

EXPOSURE DRAFT

ESRS 2

General, strategy, governance and materiality assessment

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PTF-ESRS

Project Task Force on European sustainability reporting standards

 **EFRAG**

DISCLAIMER

This Exposure Draft has to be read in conjunction with the cover note for ESRS public consultation. It has been prepared under the sole responsibility of the EFRAG PTF-ESRS and is submitted to public consultation by EFRAG SRB to inform the upcoming standard-setting steps. It, therefore, does not reflect the EFRAG SRB's position at this stage, nor the position of the European Union or European Commission DG Financial Stability, Financial Services and Capital Markets Union (DG FISMA), nor the position of organisations with which the EFRAG PTF-ESRS has cooperated. The final version of the [draft] Standard will be produced by the EFRAG SRB starting from this Exposure Draft, taking into consideration the outcome of the public consultation and the requirements of the final CSRD.

[Draft] ESRS 2 General, strategy, governance, and materiality assessment is set out in paragraphs 1–81 and Appendices A: Defined terms and B: Application Guidance. All the paragraphs, including those in Appendices A and B, have equal authority. Each Disclosure Requirement is stated in a bold paragraph and has a paragraph that illustrates the principle to be followed in the preparation of the respective disclosures. The [draft] Standard also uses terms defined in other [draft] ESRS and should be read in the context of its objective.

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Objective

1. This [draft] Standard sets out the disclosure requirements of sustainability reporting that are cross-cutting. Those disclosures can be grouped into those that are:
 - (a) of a general nature;
 - (b) on the strategy and business model of the undertaking;
 - (c) on its governance in relation to sustainability; and
 - (d) on its materiality assessment of sustainability impacts, risks and opportunities.

General disclosure requirements

1 Business card of the undertaking in relation to sustainability reporting

2. If some of the disclosures of this chapter are already provided in other parts of the management report or the financial statements, to avoid duplications, the undertaking may incorporate them by reference following the approach described in chapter 5.1 of ESRS 1.

1.1 General characteristics

Disclosure Requirement 2-GR 1 - General characteristics of the sustainability reporting of the undertaking

3. **The undertaking shall give general information about (i) its sustainability report, and (ii) the structure of its sustainability statements.**
4. The principle to be followed under this Disclosure Requirement is to give the necessary context of the sustainability reporting of the undertaking.
5. The undertaking shall disclose the key features of its sustainability report:
 - (a) whether the sustainability report is consolidated or individual;
 - (b) in the case of a consolidated sustainability report a confirmation that the reporting scope (see ESRS 1) used for sustainability reporting is identical to the scope used for the consolidated financial statements;
 - (c) for an undertaking based in an EU member state that allows for the exemption in articles 19a (3) and 29a (3) of the CSRD on disclosure of information prejudicial to its commercial position, the use of the option, if applicable; and
 - (d) where applicable the identification of the auditor, the audit firm or the independent assurance service provider giving assurance on the (consolidated) sustainability report and the level of assurance provided.
6. The undertaking shall disclose the presentation option selected for its sustainability statements (see chapter 6 of ESRS 1) from the three available options:
 - (a) reporting the disclosures within a single separately identifiable section of the management report;

- (b) aggregating the disclosures into four separately identifiable parts of the management report:
 - i. general information;
 - ii. environmental information;
 - iii. social information; and
 - iv. governance information; or
 - (c) aggregating the disclosures required by each ESRS and reporting them as non-separable blocks in identifiable parts of the management report “on a standard-by-standard basis”.
7. The undertaking that elects to apply the option set out in paragraphs 6 (b) shall disclose a location table under a tabular format with the following content:
- (a) the title of the four separately identifiable parts as listed in paragraph 6 (b);
 - (b) the location of the required disclosures within the management report.
8. The undertaking that elects to apply the option set out in paragraphs 6 (c) shall disclose a location table under a tabular format with the following content:
- (a) the code and the title of each sector-agnostic ESRS as outlined in Appendix D of ESRS 1;
 - (b) the location of the required disclosures within the management report.
9. The location tables referred to in paragraphs 7 and 8 shall also report where the disclosures pursuant to article 8 of the Taxonomy regulation are presented in the management report.

1.2 Overview of the undertaking’s business in context to sustainability reporting

Disclosure Requirement 2-GR 2 – Sector(s) of activity

10. **The undertaking shall provide a description of its significant activities, headcount and revenue.**
11. The principle to be followed under this Disclosure Requirement is to allow an understanding of the distribution of the undertaking’s activities by reference to a common sector definition.
12. The disclosure shall include the following information:
- (a) an illustration of the significant sector(s) the undertaking is active in, including in which significant country;
 - (b) a description of:
 - i. significant group of products and services offered;

- ii. significant markets the undertaking operates in; and
 - iii. significant customer groups targeted by the undertaking;
- (c) the total number of headcount and its breakdown by significant country; and
- (d) a breakdown of the total revenue, as included in its financial statement, by significant sector and by significant country.
13. If this information is already provided in the financial statements or in other sections of the management report, the undertaking shall consider incorporating it by reference to the document where they are presented.

Disclosure Requirement 2-GR 3 - Key features of the value chain

14. **The undertaking shall describe its value chain.**
15. The principle to be followed under this Disclosure Requirement is to provide an understanding of the value chain in which the undertaking operates, from the initial inputs into a product or service, in the upstream supply chain, to its downstream delivery to end-users, including ultimate disposal, recycling or reuse for physical products.
16. The disclosure shall include the following information:
- (a) a description of key stages and types of entities in the upstream and downstream value chain and of the types of entities involved;
 - (b) a description of the key resources the undertaking leverages in relation to the activities it carries out; and
 - (c) the characteristics of the undertaking's relationship with end-users of products and services delivered by the value chain.
17. The description of the value chain shall be granular enough to allow an understanding of where the material sustainability impacts, risks and opportunities, are located in the value chain in which the undertaking operates, as determined by the undertaking, in its assessment process.

Disclosure Requirement 2-GR 4 - Key drivers of the value creation

18. **The undertaking shall describe how it creates value.**
19. The principle to be followed under this Disclosure Requirement is to provide an understanding of the key drivers of value creation the undertaking is leveraging to contribute to the overall performance of the value chain it operates in taking account of the respective interests of all stakeholders.
20. The undertaking shall provide a description of how it structures its operations and relationships to the extent that it is needed to convey a fair, relevant and complete depiction of how it is exposed to the risk of creating impacts and/or risks and opportunities.

21. The undertaking shall consider a link to relevant information about its drivers of value creation presented in the financial statements or in other sections of the management report.

1.3 Specific disclosures on compliance

22. The principle to be followed under the disclosure requirements of this chapter is to give explanation specific principles described in ESRS 1 when they are applicable for the period covered by the sustainability report.

Disclosure Requirement 2-GR 5 – Using approximations on the disclosure in relation to boundary and value chain

23. **Following the principle on boundaries and value chain of ESRS 1 when the undertaking has used peer group information or sector data to approximate missing data due to impracticability, it shall disclose:**
 - (a) its basis for preparation for the relevant disclosure and indicators, including the scope for which an approximation has been used; and
 - (b) the planned actions to reduce missing data in the future.

Disclosure Requirement 2-GR 6 – Disclosing on significant estimation uncertainty

24. **Following the principle of estimating under conditions of uncertainty in ESRS 1, the undertaking shall:**
 - (a) identify metrics it has disclosed that have a significant estimation uncertainty, disclose the sources and nature of the estimation uncertainties and the factors affecting the uncertainties; and
 - (b) identify and disclose the sources of significant uncertainty and the factors affecting these sources of uncertainty when explanations of possible effects of a sustainability factor relate to possible future events about which there is significant outcome uncertainty.

Disclosure Requirement 2-GR 7 - Changes in preparation and presentation

25. **Following the principle on changes in preparation or presentation of ESRS 1, the undertaking shall explain changes in preparation or presentation by disclosing:**
 - (a) the description of the methodology used for the restatement;
 - (b) the difference between the amount reported in the previous period and the revised comparative amount in case of quantitative metrics;
 - (c) the reasons for the change in reporting policy; and
 - (d) if it is impracticable to adjust comparative information for one or more periods, the undertaking shall disclose this fact and why.

Disclosure Requirement 2-GR 8 – Prior period errors

26. **Following the principles on errors in ESRS 1, if applicable, the undertaking shall disclose the following for prior period errors:**
- (a) the nature of prior period errors;
 - (b) for each prior period disclosed, to the extent practicable, the amount of the corrections; and
 - (c) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the impracticability and a description of how and when the error has been corrected.

Disclosure Requirement 2-GR 9 – On other sustainability reporting pronouncements

27. **The undertaking shall disclose if it also reports in full or in part in accordance with generally accepted sustainability reporting pronouncements of other standard setting bodies and non-mandatory guidance including sector specific, in addition to its report prepared according to ESRS. It shall disclose if such reporting is included in its sustainability statements.**

1.4 General statement of compliance

Disclosure Requirement 2-GR 10 - General statement of compliance

28. **The undertaking shall provide a statement of compliance with ESRS.**
29. The principle to be followed under this Disclosure Requirement is to inform the users about the compliance with ESRS requirements, following mandated disclosure requirements complemented by entity-specific disclosures.
30. The statement of compliance required by paragraph 28 shall comprise:
- (a) a statement of:
 - i. compliance with ESRS; and
 - ii. if applicable, a list of ESRS applied early before they come effective and
 - (b) for entity-specific disclosures
 - i. an acknowledgement of the characteristics of information quality (see ESRS 1) as used by the undertaking as a reference to define the disclosures related to entity-specific material impacts, risks and opportunities;
 - ii. a description of specific steps, if any, taken to define the disclosures; and
 - iii. if applicable, a description of significant changes in (i) and/or (ii) as compared to the previous reporting period.

Strategy and business model

2. Disclosing on strategy and business model

31. The objective of this chapter is to specify the disclosure requirements for how an undertaking describes:
 - (a) its strategy and business model(s) as a context to its sustainability reporting; and
 - (b) how sustainability matters are related to, interact with, and inform its strategy and business model(s).
32. Topical Standards may include strategy-related application guidance and disclosure requirements specific to applicable topics when complying with the disclosure requirements mandated by this chapter while preparing the corresponding information.

Disclosure Requirement 2-SBM 1 - Overview of strategy and business model

33. **The undertaking shall provide a concise description of its strategy and business model as a context for its sustainability reporting.**
34. The principle to be followed under this Disclosure Requirement is to provide relevant contextual information necessary to understanding the sustainability reporting of the undertaking. It is therefore a reference point for other disclosure requirements.
35. The disclosure shall include:
 - (a) a description of the mission of the undertaking;
 - (b) an overview of the key features of the general strategy and business model(s) of the undertaking; and
 - (c) a description of how sustainability matters are reflected in the undertakings business model and strategy and its mission, vision, purpose, and values.

Disclosure Requirement 2-SBM 2 – Views, interests and expectations of stakeholders

36. **The undertaking shall describe how the views, interests and expectations of its stakeholders inform the undertaking's strategy and business model(s).**
37. The principle to be followed under this Disclosure Requirement is to provide an understanding of how stakeholders' views, interests and expectations are considered for the undertaking's decision and evolution of its strategy and business model(s).
38. The disclosure required shall include the following information:
 - (a) a summarised description of the undertaking's key stakeholders and their views, interests and expectations as analysed during the undertaking's own materiality assessment process; and
 - (b) a description of how the strategy and business model(s) of the undertaking are impacted by these views, interests and expectations.

Disclosure Requirement 2-SBM 3 – Interaction of impacts and the undertaking's strategy and business model

39. **The undertaking shall describe the interaction between its material impacts and its strategy and business model(s)**
40. The principle to be followed under this Disclosure Requirement is to provide an understanding of material impacts on people and the environment and the adaptation of its strategy and business model(s) to such material sustainability impacts,
41. The disclosure shall include a summarized description of:
- (a) actual and potential material sustainability impacts as identified in the materiality assessment (see chapter 4. Disclosing on material sustainability impacts, risks and opportunities);
 - (b) how actual and potential material sustainability impacts originate from or are connected to the undertaking's strategy and business model(s); and
 - (c) how actual and potential material sustainability impacts inform and contribute to adapting the undertaking's strategy and business model(s), including:
 - i. a description of the undertaking's strategic decisions and commitments as well as changes to its business model(s) to prevent or mitigate its material sustainability negative impacts, including a summarised description of the related policies, plans and targets; and
 - ii. a description of the undertaking's strategic decisions and commitments as well as changes to its business model(s) to foster its material sustainability positive impacts, including a summarised description of the related policies, plans and targets.
42. The detail of policies, targets, actions, action plans and resources put in place to implement the strategic and business model level decisions shall be covered by the disclosures required under topical or other ESRS.
43. This disclosure is expected to cover how the undertaking's strategy and business model(s) are informed by and compatible with specific sustainability objectives at EU or global levels.
44. For material impacts that are addressed by a transition plan (as defined in ESRS 1) the undertaking shall link the information provided under this Disclosure Requirement with the disclosure about the relevant transition plan.

Disclosure Requirement 2-SBM 4 – Interaction of risks and opportunities and the undertaking's strategy and business model

45. **The undertaking shall describe the interaction between its material risks and opportunities and its strategy and business model(s)**
46. The principle to be followed under this Disclosure Requirement is to provide an understanding of material risks and opportunities related to sustainability matters that originate from or are connected to the undertaking's strategy and business model(s) and

of the adaptation of its strategy and business model(s) to such material risks and opportunities.

47. The disclosure shall include a summarized description of:
- (a) actual and potential material sustainability risks and opportunities as identified in the materiality assessment (see **chapter 4. Disclosing on material sustainability impacts, risks and opportunities**);
 - (b) how actual and potential material sustainability risks and opportunities originate from or are connected to the undertaking's strategy and business model(s);
 - (c) how actual and potential material sustainability risks and opportunities inform and contribute to adapting the undertaking's strategy and business model(s), including:
 - i. a description of the undertaking's strategic decisions and commitments as well as changes to its business model(s) to prevent or mitigate its material sustainability risks, including a summarised description of the related policies, plans and targets; and
 - ii. a description of the undertaking's strategic decisions and commitments as well as changes to its business model(s) to foster its material sustainability opportunities, including a summarised description of the related policies, plans and targets; and
 - (d) the resilience of the undertaking's strategy and business model(s) regarding its capacity to address its material risks and its capacity to leverage its opportunities in the time horizon, as defined in ESRS 1.

Governance

3. Disclosing on governance

48. The objective of this chapter is to specify the disclosure requirements for the description by the undertaking of its governance and organisation in relation to sustainability matters.
49. All requirements related to governance and organisation described in this chapter apply across all sustainability topics, i.e. climate, other environmental, social, including entity-specific governance-related topics. Topical Standards may include governance-related application guidance and disclosure requirements specific to a topic which shall be complied with when complying with the disclosure requirements mandated by this chapter and preparing the corresponding information.

Disclosure Requirement 2-GOV 1 – Roles and responsibilities of the administrative, management and supervisory bodies

50. **The undertaking shall provide a description of the roles and responsibilities of its governance bodies and management levels with regard to sustainability matters.**
51. The principle to be followed under this Disclosure Requirement is to provide an understanding of the distribution of sustainability-related roles and responsibilities throughout the undertaking's organisation, from its administrative, management and supervisory bodies to its executive and operational levels, the expertise of its governance

bodies and relevant management levels on sustainability matters, and the sustainability-related criteria applied for nominating and selecting their members.

52. The disclosure required by paragraph 50 shall include the following information:
- (a) A description of the mandate, roles and responsibilities of the administrative, management and supervisory bodies as regards the strategy of sustainability matters and the oversight of their management;
 - (b) A description of the organisational structure of the administrative, management and supervisory bodies related to sustainability matters, including delegation of specific responsibilities to individual members of this body and the list and composition of its committee(s) involved in the definition of the sustainability strategy of the undertaking as well as the oversight of the management of sustainability matters and of sustainability reporting itself;
 - (c) A description of:
 - i. The sustainability-related expertise that the administrative, management and supervisory bodies as a whole, and its individual members either possess, or can leverage;
 - ii. training and other educational initiatives to update and develop sustainability-related expertise; and
 - iii. how it relates to its material sustainability risks, opportunities and impacts.
 - (d) A description of the criteria concerning sustainability applied by the undertaking for nominating and selecting members of its administrative, management and supervisory bodies and other key personnel like e.g. diversity or sustainability-related experience;
 - (e) A description of the undertaking-wide structure with regard to sustainability matters, including allocation of responsibilities and reporting lines, up to the administrative, management and supervisory bodies, including the role of:
 - i. management level senior executives; and
 - ii. other employees at the operational level.
53. When the undertaking has or will put in place initiatives to modify its strategy and business model(s), in order to reduce or eliminate the risk or to benefit from the opportunity and/or in order to prevent and mitigate negative material impacts and enhance positive material impacts (see ESRS 2 Disclosure Requirements SBM 3 and 4) the undertaking shall make explicit reference to the allocation of responsibilities and to the organisational structure put in place to address related impacts, risks and opportunities.

Disclosure Requirement 2-GOV 2 - Information of administrative, management and supervisory bodies about sustainability matters

54. **The undertaking shall describe how its governance bodies are informed about sustainability matters.**
55. The principle to be followed under this Disclosure Requirement is to provide an understanding of how governance bodies and management level senior executives are

informed about sustainability-related facts, decisions and/or concerns that are within their responsibility so that they can effectively perform their duties in that respect.

56. The undertaking shall describe the process by which the governance bodies of the undertaking, including the relevant committees are informed about:
- (a) impacts, risks and opportunities as disclosed in line with the ESRS 2 Disclosure Requirements IRO, including results and effectiveness of policies, targets and actions adopted to address those impacts, risks and opportunities;
 - (b) the sustainability-related perspectives of stakeholders that have an interest in or are affected by the undertaking's activities;
 - (c) any other sustainability-related concern that may arise and would require the governance bodies' attention; and
 - (d) steps of due diligence standard processes that the undertaking is following on a mandatory and/or voluntary basis.
57. Information provided shall also cover whom the governance bodies receive information from and at what frequency.

Disclosure Requirement 2-GOV 3 - Sustainability matters addressed by the undertaking's administrative, management and supervisory bodies

58. **The undertaking shall provide a description of the sustainability matters that were addressed by its administrative, management and supervisory bodies during the reporting period.**
59. The principle to be followed under this Disclosure Requirement is to provide information on whether the administrative, management and supervisory bodies were adequately informed of the material sustainability-related impacts, risks and opportunities arising or developing during the reporting period. Equally what information and matters it actually spent time addressing, and whether it was able to fulfil its roles and responsibilities, as defined in its mandate and described under ESRS 2 Disclosure Requirement GOV 1.
60. The undertaking shall provide a list of the sustainability matters addressed by its governance bodies during the reporting period and a description of how they were dealt with by the administrative, management and supervisory bodies.
61. When the undertaking has or will put in place initiatives to modify its strategy and business model(s), in order to reduce or eliminate the risk or to benefit from the opportunity and/or in order to prevent and mitigate negative material impacts and enhance positive material impacts (see ESRS Disclosure Requirements SBM 3 and 4), the undertaking shall disclose the key decisions its administrative, management and supervisory bodies have taken to address related impacts, risks and opportunities.

Disclosure Requirement 2-GOV 4 - Integration of sustainability strategies and performance in incentive schemes

62. **The undertaking shall provide a description of the integration of sustainability strategies and performance in incentive schemes.**

63. The principle to be followed under this Disclosure Requirement is to provide an understanding of how members of the administrative, management and supervisory bodies are incentivised to properly manage the undertaking's sustainability impacts, risks and opportunities and, along with other employees, to take steps towards implementing the sustainability strategy of the undertaking.
64. The disclosure required by paragraph 62 shall include the following information:
 - (a) a description of how the incentive policies for members of the administrative, management and supervisory bodies of the undertaking and senior executives consider their sustainability-related objectives and performance;
 - (b) performance-related incentive schemes provided to other employees linked to the implementation of the undertaking's sustainability-related strategies, policies and targets; and
 - (c) and any other incentive scheme fostering the implementation of the sustainability strategy of the undertaking.

Disclosure Requirement 2-GOV 5 - Statement on due diligence

65. **The undertaking shall disclose its general assessment regarding how it embeds the core elements of due diligence in its sustainability statements.**
66. Following the main aspects of sustainability due diligence referred to under ESRS 1 chapter 2.5 and described in Appendix C of ESRS 1 and in light of its holistic nature which is covered by a number of cross-cutting ESRS and topical disclosure requirements, the undertaking shall provide a mapping that reconciles the main aspects of sustainability due diligence to the relevant disclosures in its sustainability statements.

Materiality assessment of sustainability impacts, risks and opportunities

4. Disclosing on material sustainability impacts, risks and opportunities

67. An undertaking must determine its material sustainability impacts, risks and opportunities. Disclosure requirements for material sustainability impacts, risks and opportunities are standardized by sector-agnostic or sector-specific level ESRS. When relevant, these disclosure requirements are complemented by entity-specific disclosures.
68. The objective of this chapter is to support undertakings in identifying material sustainability impacts, risks and opportunities and to specify disclosure requirements for the description by the undertaking of:
 - (a) its processes to identify material sustainability impacts, risks and opportunities; and
 - (b) the outcome of its assessment of material sustainability impacts, risks and opportunities.
69. This chapter addresses the identification and assessment of material sustainability impacts, risks and opportunities applying the CSRD concepts as stipulated in ESRS 1 chapter 2 of (i) double materiality, (ii) boundaries and value chain, (iii) time horizon, and (iv) due diligence, the latter described in Appendix C of ESRS 1. Topical Standards may

include materiality assessment-related application guidance and disclosure requirements specific to applicable topics when complying with the disclosure requirements mandated by this chapter while preparing the corresponding information.

70. Once identified, material sustainability impacts, risks and opportunities are considered by the undertaking to deploy prevention, mitigation, adaptation and other management measures. This may imply strategic decisions, governance consideration, the establishment of policies, targets, action plans and allocation of resources as well as the use of metrics to monitor the evolution of impacts, risks and opportunities over time. All of the above addressed by other ESRS disclosure requirements.

Disclosure Requirement 2-IRO 1 - Description of the processes to identify material sustainability impacts, risks and opportunities

71. **The undertaking shall provide a description of its processes to identify its sustainability impacts, risks and opportunities and assess which ones are material.**
72. The principle to be followed under this Disclosure Requirement is to provide information (i) on how the undertaking is organising its identification and assessment and (ii) the scope of its identification and assessment of sustainability matters.
73. The disclosures required by paragraph 71 shall include first an acknowledgement of double materiality as the pivotal principle followed for the undertaking's assessment, including a description of how this principle is applied in practice in the steps leading to the undertaking's final assessment supporting its sustainability reporting.
74. In addition to the acknowledgement required by paragraph 73, the disclosure required by paragraph 71 shall include detailed explanations related to the organisation and processes put in place by the undertaking to assess its impacts, risks and opportunities under the required double materiality approach, including the following:
 - (a) a description of the organisation put in place for, and resources dedicated to the assessment;
 - (b) a description of the methodologies adopted and of the processes implemented for the assessment, including the related internal control procedures and the decision-making steps, through
 - i. an overview of the due diligence process used to identify and assess potential and actual impacts on the environment and people connected with the undertaking, including the extent to which these involve (1) reviewing the undertaking's own activities and its business relationships across its operations and value chain and (2) assessing both impacts the undertaking may cause or contribute to through its own actions and decisions, and impacts that may be directly linked to its operations, products, or services by business relationships;
 - ii. an overview of the process used to identify sustainability risks and opportunities that affect or may affect its development, performance, and position; and
 - iii. an explanation of how the undertaking has determined (1) which identified potential and actual impacts on the environment and people connected with

the undertaking and (2) which sustainability risks and opportunities that affect or may affect its development, performance and position are material, including how the prioritisation of negative impacts reflects their relative severity and likelihood, where severity is defined by their scale, scope and remediability;

- (c) an explanation about the involvement of, and engagement with, (i) stakeholders to understand how they may be impacted and (ii) internal and external experts; and
- (d) the latest and future revision dates of the assessment.

Disclosure Requirement 2-IRO 2 - Outcome of the undertaking's assessment of material sustainability impacts, risks and opportunities as identified by reference to and in compliance with sector-agnostic and sector-specific level ESRS

- 75. **The undertaking shall provide a description of the outcome of its assessment processes by reference to mandatory disclosures under ESRS.**
- 76. The principle to be followed under this Disclosure Requirement is to give a clear statement of sustainability matters, as addressed by all ESRS, that are material for the undertaking, and to give relevant explanations on (i) how the undertaking relates to the material impacts, risks and opportunities identified by its assessment, (ii) when the undertaking has or will put in place initiatives to modify its strategy and business model(s), in order to reduce or eliminate the risk or to benefit from the opportunity and/or in order to prevent and mitigate negative material impacts and enhance positive material impacts (see ESRS 2 Disclosure Requirements SBM 3 and 4), why this was the case and (iii) if and why certain mandatory disclosures are not material under the undertaking's specific facts and circumstances and therefore disclosed as such.
- 77. The disclosure required by paragraph 75 shall include the following information:
 - (a) a clear statement of sustainability matters, as addressed by all ESRS, that are material to the undertaking, including:
 - i. a description of the underlying actual and potential, negative and positive impacts on the environment, and people, including whether the undertaking is involved with the negative impacts through its activities or because of its business relationships, and describe the activities or business relationships; and
 - ii. a description of the underlying sustainability-related financial risks and opportunities, including how:
 - 1) material sustainability-related risks and opportunities have affected the undertaking's financial performance, position and cash flows;
 - 2) the undertaking expects financial performance, position and cash flows to change over time under the effects of material sustainability-related risks and opportunities; and
 - 3) the undertaking is exposed to the risk or how it intends to pursue the opportunity;

- (b) when the undertaking has or will put in place initiatives to modify its strategy and business model(s), in order to reduce or eliminate the risk or to benefit from the opportunity and/or in order to prevent and mitigate negative material impacts and enhance positive material impacts (see ESRS 2 Disclosures Requirements SBM 3 and 4), a list of such sustainability impacts, risks and opportunities, together with a summarised explanation of how the undertaking has identified them, among all sustainability impacts, risks or opportunities related to its activities and covered by sector-agnostic or sector-specific ESRS;
- (c) a list of ESRS or group of disclosure requirements related to a specific aspect covered by an ESRS that are complied with a “not material for the undertaking” disclosure, with a clear indication as to the application of the rebuttable presumption and the reason why it is rebutted (see also chapter 2.2. of ESRS 1). The mandatory disclosures complied with under a full disclosure are by contrast presumed to be confirmed as related to material impacts, risks and opportunities following the undertaking’s assessment processes. The thresholds and/or criteria retained by the undertaking to determine materiality in relation to mandatory requirements shall be disclosed; and
- (d) an explanation of the changes as compared to the previous reporting period.

Disclosure Requirement 2-IRO 3 - Outcome of the undertaking’s assessment of material sustainability impacts, risks and opportunities that are not covered by an ESRS (entity-specific level)

- 78. **The undertaking shall provide a description of the outcome of its assessment process in relation to material impacts, risks and opportunities that are not addressed under mandatory disclosure and require entity-specific disclosure.**
- 79. The principle to be followed under this Disclosure Requirement is to provide information (i) about all material impacts, risks and opportunities of the undertaking resulting from the undertaking’s specific facts and circumstances for which relevant disclosure requirements do not exist, and (ii) when the undertaking has or will put in place initiatives to modify its strategy and business model(s), in order to reduce or eliminate the risk or to benefit from the opportunity and/or in order to prevent and mitigate negative material impacts and enhance positive material impacts (see ESRS 2 Disclosure Requirements SBM 3 and 4), about such impacts, risks and opportunities. For each sustainability matter in the scope of sustainability reporting, the undertaking shall assess which material impacts, risks and opportunities are not covered by ESRS and shall give rise to entity-specific disclosure.
- 80. The disclosure required by paragraph 78 shall include the following information:
 - (a) a clear statement of sustainability matters, not reflected by any ESRS, that are material based on its specific facts and circumstances, including:
 - iii. description of the underlying actual and potential, negative and positive impacts on the environment, and people, including whether the undertaking is involved with the negative impacts through its activities or because of its business relationships, and describe the activities or business relationships;
 - iv. description of the underlying sustainability-related financial risks and opportunities, including how:
 - 1) material sustainability-related risks and opportunities have affected the undertaking’s financial performance, position, and cash flows;

- 2) the undertaking expects financial performance, position, and cash flows to change over time under the effects of material sustainability-related risks and opportunities; and
 - 3) the undertaking is exposed to the risk or how the undertaking intends to pursue the opportunity;
- (b) when the undertaking has or will put in place initiatives to modify its strategy and business model(s), to reduce or eliminate the risk or to benefit from the opportunity and/or to prevent and mitigate negative material impacts and enhance positive material impacts (see ESRS 2 Disclosure Requirements SBM 3 and 4), a list of such impacts, risks and opportunities, together with a summarised explanation of how the undertaking has identified them;
 - (c) a summarised description of the substance/objective of the disclosures related to these impacts, risks and opportunities; and
 - (d) an explanation of the changes as compared to the previous reporting period.
81. The undertaking may combine ESRS 2 Disclosure Requirements IRO 2 and 3.

Appendix A: Defined terms

This appendix is an integral part of the [draft] ESRS.

Administrative, management and supervisory bodies	The governance bodies with the highest decision-making authority in the undertaking. In some jurisdictions, governance systems consist of two tiers, where supervision and management are separated. In such cases, both tiers are included under the definition of administrative, management and supervisory bodies.
Business model	An entity's system of transforming inputs through its business activities into outputs and outcomes that aims to fulfil the entity's strategic purposes and create value over the short, medium and long term.
Business relationships	Those relationships an undertaking has with business partners, entities in its value chain and any other non-State or State entity directly linked to its business operations, products or services. They include indirect business relationships in its value chain, beyond the first tier, and minority as well as majority shareholding positions in joint ventures or investments
Governance	The system by which an undertaking is directed and controlled in the interests of shareholders and other stakeholders. Governance involves a set of relationships between an undertaking's management, its board, its shareholders, and other stakeholders. Governance provides the structure and processes through which the objectives of the undertaking are set, progress against performance is monitored, and results are evaluated.
Human rights due diligence	An ongoing risk management process that a reasonable and prudent undertaking needs to follow in order to identify, prevent, mitigate and account for how it addresses its adverse human rights impacts. It includes four key steps: assessing actual and potential human rights impacts; integrating and acting on the findings; tracking responses; and communicating about how impacts are addressed.
Impact	The effect an undertaking has or could have on the environment and people, including effects on their human rights, as a result of the undertaking's activities or business relationships. The impacts can be actual or potential, negative or positive, short-term or long-term, intended or unintended, and reversible or irreversible. Impacts indicate the undertaking's contribution, negative or positive, to sustainable development.
Location table	A tabular list of the parts of the management report that contain the sustainability information required by ESRS

	Standards indicating their location within the management report.
Rebuttable presumption of mandatory disclosure requirements	Mandatory disclosure requirements are considered material for an undertaking until proven untrue (rebutted). The rebuttable presumption places the responsibility of proof (i.e., that a disclosure requirement is not material) on the undertaking.
Sector	Subdivision of an economy, society or sphere of activity, defined on the basis of some common characteristic. A sector generally refers to a large segment of the economy or grouping of business types, while “industry” is used to describe more specific groupings of undertakings within a sector.
Severity of a negative impact	is determined by the following characteristics (i) Scale: how grave the impact is, (ii) scope: how widespread the impact is, and (iii) its irremediable character: how hard it is to counteract or make good the resulting harm.
Stakeholder engagement	An ongoing process of interaction and dialogue between an undertaking and its stakeholders that enables the undertaking to hear, understand and respond to their interests and concerns.
Strategy	An undertaking’s plan to achieve its mission and vision and apply its core values.
Supply chain	The full range of activities or processes carried out by entities upstream from the undertaking, which provide products or services that are used in the development of the undertaking’s own products or services. This includes upstream entities with which the undertaking has a direct (often referred to as a first-tier supplier) or indirect business relationship.
Sustainability-related opportunities	Sustainability-related financial opportunities are uncertain environmental, social or governance events or conditions that, if they occur, could cause a potential material positive effect on the undertaking’s business model, strategy, its capability to achieve its goals and targets and to create value, and therefore may influence its decisions and those of its business relationship partners as regard to sustainability matters. Like any other opportunity, sustainability-related financial opportunities are measured as a combination of a probability of occurrence and an impact magnitude.
Sustainability-related risks	Sustainability-related financial risks are uncertain environmental, social or governance events or conditions that, if they occur, could cause a potential material negative effect on the undertaking’s business model, strategy and sustainability strategy, its capability to achieve its goals and targets and to create value, and therefore may influence its decisions and those of its business relationships as regard to sustainability matters. The risk management framework

	implemented by the undertaking aims at the identification, measurement, prevention and mitigation of sustainability-related financial risks. Like any other risks, sustainability-related financial risks are the combination of a probability of occurrence, and an impact magnitude.
Value chain	The full range of activities or processes needed to create a product or service. This includes entities with which the undertaking has a direct or indirect business relationship, both upstream and downstream of its own activities, which either (a) supply products or services that contribute to the organisation's own products or services, or (b) receive products or services from the organisation.

Appendix B: Application guidance

This appendix is an integral part of the proposed [draft] ESRS 2 General, Strategy, Governance, and Materiality Assessment. It describes the application of the requirements of **chapter 1 Business card of the undertaking in relation to sustainability reporting to chapter 4. Disclosing on material sustainability impacts, risks and opportunities.**

General disclosure requirements

Disclosure Requirement 2-GR 1 - General characteristics

- AG 1. The period covered by the sustainability report shall follow the period used in its (consolidated) financial reporting. Therefore, normally the undertaking consistently prepares sustainability reports for a one-year period. When the undertaking changes the reporting period used in its (consolidated) financial reporting, the period used in the sustainability report shall be modified accordingly. If so, the undertaking shall disclose that the amounts in sustainability reporting are not entirely comparable.

Disclosure Requirement 2-GR 1 - General characteristics of activities

- AG 2. This Disclosure Requirement is a list of the significant sectors in which the undertaking operates.
- AG 3. The undertaking shall list and map all its significant activities in accordance with the identified sectors by ESRS SEC 1.¹ A mapping of these sectors with NACE codification is available in ESRS SEC 1. If a code for a sub-sector does not exist, a narrative description of the sub-sector is given in the caption “others”.
- AG 4. The information of the significant sectors of activity where the undertaking operates that is disclosed under this Disclosure Requirement shall facilitate the understanding of the contextual information for the material impacts, risks and opportunities that originate or are connected to the undertaking’s strategy, business model(s) and operations.
- AG 5. Depending on the operational structure of the undertaking, significant internal transactions between business units belonging to different sectors and reflecting a level of vertical integration may exist and may evidence the undertaking’s involvement in sectors that are not reflected by a classification exclusively based on revenues. To provide a faithful representation of its activities in relevant sectors, the undertaking shall disclose (i) the key features of its business model(s) leading to significant internal transactions and (ii) the corresponding sectors which are additional to the ones determined on the basis of revenues. When disclosing sector-specific information in accordance with ESRS, the undertaking shall consider all significant sectors it is active in including sectoral activities reflected by internal transactions.
- AG 6. The undertaking shall consider disclosing potential challenges and/or competitive advantages of the undertaking in performing the activities.
- AG 7. Quantitative information has to be provided in order to illustrate the weight of the various sectoral activities (for instance, per cent of revenue). For undertakings applying segment

¹ ESRS SEC 1 Sector classification will be issued at a later stage.

reporting as required by IFRS 8, this information shall, as far as possible, reconcile with IFRS 8 information.

AG 8. When describing its significant groups of products and services as well as significant markets, the undertaking shall consider relevant disclosures related to changes that occurred during the reporting period on:

- (a) new products and services, removed products and services and their relative shares in revenue or equivalent information about volumes for financial institutions, to the extent that it is needed to convey a fair, relevant and complete depiction of how it is exposed to the risk of creating impacts and/or risks and opportunities;
- (b) new markets served as well as markets closed and their relative shares in revenue or equivalent information about volumes for financial institutions;
- (c) new customer groups and customer groups not to be served anymore and their relative shares in revenue or equivalent information about volumes for financial institutions; and
- (d) products and services under bans, restrictions or authorisation systems and other public information regarding potential bans, restrictions or authorisation systems in certain markets.

AG 9. The undertaking shall not necessarily include sectors/countries/groups of products and services/markets/customer groups when they are not significant. This shall ensure a level of granularity that is adequate to achieve the required characteristics of the information quality as defined by ESRS 1 and provide a fair and complete view of its activities.

AG 10. Information by significant country should be based upon available information in the undertaking. This could cover countries of origin or groups of countries.

AG 11. To determine the significance of sectors/countries/group of products and services/markets/customer groups, the undertaking shall consider those as significant:

- (a) with a value creation as evidenced by revenue, including both sales to external customers and intersegment revenue or transfers, above 10 per cent of the combined revenue, internal and external, of all its activities; or
- (b) as evidenced by adjustments made to the undertaking's strategy and business model, when the undertaking has or will put in place initiatives to modify its strategy and business model(s), in order to reduce or eliminate the risk or to benefit from the opportunity and/or in order to prevent and mitigate negative material impacts and enhance positive material impacts.

AG 12. If the undertaking is active in the following sectors, it shall indicate such circumstances:

- (a) it is active in the fossil fuel sector, i.e. it derives revenues from exploration, mining, extraction, production, processing, storage, refining or distribution, including transportation, storage and trade, of fossil fuels as defined in Article 2, point (62), of Regulation (EU) 2018/1999 of the European Parliament and of the Council;²

² This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting a mandatory principal adverse impact set out by indicator #4 in Table 1 of Annex 1 of the related Delegated Regulation with regard to disclosures rules on sustainable investments.

- (b) chemicals production, i.e. its activities fall under Division 20.2 of Annex I to Regulation (EC) No 1893/2006;³ and
- (c) controversial weapons such as anti-personnel mines, cluster munitions, chemical weapons and biological weapons.⁴

Disclosure Requirement 2-GR 3 - Key features of the value chain

- AG 13. The required description shall provide a high-level overview of the key features of the value chain participants indicating their relative contribution to the undertaking's performance and positions and explain how they contribute to the value creation of the undertaking.
- AG 14. The undertaking shall describe the key characteristics of its business relationships with its suppliers, customers and distribution channels. The main groups of business relationships together with the related underlying contractual terms (including relevant rights and obligations) shall be disclosed.
- AG 15. The boundaries of the value chain cannot be quantitatively defined in a way that suits all undertakings. Rather, the boundaries are defined qualitatively as relative to an undertaking's material risks, opportunities and impacts. The description of the value chain should be directly linked to the undertaking's material impacts, risks and opportunities as identified in **chapter 4. Disclosing on material sustainability impacts, risks and opportunities** and to sustainability reporting boundaries as specified in ESRS 1.
- AG 16. To illustrate the link between material impacts and its value chain, an undertaking may provide for example additional details on suppliers and resources connected to the identified or prescribed material issues.

Disclosure Requirement 2-GR 4 - Key drivers of the value creation

- AG 17. When describing the key drivers of value creation for all stakeholders, the undertaking shall consider:
- (a) the key drivers of investor-related value creation, including potential financial effects of impacts and the organisation and main processes implemented by the undertaking to generate revenues and manage its cost base in a competitive manner, to the extent that it is needed to convey a fair, relevant and complete depiction of how it is exposed to the risk of creating impacts and/or risks and opportunities; and
 - (b) the key drivers of value creation for other stakeholders, covering financial and other (non-financial) benefits.
- AG 18. Keys drivers of investor-related value creation shall be disclosed in a summarised manner either by direct disclosure or by explicit reference to clearly identified indicators located in financial statements or located in the management report (for instance in relation to non-GAAP measures as disclosed by the undertaking). They shall cover the shareholders perspective as well as the credit institutions and other lenders perspective.

³ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting a mandatory principal adverse impact set out by indicator #9 in Table 2 of Annex 1 of the related Delegated Regulation with regard to disclosures rules on sustainable investments.

⁴ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting a mandatory principal adverse impact set out by indicator #14 in Table 1 of Annex 1 of the related Delegated Regulation with regard to disclosures rules on sustainable investments.

- AG 19. Specific attention shall be given to disclosures on the forward-looking aspects of the undertaking's investor-related value creation that reflect its stated direction of travel and targets and/or ambitions. That may include, for example, revenue generation, cost management and control, profitability, capex plans, financial structure and cash flow generation. Specifying the stated time horizons of targets and ambitions is particularly critical. So is their relation to the resilience of the undertaking, both in that respect as well as in other sustainability-related objectives.
- AG 20. Reconciliation with financial data should be based on the accounting standards used in the financial statements, such as IFRS or local GAAP.
- AG 21. Disclosures on key drivers of value creation for other stakeholders shall build on the identification of the relevant stakeholders consistent with the materiality assessment of **chapter 4. Disclosing on material sustainability impacts, risks and opportunities**.

Disclosure Requirement 2-GR 10 - General statement of compliance

- AG 22. The undertaking shall comply with all ESRS that are effective. Early adoption of ESRS not yet effective is allowed. ESRS that are not applicable for the undertaking e.g., because the undertaking is not active in a sector of a sector-specific Standard (see paragraph 10-13) are assumed to be complied with.
- AG 23. ESRS and group of disclosure requirements on impacts, risks or opportunities that are not material for the undertaking based on the materiality assessment of **chapter 4. Disclosing on material sustainability impacts, risks and opportunities** are complied with by a disclosure that the ESRS or group of disclosure requirements are "not material for the undertaking".

Strategy and business model

Disclosure Requirement 2-SBM 1 - Overview of strategy and business model

- AG 24. A strategy is the plan to achieve an undertaking's defined mission and vision and apply its core values. It incorporates the set of goals or purposes an undertaking assigns itself in terms of delivering certain defined products and services to defined categories of customers in certain defined geographic areas under a defined framework of relationships with all stakeholders.
- AG 25. A concise description of an undertaking' strategy and business model(s) shall include:
- (a) a description of the mission, vision and core values of the undertaking, when defined as such, and of the goals and purposes of the undertaking's in terms of product and services, customer categories, geographic areas and relationships with stakeholders;
 - (b) an assessment of the undertaking 's current market position in relation to its goals or purposes;
 - (c) a statement on the undertaking 's intended direction of travel on the basis of the time horizon defined in ESRS 1, including main challenges ahead, critical solutions or projects to be put in place and possible or projected or expected outcomes;
 - (d) the key sustainability targets the undertaking expects to reach and, where appropriate, the financial targets;

- (e) a description of the undertaking's inputs and its approach to gather, develop and secure those inputs;
- (f) a description of the key aspects of the undertaking's value creation system, including structure and processes, through which it brings added value to the inputs it gathers. This description requires specific attention since it provides explanations on how the undertaking creates value for stakeholders; and
- (g) a description of the undertaking's outputs and outcomes with the related current and expected benefits for stakeholders.

AG 26. A business model is the system developed by the undertaking for transforming inputs through its business activities into outputs and outcomes, that aims to fulfil the undertaking's strategic purposes. The undertaking shall provide an overview of how it operates, the rationale of its structure and how it creates and preserves value over time. The undertaking may develop one or several business models.

AG 27. The undertaking's mission can be established following a purely internal definition process or following a definition process developed according to certain best practices, regulatory or legal frameworks. In the latter case explicit reference shall be made to those frameworks.

AG 28. This Disclosure Requirement is at the undertaking level, or at its consolidated level, following the boundaries applicable to sustainability reporting as defined in ESRS 1. A specific narrative may be needed if the boundaries of the financial reporting and the sustainability reporting are different and if it has an influence on the understanding of the undertaking's strategy and business model(s). In the latter case, reconciliation tables can be useful.

Disclosure Requirement 2-SBM 2 – Views, interests and expectations of stakeholders

AG 29. The undertaking shall explicitly refer to its assessment process of material risks, opportunities and impacts as prescribed in **chapter 4. Disclosing on material sustainability impacts, risks and opportunities**.

AG 30. The undertaking shall provide a summarised description of the interests, views and expectations of its relevant key stakeholders as identified when performing its materiality assessment and as disclosed pursuant to ESRS 2 Disclosure Requirement IRO 1. For each category of relevant key stakeholders identified by the undertaking, it shall cover in particular:

- (a) their current views of the undertaking's strategy and business model(s);
- (b) the recent evolution of these views; and
- (c) based on this description of the interests, views and expectations of each category of relevant key stakeholders, the undertaking shall disclose:
 - i. if, how and what steps it has taken to amend its strategy and business model(s) to address interests, views and expectations;
 - ii. what are the further steps which are considered and in what time line; and
 - iii. to what extent these steps are likely to modify the relationship with and views of stakeholders.

AG 31. In preparing this disclosure, the undertaking shall pay specific attention to its strategies that prevent and remediate its impacts and to its sustainability due diligence process (as described in ESRS 1).

Disclosure Requirement 2-SBM 3 – Interaction of impacts

AG 32. The starting point for preparing this disclosure is the list of material impacts that results from the undertaking's materiality assessment (ESRS 2 Disclosure Requirements IRO 2 and 3). For the listed material impact, the undertaking shall:

- (a) describe how it is linked to the undertaking's strategy and business model, in the undertaking's own operations and along the value chain;
- (b) describe the resilience of the undertaking's strategy and business model(s) to it;
- (c) when the undertaking has or will put in place initiatives to modify its strategy and business model(s), to prevent and mitigate a negative material impact or enhance a positive material impact included in the list, provide a description of such initiatives, including if practicable, a quantification of the impact, and provide an explanation of how it has been identified out of the list.

AG 33. The description referred to in paragraph AG 32 (a) may be provided by reference to the disclosure prepared under ESRS 2 Disclosure Requirements IRO 2 and 3 and may be provided aggregating groups of material impacts when this provides more relevant information and does not obscure material information.

Disclosure Requirement 2-SBM 4 – Interaction of risks and opportunities and the undertaking's strategy and business model

AG 34. The starting point for preparing this disclosure is the list of material risks and opportunities that result from the undertaking's assessment (ESRS 2 Disclosure Requirements IRO 2 and 3). For the listed material risk or opportunity, the undertaking shall:

- (a) describe how it is linked to the undertaking's strategy and business model, in the undertaking's own operations and along the value chain;
- (b) describe the resilience of the undertaking's strategy and business model(s) to it; and
- (c) when the undertaking has or will put in place initiatives to modify its strategy and business model(s), to reduce or eliminate a material risk or to benefit from a material opportunity included in the list, provide a description of such initiatives, including if possible quantification of its effect on financial performance, position and cash flows in the relevant time horizon as defined in ESRS 1 and provide an explanation of how such a risk or opportunity has been identified out of the list.

AG 35. The description referred to in paragraph AG 34 (a) may be provided by reference to the disclosure prepared under ESRS 2 Disclosure Requirements IRO 2 and 3 and may be provided aggregating groups of material risks and opportunities when this provides more relevant information and does not obscure material information.

Governance

Disclosure Requirement 2-GOV 1 – Roles and responsibilities of the administrative, management and supervisory bodies

AG 36. The term governance bodies refers to the administrative, management and supervisory bodies with the highest decision-making authority in the undertaking. Depending on the legal structure retained by the undertaking it shall include the undertaking's administrative, management and supervisory bodies which exercise the highest authority under one tier or two-tier systems. The description of their roles and responsibilities should be concise.

AG 37. In describing the mandate, roles and responsibilities of the administrative, management and supervisory bodies over sustainability matters, the undertaking shall specify:

- (a) the aspects of sustainability over which oversight is being exercised, covering each one of the environmental, social and governance sustainability-related issues the undertaking may be facing, including:
 - i. assessment of and changes to sustainability-related aspects of the undertaking's strategy and business model(s);
 - ii. identification and assessment of material sustainability risks, opportunities and impacts;
 - iii. related policies and targets, action plans and dedicate resources; and
 - iv. sustainability reporting;
- (b) the form such oversight takes for each of the above aspects: information, consultation or decision-making; and
- (c) the way such oversight is being organised and formalised, i.e. processes by which the administrative, management and supervisory bodies are engaging on all above aspects.

AG 38. In describing the undertaking's governance organisational structure regarding sustainability matters, the undertaking shall disclose if applicable:

- (a) Which committee of its administrative, management and supervisory bodies is responsible for oversight of sustainability matters. When responsibility is distributed and/or delegated across several committees or sub-committees, the undertaking shall disclose details of the responsibility distribution and delegation and coordination. Description of complex governance may be complemented and illustrated in the form of a diagram; and
- (b) The composition of each committee and sub-committee in charge of sustainability oversight and the distribution of roles and responsibilities of each member of such committees and sub-committees.

AG 39. To provide a comprehensive understanding of how oversight of material sustainability matters based on the materiality assessment of **chapter 4. Disclosing on material sustainability impacts, risks and opportunities** by the administrative, management and supervisory bodies cascades down to the whole entity, the undertaking shall describe the

organisational structure, reporting lines and processes by which sustainability-related responsibilities are articulated and cascaded down onto the management level senior executives and other key staff at operational level. In particular, the undertaking shall explain how successive levels of responsibility and decision-making authority interact and complement each other to ensure adequate and comprehensive coverage of the undertaking's sustainability matters across the organisation, all the way up to the administrative, management and supervisory bodies.

- AG 40. The description of the administrative, management and supervisory bodies' level of expertise or access to expertise should be substantiated by a description of the skills and competencies possessed by or available to each one of its members, and how such expertise is specifically adapted and relevant to the undertaking's material sustainability risks, opportunities and impacts.
- AG 41. Additionally, the undertaking shall articulate how the sustainability-related selection criteria applied to select the members of its governance bodies were chosen to ensure the adequacy of skills, competencies, diversity, and independence to the undertaking's specific sustainability challenges and opportunities.
- AG 42. When the undertaking has or will put in place initiatives to modify its strategy and business model(s), to reduce or eliminate the risk or to benefit from the opportunity and/or to prevent and mitigate negative material impacts and enhance positive material impacts (see ESRS 2 Disclosure Requirements SBM 3 and 4), for this Disclosure Requirement the undertaking shall pay particular attention to such material impacts, risks and opportunities.
- AG 43. As an illustration of the above, when certain climate-related impacts, risks or opportunities result in initiatives put in place or to be put in place to modify the undertaking's strategy and business model(s), the undertaking shall consider disclosing:
- (a) whether there is formal oversight, at the level of the administrative, management and supervisory bodies, of climate-related issues;
 - (b) description of the committees of the administrative, management and supervisory bodies responsible for climate-related issues, including:
 - i. a description of the competencies of members of the administrative, management and supervisory bodies relating to climate change;
 - ii. whether the undertaking assigns climate-related responsibilities and authorities to senior executive positions or committees; and
 - iii. a description of the role of management and operations levels on climate-related matters.

Disclosure Requirement 2-GOV 2 - Information of administrative, management and supervisory bodies about sustainability matters

- AG 44. In describing how its governance bodies are informed of sustainability-related matters, the undertaking shall include information about:
- (a) the manner senior executives and other internal staff interact with the governance bodies on sustainability matters;

- (b) the topics being addressed and with what purpose – information, consultation or decision; and
- (c) the frequency of such interactions.

AG 45. Regarding information relevant to affected stakeholders, the following information shall be provided:

- (a) the manner and frequency of direct involvement of the administrative, management and supervisory bodies in hearing and responding to the perspectives of affected stakeholders and/or their legitimate representatives on sustainability matters;
- (b) if stakeholder engagement is delegated, how feedback from stakeholders is provided to the administrative, management and supervisory bodies; and
- (c) whether and how concerns about adverse impacts raised through engagement with affected stakeholders are communicated to the administrative, management and supervisory bodies.

Disclosure Requirement 2-GOV 3 - Sustainability matters addressed by the undertaking's administrative, management and supervisory bodies

AG 46. To illustrate what sustainability matters the administrative, management and supervisory bodies spent time addressing during the year and how, doing so, it fulfilled its roles and responsibilities, the undertaking shall specify which one of the matters raised to his attention were addressed, and led the governance body to make decisions. It is not required to necessarily disclose the detailed results of such discussions and decisions.

AG 47. In selecting and describing such specific matters, the undertaking shall consider those sustainability matters that relate to the governance body's responsibilities, as included in its mandate and described in ESRS 2 Disclosure Requirement GOV 1, as well as any other issue of critical importance. Regarding information related to stakeholders, in particular in relation to adverse impacts, the undertaking shall provide information on how governance bodies have addressed or intend to address the related issues.

AG 48. When the undertaking has or will put in place initiatives to modify its strategy and business model(s), to reduce or eliminate the risk or to benefit from the opportunity and/or to prevent and mitigate negative material impacts and enhance positive material impacts (see ESRS 2 Disclosure Requirements SBM 3 and 4), the undertaking shall provide information about the key decisions made by its governance bodies which provide a useful level of understanding of their involvement in this respect.

AG 49. As an illustration of the above, when certain climate-related impacts, risks and opportunities result in initiatives put in place or to be put in place to modify the undertaking's strategy and business model(s), the undertaking shall consider disclosing key decisions related for instance to (i) internal carbon pricing and (ii) climate-related scenario assumptions.

Disclosure Requirement 2-GOV 4 - Integration of sustainability strategies and performance in incentive schemes

AG 50. In describing how incentive policies are related to the implementation of its sustainability strategy and targets and the management of its impacts, risks and opportunities by its representatives and staff, the undertaking shall specify to whom such policies apply (i.e. administrative, management and supervisory bodies' members, senior executives, heads

of department, other employees) and how they may vary from one category to another, if relevant.

AG 51. It shall also be stated who has authority over approval and update of such policies, as well as over the monitoring of the effects of such policies on the undertaking's ability to deliver its sustainability strategy, meet its sustainability targets and manage its impacts, risks and opportunities.

AG 52. In addition, the undertaking shall describe whether performance is being assessed against specific targets and/or impacts – and which ones – and whether sustainability-related key performance indicators (KPIs) are being considered as performance benchmarks. It shall also indicate the proportion of variable compensation conditioned to such KPIs being met. When the undertaking is not proposing a variable compensation, it shall explain why.

AG 53. The undertaking may list and explain any other sustainability performance-related incentives.

AG 54. For listed companies, this Disclosure Requirement on integration of sustainability strategies and performance objectives in incentives schemes should be consistent with the requirements related to the remuneration report prescribed in articles 9a and 9b of the Directive 2007/36 on the exercise of certain rights of shareholders in listed companies.

Disclosure Requirement 2-GOV 5 - Statement on due diligence

AG 55. The mapping required by paragraph 66 shall be presented in the form of a table referencing the main aspects of sustainability due diligence, for both human rights and environmental, to the relevant disclosures in its sustainability report as follows. The undertaking may include additional columns to the table below to clearly identify those disclosures that relate to human rights and/or environmental aspects given that in some cases, more than one disclosure requirement provides information about a due diligence step⁵.

Main aspect of sustainability due diligence	Relevant disclosures
• Embedding due diligence in governance and organizations	
• Engaging with stakeholders	
• Identifying and assessing adverse impacts	
• Taking action	
• Tracking effectiveness and communicating	

⁵ This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional indicator related to principal adverse impacts as set out by indicator #10 in Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments ("Lack of due diligence").

Materiality assessment of impacts, risks and opportunities

Disclosure Requirement 2-IRO 1 - Description of the processes to identify material sustainability impacts, risks and opportunities

- AG 56. The undertaking shall report the processes carried out to assess what disclosures are to be retained for the preparation of its management report that constitute its sustainability reporting in accordance with the provisions of the CSRD (ref. to CSRD paragraph 19a).
- AG 57. These processes shall ensure (i) that the undertaking is complying with all disclosure requirements mandated by ESRS and (ii) that the undertaking has considered all additional entity-specific disclosures necessary to reflect faithfully its impacts, risks and opportunities. (i) and (ii) are of equal importance under a holistic approach of impacts, risks and opportunities related to the undertaking's activities. Such a holistic approach is generally performed on a sustainability matter-by-sustainability matter basis to ensure a full coverage of impacts, risks and opportunities for each sustainability matter.
- AG 58. The undertaking should screen the ESRS for sustainability matters and structure them before performing the materiality assessment.
- AG 59. The acknowledgement required by paragraph 73 to the way double materiality is adopted for the performance of the undertaking's assessment of impacts, risks and opportunities and fully embedded in its approach, methodologies and processes shall clarify that undertakings consider each materiality perspective in its own right, and disclose information that is material from both perspectives as well as information that is material only from one perspective. The acknowledgement should be an overall statement that the undertaking follows double materiality as an overarching principle in determining its material sustainability impacts, risks and opportunities. It should make an appropriate link between the double materiality principle and the organisation put in place for the assessment as well as the resources dedicated to it, the methodologies adopted and the processes implemented, including the involvement of stakeholders and experts.
- AG 60. To embed double materiality in practice as the pivotal principle for the assessment of impacts, risks and opportunities, the processes established by the undertaking need to reflect and onboard the principles established by the CSRD as further developed by ESRS 1. To determine whether a sustainability matter is material it must be analysed both from the impact and financial materiality perspectives. Both processes should be performed in parallel and in inter-relation to each other to determine whether a sustainability topic is material or not.
- AG 61. When performing its assessment, the undertaking shall consider:
- (a) its underlying actual and potential, negative and positive impacts on the environment, and people, based on their severity and likelihood, with equal consideration of impacts with which the undertaking is involved through its activities as well as a result of its business relationships;
 - (b) its underlying sustainability-related financial risks and opportunities, including how:
 - i. material sustainability-related risks and opportunities have affected the undertaking's performance, position, and cash flows;
 - ii. the undertaking expects performance, position, and cash flows to change over time because of material sustainability-related risks and opportunities;

- iii. the undertaking is exposed to the risk or how the undertaking intends to pursue the opportunity; and
 - iv. the risk and opportunity are measured and monitored, including any uncertainties and assumptions connected to their measurement and monitoring; and
- (c) whether it has or will put in place initiatives to modify its strategy and business model(s), to reduce or eliminate the risk or to benefit from the opportunity and/or to prevent and mitigate negative material impacts and enhance positive material impacts (see ESRS 2 Disclosure Requirements SBM 2 and 3). If so, the material impacts, risks and opportunities that triggered such initiatives deserve a specific disclosure focus.

AG 62. The description of the organisation put in place and the resources dedicated to the assessment as required by paragraph 74 (a) shall include:

- (a) who is conducting the sustainability impact, risk and opportunity assessment; and
- (b) who finally decides and is responsible for the results and conclusions of the assessment.

AG 63. The undertaking shall describe the methodologies adopted and the processes implemented for the assessment of material sustainability impacts, risks and opportunities as required by paragraph 74 (b).

AG 64. In describing the methodology mentioned in paragraph AG 63 to determine impact materiality, the undertaking shall consider in particular the following aspects:

- (a) the undertaking's context on its impacts, risks and opportunities, including its:
 - i. activities;
 - ii. business relationships;
 - iii. sustainability context; and
 - iv. stakeholders;
- (b) the identification of actual and potential impacts, through:
 - i. engaging with relevant stakeholders and experts;
 - ii. identifying negative impacts; and
 - iii. identifying positive impacts;
- (c) the assessment of material impacts, through:
 - i. assessing the materiality of negative impacts by their:
 - 1) severity; and
 - 2) likelihood;

ii. assessing the materiality of positive impacts by their:

- 1) scale and scope; and
- 2) likelihood;

whereby the severity of an actual or potential negative impact is determined by the following characteristics:

- (a) scale: how grave the impact is;
- (b) scope: how widespread the impact is; and
- (c) irremediable character: how hard it is to counteract or make good the resulting harm.

AG 65. In describing the methodology mentioned in AG 63 to determine financial materiality the undertaking shall consider in particular the following aspects:

- (a) the existence of triggers of financial effects;
- (b) the materiality of these triggers; and
- (c) the classification of the material triggers as risks (contributing to decrease in future cash inflows or increase in future cash outflows and/or decrease in capitals not recognised in financial statements) or opportunities (contributing to increase in future cash inflows or decrease in future cash outflows and/or increase in capitals not recognised in financial statements).

AG 66. The overview required by paragraph 74 (b) (i) of the due diligence process used to identify potential and actual impacts as material shall describe:

- (a) how it is done including information regarding (i) the review of the undertaking's own activities and its business relationships and (ii) the assessment of the context in which it operates;
- (b) how scientific and analytical research on impacts on sustainability matters has been taken into account;
- (c) how the undertaking assessed both impacts it may cause or contribute to through its own actions and decisions, and impacts that may be directly linked to its operations, products, or services by business relationships, whereby a negative impact is "directly linked to" the undertaking's operations, products or services, if it occurs at any tier of business relationships, provided it occurs as part of the value chain, and it is not restricted to most obvious links between the undertaking and the other entity, and is therefore not limited for instance to direct contractual relationships, such as 'direct sourcing';
- (d) the scope it has defined when identifying the impacts, for example, whether it has identified short-term as well as long-term impacts; and
- (e) any limitations or exclusions, for example, whether it has excluded business relationships from certain parts of its value chain when identifying the impacts.

AG 67. The overview required by paragraph 74 (b) (ii) of the process used to identify sustainability risks and opportunities that affect or may affect its financial development, performance and position should include information regarding the assessment of whether the undertaking will be able to continue to:

- (a) use the resources needed in its business processes; and
- (b) rely on relationships needed in its business processes in the same terms as presently done or whether the undertaking's practices may trigger an adverse reaction.

AG 68. The explanation required by paragraph 74 (b) (iii) (1) of how the undertaking has determined which identified potential or actual impacts on the environment and people connected with the undertaking are material shall include information on:

- (a) how it has prioritised the material potential and actual, negative impacts on the environment and people identified through its due diligence processes;
- (b) how the prioritisation of negative impacts reflects their relative severity and likelihood, where severity is defined by their scale, scope and remediability;
- (c) how it has prioritised its material potential and actual positive impacts on the environment and people; and
- (d) how the prioritisation of positive impacts reflects their relative scale (how positive/beneficial they are for people or the environment) and scope (how widespread the benefits are).

AG 69. The explanation required by paragraph 74 (b) (iii) (2) of how the undertaking has determined which sustainability-related financial risks and opportunities are material shall include information on the contribution of those risks and opportunities to decrease or increase the undertaking's future cash flows derived from:

- (a) scenarios/forecasts that are deemed likely to materialise; and
- (b) situations below the "more likely than not" threshold and assets not reflected under financial reporting concepts, with a significant effect:
 - i. tracking of the emergence of potential situations related to sustainability matters that following the occurrence of future events may affect cash flow generation potential;
 - ii. identification of capitals that are not recognised as assets from an accounting and financial reporting perspective but have a significant influence on financial performance, such as natural, intellectual (organisational), human, social and relationship capitals; and
 - iii. tracking of possible future events that may influence on the evolution of such capitals.

AG 70. The explanation as required by paragraph 74 (c) about the involvement of, and the engagement with (i) stakeholders as well as (ii) internal and external experts shall include:

- (a) whether and how the undertaking has engaged with stakeholders to understand how they may be impacted and who these stakeholders are; and
- (b) whether and how it has engaged with internal and external experts and who these experts are.

AG 71. When the undertaking performs its assessment, impacts, risks and opportunities shall be considered as falling under one of the following categories:

- (a) those that are deemed by ESRS as material to all undertakings regardless of their sector and therefore subject to mandatory disclosure requirements for all undertakings (i.e., sector-agnostic level), as well those that are deemed by ESRS as material to most undertakings within specific sectors and therefore subject to mandatory disclosure requirements for those undertakings (i.e. sector-specific level), (considered in ESRS 2 Disclosure Requirement IRO 2); and
- (b) those that can be material for some or even a significant number of undertakings within a specific sector or across sectors, but where ESRS have considered that relevant disclosures shall be subject to the undertaking's assessment of their materiality based on the undertaking's specific facts and circumstances (i.e., entity-level), and accordingly miss disclosure requirements mandated by ESRS (considered in ESRS 2 Disclosure Requirement IRO 3).

AG 72. The level of appropriate evidence to be obtained during the assessment processes depends (i) upon the nature of each of the sustainability matters covered by sustainability reporting and (ii) its link with the undertaking's facts and circumstances, in particular its business model(s) (see **chapter 2. Disclosing on strategy and business model**). Reasonable judgement shall be exercised by the undertaking as to the extent of evidence gathering needed. Under many situations, it may be considered a straightforward judgement to determine that the ESRS disclosure requirement shall be complied with in full or as "not material for the undertaking". Under other situations as well as in case of doubt a simple and straightforward judgement will not be sufficient and the undertaking shall perform additional appropriate evidence-gathering steps.

Disclosure Requirement 2-IRO 2 - Outcome of the undertaking's assessment of material sustainability impacts, risks and opportunities as identified by reference to and in compliance with sector-agnostic and sector-specific level ESRS

AG 73. This requirement provides through the disclosure of paragraph 77 (a), an overall conclusion on the undertaking's material impacts, risks and opportunities, i.e. to what extent it is similar to or different from all other undertakings or all undertakings in the same sector. The actual situation, circumstances and context of each undertaking may be different and therefore result in an assessment conclusion emphasising those sustainability matters identified by each ESRS that are material for the undertaking (for instance climate change, workforce working conditions, etc.).

AG 74. Starting from the mandatory disclosures required following sector-agnostic and sector-specific ESRS which are presumed to be material for all undertakings or for all undertakings in a sector the undertaking shall assess matter by matter whether they are material given the undertaking's specific facts and circumstances. The result of this assessment shall enable the undertaking to conclude as to which ESRS or group of disclosure requirements related to a specific aspect covered by an ESRS are material for the undertaking and are to be disclosed completely (full disclosure), and which are not. In this context it should be noted that the group of disclosure requirements could depending on the aspect covered also comprise only one disclosure requirement.

AG 75. The "not material for the undertaking" may cover (i) disclosures that are effectively nil, (ii) not applicable as well as (iii) disclosures which are not meaningful and decision-useful for stakeholders according to the undertaking's materiality assessment. As described in ESRS 1 (Chapter 2.2 – Double materiality as the basis for sustainability disclosures) it may be applicable to (i) an entire ESRS or (ii) a group of disclosure requirements related to an aspect covered by an ESRS. Decisions on whether the entire ESRS or aspects of a topic

are not meaningful and decision-useful depend on whether they are related to a material impact, risk or opportunity of the undertaking. With respect to meaningful and decision-useful information reference is made to the chapter “Characteristics of information quality” with the sub-chapter on “Relevance” in ESRS 1.

AG 76. Mandated disclosure requirements of ESRS are considered material for an undertaking until proven untrue (rebutted). The rebuttable presumption places the responsibility of proof (i.e. that an ESRS or group of disclosure requirements related to a specific aspect covered by an ESRS are not material) on the undertaking. The assessment shall consider the fundamental aspects of double materiality (see chapter 2.2 of ESRS 1). The undertaking should explain the reasoning leading to the assessment that an ESRS or group of disclosure requirements related to a specific aspect covered by an ESRS belong to a “not material for the undertaking” category. This may be done for example by describing how, to what extent, and in what aspects the undertaking is different from other undertakings in reference to the particular sustainability matter. The ESRS or group of disclosure requirements related to a specific aspect covered by an ESRS fall in the “not material for the undertaking” category do not exempt the undertaking from reporting disclosures for this matter. The undertaking shall give a justification and appropriate evidence that the undertaking is not involved with the negative impacts through its activities or business relationships; or that the relative severity and likelihood of these impacts do not meet a threshold of impact materiality.

AG 77. The Disclosure Requirement on changes to the list of material sustainability topics compared to the previous period as required by paragraph 77 (d) shall explain why a topic that is determined as material in the previous period is no longer considered material or why a new topic has been determined as material for the current period and not the previous.

Disclosure Requirement 2-IRO 3 - Outcome of the undertaking’s assessment of material sustainability impacts, risks and opportunities that are not covered by an ESRS (entity-specific level)

AG 78. Following the materiality assessment performed by the undertaking, which considers its specific facts and circumstances, it can reach the conclusion that mandated ESRS sub-topics and related disclosures do not cover specific material impacts, risks and opportunities identified by the undertaking or the level of granularity of such disclosures do not meet the characteristics of information quality as described by ESRS 1. The disclosures necessary to cover those additional specific material impacts, risks and opportunities are classified as entity-specific disclosures and are to be developed by the undertaking.

AG 79. The disclosure on entity-specific material sustainability impacts, risks and opportunities including topics that are not yet covered shall be sufficiently detailed to enable readers to understand:

- (c) the actual or potential significant impact on people or the environment related to the sustainability topic over the short-, medium- or long-term including the impact directly caused or contributed to by the undertaking and impacts which are otherwise directly linked to the undertaking’s upstream and downstream value chain; and
- (d) why risks or opportunities are likely to influence the future cash flows and therefore the enterprise value of the undertakings in the short-, medium- or long-term but are not captured by financial reporting at the reporting date.



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