedding due diligence in governance, strategy and business models	ESRS 2- GOV 2/3 ESRS 2- SBM 3
1. Engaging with affected stakeholders	ESRS 2- GOV 2 / SBM 2 ESRS 2 – IRO 1 / DC-P ESRS S1 –S4 DR 2-3 + topical standards
2. Identifying and assessing negative impacts on people and the environment	ESRS 2 IRO-1 ESRS 2 SBM-3
3. Taking action to address negative impacts on people and the environment	ESRS 2 DC-A ESRS S1-S4 DR 4 + topical standards
4. Tracking effectiveness of these efforts	ESRS 2 DC-M /DC –T ESRS S1-S4 DR 5 + topical standards

Not pre-empting the draft CSDDD - future amendments to take place if required

ISSB INTEROPERABILITY/ ALIGNMENT

- Comments received: great desire for interoperability ESRS and IFRS S
- EFRAG has sought to include all of the disclosures of IFRS S1 ED in ESRS 2, while the principles in IFRS S1 have been included in ESRS 1
- EFRAG has sought to include the disclosures of IFRS S2 ED in ESRS E1, ESRS 1 and ESRS 2
- Financial materiality of ESRS is intended to be aligned with the IFRS investor materiality
- The concept of ‘connected information’ is aligned, as well as the definition of ‘value chain’ and the qualitative characteristics of quality
- Architecture of ESRS 2 and other standards modified to mirror the IFRS (and TCFD) architecture
- Meetings of the JWG, bilateral meetings at management level and bilateral meetings of climate experts: continued dialogue and cooperation
- More work on interoperability mapping will follow once the ISSB will finalize the drafts

Compared to IFRS, ESRS providing the EU data infrastructure and being more comprehensive:

- Double materiality
- EU sustainable finance regulation for financial services (SFDR, Pillar 3)
- Other EU regulation and international human rights instruments (for example, Climate law)



GRI ALIGNMENT

- Definitions, concepts and disclosures in ESRS built leveraging on GRI, aligned to the maximum extent
- ESRS deviate from materiality assessment, due to list of datapoints always mandatory due to EU legislations + ESRS E1 climate change
- Similarly to the GRI Standards, ESRS require to include value chain information. However, differently from GRI, ESRS do not allow to omit information when the information is unavailable or incomplete
- Similarly to the GRI Standards, ESRS 2 General disclosures set DR applicable across the topics that are not subject to materiality assessment
- Language on sustainability due diligence has been aligned to the international instruments and, in this way, to GRI Standards
- GRI allows incorporation by reference to information published in any location. ESRS allow incorporation by reference to a limited list of other sources provided that they meet certain conditions.

Compared to GRI

- ESRS mandatory regime VS voluntary
- Double materiality in ESRS VS single materiality (impact)



ESRS 2 General disclosures

GENERAL CHARACTERISTICS

BP-1: General basis for preparation of the sustainability statements

BP-2: Disclosures in relation of specific circumstances

- ✓ Time horizons ISSB
- ✓ Value chain estimation GRI
- ✓ Sources of estimation and outcome uncertainty
- ✓ Changes in preparation or presentation
- ✓ Reporting errors in prior period
- ✓ Disclosures stemming from local legislation or generally accepted sustainability reporting pronouncements
- ✓ Incorporation by reference

GOVERNANCE

GOV-1: The role the administrative, management and supervisory bodies

TCFD
GRI
ISSB

GOV-2: Information provided to and sustainability matters addressed by the undertaking's administrative, management and supervisory bodies

TCFD
ISSB
GRI

GOV-3: Integration of sustainability-related incentive schemes

ISSB
TCFD

GOV-4: Statement on sustainability due diligence

GRI

GOV-5: Risk management and internal controls over sustainability reporting

ISSB
SFDR
GRI

- *Architecture aligned with IFRS*
- *IFRS S2 entirely incorporated*
- *Significant streamlined and reduction of granularity*

ESRS 2 General disclosures

STRATEGY

SBM-1: Market position, strategy, business model(s) and value chain

GRI
ISSB

SBM-2: Interests and views of stakeholders

GRI ISSB

SBM-3: Interaction of risks and opportunities and the undertaking's strategy and business model

GRI
ISSB TCFD

IMPACTS, RISKS & OPPORTUNITIES MANAGEMENT

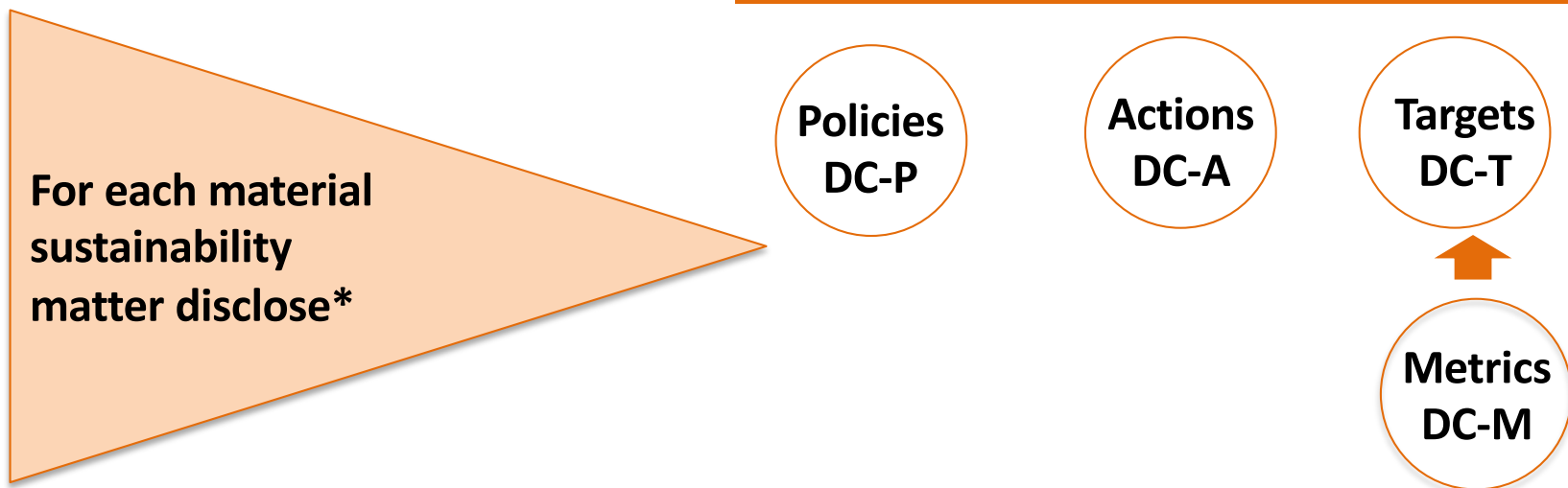
IRO-1: **Description of the processes** to identify material sustainability impacts, risks and opportunities

ISSB
TCFD
GRI

IRO-2: Disclosure Requirements in ESRS by the undertaking's sustainability statement

GRI

DISCLOSURE CONTENT



For each material sustainability matter disclose*

Policies
DC-P

Actions
DC-A

Targets
DC-T

Metrics
DC-M

* If the undertaking has not defined policies, actions or targets, it should disclose this

STRUCTURE OF THE TOPICAL STANDARDS: Example of [draft] ESRS E3 Water and Marine Resources

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The main body of the [draft] Standard includes the following sections:

- Objective and interaction with other Standards
- Information to be disclosed on the four pillars:
 - ESRS 2 related (GOV, SBM, IRO)
 - IRO Management: policies, actions
 - METRICS AND TARGETS: targets and performance indicators

Appendices:

- **Appendix A : Glossary**
- **Appendix B : Application requirements** (i.e. examples, methodology to be applied, tables to be disclosed..)

The appendix B is an integral part of the [draft] Standard and it has the same authority as other parts.



BACKGROUND TO SUPPORT Q&A

- The "information on value chain meets the needs of users and does not place a disproportionate burden in terms of effort and cost on the reporting undertakings and those that are indirectly affected as part of the value chain of those undertakings".
- Standards may not "specify disclosures that would require undertakings to obtain information from SMEs in their value chain that exceeds the information to be disclosed according to" the standards for listed SMEs.

SUSTAINABILITY STATEMENTS : Content at a glance

Article 19 (a) / (29 (a) Content of the ESRS

1. **Business model and strategy** Resilience to sustainability-related risks and opportunities; transition plan in line with Paris agreements...)
2. **Policies and time-bound targets** related to sustainability matters
3. **Administrative, management and supervisory bodies (AMS)** re sustainability matters : role, expertise & skills and incentive schemes

4. **Due Diligence process.** Principal and potential adverse impacts connected with the undertaking’s own operations and value action; actions to identify and monitor impacts and actions to prevent, mitigate or remediate those.

5. **Principal risks and how the undertaking manages those**

6. **Indicators relevant to 1-5 above**

Article 29 (b) ESG Matters to be covered

1. **Environmental factors :**
 i) Climate change mitigation and adaptation; ii) water and marine resources; iii) resource use and circular economy; iv) pollution; v) biodiversity and ecosystems.

2. **Social and human rights factors:** i) equal treatment and opportunities (e.g. gender equality); ii) working conditions (e.g. collective bargaining); and iii) respect for the human rights, fundamental freedoms, democratic principles and standards

3. **Governance factors :** i) role and composition of AMS; ii) internal control and risk management re sustainability matters; iii) business ethics and corporate culture; iv) political influence activities; v) relationships with customers, suppliers and communities.

EUROPEAN COMMISSION TIMELINE TO ADOPT STANDARDS

30 June 2023

- Standards to specify information to report according to articles 19a/29a (all sustainability topics). Sector agnostic.
- To take account of other EU regulation; in particular, the SFDR for financial participants

Note

- Annual workplan to be presented by EFRAG to EC
- Mandatory review and possible amendment of every standard every 3 years
- Minimum 4 month period between adoption by EC and entry into application

MATERIALITY ASSESSMENT

Undertaking to disclose material matters (impacts, risks or opportunities) across its own operations and value chain

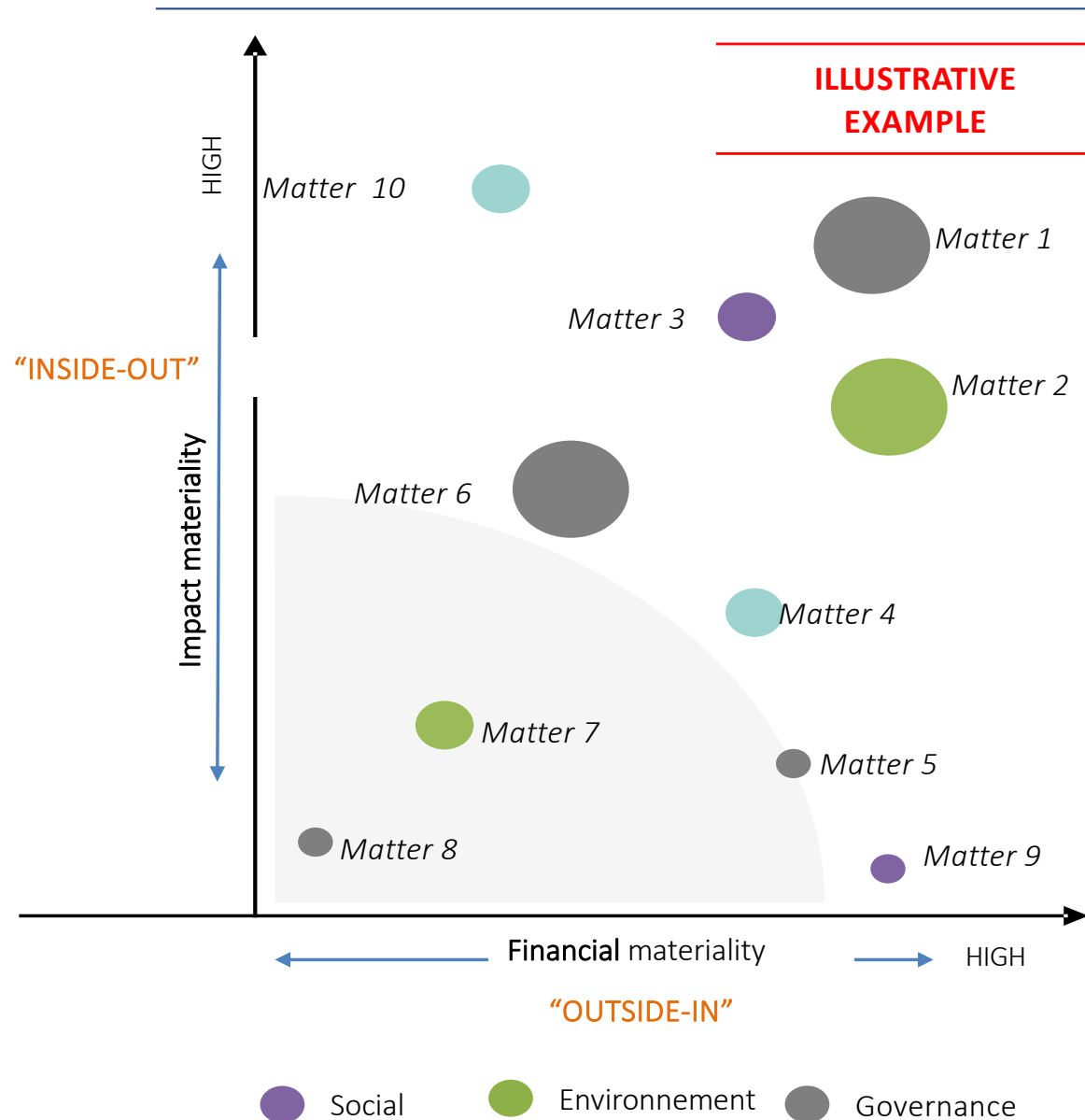
Impact materiality : actual or potential positive or negative impacts on people or the environment over the short-, medium- and long-term time horizons(inside-out)

Criteria:

- severity (scale, scope and remediability)
- likelihood of the impact

Financial materiality : a sustainability matter is material if it triggers or may trigger material financial effects (outside-in)

Financial effects being risks or opportunities that have a material influence (or likely to have a material influence) on the undertaking’s cashflows, development, performance, position, cost of capital or access to finance in the short-, medium- and long-term.



ESRS E1 is a climate standard aligned with IFRS S2 and TCFD

Covered topics: energy, CC mitigation and adaptation

General requirements

DR related to GOV-3: Integration of climate change strategies and performance in **incentive schemes**

E1-1: **Transition plan** for climate change **mitigation**

DR related to SBM 3: **Resilience of strategy** and business model

DR related to IRO-1: Description of **processes to identify and assess** material climate-related impacts, risks and opportunities

IRO management

E1-2: **Policies** related to:

- Climate change mitigation
- Climate change adaptation
- Energy efficiency
- Renewable energy deployment
- Other

E1-3: **Action plans** and **resources** in relation to climate change policies and targets

Metrics and Targets

E1-4: **Targets** related to climate change mitigation and adaptation

E1-5: **Energy consumption and mix** (inc intensity)

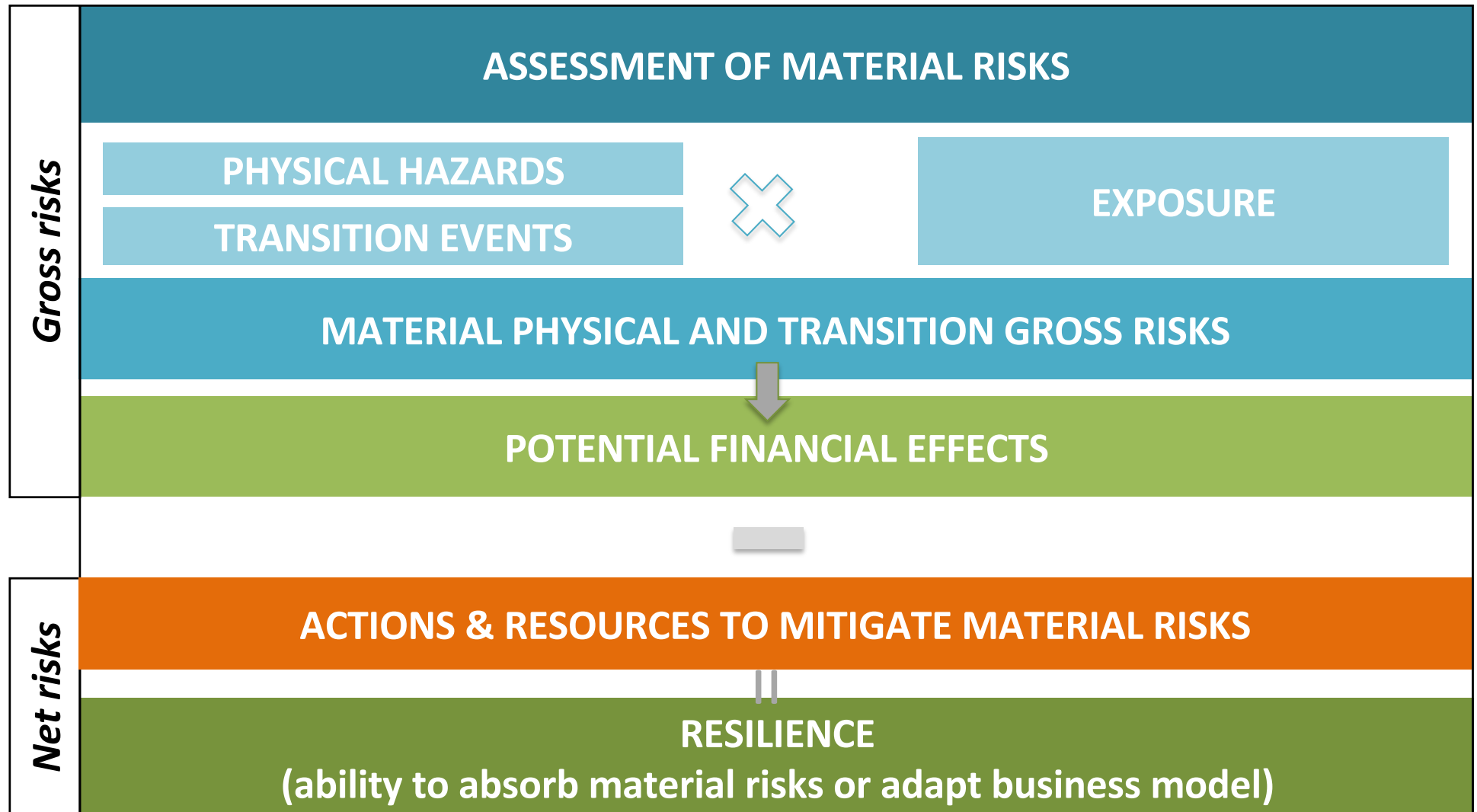
E1-6: Gross Scopes 1, 2, 3 and Total **GHG emissions** (inc intensity)

E1-7: **GHG removals** and GHG mitigation projects financed through **carbon credits**

E1-8: Internal **carbon pricing**

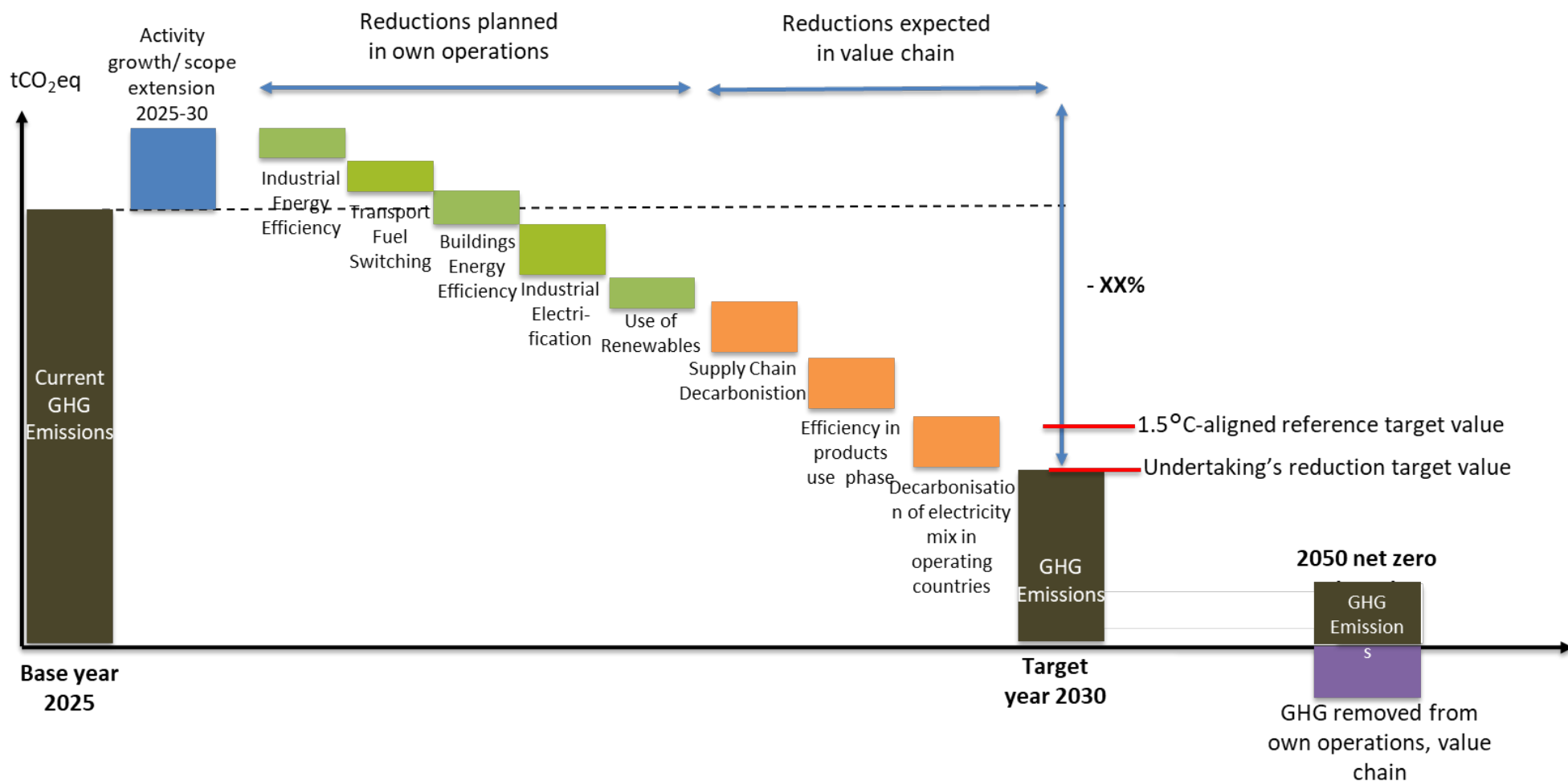
E1-9: **Potential financial effects** from material physical risks, material transition risks and climate-related opportunities

Financial effects before or after mitigation actions ?



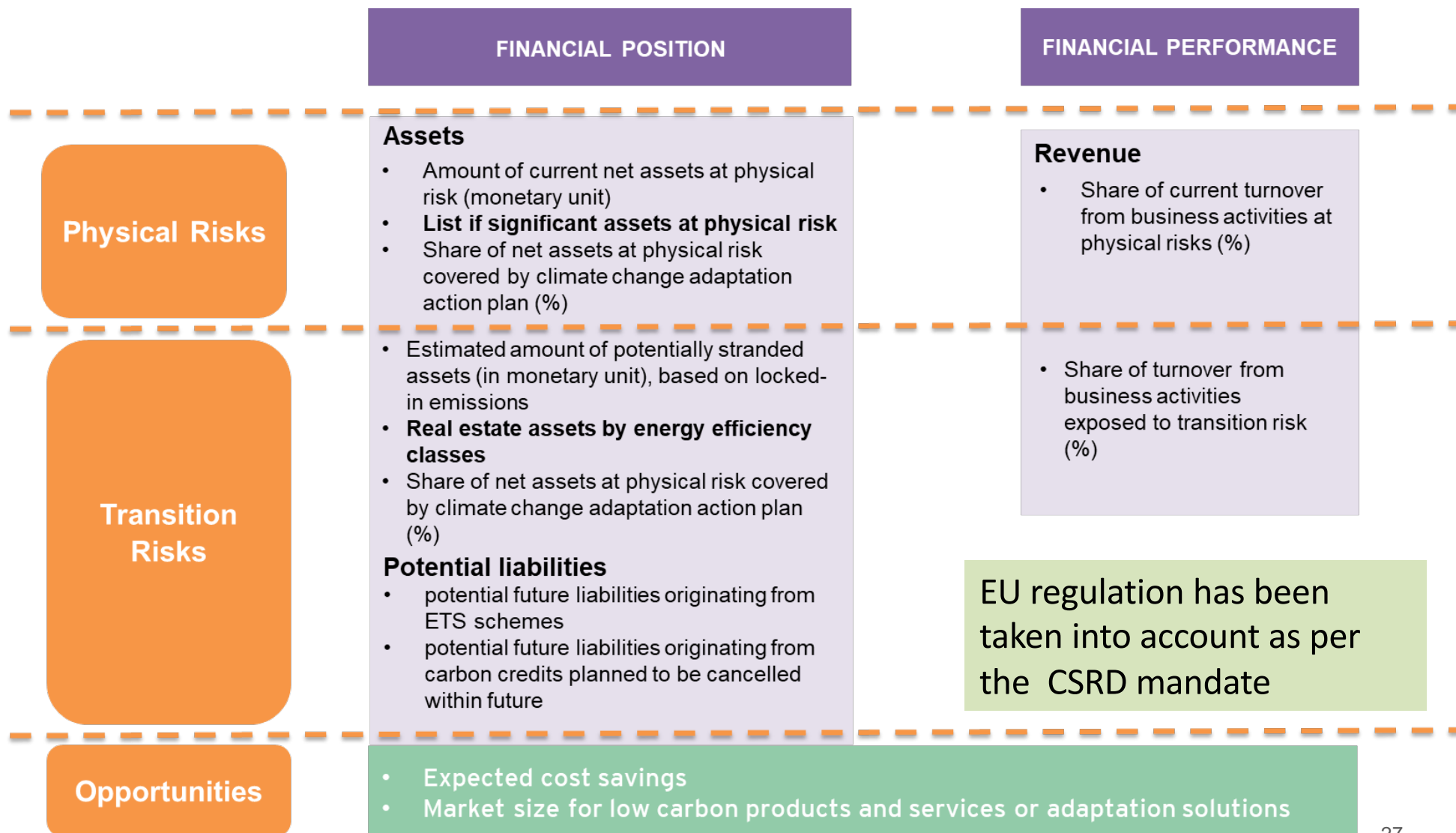
ESRS E1: Climate Change

- GHG emission reduction targets compatible with the 1.5°C scenario
- Disclosed by decarbonization levers
- Without using removals and carbon credits



ESRS E1: Climate Change

Additions: exposure to fossil energy, list of assets at physical risks and real estate assets by energy efficiency class



EU regulation has been taken into account as per the CSRD mandate



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