DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS

ESRS 1
General requirements

Basis for conclusions

This Basis for conclusions (March 2023) relate to the draft ESRS issued in November 2022.

EFRAG
sustainability reporting

DISCLAIMER

This Basis for Conclusions accompanies but is not part of the Draft ESRS 1 *General requirement.* It summarises the considerations of the EFRAG SRB and the references to other standard setting initiatives or regulations used in developing the proposed contents of the [draft] Standard.

It does not reflect the position of the European Union or European Commission DG Financial Stability, Financial Services and Capital Markets Union (DG FISMA).

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Objective

BC1. The objective of the [draft] ESRS 1 General Requirements is to cover overarching general requirements for the preparation and presentation of sustainability statements. This [draft] Standard serves as an "umbrella" standard for the application of ESRS. Its role is to provide contents that are valid across all the other [draft] ESRS and that constitute conceptual references to foster a robust and consistent application of the disclosure requirements in other [draft] ESRS.

BC2. This [draft] Standard does not set disclosure requirements, as the other European Sustainability Reporting Standards (ESRS) do. It includes an explanation of the categories of standards and disclosures under ESRS, it sets general requirements and it provides overall guidance on a number of detailed aspects of the sustainability statements, as illustrated below.

BC3. The Sustainability Reporting Board (SRB) considered it necessary to explain the categories of [draft] Standards and disclosures under [draft] ESRS to provide an understanding of the architecture of ESRS.

BC4. The SRB identified as overall general requirements for sustainability reporting:

(a) qualitative characteristics of information;

(b) double materiality as the basis for sustainability disclosures;

(c) sustainability due diligence;

(d) value chain; and

(e) time horizons.

BC5. The SRB considered it also necessary to give overall guidance for:

(a) the preparation and presentation of sustainability information;

(b) the structure of sustainability statements;

(c) linkages with other parts of corporate reporting and connected information; and transitional provisions.

Context

BC6. The general approach in developing this [draft] Standard covers the following steps which correspond to the framework defined for sustainability reporting standard setting in the European Union:

(a) complying with the requirements of the CSRD; the CSRD defines the legislative level prescriptions (level 1) which the ESRS (level 2) must contribute to implement; the CSRD in particular provides the list of sustainability topics to be covered in the ESRS, as well as the double materiality approach to be retained;

(b) as explicitly required by Art 29b (5) of the CSRD "… to the greatest extent possible, take account of:

i. the work of global standard-setting initiatives for sustainability reporting, and existing standards and frameworks for natural capital accounting and for greenhouse gas accounting, responsible business conduct, corporate social responsibility, and sustainable development;

ii. the information that financial market participants need in order to comply with their disclosure obligations laid down in Regulation (EU) 2019/2088 and the delegated acts adopted pursuant to that Regulation;

(c) the criteria, indicators and methodologies set out in the delegated acts adopted pursuant to Regulation (EU) 2020/852, including the technical screening criteria established pursuant to Article 10(3), Article 11(3), Article 12(2), Article 13(2), Article 14(2) and Article 15(2) of that Regulation and the reporting requirements set out in the delegated act adopted pursuant to Article 8 of that Regulation;"

(d) the disclosure requirements applicable to benchmark administrators in the benchmark statement and in the benchmark methodology and the minimum standards for the construction of EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks in accordance with Commission Delegated Regulations (EU) 2020/1816, (EU) 2020/1817 and (EU) 2020/1818;

(e) the disclosures specified in the implementing acts adopted pursuant to Article 434a of Regulation (EU) No 575/2013;

i. Commission Recommendation 2013/179/EU;

ii. Directive 2003/87/EC of the European Parliament and of the Council;

iii. Regulation (EU) 2021/1119;

iv. Regulation (EC) No 1221/2009 of the European Parliament and of the Council; and

v. Directive (EU) 2019/1937 of the European Parliament and of the Council."

(f) as recital 43 of the CSRD requires the existing standards and frameworks under the CSRD as referred to above include the:

i. "Global Reporting Initiative,

ii. Sustainability Accounting Standards Board,

iii. International Integrated Reporting Council,

iv. International Accounting Standards Board,

v. Task Force on Climate-related Financial Disclosures,

vi. Carbon Disclosure Standards Board, and

vii. CDP, formerly known as the Carbon Disclosure Project [roman numbering added].

Union standards should take account of any sustainability reporting standards developed under the auspices of International Financial Reporting Standards Foundation. … Union sustainability reporting standards should reduce the risk of inconsistent reporting requirements for 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 those baseline standards is consistent with the Union's legal framework and the objectives of the Green Deal." Guidance from and coherence with these existing standards and frameworks have been sought; and

(g) analysing the current internationally recognised principles and frameworks on responsible business conduct, corporate social responsibility and sustainable developments frameworks, as [recital (45) of the CSRD] stipulates that "Sustainability reporting standards should also take account of internationally recognised principles and frameworks on responsible business conduct, corporate social responsibility, and sustainable development, including the SDGs, the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, the OECD Due Diligence Guidance for Responsible Business Conduct and related sectoral guidelines, the Global Compact, the International Labour Organization' (ILO) Tripartite Declaration of' Principles concerning Multinational Enterprises and Social Policy, the ISO 26000 standard on social responsibility, and the UN Principles for Responsible Investment.".

How draft ESRS take account of the initiatives and legislation listed in Article 1 (8) of the CSRD adding article 29 (b) – 5 of the Accounting Directive

BC7. Jointly with the draft ESRS issued on the 22 November 2022, EFRAG has also issued an Explanatory note[1] of how draft ESRS take account of the initiatives and legislation listed in Article 1 (8) of the CSRD adding article 29 (b) – 5 of the Accounting Directive. The content of this Explanatory note, which is a document explicitly required by the CSRD, provides information that is useful to better understand the context and why certain content has been included in the draft Standards.

Interoperability with the Exposure Drafts (ED IFRS S1 and S2 issued by the IFRS Foundation

BC8. The content of draft ESRS 1, draft ESRS 2 and draft ESRS E1 has been built in order to integrate to the maximum extent possible the content of the ED IFRS S1 and S2. The disclosures prepared under ESRS are expected to be capable of corresponding to disclosures required by IFRS S1 and S2. In order to respect the content of the CSRD and the compatibility with the EU regulation and the EU ambitions in the Green Deal, in ESRS additional datapoints are included. Tables of reconciliation of ESRS 1 and 2 to IFRS S1 and of ESRS E1 to IFRS S2 prepared by EFRAG Secretariat (not approved by the SRB nor shared with the ISSB) have been issued on the 22 November 2022 jointly with the draft ESRS (Appendix V[2]).

BC9. EFRAG expects to work on a more detailed mapping once the IFRS Sustainability Standards will be finalized, that would allow the investors to clearly identify within the ESRS disclosures, the specific requirements that correspond to the disclosures required by IFRS S1 and S2.

Interaction with the contents of ESRS 2

BC10. [Draft] ESRS 1 General requirements and [draft] ESRS 2 General disclosures do interact significantly. Some requirements in ESRS 1 directly correspond to or trigger disclosures that are stipulated in ESRS 2.

BC11. The ISSB has issued with [Draft] IFRS S1 General requirements for Disclosures of Sustainability-related Financial Information only one standard covering similar topics.

BC12. The SRB has considered whether it would be better to have one or two standards. Some Board members preferred to have only one standard. However, the SRB finally decided to have two standards to clearly separate the requirements for sustainability reporting as covered by ESRS 1 from ESRS 2 as the requirements are applicable for all the disclosures existing in ESRS and not only for those of ESRS 2. In addition, this approach facilitates the understanding of the content of the two standards, as all the disclosure requirements are included in one single standard (ESRS 2) and all the general requirements setting the basis for preparation are included in ESRS 1. The SRB believes that the references in ESRS 1 to Disclosure Requirements in ESRS 2 and vice versa provide an adequate linkage for preparers between requirement and a related disclosure.

General requirements

The paragraphs below describe the considerations followed in developing the general requirements in the [draft] Standard.

[1] The Explanatory note is available in EFRAG website at the following link:

https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2F03%2520Explanatory%2520note%2520Fist%2520set%2520of%2520ESRS%2520Article%252029%2520b_last.pdf

[2] Appendix V is available in EFRAG website at the following link:

https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2F22%2520Appendix%2520V%2520Comparison%2520of%2520IFRS%2520and%2520ESRS%25201%2520and%25202.pdf

Chapter 1. Categories of [draft] Standards and disclosures under European Sustainability Reporting Standards

Categories of [draft] Standards

BC13. Chapter 1 describes the categories of the [draft] ESRS Standards that the SRB has identified to fulfil the requirements of the CRSD.

BC14. CSRD Art. 19a 2 defines the reporting areas to be covered by ESRS. Many elements of information contained in the reporting areas apply to all sustainability matters listed in CSRD Art. 29b 2. Therefore, the architecture of the [draft] ESRS is designed to:

(a) cover relevant disclosures addressing sustainability matters as required by the CSRD;

(b) foster maximum comparability across undertakings irrespective of their sectors while ensuring appropriate room for and balance between sector-agnostic, sector-specific and entity-specific information; and

(c) adopt a consequential and logic sequence of disclosure requirements, facilitating the navigation through them.

BC15. Following this approach, standards are organised by categories which complement and interact with each other. There are three categories of standards:

(a) the cross-cutting sustainability [draft] Standards (ESRS 1 and ESRS 2) cover:

i. the general requirements applying to reporting under the CSRD ([draft] ESRS 1). These provisions include *inter alia* the requirements to be followed when reporting on policies, targets, actions, resources that relate to sustainability matters that are not covered by a topical Standard (but are material on an entity-specific perspective). These requirements also set the general approach that has been followed across all sustainability subject matters in the topical Standards, to ensure consistency on these aspects throughout all ESRS; and

ii. the general Disclosure Requirements ([draft] ESRS 2) that relate to the basis of preparation of sustainability statements, the way sustainability is embedded in (a) the undertaking's "company-wide" governance, (b) its strategy, (c) its impact, risk and opportunity management, and (d) the undertaking's metrics and targets related to each material sustainability matter.

Under CSRD Art. 29b, these aspects are meant to be transversal to all sustainability subject matters (hence the name "cross-cutting" Standards). The disclosures in [draft] ESRS 2 are designed to describe the interaction between sustainability matters and the undertaking's governance; strategy; impact, risk and opportunity management; and its metrics and targets corresponding to the governance, strategy, risk management, and metrics and targets reporting areas retained by TCFD (for climate-related disclosures only) and [draft] IFRS S1 (for all identified material risks).

(b) topical Standards cover a specific sustainability matter – as defined by CSRD Art. 29b 2 – from a sector-agnostic perspective. They set disclosure requirements related to sustainability impacts, risks and opportunities that are deemed to be material for all undertakings in all sectors. Such disclosure requirements complement those prescribed by the cross-cutting ESRS 2 and cover information to be reported:

i. on additional specific requirements of a topical nature that are necessary to comply with certain Disclosure Requirements of [draft] ESRS 2;

ii. on the policies, actions, and targets, adopted by the undertaking on a given sustainability matter, and

iii. on the corresponding metrics and targets for the respective sustainability matter.

(c) the ESRS architecture foresees the preparation of sector-specific Standards. Such Standards will prescribe disclosure requirements for the preparation of information relating to sustainability risks, impacts and opportunities that are deemed to be material for all undertakings operating in a given sector. Such disclosure requirements complement those prescribed by the cross-cutting [draft] Standards and the topical (sector-agnostic) Standards and specify additional information to be reported on the policies, actions, and targets adopted by the undertaking on a given sustainability subject matter, as well as on the corresponding metrics.

BC16. All three categories of Standards are meant to organise the reporting of information in a way that will foster relevance and comparability (across sectors and within sectors) while being reader/user friendly.

Environmental, Social and Governance

BC17. Sustainability reporting shall consider environmental, social and governance factors as stipulated in CSRD Art. 19b 2 (a), (b) and (c). The ESG classification is probably the most practical and easily accessible approach for users and preparers, as it offers a logical and clear distinction between the three key drivers (and actors) of sustainability matters: Planet (i.e. natural resources and life forms other than human life); People (i.e. human life in all its dimensions, from individuals to communities); and Business (i.e. the reporting entity itself).

BC18. Accordingly, a three-category approach to promote a comprehensive coverage is proposed for topical standards:

(a) the Environment category (E) includes standards defining how to report on impacts to and risks and opportunities from all environmental factors: climate change, water and marine resources, biodiversity and ecosystems, circular economy, pollution;

(b) the Social category (S) includes standards defining how to report impacts to and risks and opportunities from all people-related factors, over the whole scope of the undertaking's ecosystem: workforce, value chain workers, affected communities, consumers/end users; and

(c) the Governance category (G) is broader than traditionally considered under the concept of 'governance.' This category includes the business conduct matters of corporate culture, management of relationships with suppliers, avoidance of corruption and bribery, exert of political influence including lobbying, protection of whistle-blowers, animal welfare, and payment practices, specifically regarding late payment to small and medium sized enterprises.

Reporting areas

BC19. The [draft] ED ESRS 1 used the following five reporting areas: (a) strategy and business model, (b) governance and organisation, (c) materiality assessment of sustainability-related impacts, risks and opportunities, (d) implementation measures, covering policies, targets, actions and action plans, allocation of resources, and (e) performance metrics.

BC20. The SRB noted the explicit requirement of the revised text of the CSRD in Art 29b "to the greatest extent possible, take account of the work of global standard-setting initiatives for sustainability reporting … by integrating the content of global baseline standards to be developed by the ISSB". [Draft] IFRS S1 is based on the four reporting areas of the Task Force on Climate-related Financial Disclosures. Many respondents to the public consultation also requested alignment in that area. The SRB did not notice material disadvantages in also using those four reporting areas and accordingly, decided as proposed in chapter 1.2 *Cross-cutting Standards and reporting areas* that sustainability-related information shall cover the following four reporting areas:

Reporting area	**Required specifically by CSRD**	**International framework references**

Governance	CSRD Art. 19a 2 (c) and (e) CSRD Art. 29a 2 (c) and (e)	TCFD 2021 page 17; [Draft] IFRS S1 12-13 GRI 2-9 to 2-21
Strategy	CSRD Art. 19a 2 (a) CSRD Art. 29a 2 (a)	TCFD 2021 pages 18-19; [Draft] IFRS S1 14-24 GRI 2-22
Impact, risk and opportunity management	CSRD Art. 19a 2 (a) (ii), (iv), (f) and (g) CSRS Art. 29a 2 (a) (ii), (iv), (f) and (g)	TCFD 2021 page 20 (Risk management) [Draft] IFRS S1 16-20 (Sustainability-related risks and opportunities) and 25-26 (Risk management) GRI 3
Metrics and targets	CSRD Art. 19a 2 (b), (d) and (h) CSRD Art. 19a 2 (b), (d) and (h)	TCFD 2021 pages 21-22; [Draft] IFRS S1 27-35 (Metrics and targets) GRI 3-3-c, d, and e

BC21. The first three reporting areas relate to the undertaking in general. Due to their general nature, these are applicable across all sustainability matters and have therefore been stipulated in cross-cutting [draft] ESRS 2. Some elements of “impacts risks and opportunity management” are also covered in topical Standards, in particular regarding policies and actions implemented or planned to address material impacts, risks and opportunities. The reporting area of “metrics and targets” is covered in topical [draft] Standards to take into account the specificities of a sustainability matter.

BC22. Generally, it is expected that the first three reporting areas are entirely covered on a cross-cutting basis by [draft] ESRS 2. However, in order to implement the cross-cutting requirements pertaining to the reporting areas in [draft] ESRS 2, a certain number of topical specifications are needed, expanding the disclosure guidance and requirements in addition to those stipulated in [draft] ESRS 2, to reflect aspects that are specific to each and every topic. These sector specifications were already implemented in the [draft] ED ESRS, where each topical standards included Application Requirements to complement [draft] ESRS 2. The outcome of the consultation showed support for these specifications, but also highlighted the need to further clarify their interaction with [draft] ESRS 2.

BC23. Therefore, the SRB decided to introduce a dedicated appendix (Appendix D to ESRS 2) to support the identification of the guidance in the topical standards that specifically refer and complement [draft] ESRS 2.

BC24. The SRB also discussed whether these topical specifications should be moved centrally to [draft] ESRS 2 and considered advantages and disadvantages. At the end, the SRB decided to maintain the topical specifications on those three reporting areas in the respective topical ESRS because they can best be understood in the context of the topic.

BC25. The SRB decided to streamline the presentation of the ‘shall’ content. In the [draft] ED ESRS not all the ‘shall’ content was presented in the main body of the standard, but some additional mandatory datapoints were still presented in Appendix B Application Guidance. Across all the Standards, all the ‘shall’ have been moved to the main body of the Standard, leaving in the Appendix B (which has been renamed ‘Application Requirements’ instead of ‘Application Guidance to highlight the mandatory nature of it) mandatory calculation methodologies, guidance supporting the preparation of the ‘shall’ datapoints, such as ‘the undertaking shall consider the following elements when preparing the information’, and some voluntary datapoints (the undertaking ‘may’ include).

BC26. With reference to the topical specification to [draft] ESRS 2, it is worthwhile noticing that the SRB has decided to move the ‘shall’ paragraphs setting additional datapoints from Application B of the topical [draft] ESRS (as was the case in the [draft] ED ESRS) to the main text of the standards. Additional requirements related to ESRS 2 other than datapoints still remain in Application B Application Requirements in the topical standards.

Topical ESRS

BC27. Topics and sub-topics are sustainability themes on which undertakings should report as described in chapter 1.3. They stem from the content of the CSRD. The diversity of sustainability topics and sub-topics, and the heterogeneity of existing related reporting frameworks have led so far to diverse reporting practices which do not facilitate the understandability and comparability of reported information. The need for classification is acknowledged without compromising flexibility. Without proper classification, a report containing numerous identified sustainability matters may be unstructured and difficult to use.

BC28. The purpose of organising a clear and logical classification of sustainability topics (and sub-topics within each topic) is twofold:

(a) it ensures comprehensive coverage of all sustainability topics as required by the legislation and facilitates the identification of relevant information in sustainability reports; and

(b) it defines the list of topical Standards that will have to be produced to ensure comprehensive coverage of all sustainability topics.

BC29. As the purpose of sustainability reporting is to provide relevant, faithful, and comparable information fit for each undertaking's specific situation, the standards architecture is organised to have the necessary balance between too much (and possibly irrelevant) information and not enough relevant information. The implemented approach is expected to promote a proportionate set of information that is relevant and material in the three levels: at a sector-agnostic, sector-specific and entity-specific level, across all sustainability topics and reporting areas.

Entity-specific disclosures

BC30. Entity-specific material sustainability impacts, risks and opportunities are identified. These are developed by the undertaking in accordance with the requirements in chapter 1.4.

BC31. The entity-specific level includes disclosures on impacts, risks and opportunities that are material based on the undertaking's double materiality assessment process and that are not covered, or not sufficiently covered, by the requirements of sector-agnostic or sector-specific [draft] Standards.

BC32. The SRB expects that entity-specific disclosures can be integrated as an addition to the sector-agnostic and sector-specific disclosures related to the sustainability topics environmental, social and governance and that those disclosures can follow the reporting area structure so that disclosures on entity-specific impacts, risks and opportunities, and mandated disclosures complement each other in a way fostering understandability.

The concept of entity-specific disclosures is also embedded in [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information. [Draft] IFRS S1 states: "Applying IFRS Sustainability Disclosure Standards, with additional disclosure, when necessary, is presumed to result in sustainability-related financial disclosures that achieve a fair presentation." This is in particular relevant in the first periods of preparation of reports using IFRS standards. Until the issuance of IFRS standards covering the topics other than climate, the information presented in IFRS reports will essentially be entity-specific, other than for climate.

Disclosure Content for policies, actions, metrics and targets

BC33. The objective of Disclosure Content is to define a required minimum mandatory content that the undertaking shall include whenever it discloses respectively on policies, actions, metrics and targets, both in case of such disclosure being required by a topical Standard and in case of such disclosure being prepared on an entity-specific basis. The purpose is to establish a common reference base for all ESRS and therefore to avoid diverging content in respect of the implementation measures defined under the various topical ESRS. The SRB noted that the objective follows the explicit requirement stipulated in CSRD Art. 19a 2 (b), (d) and (f) (iii). These principles also support the provision of relevant information on implementation when reporting on sustainability matters not covered by a topical ESRS (and reported on an entity-specific basis).

BC34. In [draft] ED ESRS 1 it was proposed to have:

(a) Disclosure Principle 1-1 – On policies adopted to manage material sustainability matters

(b) Disclosure Principle 1-2 – On targets, progress and tracking effectiveness, and

(c) Disclosure Principle 1-3 – Actions, action plans and resources in relation to policies and targets.

The SRB discussed the positioning and the content of those Disclosure Principles. As [draft] ESRS 1 is only on requirements and not on disclosures the SRB decide to move them to [draft] ESRS 2. As the term "principle" is more a proposition that serves as the foundation for a system of belief or behaviour or for a chain of reasoning compared to ESRS generally prescribing requirements, the SRB decided to refrain from using the term "principle" in [draft] ESRS 1 entirely and accordingly introduced a new term being "Disclosure Content" instead. To comfort both the CSRD and the need to align with [Draft] IFRS S1 (and TCFD requirements) the SRB decided to have the:

(d) DC-P *Policies adopted to manage material sustainability matters* and

(e) DC-A *Actions and resources in relation to material sustainability matters* both for the reporting area impact, risk and opportunity management; and

(f) DC-M *Metrics in relation to material sustainability matters*; and

(g) DC-T *Tracking effectiveness of policies and actions through targets* both allocated to the reporting area metrics and targets.

General Requirements and former CSRD concepts

BC35. [Draft] ED ESRS 1 had in chapter 2 *Applying CSRD concepts* the following sections:

(a) Characteristics of information quality;

(b) Double materiality as the basis for sustainability disclosures;

(c) Boundaries and value chain;

(d) Time Horizon; and

(e) Due diligence under the CSRD.

BC36. As these are the fundamental general requirements for reporting under ESRS the SRB decided to have each of them in a separate chapter to give them more prominence in the structure of [Draft] ESRS 1.

Chapter 2. Qualitative characteristics of information

BC37. Qualitative characteristics of information quality are generally categorized into fundamental principles (relevance and faithful representation) and enhancing qualities of information (comparability, verifiability, and understandability). ESRS follow this practice. Characteristics of information quality are universally accepted in corporate reporting. These have been well developed over time and understood in financial reporting (see inter alia IFRS Conceptual framework 2.4-2.38) and more recently in sustainability reporting. Therefore, those concepts are leveraged for ESRS.

BC38. Materiality is an enabling factor of relevance. This is also acknowledged by [draft] IFRS S1 paragraph C8. However, in contrast to the double materiality concept of ESRS (see chapter 3), materiality in IFRS sustainability is limited to financial materiality and does not include impact materiality per se. In [draft] IFRS S1 impacts, dependencies and relationships are considered as sources of risks or opportunities, as they can affect the undertaking's performance or prospects and the assessment of enterprise value by the primary users, while they are not considered to be as a specific disclosure content in their own right. Accordingly, relevant information under [draft] IFRS S1 in principle may differ from that under ESRS, with the ESRS double materiality principle encompassing the ISSB's financial materiality perspective.

BC39. The SRB noted the feedback of some of the respondents to the public consultation that the qualitative characteristics of information in [draft] ED ESRS 1 were sometimes not aligned to the greatest extent possible with those of [draft] IFRS S1. To not create any undesired inconsistencies the qualitative characteristics in [draft] ESRS 1 were further aligned using the exact same wording to the greatest extent possible. Timeliness is an enhancing qualitative characteristic in [draft] IFRS S1 C25. The SRB discussed and refrained from also having timeliness as enhancing qualitative characteristic as reporting dates and timing are governed by EU legislation (Directive 2013/34/EU) and are in accordance with the publication requirements for the management report as required by EU respective national legislations.

BC40. Links between the characteristics of information quality under ESRS with the related criteria used by other standards and guidelines are as follows:

Characteristic of information	**Required specifically by CSRD**	**Other international framework references**
Characteristics of information quality	CSRD Art. 29b 2	GRI 1 – Reporting principles [Draft] IFRS S1 45-49 IFRS Conceptual framework Chapter 2
Relevance		[Draft] IFRS S1 C4-C8
Faithful representation		GRI 1 – Accuracy, Balance and Completeness [Draft] IFRS S1 C9-C15
Comparability		GRI 1 – Comparability [Draft] IFRS S1 C17-C20
Verifiability		GRI 1 – Verifiability [Draft] IFRS S1 C21-C24
Understandability		GRI 1 – Clarity [Draft] IFRS S1 C26-C33

BC41. The SRB discussed the cost constraint as a potential qualitative characteristic of information respectively as a limiting factor for the provision of information by an undertaking. It noted:

(a) Cost is a pervasive constraint on the information that can be provided by sustainability reporting. Reporting sustainability information imposes costs, and it is important that those costs are justified by the benefits of reporting that information.

(b) As per Article 49 paragraph 3a of the CSRD, the Commission shall take into consideration technical advice from EFRAG and accompanied by cost-benefit analyses that include analyses of the impacts of the technical advice on sustainability matters.

(c) In applying the cost constraint, the Commission assesses whether the benefits of reporting particular sustainability information are likely to justify the costs incurred to provide and use that information. When applying the cost constraint, the Commission seeks information from providers of sustainability information, users, auditors and others about the expected nature and quantity of the benefits and costs. The Commission seeks to consider costs and benefits in relation to sustainability reporting generally, and not just in relation to individual reporting undertakings.

As cost benefit considerations are considered when drafting ESRS at a standard setter-level, the SRB decided not to add the cost constraint at the level of the undertaking to the qualitative characteristics.

BC42. Other qualitative characteristics of information have been specially developed for sustainability reporting. They include strategic focus and future orientation; stakeholder inclusiveness; and connected information. They are covered in other parts of this [Draft] Standard:

(a) strategic focus and future orientation provide insights about the strategy and its links with the value creation in the short-, medium- and long-term (see chapter 6 *Time horizons*);

(b) stakeholder inclusiveness gives information about the relationship with key stakeholders, and how their interests have been taken into account (see chapter 3 *Sustainability due diligence*);

(c) connected information establishes clear links between the management report, sustainability statements and financial statements and provides a holistic view between all the factors that affect vale creation. This allows information to be more useful, relevant, and cohesive and the management report to be viewed as a single, balanced and coherent set of information properly linked with financial reporting (see chapter 9 *Linkages with other parts of corporate reporting and connected information*). This concept is also aligned with the corresponding content of IFRS S1.

Chapter 3. Double materiality as the basis for sustainability reporting

BC43. CSRD Art. 19a 1 states that an undertaking shall include in the management report information necessary to understand the undertaking's impacts on sustainability matters (impact materiality also referred to as the "inside-out" perspective), and information necessary to understand how sustainability matters affect the undertaking's development, performance and position (financial materiality also referred to as the "outside-in" perspective). CSRD recital 29 elaborates on the double-materiality perspective that was introduced already in the Directive 2013/34/EU. Regarding both perspectives, the recital emphasises that "undertakings should consider each materiality perspective in its own right and should disclose information that is material from both perspectives as well as information that is material from only one perspective."

BC44. Links between the double materiality concept under ESRS with the related concept of other standards and guidelines are as follows:

General requirement	**Required specifically by CSRD**	**Required by other EU legislation and recommendations**	**Other international framework references**
Stakeholders and their relevance to the materiality assessment process	CSRD Art. 19a 2 (a) (iv) CSRD Art. 19a 2 (a) (iv)		GRI 1 – 2.4 Stakeholders [draft] IFRS S1 Appendix A
Material matters and materiality of information	CSRD Art. 29b 5	Commission, Directive 2013/34/EU, Art. 6, 1 (j)	GRI 1 - 2.2 Material topics, GRI 3 Material topics [Draft] IFRS S1 56-62 IAS 1.7
Double materiality	CSRD Art. 19a 1 CSRS Art, 29a 1	Commission, Directive 2013/34/EU, Art. 19a, 1	Not applicable for SASB and IFRS TCFD requiring scope 1 and 2 disclosures independent of a materiality assessment
Impact materiality	CSRD Art. 19a 1 CSRD Art. 19a 1		GRI 1 - 2.1 Impact, and 2.2 Material topics, GRI 3 Material topics

			UN Guiding Principle 13, 14 and 17 (Human rights impacts)
Financial materiality	CSRD Art. 19a 1 and 2 (g) CSRD Art. 19a 1 and 2 (g)		[Draft] IFRS S1 56-62
Material impacts or risks arising from actions to address sustainability matters	CSRD Art 19a 2 (f) (ii) and (iii) CSRD Art 19a 2 (f) (ii) and (iii)		[Draft] IFRS S1 42-44 – Connected information
Level of disaggregation	CSRD recital (26)		[Draft] IFRS S1 48-49

Stakeholders and their relevance to the materiality assessment process

BC45. Financial materiality is focused on investors, which are specifically included in the definition of stakeholders in the group of the users of sustainability reporting (see paragraph 26 (b)). Impact materiality with its “inside-out” perspective is broader and, in addition to investors, includes also other users (business partners of the undertakings, trade unions and social partners, civil society and non-governmental organisations, governments, analysts and academics), as well as affected stakeholders, i.e. those that are affected or could be affected by the undertaking’s activities and its direct and indirect business relationships across its value chain (see chapter 5). Along those lines, stakeholders’ needs are the combination of the respective information needs of affected stakeholders and users of sustainability reporting, and not just the overlapping needs of the two groups of stakeholders.

BC46. Nature may be considered as silent stakeholder as explained in AR 2 of [Draft] ESRS 1. Civil society organisations are commonly used as representatives for nature. However, due to the limited number of civil society organisations it will be difficult to meet the demand for representatives of nature civil society organisations arising from the scope of the CSRD. Therefore, the SRB considered it beneficial to clarify that undertakings can consider nature a silent stakeholder via the use of data. Such data can be procured via publicly available tools referred to in the topical standards.

BC47. The definition of the group of the stakeholders that have an interest and that can be affected is consistent with the definition used by GRI (see GRI 1: 2.4 Stakeholders).

BC48. The definition of investors, which is included in the group of users in the definition of paragraph 26 (b), is the same used in [draft] IFRS S1 Appendix A.

Material matters (Disclosure Requirements / datapoints) and the approach to materiality

BC49. The approach to materiality in [Draft] ED ESRS 1 established disclosures presumed to be mandatory for all undertakings, unless the undertaking could provide reasonable and supportable evidence that following the outcome of its materiality assessment, a sustainability topic / Disclosure Requirement / datapoint was not material for the undertaking (rebuttable presumption approach).

BC50. Whatever the approach to the materiality assessment that supports the identification of material impacts, risks and opportunities, to be compatible with the characteristics of quality required by the CSRD, the standard setting approach has to grant that all the material impacts, risks and opportunities need to be disclosed.

BC51. There are different possible approaches, including two extremes in the spectrum:

(a) assessment fully at the initiative of the standard setter with no room for judgement; and

(b) assessment fully at the initiative of the undertaking, with standards as an (indicative or mandatory) reference for disclosure;

BC52. This approach has during the public consultation also not been entirely understood and been criticized for a number of reasons. The main criticisms were:

(a) the rebuttable presumption may be conducive to a ‘checklist’ approach: the starting point should not be the assessment of materiality of each Disclosure Requirement, but the identification of the sustainability-related impacts, risks and opportunities and assessing the materiality of the information that would result from the reflection of these events through the application of the Disclosure Requirements included in the [Draft] ESRS;

(b) in financial reporting there is a simple requirement not to disclose immaterial information, while the rebuttable presumption places more emphasis on the determination and disclosure why something is not material;

(c) as the materiality assessment will be subject to audit, there is no need to justify why certain sustainability topics are not material. If a sustainability topic is not material, the preparer should not have to disclose and document on that at all;

(d) materiality assessment is not intended to pursue proportionality purposes;

(e) it may encourage the disclosure of non-material information: some undertakings may tend to disclose immaterial information to avoid the development of more burdensome supporting documentation necessary to justify the non-disclosure of that information; and

(f) undertakings should conduct a robust double materiality assessment and, based on this, determine material topics that need to be reported on. The [Draft] ESRS should provide a list of topics covered by the standards that will serve as the starting point for the undertaking’s materiality assessment.

BC53. The SRB considered alternatives to the rebuttable presumption approach, one being to stipulate a full set of sustainability topic / Disclosure Requirement / datapoint and make them all mandatory for all undertakings and at the other extreme to require for all of them disclosure only if they are material from the perspective of the undertaking.

BC54. Supporters for making topics / Disclosure Requirements / datapoints to be always material argued that this would (a) relief undertakings from making a materiality assessment themselves; (b) increase comparability; and (c) would avoid non-disclosure based on a flawed materiality assessment by the undertaking; supporters for only having materiality assessment argued that (a) facts and circumstances for each undertaking would differ and that mandating something would result in many instances in disclosure of non-material items, (b) result in obscuring material by non-material information; and (c) increase the burden for preparers to gather non-material information.

BC55. In discussing the advantages and disadvantages of the approaches the SRB reached a compromise and decided to adopt an approach based on materiality assessment, complemented by some sustainability topic / Disclosure Requirement / datapoint always mandatory, mainly due to the requirements imposed by other EU legislations. The individual reasons for always requiring information according to paragraph 32 were for:

(a) [draft] ESRS 2: all the Disclosure Requirements (including their datapoints) are cross-cutting disclosure requirements and serve as indispensable baseline for all undertakings;

(b) the datapoints prescribed in topical [draft] ESRS that are listed in [draft] ESRS 2 Appendix C List of datapoints in cross-cutting and [draft] topical standards that are required by EU law support the creation of the “data-infrastructure”, which is necessary for the financial service-sector to fulfil its role in financing a more sustainable economy;

(c) [draft] ESRS E1, i.e., all its Disclosure Requirements (including their datapoints) are to be always reported, due to the urgency of the sustainability matter climate change; and

(d) the Disclosure Requirements ESRS S1-1 to S1-9 (including their datapoints) in [draft] ESRS S1 Own workforce for undertakings with 250 or more employees are to be always reported, reflecting conviction that those disclosures would be always material for undertakings above the employee threshold.

BC56. As illustrated by the Recital 41 of the CSRD, ESRS should be aligned with the disclosure requirements laid down in Regulation (EU) 2019/2088 and with the content of other relevant EU legislation. In order to meet this requirement, the SRB decided to require the reporting of datapoints in Appendix C of ESRS 2 by all undertakings, irrespective of whether the topic to which they relate is assessed by the undertaking to be material. As an illustration, although if the undertaking concludes that Pollution is not a material topic, it has to report the datapoints in Appendix C of ESRS 2 related to ESRS E2.

BC57. In confirming that [draft] ESRS E1 has to be applied irrespective of the outcome of the materiality assessment, the SRB noted that this would not result in significant additional burden to undertakings. This is because (a) the general approach to disclosing policies, actions and targets foresees that an undertaking complies with the disclosure requirements simply stating that it does not have policies, actions or targets (if this is the case); and (b) almost all the [draft] ESRS E1 metrics are already covered by the SFDR PAI indicators (therefore already mandatory when implementing the data infrastructure for financial market participants).

BC58. Once a topic is assessed to be material, the undertaking shall report according to the relevant Disclosure Requirements. The SRB discussed the status of the Disclosure Requirements subject to the materiality assessment. They noted that the content of the [draft] topical ESRS, despite being subject to the materiality assessment, cannot be interpreted as being ‘voluntary’. The SRB considered that the internal governance and the external audit will provide discipline on the entire materiality process. Undertakings will have to demonstrate to their governance and auditors that a given information is not material. To reinforce the robustness of the materiality assessment, the SRB decided to introduce dedicated Application Requirements (in [Draft] ESRS 1 (see AR 11-12), including an inventory of the topics and sub-topics covered in [draft] ESRS to be used as a support tool for the materiality assessment.

BC59. When determining what is material for the undertaking [draft] ESRS 1 follows an approach from general to granular:

(a) on the highest-level entire sustainability topics (sub-topics or sub-sub-topics) may not be material, followed by Disclosure requirements of a material topic, followed by individual datapoints;

(b) the SRB concluded that it would be material information if an entire topic is not material (therefore an entire topical ESRS is not applied) for an undertaking and therefore required to disclose that fact with a brief explanation of its conclusion in that respect (see paragraph 38);

(c) when reporting on a material sustainability matter the SRB concluded:

i. to always mandate disclosure when reporting on Disclosure Requirements (including datapoints) on policies, actions and targets as it would not be overly burdensome for the preparer giving that the disclosure requirement could also be fulfilled by the undertaking stating that it has not implemented the respective policy, action or target; and

ii. to make reporting for Disclosure Requirements (including datapoints) on metrics subject to the materiality assessment however, as a safeguard requiring that the objective of the respective Disclosure Requirement is met. The SRB did not consider the reason for not disclosing a specific metrics a material information, and therefore did not require a statement in that respect (see paragraph 39, where an implicit approach is applied).

Materiality of information

BC60. Materiality of information is a long-standing and well-understood concept in financial and sustainability reporting. The Accounting Directive (2013/34/EU) defines material as "the status of information where its omission or misstatement could reasonably be expected to influence decisions that users make on the basis of the financial statements of the undertaking". Similarly, IAS 1.7 defines material as follows: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." While these definitions inspired the concept used for information materiality in relation to [draft] ESRS, notable differences exist, which are based on the different materiality concepts used and the different target audiences for the determination of what is material (users vs. stakeholders):

(a) [draft] ESRS use the double materiality concept while other international frameworks focus on financial materiality (IFRS, SASB) or on impact materiality (GRI); and

(b) being based on the double materiality concept, the ESRS information materiality addresses the information needs of a broader group of stakeholders and not just primary users.

BC61. For an undertaking to assess whether a sustainability matter is material or not, it is necessary to consider at which level of granularity the matter has to be assessed. As an example, for an airline the sub-topic pollution to air is most probably material whereas the sub-topic pollution to water probably is not. However, a service company might assess that all sub-topics of pollution are not material for the undertaking and thereby making the entire matter of pollution not material for the undertaking. The SRB considered it helpful for preparers in their materiality assessment to have guidance on how the sustainability matters in environmental, social and governance are structured. Accordingly, a table depicting the breakdown of sustainability matters in sub- and sub-sub-topics was included in [Draft] ESRS 1 (see AR 11-12).

Double materiality

BC62. The undertaking is affected by external factors (outside-in materiality) that influence its position, development and performance. Linkages between impact materiality and financial materiality may evolve with the passage of time. The following paragraphs illustrates this concept:

(a) the undertaking may have limited or no responsibility in terms of climate change and still see its activities heavily affected (currently or potentially) by climate change. Climate physical risk may affect the undertaking irrespective of the impacts to which the undertaking is connected. The reporting entity needs to adapt its business model to the new conditions. Climate adaptation may trigger adverse (inside-out) impacts, including on people;

(b) as a consequence of its inside-out impact, the undertaking may itself be exposed to significant outside-in effects. In this situation there is a direct incentive for the undertaking to mitigate the inside-out impact. E.g., for a company in agriculture, the consequences of depleting land and biodiversity of a field could directly affect the yield of the crops and hence the financial margin; and

(c) situations in which there is no outside-in effects due to the inside-out impacts may be common. This happens when the undertaking's activities result in externalities. The undertaking focuses on maximising its own financial creation at the expense of damage to environment or society.

BC63. As explained in paragraph 3 positive and negative sustainability-related impacts as well as sustainability-related financial risks and opportunities are collectively referred to in ESRS as impacts, risks and opportunities. The CSRD also uses the terms principal impacts, principal risks, sustainability-related opportunities. Principal impacts, risks and opportunities are understood to be the same as "material impacts, risks and opportunities.

BC64. [Draft] ESRS adopt the principle of double materiality, while IFRS Sustainability Disclosure Standards are focused to meet the information needs of investors. The investor materiality lens (or financial materiality) is included in the overall materiality assessment used in [Draft] ESRS. As such, impacts are covered indirectly in IFRS (to the extent that they are relevant to investor decision making), while they represent a key disclosure content in [Draft] ESRS. The IFRS Sustainability Disclosure Standards also require that information be provided only when it is material to investors (i.e. when it is reasonably certain that if they were obscured, omitted or misstated they would have an influence on investor decisions).

BC65. [Draft] IFRS S1 is referring to “material information about all of the significant sustainability-related risks and opportunities”[3]. ESRS use the term material in relation to impacts, risks and opportunities and in relation to materiality of the information about them.

BC66. At the time this document is prepared, the ISSB deliberations on [draft] IFRS S1 are still ongoing. Following the decision of the ISSB as part of these deliberations to discontinue the term ‘significant’ as a reference to materiality of risks and opportunities and as a result of the SRB decision to reinforce the language to enhance the alignment with impact materiality assessment in GRI, the threshold for material impacts, risks and opportunities for reporting is now linked to the concept of them having respectively material effects on people and the environment and material financial effects (abandoning the term in [draft] ESRS 1 ED ‘significant’).

BC67. In terms of general approach to materiality, while [draft] ESRS adopt double materiality, GRI Standards have a single materiality perspective (impact materiality). The SRB assesses that the core definition, criteria and steps for impact materiality are aligned with the GRI approach. The SRB included a reference to the “most significant” threshold that is also used in GRI 3 Material Topics in the context of the possible thresholds that an undertaking considers when implementing the double materiality criteria for impacts.

Impact materiality

BC68. The SRB noted that the OECD guidelines for multinational enterprises refer to “most significant” as a reference in the context of the due diligence over the value chain. In particular, where enterprises have large numbers of suppliers, they are encouraged to identify general areas where the risk of adverse impacts is most significant and, based on this risk assessment, prioritise suppliers for due diligence. Similarly, the OECD guidance on due diligence for responsible conduct, foresees that once the most significant impacts are identified and dealt with, the enterprise should move on to address less significant impacts, in the context of using prioritisation to address impacts. This is also similar to the content of UNGP principle 24: where it is necessary to prioritize actions to address actual and potential adverse human rights impacts, business enterprises should first seek to prevent and mitigate those that are most severe or where delayed response would make them irremediable. The SRB noted that the scope of impact materiality under [draft] ESRS 1 is not restricted to impacts for which the undertaking has or plans to undertake actions. On the contrary, undertakings are expected to report on all their material impacts, irrespective of whether actions have been undertaken or are planned to address them.

BC69. The scope of materiality assessment in GRI is broader, as the ESRS deviate from the scope of materiality assessment, due to the list of datapoints that are always mandatory due to EU legislations (in addition to [draft] ESRS E1 climate change being always applicable). This is due to the necessity to create the data infrastructure for SFRD, EBA Pillar 3 and Benchmark Regulation indicators (see BC55(b)).

[3] The IASB tentatively decided in its October 2022 meeting to remove the word ‘significant’ from the proposed requirements to describe which sustainability risks and opportunities an entity would be required to disclose, while continuing to redeliberate the application of materiality and the process used by preparers to identify an entity’s sustainability-related risks and opportunities in order to provide useful information to primary users. The SRB noted that a removal of the word ‘significant’ would not be detrimental to IFRS – ESRS alignment.

BC70. The SRB also noted that the scope of impact materiality is not limited to actual but it also includes potential impacts.

BC71. The definition of impact materiality draws significantly on content from the UNGP, OECD and GRI. In line with the UNGPs, for actual negative impacts, materiality is based on the severity of the impact, while for potential negative impacts it is based on the severity and likelihood of the impact. The SRB decided that it would be beneficial for the understanding of impact materiality that the characteristics of severity (scale, scope, and irremediable character) be explained in ESRS in line also with feedback received in public consultation. Therefore, an explanation in line with UNGP and GRI has been included in AR 5 and 6 of [Draft] ESRS 1. The SRB also considered it beneficial to align with GRI on the guidance to determine material topics. Accordingly, the SRB has described the four steps of impact materiality assessment of GRI 3 in AR 4 of [Draft] ESRS 1.

BC72. Directly linked impacts may occur at any tier of the business relationships, provided that they occur as part of the undertaking's value chain. This is consistent with the concept in GRI 3 *Material Topics*: the organization should consider actual and potential impacts that it causes or contributes to through its activities, as well as actual and potential impacts that are directly linked to its operations, products, or services by its business relationships. It is as well consistent with the concept of obtaining, when appropriate and feasible, relevant information about business relationships beyond contractual relationships (e.g. sub-suppliers beyond "tier 1") in the OECD Due Diligence Guidance For Responsible Business Conduct. The SRB considered it useful to have two illustrative examples in AR 7 of [Draft] ESRS 1 for impacts directly linked to the undertaking.

Financial materiality

BC73. Financial materiality of sustainability reporting goes beyond the lens of financial materiality of financial reporting. The former includes potential financial effects of significant risks or opportunities that are not captured or not yet fully captured by financial reporting at the reporting date and that result or are likely to result in financial effects for the undertaking.

BC74. As financial materiality in the context of financial reporting relates to the balance sheet and the profit and loss statement, it restricted to the recognition and measurement of assets (a present economic resource controlled by the entity as a result of past events, IFRS Conceptual Framework 4.3) and liabilities (an obligation, to transfer an economic resource that exists as a result of a past event, IFRS Conceptual Framework 4.26) at the balance-sheet date. Defining financial materiality in the context of sustainability reporting should go beyond the boundaries of the financial statements defined by the related conceptual frameworks. It should to provide meaningful information about environmental, social and governance-related value drivers that have – due to their more medium- or long-term nature - not yet materialised in financial reporting terms. Financial materiality in the context of financial reporting is a subset of financial materiality of sustainability reporting. This is also related to the fact that sustainability-related value drivers that are not yet reflected in financial statements will eventually in the short-, medium- or long-term be also reflected in financial statements.

BC75. As far as information is already reflected in financial reporting it is not necessary to also describe it in sustainability statements, therefore the latter focusses on financial material information that goes beyond what is reflected in financial statements. When defining financial materiality for the preparation of sustainability statements [draft] ED ESRS 1 restricted financial materiality to those matters that were "not captured or not yet fully captured by financial reporting at the reporting date". The SRB therefore decided to drop this restriction in order to reduce a possible source of difference with the IFRS Sustainability approach ([drafts] IFRS S1 and S2). At the same time, the SRB considered that the use of incorporation by reference would support preparers to avoid double reporting (see section 9.1 of [draft] ESRS 1) when information is already reflected in financial statements.

BC76. Paragraph 52 illustrates the disclosure areas that are captured by financial materiality in sustainability reporting. They may relate to four possible circumstances, as illustrated in the following table):

	Financial effects due to past events	**Financial effects due to future events**
Related to items that meet the definition of assets (liabilities) and are or may be recognised		
Related to factors of value creation that do not (yet) meet the definition of assets (liabilities) or the recognition criteria (capitals)		

BC77. The SRB considered it necessary to clarify (a) the relationship of financial materiality and the value chain of the undertaking, (b) the concept of dependencies as sources of financial effects (as they represent risks or opportunities), and (c) the measurement of financial effects due to sustainability related risks and opportunities based on probability and magnitude (paragraphs 53-55, and AR 8-10 of [draft] ESRS 1).

BC78. A sustainability matter may be financially material also in absence of impacts or dependencies. For example, an undertaking may be exposed to climate physical risks or transition risks (due to the content of specific regulation and its effect on its business and market), irrespective of its impacts on climate.

BC79. The SRB considered to align the financial materiality perspective more closely with the IFRS investor materiality as compared to [draft] ED ESRS 1 by adjusting the language to come closer to the [draft] IFRS S1 language. In particular, the double materiality assessment in ESRS is intended to include the investor materiality assessment of IFRS, the primary users of general-purpose financial reporting are identifiable as stakeholders' category, and the concept of dependencies as sources of financial effects is also included in [draft] IFRS S1.

BC80. Along the same lines, the SRB dropped the references to the enterprise value from the definition of financial materiality, following the ISSB tentative decision not to refer anymore to such term as perceived as too restrictive. The [draft] ESRS 1 referred to a sustainability matter being financially material when '*it generates or may generate significant risks or opportunities that influence or are likely to influence the future cash flows and therefore the enterprise value of the undertaking in the short-, medium- or long-term, but it is not captured or not yet fully captured by financial reporting at the reporting date*'. The SRB replaced this concept with the new definition of 'financial effect' (paragraph 52), which is broader than the concept of affecting enterprise value.

Material impacts or risks arising from actions to address sustainability matters

BC81. Actions put in place to manage impacts, risks or opportunities on a sustainability matter may result in material adverse impacts or financial effects in relation to another sustainability matter. These interdependencies shall be considered when making sustainability disclosures to give a proper depiction of the matter. Impacts and financial effects may be positive or negative (adverse). At best, actions or action plans have a positive impact/result in a financial opportunity for the undertaking and have no negative impact/no financial risk. However, a positive impact/opportunity based on actions of the undertaking may also trigger a material negative (adverse) impact/risk (and vice versa).

BC82. The SRB decided that impacts, risks or opportunities should be disclosed within the respective sustainability matter to which they relate. As the positive impact/financial opportunity and the negative (adverse) impact/financial risk may be related to different sustainability matters, a cross-reference is needed.

Level of disaggregation

BC83. The section on level of disaggregation was part of chapter 4 *Basis for preparing and presenting sustainability information* of [draft] ED ESRS 1. The SRB noted that the appropriate aggregating and disaggregation is a question of materiality of the respective information. Accordingly, the SRB decided to have this section in the chapter on materiality.

BC84. When undertakings disclose sustainability information solely in aggregated terms, i.e., at the level of the group and of the parent company, sustainability information from different categories of subsidiaries and associated companies is consolidated in the sustainability report, as well as information related to different activities, operating sites or tiers in their value chain (upstream and downstream). Elements of relevant information might get lost consequently.

BC85. In the case of sustainability reporting, topics that are considered and disclosed at group level may not provide sufficient insight when the impact or dependency itself occurs at a specific level, such as one or more subsidiaries, business areas, sites, suppliers, or specific assets, or in consideration of the law, regulation and prevailing business practices of specific countries where subsidiaries, business areas, sites, suppliers, or specific assets are located. The undertaking is then expected to inform about the specific location(s) where impact, risks and opportunities occur.

BC86. CSRD recital (26) states that "(i)t is necessary that parent undertakings reporting at group level provide an adequate understanding of the risks for, and impacts of, their subsidiary undertakings …" (see also section 7.6 *Consolidated reporting and subsidiary exemption* of [draft] ESRS 1).

BC87. [Draft] IFRS S1 has aligned provisions with [draft] ESRS 1 for the level of disaggregation (see [draft] IFRS S1 48-49).

Chapter 4. Sustainability due diligence

BC88. Chapter 4 *Sustainability due diligence* gives an overview linking the main aspects of sustainability due diligence on objectives and processes as included in the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises and further specified in the OECD Due Diligence Guidance for Responsible Business Conduct with ESRS disclosure requirements.

BC89. The SRB noted that for those being familiar with sustainability reporting the term "due diligence" is well established. However, it also noted that due diligence has different meanings in different context, for example in the context of financial reporting. This might lead to confusion for those being new to sustainability reporting. Therefore, the SRB decided to use the term "sustainability due diligence" when referring to what is labelled under above mentioned international instruments as "due diligence". Introducing the term "sustainability due diligence" therefore might not be construed to refer to something else compared to the international instruments of UNGP or OECD.

BC90. The SRB considered that the international instruments are only on negative or adverse sustainability impacts. However, ESRS impact materiality as described in section 3.4 *Impact materiality* encompasses both material positive and negative impacts. The SRB was aware of that difference but noted that negative impacts are often simply the opposite of positive impacts. For example, the plan to continue using an energy intensive, polluting factory causes a negative impact while closing it early causes a positive impact to the environment compared to its continued use. Therefore, the SRB considered it appropriate to use sustainability due diligence both for positive and negative sustainability impacts.

BC91. CSRD Art. 29a 2 (f) specifies the requirement for undertakings to disclose: "a description of: (i) the due diligence process implemented by the undertaking with regard to sustainability matters, and, where applicable, in line with Union requirements on undertakings to conduct a due diligence process; (ii) the principal actual or potential adverse impacts connected with the undertaking's own operations and with its value chain, including its products and services, its business relationships and its supply chain, actions taken to identify and monitor those impacts, and other adverse impacts which the undertaking is required to identify pursuant to other Union requirements on undertakings to conduct a due diligence process; (iii) any actions taken by the undertaking to prevent, mitigate, remediate or bring an end to actual or potential adverse impacts, and the result of such actions".

BC92. CSRD recital (31) stipulates that “To ensure consistency with international instruments such as the UN ‘Guiding Principles on Business and Human Rights: Implementing the United Nations ‘Protect, Respect and Remedy’ Framework’ (‘UN Guiding Principles on Business and Human Rights’), the OECD Guidelines for Multinational Enterprises and the OECD Due Diligence Guidance for Responsible Business Conduct, the due diligence disclosure requirements should be specified in greater detail than is currently the case in point (b) of Article 19a(1) and point (b) of Article 29a(1) of Directive 2013/34/EU. Due diligence is the process that undertakings carry out to identify, monitor, prevent, mitigate, remediate or bring an end to the principal actual and potential adverse impacts connected with their activities and identifies how undertakings address those adverse impacts. Impacts connected with an undertaking’s activities include impacts directly caused by the undertaking, impacts to which the undertaking contributes, and impacts which are otherwise linked to the undertaking’s value chain. The due diligence process concerns the whole value chain of the undertaking including its own operations, its products and services, its business relationships and its supply chains. In line with the UN Guiding Principles on Business and Human Rights, an actual or potential adverse impact is to be considered a principal impact where it ranks among the greatest impacts connected with the undertaking’s activities based on: the gravity of the impact on people or the environment; the number of individuals that are or could be affected, or the scale of damage to the environment; and the ease with which the harm could be remediated, restoring the environment or affected people to their prior state.”

BC93. Moreover, CSRD recital (41) of the CSRD specifies that “Sustainability reporting standards should be coherent with other Union legislation. […] Other relevant Union legislation, including […] requirements laid down in Union law for undertakings as regards directors’ duties and due diligence, should also be taken into account”. Such requirements are also covered by the [draft] EU Corporate Sustainability Due Diligence Directive (CSDDD) issued in April 2022, which establishes a corporate due diligence duty based on the UN Guiding Principles on Business and Human Rights, the OECD Guidelines on Multinational Enterprises and the OECD Due Diligence Guidance for Responsible Business Conduct. However, at the time of issuance of this [draft] Standard, the CSDDD legislative process is underway. It was therefore decided not to anticipate its final provisions and to base the ED’s provisions related to information on due diligence upon the CSRD provisions exclusively. Amendments will have to be considered in due course depending upon the outcome of the legislative process.

BC94. The UN Guiding Principles on Business and Human Rights provide in principle 15 that “[i]n order to meet their responsibility to respect human rights, business enterprises should have in place policies and processes appropriate to their size and circumstances, including:

(a) a policy commitment to meet their responsibility to respect human rights;

(b) a human rights due diligence process to identify, prevent, mitigate and account for how they address their impacts on human rights; and

(c) processes to enable the remediation of any adverse human rights impacts they cause or to which they contribute.”

BC95. The OECD Due Diligence Guidance for Responsible Business Conduct integrates these three categories in a 6-step due diligence process, which includes:

(a) embed responsible business conduct into policies and management systems;

(b) identify and assess actual and potential adverse impacts associated with the enterprise’s operations, products or services;

(c) cease, prevent or mitigate adverse impacts;

(d) track implementation and results;

(e) communicate how impacts are addressed; and

(f) provide for or cooperate in remediation when appropriate.

BC96. The language in [draft] ESRS on sustainability due diligence has been aligned to the international instruments and, in this way, to GRI Standards.

BC97. In ESRS, the disclosure requirements that are related to individual elements or steps of due diligence are provided in different sections of [draft] ESRS 1 and [draft] ESRS 2 as well as in different [draft] topical ESRS. For this reason, chapter 4. provides an overview of the location of the disclosure requirements alongside an explanation of their correspondence to the main aspects or steps of due diligence. The location and categorisation of the due diligence disclosures is determined by the architecture of the ESRS and, since due diligence is a pervasive concept, the SRB decided to provide users with a location table of the disclosures related to due diligence together with a summarised statement of the undertaking's level of compliance rather than with a self-standing report on due diligence (see ESRS 2 Disclosure Requirement 2-GOV-5).

BC98. For ease of reference the following table provides a linkage between the main aspects of due diligence with the CSRD, EU legislation and recommendations and other international framework references:

Main aspect	**Required specifically by CSRD**	**Required by other EU legislation and recommendations**	**Other international framework references**
Due diligence	CSRD Art. 19a 2 (f) CSRD Art. 19a 2 (f)	[Draft] CSDD Directive Art. 4 (Directive of the European Parliament and of the Council on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937)	UN GP Principle 17 et seq. (Human rights due diligence) GRI 1 – 2.3 Due diligence [Draft] IFRS S1 12-13
Embedding sustainability due diligence in governance, strategy and business model(s)	CSRD Art. 19a 2 (f) (i) CSRD Art. 19a 2 (f) (i)	[Draft] CSDD Directive Art. 5	UN GP Principle 16 (Policy commitment / embedding responsibility to respect human rights) OECD DD Sect. II, Chapter 1 GRI 2-23, 2-24
Engaging with affected stakeholders	CSRD Art. 19a 2 (a) (iv) CSRD Art. 19a 2 (a) (iv)	[Draft] CSDD Directive Art. 6, 7 and 8	UN GP Principle 18 (b) (Involvement of stakeholders) OECD DD Sect. I GRI 2-29, GRI 3-1, GRI 3-3-f
Identifying and assessing negative impacts on people and the environment	CSRD Art. 19a 2 (f) (ii) CSRD Art. 19a 2 (f) (ii)	[Draft] CSDD Directive Art. 6	UN GP Principle 18 (identify and assess adverse human rights) OECD DD Sect. II, Chapter 2 GRI 3-3-d-i
Taking action to address negative impacts on people and the environment	CSRD Art. 19a 2 (f) (iii) CSRD Art. 19a 2 (f) (iii)	[Draft] CSDD Directive Art. 7 and 8	UN GP Principle 19 (Prevent and mitigate adverse human rights impacts, and taking appropriate action) and Principle 22 (Remediation) OECD DD Sect. II, Chapter 3 GRI 2-25, GRI 3-3-d-ii
Tracking effectiveness	CSRD Art. 19a 2 (f) (ii) and (iii) CSRD Art. 19a 2 (f) (ii) and (iii)	[Draft] CSDD Directive Art. 10 and 11	UN GP Principle 20 (Tracking effectiveness) and Principle 21 (Communication) OECD DD Sect. II, Chapter 4 GRI 3-3-e

BC99. Engagement with affected stakeholders is a central component in all steps of an undertaking's due diligence processes, as set out in UN GPs 18 – 21, and in particular 18 (b) that requires companies to involve meaningful consultation with potentially affected groups and other relevant stakeholders (as appropriate to the size of the business enterprise and the nature and context of the operation). The focus on engagement with affected stakeholders is reflected in section 3.1 *Stakeholders and their relevance to the materiality assessment* and in the description of sustainability due diligence process in chapter 4.

Chapter 5. Value chain

Reporting undertaking and value chain

BC100. There is general agreement that sustainability reporting goes beyond the boundary of operations under the control of the reporting undertaking (which is the traditional boundary defined for financial reporting). The upstream and downstream value chain should therefore also be covered since major impacts of the activities carried out by an undertaking may occur in the value chain as well as through manufacturing, purchasing, or distributing products and providing services.

BC101. Relevant CSRD reference are:

(a) CSRD Art. 19a 3 states that, where applicable, sustainability statements "shall contain information about the undertaking's own operations and about its value chain, including its products and services, its business relationships and its supply chain.";

(b) CSRD Art. 19a 2 (f) (ii) requires the undertaking to report "the principal actual or potential adverse impacts connected with the undertaking's own operations and with its value chain, including its products and services, its business relationships and its supply chain …"; and

(c) according to CSRD Art. 29a the content of the consolidated sustainability reporting refers to the 'group'. Article 2 of Directive 2013/34/EU specifies that 'group' means a parent undertaking and all its subsidiary undertakings. CSRD Art. 29a mirrors the requirements with respect to value chain of Art 19a for the group of the parent undertaking.

BC102. When it comes to the financial materiality aspects of sustainability information, existing reporting frameworks (i.e. TCFD for climate-related risks) also reflect that this is not constrained to matters within the reporting undertaking's control, but that it extends to its value chain (for instance in relation to 'scope 2' and 'scope 3' indirect greenhouse gas emissions).

BC103. Under international standards on responsible business referred to by the CSRD (notably the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises), an undertaking's responsibility regarding impacts on people and the environment is not based on the extent of its 'control' over an activity as defined for financial reporting. Rather, its responsibility is a function of the existence of an (actual or potential) adverse human rights or environmental impact that is linked to its operations, products or services either through its activities or through its business relationships (including its upstream and downstream value chain).

BC104. Not all the data to be reported need to include the information beyond the boundary of financial reporting. The assessment of materiality is considered a key driver for expanding the boundary: paragraph 67 requires to expand the boundary when the integration is necessary to allow a proper understanding of material impacts, risks and opportunities and to produce a set of complete information that meets the qualitative characteristics of information quality. Despite this being the intention, the content of the value chain provisions in [draft] ED ESRS 1 were not fully understood and the outcome of the public consultation revealed the existence of concerns on the approach being too pervasive. The SRB decided to amend the language in the final standard and clarify that incorporation of value chain information is not required for each disclosure. On the contrary, the undertaking is required to extend the information about the reporting undertaking provided in the sustainability statements 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.

BC105. The SRB clarified (see paragraph 71) that associates and joint ventures accounted using the equity method in the financial statements are, when they are business partners, to be treated as the other counterparties in the value chain.

Difficulties undertakings may encounter in gathering value chain information

BC106. The SRB was aware of the difficulties undertakings may encounter in gathering value chain information and noted the significant concern raised in public consultation mainly from preparers on the provisions for value chain in section 2.3 *Boundaries and value chain* of [draft] ED ESRS 1. Constituents of small and medium size entities were concerned as undertakings subject to the CSRD would require from small and medium sized suppliers or customers in their value chain information to fulfil their own reporting obligations creating an indirect reporting burden.

BC107. Along those lines the following was added in the final CSRD text as Art. 29b 4: "Sustainability reporting standards shall take account of the difficulties that undertakings may encounter in gathering information from actors throughout their value chain, especially from those which are not subject to the sustainability reporting requirements laid down in Article 19a or 29a and from suppliers in emerging markets and economies. Sustainability reporting standards shall specify disclosures on value chains that are proportionate and relevant to the capacities and the characteristics of undertakings in value chains, and to the scale and complexity of their activities, especially those of undertakings that are not subject to the sustainability reporting requirements in Article 19a or 29a. Sustainability reporting standards shall not specify disclosures that would require undertakings to obtain information from small and medium-sized undertakings in their value chain that exceeds the information to be disclosed pursuant to the sustainability reporting standards for small and medium-sized undertakings referred to in Article 29c.

BC108. The SRB decided to address those difficulties and concerns by:

(a) clarifying the focus of the extension of the information on value chain to include only material value chain information on material impacts, risks and opportunities (see paragraph 67);

(b) including the provisions on estimations using sector averages and proxies for value chain data; and

(c) including the transitional provisions also envisaged by the CSRD in that respect (see chapter 10).

Estimation using sector averages and proxies

BC109. The integration of information about the undertaking's value chain in the reporting boundary requires the existence of appropriate reporting channels between the undertaking and its suppliers (upstream value chain) and the availability of information about its customers, products and services (downstream value chain). Implementing such reporting channels, including enhancing the data quality to the level necessary to attain the characteristics of information quality (see chapter 2), may require time and significant efforts. To take that into account undertakings are allowed to estimate missing information.

BC110. Estimates should be based on all reasonable and supportable evidence and the use of peer group, sector averages and proxies is explicitly allowed. As the use of estimates may have an impact on the quality of the reported information, users need to be informed about the perimeter of information that is based on estimates.

BC111. The SRB clarified that the inclusion of value chain information when reporting on policies, actions and targets, reflects the extent to which those policies, actions and targets actually involve actors in the value chain. For example, when an undertaking does not involve actors in the value chain in a policy or action or target, its reporting for that policy or action or target will not include value chain information. The SRB also clarified that in many cases the undertaking may be able to comply with the reporting requirements without collecting data from the actors in its value chain (see paragraph 75 of [draft] ESRS 1).

BC112. Users are also interested in knowing whether the undertaking has undertaken or plans to undertake actions to reduce in the future the use of estimates and, as a result, enhance the quality of the reported information (see ESRS 2 BP-2).

BC113. The SRB noted that the value chain definition, the reporting undertaking and related disclosure requirements (restricted to financial materiality) of [draft] IFRS S1 are aligned with [draft] ESRS 1 (see paragraph 15 and 37-41 on *Reporting entity* of [draft] IFRS S1).

BC114. Similarly, to ESRS the GRI Standards, require for the “reporting undertaking” aligning sustainability reporting with other reporting (see GRI 1 – 5.1) and including value chain information. However, differently from GRI, ESRS do not allow to omit information when the information is unavailable or incomplete. The SRB noted that this reflects the principle that all the information included in sustainability reporting shall meet the qualitative characteristics of the information. This is a pre-requisite to allow sustainability reporting to develop with the appropriate quality and be close to the maturity of financial reporting. Implicitly, this principle encourages the estimates using market or sector data.

Operational influence over activities and relationships in the upstream and downstream value chain

BC115. The SRB noted that the reference to operational influence in the section *Operational influence over activities and relationships in the upstream and downstream value chain* included in [draft] ED ESRS 1 was not well received and perceived to introduce an additional level of complexity. The SRB decided to drop the reference to operational influence, however keeping in the text the acknowledgement that the undertaking’s ability to obtain necessary data may vary depending on various factors including the level of control that the undertaking exercises on the activities of its value chain and its business relationships (see para. 72).

Chapter 6. Time horizons

BC116. CSRD Art. 19a 2 requires sustainability information to “include information related to short-, medium- and long-term time horizons, as applicable”.

Reporting period

BC117. Adopting consistent reporting periods between sustainability reporting and financial statements contributes to create high-quality corporate reporting and facilitates the understanding of the connections between the sustainability and financial reporting dimensions. This is in line with [draft] IFRS S1 paragraph 66.

Linking past, present and future

BC118. CSRD Art. 29b 3 requires “sustainability reporting standards shall specify the forward-looking, retrospective, … information, as appropriate, to be reported by undertakings”. The SRB noted that linking past, present and future, e.g., by presenting sustainability information in the same format, units and time intervals supports the comparison of past, present and future data.

Reporting progresses against the base year

BC119. The definition of the base year is derived from GRI 305: Base year is a “historical datum (such as year) against which a measurement is tracked over time”.

BC120. Financial reporting standards generally require undertakings to report the past year and one year as prior period comparative. In non-financial information, a longer time-period is often considered to be necessary since the related topics are of a longer-term nature. For instance, ten years of sustainability data on an undertaking’s emission is more insightful for stakeholders than ten years of financial reporting data for financial reporting users.

BC121. Providing information over a longer period (both retrospective and forward-looking) may increase the volume and may decrease the comprehensibility of a report. A way to overcome this issue in relation to climate is the base-year concept, as can be found in the GHG protocol. The undertaking reports its progress against the base year figures to provide meaningful insight into its development over a longer period in an aggregated manner, thereby avoiding including too many details for all the years between the base year and the current year.

Definition of short-, medium- and long-term for reporting purposes

BC122. The adoption of a definition of short term “as the period adopted by the undertaking as the reporting period in its financial statements” facilitates the understanding of the linkages between sustainability and financial reporting. It is thereby assumed that the reporting period adopted is a one-year interval. It should be noted that the SRB did not want to shorten the short-term time horizon in the case that the financial period is - for whatever reason - a stub-period and therefore shorter than one year (see also [draft] IFRS S 1 paragraph 67 on stub-period). The linkage between sustainability and financial reporting is facilitated because a one-year horizon is generally used for budgeting purposes, is used in financial reporting to distinguish current versus non-current assets and liabilities and is used to assess the undertaking’s going concern assumption.

BC123. Other international framework references also work with short-, medium- and long-term time horizons without defining them ([draft] IFRS S1 paragraph 18, International Integrated Reporting Framework [IIRC], Task Force on Climate-Related Disclosures [TCFD]) because such time-horizon boundaries are dependent upon the industry, economic sector and the considered sustainability matter, topic or sub-topic.

BC124. The SRB discussed whether to prescribe mandatory time horizons for short-, medium- and long-term for reporting purposes or whether they should be entity-specific based on its business model, industry-characteristics, and its planning horizon. Feedback from public consultation in that respect was ambiguous. Preparers generally preferred an entity-specific approach to be able to use already existing data consistent with their managerial processes, whereas users a more standardized approach for better comparability across undertakings. Noticing that many of the forthcoming first-time sustainability reporters need guidance and to increase comparability the SRB decided to prescribe conventional time periods but to allow deviations from the medium and long-term time horizon based on entity-specific circumstances acknowledging also that – depending on the sustainability matter and sector concerned – other time horizons within the long-term horizon might be useful and therefore prevail at topical level.

BC125. This added flexibility serves to enhance interoperability with IFRS S1, where the definitions are left to the undertaking’s judgement.

BC126. Links between the time horizon concept under ESRS with the related concept of other standards and guidelines are as follows:

Concept	**Required specifically by CSRD**	**Required by other EU legislation and recommendations**	**Other international framework references**
Time horizon	CSRD Art. 19a 2 CSRD Art. 29a 2	Commission, Directive 2013/34/EU, Art. 6, 1 (j) Commission, Guideline on non-financial reporting, chapter 3.4 (Strategic and forward-looking) PTF-NFRS (Final Report) page 7 (retrospective and forward-looking information)	[Draft] IFRS S1 66 (same reporting period as financial statements), 16 and 18 (duration of time horizons), and paragraph 32 (use of a base period) GRI 1 – Completeness and 5.1 Aligning sustainability reporting with other reporting

Chapter 7. Preparation and presentation of sustainability information

BC127. This chapter provides the preparation and presentation requirements applying generally i.e., that require consideration each time sustainability statements are prepared as well as under specific situations, i.e., that require consideration only when those specific situations arise. These requirements are largely inspired by long lasting practices in financial reporting. The requirements for preparing and presenting sustainability information can be compared to the CSRD, other EU legislation and recommendations, and other international frameworks as follows:

General principle	**Required specifically by CSRD**	**Required by other EU legislation and recommendations**	**Other international framework references**
7.1 Presenting comparative information	CSRD Art. 19a 3 requiring retrospective information CSRD Art. 29a 3	Commission, Directive 2013/34/EU, Art. 9 (5)	[Draft] IFRS S1 63-65 GRI 1 – Comparability
7.2 Sources of estimation and outcome uncertainty	CSRD Art. 19b 2 requiring information to be verifiable and to be presented in a faithful manner	Commission, Directive 2013/34/EU recital (22)	[Draft] IFRS S1 79-83, 89; IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, paragraph 32-40 GRI 1 – Accuracy
7.3 Updating disclosures about events after the end of the reporting period	CSRD Art. 19b 2 requiring information to be relevant and representative	Commission, Directive 2013/34/EU recital (22)	IAS 10 Events after the Reporting Period, 8-11 [Draft] IFRS S1 71
7.4 Changes in preparation or	CSRD Art. 19b 2 requiring	Commission, Directive	[Draft] IFRS S1 64-65, C19; IAS 8 Accounting

presentation of sustainability information	information to be comparable	2013/34/EU, Art. 6 (1) (b)	Policies, Changes in Accounting Estimates and Errors, paragraph 13-27 GRI 2-4, GRI – Comparability
7.5 Reporting errors in prior periods	CSRD Art. 19b 2 requiring information to be presented in a faithful manner		[Draft] IFRS S1 84-90; IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, paragraph 5, 41-48 GRI 2-4
7.6 Consolidated reporting and subsidiary exemption	CSRD Art. 29a 1 and recital (26)		n/a
7.7 Information on intellectual property, know-how or results of innovation	CSRD Art. 19a 3 CSRD Art. 29a 3		[Draft] IFRS S1 62 on omitting information based on local laws or regulation.

7.1 Presenting comparative information

BC128. Presenting current year figures and comparative information is a generally accepted practice in financial and sustainability reporting (Commission, Directive 2013/34/EU, Art. 9 (5), IAS 1 paragraph 38-38D, [draft] IFRS S1 63-65, GRI 1 Comparability): the consensus is that information related to the current period shall at least be compared to the corresponding information related to the previous period. Sustainability matters may require also mid-term and long-term time horizons. Accordingly, sector-agnostic topical (or sector-specific) Standards may require more than one comparative period and base-year disclosures to capture historical trends and developments as well as forward-looking information (see chapter 6 *Time horizons*).

7.2 Sources of estimation and outcome uncertainty

BC129. Measurement uncertainties are inherent to financial reporting information, which is by design primarily retrospective, and even more so to sustainability reporting, which requires retrospective and forward-looking information. Sometimes it might be necessary to make approximations because information is not available, e.g., in the value chain (see chapter 5 *Value chain*). Also, cost-benefit considerations might make it necessary to use estimates to be efficient.

BC130. Explanations about possible future events that have significant sustainability impacts, or trigger significant financial risks or opportunities are helpful for the user to better understand uncertainties.

BC131. An estimate may need revision if changes occur in the circumstance on which the estimate was based or because new information has emerged or if the undertaking has gained more experience in estimating effects. It is proposed that all significant changes of estimates, similar to correction of errors (see section 7.5), are not only reflected in the current period but, if they relate to the previous periods, also in those previous periods. This is different on how changes of estimates are treated in financial reporting but in line with [draft] IFRS S1 (see [draft] IFRS S1 BC82-83).[4] The proposal assumes that retrospective restatement provides more relevant information, and that sustainability reporting is generally not part of a double-entry model.

7.3 Updating disclosures about events after the end of the reporting period

BC132. Accounting for events after the balance sheet date is subject to a fundamental and well-established approach in financial reporting. This approach is similarly applicable to sustainability reporting. The SRB therefore has decided to add it as a general requirement in this [draft] Standard.

BC133. Two types of events after the reporting period are distinguished, namely "adjusting events after the reporting period" and "non-adjusting events after the reporting period". The former is referred to in paragraph 96; and the latter in paragraph 97.

7.4 Changes in preparation or presentation of sustainability information

BC134. A fundamental characteristic of information quality is comparability which is fostered by consistency over time. Comparability is also widely accepted in financial reporting. Therefore, any change form one year to another is restricted to situations when the new way to prepare or present allows to provide more useful information. To achieve comparability in situations of change of preparation or presentation data related to the comparative period should be restated accordingly, unless impracticable.

BC135. The following definition in IAS 8 is helpful as a useful practice reference when determining what is impracticable: "Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

(a) the effects of the retrospective application or retrospective restatement are not determinable;

(b) the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or

(c) the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:

i. provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognized, measured or disclosed; and

ii. would have been available when the financial statements for that prior period were authorized for issue from other information."

[4] The ISSB discussed its position on updated estimates and comparative information in a November 2022 board meeting and tentatively decided to amend the proposed requirement set out in paragraph 64 of draft IFRS S1 to limit the requirement to revise comparative information to reflect updated estimates, so it would apply to estimates for the previous reporting period disclosed in that previous period, and would not apply to forward-looking estimates disclosed in that previous period.

7.5 Reporting errors in prior periods

BC136. Financial reporting has established principles on how to consider errors in financial reporting (IAS 8) requiring retrospective restatement. These principles have also been considered in [draft] IFRS S1 84-90. CSRD and Directive 2013/34/EU have no specific provision on how to treat errors but from the qualitative characteristics of information of faithful representation (see chapter 2) it can be derived that they need to be corrected retrospectively with appropriate explanations. Furthermore, as the international principles on reporting errors in prior periods are widely accepted, the SRB considered it appropriate to them reflected in this chapter.

BC137. For impracticability of requirements, see paragraph BC135.

7.6 Consolidated reporting and subsidiary exemption

BC138. CSRD Art. 29a 1 stipulates: "Parent undertakings of a large group shall include in the consolidated management report, the information necessary to understand the group's impacts on sustainability matters, and information necessary to understand how sustainability matters affect the group's development, performance and position."

BC139. Undertakings may be vertically integrated. Inter-company activities are consolidated so they do not appear anymore in consolidated reporting. Nevertheless, inter-company activities might relate to material sustainability impacts, risks and opportunities and it is therefore necessary to disclose sustainability information also in respect of inter-company activities beyond the ones reflected by the turnover of the undertaking, to provide a complete depiction of the impacts, risks and opportunities of the undertaking.

BC140. Sustainability reporting of a group should be "regardless of its legal group structure" as mentioned in paragraph 105. This is justified, to produce identical sustainability reporting for (a) an undertaking that only consists of one legal entity and therefore its consolidated reporting is identical to its individual reporting as compared to (b) an undertaking that is structured as a group with many subsidiaries that runs the same business as the one mentioned under (a).

BC141. In the final CSRS new text has been added in recital (26) as follows: "… It is necessary that parent undertakings reporting at group level provide an adequate understanding of the risks for, and impacts of, their subsidiary undertakings, including information on their due diligence processes where appropriate. There might be cases where the differences between the situation of the group and that of its individual subsidiary undertakings, or between the situation of individual subsidiary undertakings in different territories are particularly significant and would, in the absence of additional information about the individual subsidiary undertaking concerned, cause the user of the information to reach a substantially different conclusion about the risks for, or impacts of, the subsidiary undertaking."

BC142. The SRB noted that significant risks for, and impacts of, subsidiary undertakings - subject to a possible different materiality threshold of the group - are in general also material risks for the group. Nevertheless, the SRB considered if helpful to clarify that relationship, as it is explicitly required by the CSRD, and added additional guidance in paragraph 106 and 107.

7.7 Information on intellectual property, know-how or results of innovation

BC143. The CSRD gives in Art. 19 a 3 a Member State option to omit information if "the disclosure of such information would be seriously prejudicial to the commercial position of the undertaking, provided that such omission does not prevent a fair and balanced understanding of the undertaking's development, performance and position, and the impact of its activity." The new recital (34) of the final CSRD clarifies in that respect: "It is not the objective of this amending Directive to require undertakings to disclose intellectual capital, intellectual property, know-how or the results of innovation that would qualify as trade secrets as defined in Directive (EU) 2016/943 of the European Parliament and of the Council[5]. Reporting requirements provided for in this amending Directive should therefore be without prejudice to Directive (EU) 2016/943."

BC144. Noting this new recital, the SRB added the option in paragraph 108-109 also noting the concern expressed by a significant number of respondents to the public consultation. The wording of this option uses language from the Trade Secrets Directive (Directive (EU) 2016/943). The option, and in particular the conditions to use it, has been drafted to strike a balance between the need to provide a tool in order to address the concerns of some stakeholders that ESRS may result in mandating to disclose the result of innovation and the concerns of other stakeholders that the ESRS should not allow escape routes to the provision of relevant information.

Chapter 8. Structure of sustainability statements

General presentation requirements

BC145. CSRD Art. 19a 1 provides that sustainability statements "shall be clearly identifiable within the management report, through a dedicated section of the management report." The final level 1 text of the CSRD does not encompass anymore the provision that the ESRS should stipulate the structure of the sustainability statements at level 2. Accordingly, the three options for the structure of the sustainability statements that were proposed in [draft] ED ESRS 1 were not retained.

BC146. CSRD Art. 19a 1 also eliminates the prior option in the Non-Financial Reporting Directive (2014/95/UE) to publish a separate report as explained in recital (57) of the CSRD to:

(a) enhance the availability of information that connects financial and sustainability matter information;

(b) facilitate discoverability and accessibility for users; and

(c) strengthen the reliability of sustainability information.

BC147. The SRB noted the feedback received from a large number of respondents in the public consultation that the structure of the sustainability reporting should consider what has been labelled as "integrated reporting" (i.e. integration of sustainability information along with financial and other non-sustainability information in one document, often in the management report) and what can be considered as widely used current practise. The SRB noted however that "integrated reporting" as currently practised needs to change due to the CSRD mandate to have the sustainability statements "in a dedicated section of the management report". In this context the SRB refers to Section 9.1 *Incorporation by reference*.

BC148. Consistent with the mandate given by the European Commission, the SRB determined that the single section of the management report should include the disclosures required by ESRS Standards as well as entity specific sustainability information as required by chapter 1.4.

[5] Directive (EU) 2016/943 of the European Parliament and of the Council of 8 June 2016 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure (OJ L 157, 15.6.2016, p. 1).

Regulation (EU) 2020/852 disclosures – Sustainable finance taxonomy

BC149. The undertakings subject to the scope of the CSRD are also obliged to disclose information required by Article 8 of the Regulation (EU) 2020/852 (Taxonomy Regulation) in conjunction with the Commission Delegated Regulation (EU) 2021/2178 and in conjunction with upcoming technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to the protection and restoration of biodiversity and ecosystems. Also, the Taxonomy Regulation in its Article 8(2) requires undertakings to disclose information on the proportion of the turnover, capital expenditure ('CapEx') and operating expenditure ('OpEx") or on their green asset ratio associated with economic activities that qualify as environmentally sustainable ('Taxonomy disclosure"). Regulation (EU) 2021/2178 provides detailed presentation requirements for article 8 disclosures including mandatory standardised reporting templates. While article 8 of regulation 2021/2178 suggests that contextual information that complements the taxonomy's key performance indicators may be reported in different sections of the management report, it was observed that such information should preferably be reported alongside the indicators to enhance understandability.

BC150. The [draft] ESRS do not impose additional obligations to the undertakings in connection with these Regulations, nor interfere with the content of the definitions and specifications contained in the Regulatory Technical Standards. At the same time, the sustainability statements prepared in compliance to [draft] ESRS offer a location for the Taxonomy disclosure that will facilitate their understanding in the context of the undertaking's overall sustainability reporting. The SRB decided that [draft] ESRS 1 should contain a sort of 'place-holder' for the Taxonomy disclosure, in requiring that the undertaking reports the disclosures pursuant to Article 8 of the Taxonomy regulation (2020/852) in an identifiable part of the management report.

Other sustainability information

BC151. The SRB also considered the disclosure requirements set out in the Sustainable Finance Disclosure Regulation (2019/2088) and in article 434 of regulation 575/2013 on prudential requirements for credit institutions and investment firms. However, it was noted that requiring or allowing financial market participants and banks to report the required disclosures as part of the management report would not relieve them from the obligation to publish separate reports and might raise consistency and comparability issue with the disclosures required by ESRS.

BC152. Finally, the SRB observed that undertakings might be subject to national sustainability reporting disclosure requirements or might already report sustainability information according to generally accepted sustainability frameworks. Stakeholders and users of sustainability reporting may be used to or expect sustainability information that is consistent or compatible with these other frameworks or standards. As such, in addition to producing ESRS sustainability statements (that are mandatory) undertakings may want to report in accordance with frameworks other than ESRS, for example as this would allow to continue their past reporting practices, or to present the same information prepared by a group of peers. The SRB decided to clarify that such disclosures may be reported in the sustainability statements if they meet the characteristics of information quality as outlined in chapter 2.

Structure of the sustainability statements

BC153. The SRB discussed and noted that [draft] ED ESRS 1 in AG 28 and 29 was overly prescriptive for the first of the three options (reporting all sustainability information within a single separately identifiable section) requiring:

(a) grouping together the disclosures required by each sector-agnostic ESRS and report them as non-separable blocks;

(b) disclosures within each block in the order being outlined in the sector-agnostic Standards;

(c) the title of each block to be the name of the relevant sector agnostic ESRS; and

(d) for each disclosure requirement to have a header consisting of the code of the sector agnostic Standard and the title of the Disclosure Requirement in the relevant ESRS.

Given the feedback received in the public consultation especially from preparers asking for "integrated reporting" the SRB decided to only require sustainability statements to have four parts: general, environmental, social, and governance information and to be not more prescriptive than that.

BC154. The SRB also noted that from a digitization perspective once tagged it would make no difference in which ordering sustainability information would be presented and therefore, in respect of digitization a more standardised presentation would not be needed.

BC155. The SRB acknowledged that sustainability matters are interrelated therefore it decided to allow references within the sustainability statements to avoid duplications.

BC156. The SRB discussed and agreed to retain the provisions of [draft] ED ESRS 1 that:

(a) sector-specific disclosures should adopt a structure consistent with the classification of topics and sub-topics used for sector-agnostic disclosures as it does provide for a comprehensive depiction (sector-agnostic and sector-specific) of each sustainability matter; and

(b) entity-specific disclosures can generally be related to a topic or sub-topic covered by ESRS and that therefore undertakings should exercise judgment and report such disclosures in that part of the report dedicated to the most relevant sector-agnostic disclosures together with the sector-agnostic and sector-specific disclosures.

Chapter 9. Linkages with other parts of corporate reporting and connected information

BC157. CSRD Art. 19a 3 states that, "(w)here applicable, the information referred to in paragraphs 1 and 2 [contents of the sustainability reporting] shall also contain references to, and additional explanations of, other information included in the management report in accordance with Article 19, and the amounts reported in the annual financial statements". CSRD Art. 29a (3) states that similarly for consolidated sustainability reporting and the consolidated management report in accordance with Article 29 and amounts reported in the consolidated financial statements. CSRD recital (42) states: "Sustainability reporting standards […] should also take account of other reporting requirements in Directive 2013/34/EU not directly related to sustainability, with the aim of providing the users of the reported information with a better understanding of the development, performance, position and impact of the undertaking, by maximising the links between the sustainability information and other information reported in accordance with Directive 2013/34/EU."

BC158. The provisions for providing linkage with other parts of corporate reporting compare with the CSRD, and other international frameworks as follows:

Concept	**Required specifically by CSRD**	**Other international framework references**
Incorporation by reference	CSRD Art. 19a 3 and Art. 29a 3 and recitals (42)	[Draft] IFRS S1 74-78 on incorporation by reference / included by cross-reference
Connected information and connectivity with financial statements	CSRD 19a 3 and Art. 29a 3 and recitals (42)	[Draft] IFRS S1 7(b), 42-44, C19-20

Incorporation by reference

BC159. When drafting [draft] ED ESRS 1 it was discussed whether the proposed structure of the sustainability statements could be a step backward from current practice providing integrated reports and might prevent undertakings from integrating financial and sustainability information within the management report in a meaningful way. It was noted that the prescribed structure of the sustainability statements could be maintained while granting additional flexibility to preparers by allowing undertakings to make adequate cross-references between the sustainability statements and other parts of the management report. It was decided to grant the option to comply with ESRS disclosure requirements through incorporation by reference to another section of the management report, provided that the reference disclosure constitutes a separate element of information clearly identified in the other section of the management report. This limitation is deemed necessary to allow for the sustainability statements to keep their integrity, completeness, and usability.

BC160. Allowing incorporation by reference only to other parts of the management report was heavily criticized by respondents to the public consultation. Therefore, the option to allow incorporation by reference was broadened to include the elements of corporate reporting listed in paragraph 120 and to EMAS reporting (see paragraph 122). To make sure that information incorporated by reference is clearly identified, available, assured, and accessible the conditions when allowing incorporation by reference in paragraph 121 were added or clarified. The approach in ESRS responds to the necessity to ensure that digitalization and assurance are practicable, as foreseen by the CSRD. At the same time, the conditions introduce a discipline that allows to respect the principle of understandability and cohesiveness of the information. With the same objective, [draft] ESRS 2 BP-2 requires disclosing a list of the disclosure requirements of the ESRS (or the specific datapoints mandated by a disclosure requirement) that have been incorporated by reference. The purpose of this requirement is to reinforce the understandability and completeness of sustainability statements as a comprehensive package of information.

BC161. GRI allows incorporation by reference to information published in any location. Noting that IFRS have more flexibility on the location of sustainability information it has similar provisions on incorporation by reference.

Connected information and connectivity with financial statements

BC162. Corporate reporting needs to be interconnected under an integrated approach. Sustainability reporting and financial reporting are currently not formally connected, leaving potential gaps, overlaps and a lack of coherence. The SRB noted that [draft] IFRS S1 has a section labelled connected information with elements that [draft] ED ESRS 1 has in section 4.7 *Adverse impacts and financial risks* and chapter 5 *Providing linkage with other parts of corporate reporting*. To fully align also in line with comments received in public consultation the SRB decided to capitalize on the provisions of connected information in [draft] IFRS S1 paragraph 42 and incorporated them as much as appropriate.

BC163. The undertaking shall identify “anchor points” to create connectivity to financial reporting together with the necessary reconciliations or cross-references. Connectivity between anchor points may be direct, when a monetary sustainability disclosure is derived from accounting data, and may be indirect when sustainability disclosures need to be consistent with financial statements, but cannot be reconciled with monetary amounts presented in financial statements. In order not to overburden undertakings with mandatory “anchor points” the SRB decided to mandate (a) references (see paragraph 125); (b) explanations, references, and reconciliations (see paragraph 126); and (c) a statement for the consistency of data (see paragraph 127) only above a threshold for material information based on appropriate management judgement.

Chapter 10. Transitional provisions

Transitional provision related to section 1.4 Entity-specific disclosures

BC164. The SRB discussed and confirmed the transitional provision of [draft] ED ESRS 1 for the grandfathering of entity-specific disclosures that an undertaking reported prior to the adoption of ESRS (see paragraph 132 (a)). However, the SRB considered it acceptable to grant this grandfathering for three instead of two years as proposed by the [draft] ED ESRS 1.

BC165. The SRB rejected the transitional provision provided by paragraph 154 (b) of [draft] ED ESRS 1 to “limit the entity-specific disclosures to facts and circumstances that are unique to its activities and, as such , will likely be needed in the future after the incorporation of additional sector-agnostic and sector-specific disclosure requirements“ as it considered it too difficult to be applied in practise by undertakings. Instead, the SRB considered it beneficial to have a transitional provision for entity-specific disclosures that are material for the undertaking in its sector(s) (see paragraph 132 (b)) to refer to available industry specific best practises especially referring to IFRS and GRI to align.

Transitional provision related to chapter 5 Value chain

BC166. The transitional provision of paragraph 133 relates to the provision of CSRD Art. 19a 3; and Art. 29a 3 and recital (33) and is basically a copy of the level 1 legal text.

BC167. The transitional provision of paragraph 134 relates to the provision of CSRD Art. 29b 4 to limit the burden for members in the value chain that are not subject to sustainability reporting under the CSRD especially for small- and medium-sized undertakings and suppliers in emerging markets and economies to provide value chain related information to undertakings subject to the CSRD. The SRB considered it acceptable to require that information related to the value chain that is already available in-house to be reported as it is not considered affecting those in the value and therefore not burdensome for them.

BC168. CSRD Art. 29b 4 that states: “Sustainability reporting standards shall not specify disclosures that would require undertakings to obtain information from small and medium-sized undertakings in their value chain that exceeds the information to be disclosed pursuant to the sustainability reporting standards for small and medium-sized undertakings referred to in Article 29c.” In line with the CSRD requirement paragraph 135 states that also after the end of the four-year transitional period for value chain reporting, information to be obtained from SME in the value chain is limited to the level that is required from listed SMEs based on the yet to be developed ESRS standards on listed SMEs.

Transitional provision related to chapter 7.1 Presenting comparative information

BC169. The SRB confirmed that sustainability reporting uses a phase-in for prior period information to limit the burden of first-time application.

Transitional provision: List of Disclosure Requirements that are phased-in for [draft] ESRS to year 2 or subsequent years

BC170. The SRB considered it helpful for preparers and users to have in one place the phased-in Disclosure Requirements of other [draft] ESRS and therefore introduced appendix D *List of phased-in Disclosure Requirements* to the [draft] Standard.

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