

PTF-ESRS Batch 1 working papers – Cover note and next steps

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Introduction

- 1 This document '*PTF-ESRS Batch 1 working papers – Cover note and next steps*' is intended to provide accompanying material necessary for understanding the first batch (Batch 1) of working papers (hereafter 'WPs') related to draft European Sustainability Reporting Standards (ESRS).
- 2 Batch 1 WPs must be read in conjunction with this document which establishes the general context, the status of the WPs, the subsequent due process steps to be followed and additional points to be borne in mind. Batch 1 WPs comprise:
 - (a) Four cross-cutting standards (Strategy and business model; Sustainability governance and organisation; Sustainability material impacts, risks and opportunities; Definitions for policies, targets, action plans and resources).
 - (b) One topical standard (Climate change).
 - (c) Two conceptual guidelines (Double materiality; Characteristics of information quality).
- 3 Batches 2 and 3 including WPs covering the rest of the detailed architecture of standards will be made available in the coming weeks.

General context

- 4 Under Article 19b(1) of the European Commission's proposal for a Corporate Sustainability Reporting Directive (CSRD), EFRAG should be mandated by the European Commission to develop draft EU sustainability reporting standards.
- 5 Following [EFRAG's two reports published on 8 March 2021](#), the European Commission, in a [letter dated 12 May 2021](#), has requested EFRAG to put in place interim working methods in project mode to start the technical work immediately before it is handed over to EFRAG standard setting bodies under a new governance structure.
- 6 The plenary kick-off meeting of PTF-ESRS on 9 June 2021 established the organisation of the project in nine clusters, reflecting the target architecture proposed in the [PTF-NFRS report](#).
- 7 Details on the organisation of the project, the overall due process and the approach followed by individual clusters, can be found in the [status report](#) that was published by the PTF-ESRS on 15 November 2021.

Working papers as work-in-progress documents towards next steps at PTF-ESRS level and future public consultation

- 8 WPs are made available, in batches, as preparatory documents prepared at technical level for consideration by the PTF-ESRS in plenary.
- 9 They are made available as preparatory documents providing information on the conceptual thinking adopted in the elaboration of the draft standards, the progress and considerations so far, and the direction taken on the proposals for disclosure requirements on the cross-cutting and topical sustainability matters following the work performed by the relevant clusters of the PTF-ESRS and the coordination and harmonisation efforts performed at central level.
- 10 These WPs are **not open to public consultation**, but will serve as **work-in-progress documents leading to the exposure drafts to be submitted to a future public consultation**.

- 11 **Subsequent steps of the due process** to get from WPs to exposure drafts for public consultation include:
- (a) Submission of WPs to:
 - (i) all PTF-ESRS members for consideration and debate from a general standpoint and following the completion of document-specific consensus building questionnaires;
 - (ii) the PTF-ESRS review panel and relevant co-construction partners; and
 - (iii) dedicated expert working groups appointed in November 2021 (EWGs) to provide input on the drafting of ESRS.
 - (b) Onboarding of input and decisions to get to pre-exposure drafts.
 - (c) Final consensus discussions in plenary meetings to adopt exposure drafts.
 - (d) Submission of exposure drafts to public consultation in accordance with the outcome of the consultation on the EFRAG due process.
- 12 **Significant changes to the drafts as presented in the WPs may arise from the subsequent steps of the due process** listed above, as well as after handing over to the EFRAG governing bodies.
- 13 The WPs are therefore **work-in-progress documents** and **should not be interpreted in any way whatsoever as representing the views of the PTF-ESRS as a whole at this stage, nor the position of relevant co-construction partners**.
- 14 *General reminder:* EFRAG receives financial support of the European Union. The contents of the WPs made available with this cover note are the sole responsibility of the PTF-ESRS and **can under no circumstances be regarded as reflecting the position of the European Union or European Commission DG Financial Stability, Financial Services and Capital Markets Union (DG FISMA)**.

Overall architecture and structure of standards

- 15 The target architecture for the development of a comprehensive set of draft standards by the PTF-ESRS is shown in Figure 1 below.

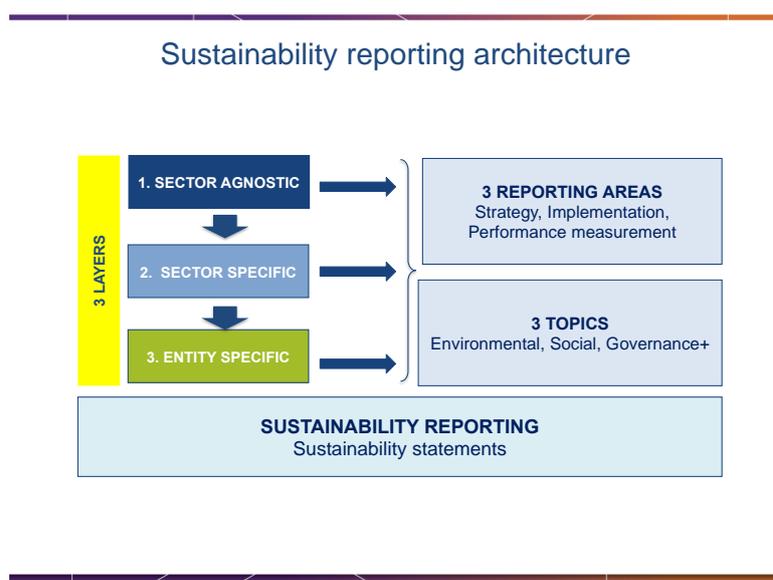


Figure 1: Sustainability reporting architecture

*PTF-ESRS Batch 1 working papers –
Cover note and disclaimers*

16 The [draft] detailed architecture of ESRS is presented in Figure 2 below. The WPs included in Batch 1 are highlighted in light blue.

Strategy, governance, impacts, risks, opportunities				SECTOR-SPECIFIC STANDARDS		PRESENTATION
Environment	Social	Governance	Classification	ESG sector-specific disclosures	ESRS P1	Sustainability statements
ESRS 1 General provisions	ESRS E1 Climate change	ESRS S1 Own workforce – general	ESRS G1 Governance, risk management and internal control	ESRS SEC1 Sector classification	ESRS P1	Sustainability statements
ESRS 2 Strategy and business model	ESRS E2 Pollution	ESRS S2 Own workforce – working conditions	ESRS G2 Products and services, management and quality of relationships with business partners			
ESRS 3 Sustainability governance and organisation	ESRS E3 Water & marine resources	ESRS S3 Own workforce – equal opportunities	ESRS G3 Responsible business practices			
ESRS 4 Sustainability material impacts, risks and opportunities	ESRS E4 Biodiversity & ecosystems	ESRS S4 Own workforce – other work-related rights				
ESRS 5 Definitions for policies, targets, action plans and resources	ESRS E5 Circular economy	ESRS S5 Workers in the value chain				
		ESRS S6 Affected communities				
		ESRS S7 Consumers/ End-users				

CONCEPTUAL GUIDELINES					
ESRG 1 Double materiality	ESRG 2 Characteristics of information quality	ESRG 3 Time horizons	ESRG 4 Boundaries and levels of reporting	ESRG 5 EU and international alignment	ESRG 6 Connectivity

Figure 2: Sustainability reporting architecture

Cross-cutting standards

17 The cross-cutting standards are intended to address disclosures on matters that are crucial from an undertaking’s overall perspective to fully understand:

- (a) The relationship for the undertaking between sustainability matters and its strategy and business model(s) – [draft] ESRS 2.

- (b) The relationship for the undertaking between sustainability matters and its governance and organisation – [draft] ESRS 3.
 - (c) The materiality assessment performed by the undertaking under a double materiality approach (impact materiality and financial / risks and opportunities materiality) – [draft] ESRS 4.
- 18 [Draft] ESRS 2, [draft] ESRS 3 and [draft] ESRS 4 are ‘content standards’ and include disclosure requirements as well as definitions.
- 19 In addition, a further cross-cutting standard is proposed in order to establish a common ground for topical standards to organise their disclosure requirements in relation to implementation measures: policies, targets, action/transition plans and resources. [Draft] ESRS 5 is therefore currently a ‘reference standard’. As such it lays out only definitions to be used as reference by the different draft topical standards. Associated disclosure requirements are to be only included in each draft topical standard as appropriate.
- 20 While drafting [draft] ESRS 2 to [draft] ESRS 5, it became apparent that there is a need for a standard addressing general sustainability reporting provisions. [Draft] ESRS 1, in the process of being constructed, is intended to include certain general disclosure requirements, including those relevant to due diligence as a key element. The thinking is to have these general disclosure requirements in a single standard, provide an understanding of the overall and detailed architecture, and avoid repetition. In line with this thinking, it may transpire that:
- (a) the reference material (definitions) currently presented as [draft] ESRS 5 may be merged into [draft] ESRS 1, and
 - (b) some developments currently under [draft] ESRS 2 to [draft] ESRS 4 would be better placed under [draft] ESRS 1.
- 21 As regards due diligence, which is a key concept established by the CSRD proposal and which is derived from the UN Guiding Principles and the OECD Guidelines for Multinational Enterprises, it deserves a substantial development on its own merits. Since due diligence is a concept that implies a number of steps (such as identification, assessment, prevention, mitigation, remediation, reporting, etc), the related disclosures shall provide a holistic description of how the undertaking is complying with its due diligence obligations and with appropriate cross-referencing to steps that will be covered in other dedicated ESRS, and this point will be considered for the development of [draft] ESRS 1.

Clarification on key interactions between ESRS

- 22 As explained above, [draft] ESRS 1 is intended to include provisions for general disclosure requirements.
- 23 [Draft] ESRS 2 is intended, among other disclosure requirements, to include all disclosure requirements related to strategy and business model(s), even when related to specific topics such as climate and other environmental, social or governance topics, to promote a full understanding of the relationship between sustainability matters and the strategy and business model of the undertaking from an overall perspective. However, the disclosure requirements themselves are defined at topical standard level to create proper relevance and consistency.
- 24 A similar approach is retained for [draft] ESRS 3.

- 25 [Draft] ESRS 4 is intended to cover disclosure requirements reflecting the undertaking's impact, risk and opportunity assessment processes and outcomes under a holistic approach (covering the three layers of sustainability reporting: sector-agnostic, sector-specific and entity-specific). It implies a clear differentiation between requirements to report on the application of the ESRS and the impact, risk and opportunities discussion. [Draft] ESRS 4 also provides a description of the material sustainability topics that due to their importance are prioritised and directly monitored by the highest governance bodies of the undertaking, therefore creating a link between [draft] ESRS 4 and [draft] ESRS 2 and [draft] ESRS 3.
- 26 Some interactions between the cross-cutting standards themselves and between cross-cutting, topical and sector-specific standards are subject to continuing deliberation and discussions within the PTF-ESRS with respect to the following:
- (a) Identification of additional general provisions not currently addressed by disclosure requirements in any of the other standards being drafted, to be included in [draft] ESRS 1.
 - (b) Identification of provisions for general disclosure requirements currently included in the various standards being drafted, to be centralised as disclosure requirements in [draft] ESRS 1 for avoiding repetition.
 - (c) Identification of overlaps between topical standards disclosure requirements and cross-cutting standards disclosure requirements, and agreement on what disclosure requirements to include/keep in cross-cutting standards and what disclosure requirements should be specific to a topical standard.
 - (d) Identification of overlaps or gaps between sector-agnostic disclosure requirements and sector-specific disclosure requirements.

For points (a) and (b) above, a comparison with the IFRS Foundation's TRWG General requirements prototype will be considered.

Format of draft standards

- 27 A harmonised format has been adopted for the standards being drafted by the PTF-ESRS, starting from the initial June 2021 template and based on the evolution of experience through the drafting process so far.
- 28 The draft standards lay out:
- (a) the objective of the standard,
 - (b) the interaction of each standard with other ESRS being drafted by the PTF-ESRS,
 - (c) for each disclosure requirement:
 - (i) the general disclosure requirement,
 - (ii) the 'principle to be followed under the disclosure requirement' which positions to start with the disclosure requirement within a principles-based environment, and
 - (iii) the list of datapoints that shall be included under the disclosure requirement to create relevance and comparability.
 - (d) Relevant definitions are at this stage included in Appendix A of each draft standard. How the information shall be presented for each disclosure requirement is prescribed in Appendix B to each standard as authoritative application guidance.

Basis for conclusions

- 29 Basis for conclusions are intended to accompany but not to be part of the future standards, to explain the rationale behind the disclosure requirements included.

Conceptual guidelines

- 30 The conceptual guidelines are intended to be tools for the standard setter for the elaboration of standards to ensure proper translation of concepts into standards. As such, they include information on relevant background research and can also be used as non-authoritative reference for the implementation of the standards.
- 31 Those parts of the conceptual guidelines that are relevant for the effectiveness of standards are and will be introduced in the corresponding draft standards. As explained above, those parts could be regrouped in [draft] ESRS 1.

Batch 1 as part of the overall architecture

- 32 The WPs made available as Batch 1 with this cover note are listed in Appendix 2: List of appendices available as attached documents.
- 33 In parallel to the WPs made available as Batch 1, the PTF-ESRS continues to work on draft standards covering all other sustainability issues referred to in the European Commission's CSRD proposal, which will form part of the set of draft standards to be delivered to the European Commission by EFRAG in mid-2022.

Batch 1 working papers on cross-cutting standards

- 34 The WPs on cross-cutting standards and conceptual guidelines were prepared following previews of orientations presented in plenary meetings of the PTF-ESRS by the relevant cluster.
- 35 These WPs will now be considered by the PTF-ESRS and relevant EWGs, for further elaboration and consensus building towards exposure drafts and accompanying materials to be submitted to public consultation.
- 36 The WPs for [draft] ESRS 2, [draft] ESRS 3 and [draft] ESRS 5 include basis for conclusions that summarise the considerations of the relevant cluster in developing the proposed content of those draft standards. They also aim at justifying the options taken for the disclosure requirements and the proposed references by laying out the rationale. More specifically, they describe why disclosures should be required (objective, background, references to the main EU and international frameworks and a focus on users' needs).
- 37 There is still ongoing discussion within the relevant cluster to reach a final conclusion on the content of [draft] ESRS 4. The WP on [draft] ESRS 4 included in Batch 1 should therefore be read under this caveat related to the proposed structure of this draft standard.
- 38 Despite the different level of maturity of the WP on [draft] ESRS 4, it is released for completeness and in view of the fact that [draft] ESRS 4 has contents that pertain to other draft standards. For this same reason it will be subject to further discussion when the drafts of the other standards are finalised.
- 39 Accompanying basis for conclusions for [draft] ESRS 4 are not included in the associated WP released with this document as they are not yet completed at this stage. They will be made available when sufficiently completed with a subsequent batch of WPs to be made available.

Batch 1 working paper on climate change standard

- 40 A first working paper on a '*Climate standard prototype*' was made publicly available by EFRAG on 8 September 2021, following presentation to a PTF-ESRS plenary meeting by the relevant cluster.
- 41 That working paper was the starting point for a PTF-ESRS extensive discussion towards a draft standard. It was disclosed for transparency purposes as a milestone to allow stakeholders an understanding on the initial thinking and direction taken for the climate standard.
- 42 EFRAG had previously also made available a preliminary basis for conclusions working paper, associated to and to be read in conjunction with, the working paper on a '*Climate standard prototype*' released on 8 September 2021. The aim was to give more information and elaborate on the considerations of the relevant cluster relating to the disclosure proposals presented in the '*Climate standard prototype*' working paper.
- 43 The climate standard WP included in this Batch 1 is an elaboration into a draft standard with accompanying material, of the prototype and preliminary basis for conclusions previously made available. The current WP was presented to a PTF-ESRS plenary meeting on 1 December 2021, having taken into consideration feedback received through the PTF-ESRS review panel process and a consensus building questionnaire. It will now be considered by the relevant EWG, for further elaboration and consensus building at PTF-ESRS level towards the exposure draft and accompanying materials to be submitted to public consultation.
- 44 The WP on [draft] ESRS E1 incorporates initial requirements for connectivity on the main anchor points (e.g. reconciliation with the most relevant amounts presented in the financial statements).

Additional points to bear in mind when reading the WPs

- 45 A series of **additional points should be borne in mind when reading the WPs made available with this cover note**. When performing the next steps of its due process the PTF-ESRS will review particularly the following points and may introduce relevant amendments in this regard:
 - (a) boundaries,
 - (b) prioritisation,
 - (c) further harmonisation of forms of expression and definitions,
 - (d) consolidated reporting,
 - (e) financial connectivity,
 - (f) digitisation.
- 46 The issue of SMEs is being considered in parallel to the development of draft standards in line with the architecture of ESRS presented in Figure 2 above.

List of appendices

- 47 Included within this document are the following appendices:
 - (a) Appendix 1: [Draft] index for the European Sustainability Reporting Standards.
 - (b) Appendix 2: List of appendices available as attached documents.

Appendix 1: [Draft] index for the European Sustainability Reporting Standards

Name of the standard	Code
Strategy, governance, impacts, risks, opportunities	
General provisions	ESRS 1
Strategy and business model	ESRS 2
Sustainability governance and organisation	ESRS 3
Sustainability material impacts, risks and opportunities	ESRS 4
Definitions for policies, targets, action plans and resources	ESRS 5
Sector-agnostic standards	
Environment: Climate change	ESRS E1
Environment: Pollution	ESRS E2
Environment: Water & marine resources	ESRS E3
Environment: Biodiversity & ecosystems	ESRS E4
Environment: Circular economy	ESRS E5
Social: Own workforce – general	ESRS S1
Social: Own workforce – working conditions	ESRS S2
Social: Own workforce – equal opportunities	ESRS S3
Social: Own workforce – other work-related rights	ESRS S4
Social: Workers in the value chain	ESRS S5
Social: Affected communities	ESRS S6
Social: Consumers/ End-users	ESRS S7
Governance: Governance, risk management, internal control	ESRS G1
Governance: Products and services, management and quality of relationships with business partners	ESRS G2
Governance: Responsible business practices	ESRS G3
Sector-specific standards	
Sector classification	ESRS SEC1
Presentation	
Sustainability statements	ESRS P1
Conceptual guidelines	
Double materiality	ESRG 1
Characteristics of information quality	ESRG 2
Time horizons	ESRG 3
Boundaries and levels of reporting	ESRG 4
EU and international alignment	ESRG 5
Connectivity	ESRG 6

Appendix 2: List of appendices available as attached documents.

1 Additional appendices to be read with this cover note are available as attached documents as follows:

- (a) [Appendix 2.1: Working paper:
\[Draft\] ESRS 2 Strategy and business model](#)
- (b) [Appendix 2.2: Working paper:
\[Draft\] ESRS 3 Sustainability governance and organisation](#)
- (c) [Appendix 2.3: Working paper:
\[Draft\] ESRS 4 Sustainability material impacts, risks and opportunities](#)
- (d) [Appendix 2.4: Working paper:
\[Draft\] ESRS 5 Definitions for policies, targets, action plans and resources](#)
- (e) [Appendix 2.5: Working paper:
\[Draft\] ESRS E1 Climate change](#)
- (f) [Appendix 2.6: Working paper:
\[Draft\] ESG 1 Double materiality](#)
- (g) [Appendix 2.7: Working paper:
\[Draft\] ESG 2 Characteristics of information quality](#)