EFRAG sustainability reporting

EFRAG SRB Meeting
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05-03

Log of draft explanations

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ID 855 – Financial materiality and time horizon

Category

Cross-cutting

Question asked

What is the role of time horizon (short-, medium- or long-term) in the materiality assessment of risks and opportunities?

ESRS Reference

ESRS 1 Chapter 3.5 *Financial materiality;* paragraphs AR 14 and AR 15; Chapter 6.4 *Definition of short-, medium- and long-term for reporting purposes*; ESRS E1 paragraphs AR 67 and 68

Key terms

Time horizon; financial materiality

Background

The question received, 'When assessing risks and opportunities from a financial perspective, how is it possible to integrate the variable of time horizon (e.g. short-, medium- or long-term) in the evaluation of magnitude/probability of that risk or opportunity?' was rephrased to the above for clarity.

ESRS 1 paragraph AR 14 states: 'The **identification** of risks and opportunities that affect or could reasonably be expected to affect the undertaking's financial position, financial performance, cash flows, access to finance or cost of capital over the short-, medium- or long-term is the starting point for financial materiality assessment. In this context, the undertaking shall consider:

(a) the existence of dependencies on natural and social resources as sources of financial effects (see paragraph 50);

(b) their classification as sources of:

   i. risks (contributing to negative deviation in future expected cash inflows or increase in deviation in future expected cash outflows and/or negative deviation from an expected change in capitals not recognised in the financial statements); or

   ii. opportunities (contributing to positive deviation in future expected cash inflows or decrease in deviation in future cash outflows and/or positive deviation from expected change in capitals not recognised in financial statements).'

ESRS 1 paragraph AR 15 states: 'Once the undertaking has identified its risks and opportunities, it shall determine which of them are **material for reporting**. This shall be based on a combination of (i) the **likelihood of occurrence** and (ii) the **potential magnitude** of financial effects determined on the basis of appropriate thresholds. In this step it shall consider the contribution of those risks and opportunities to financial effects in the short-, medium- and long-term based on:

(a) scenarios/forecasts that are deemed likely to materialise; and

(b) potential financial effects related to sustainability matters deriving either from situations with a below the “more likely than not” threshold or assets/liabilities not, or not yet, reflected in financial statements. This includes:

i. potential situations that following the occurrence of future events may affect cash flow generation potential;

ii. 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. possible future events that may have an influence on the evolution of such capitals.’

ESRS E1 paragraph AR 67 states: ‘Material climate-related physical risks and transition risks may affect the undertaking’s financial position (e.g. owned assets, financially-controlled leased assets, and liabilities), performance (e.g. potential future increase/decrease in net revenue and costs due to business interruptions, increased supply prices resulting in potential margin erosions) and cash flows. The low probability, high severity and long-term time horizons of some climate-related physical risk exposures and the uncertainty arising from the transition to a sustainable economy mean that there will be associated material anticipated financial effects that are outside the scope of the requirements of applicable accounting standards.’

ESRS E1 paragraph AR 68 states: ‘Currently, there is no commonly accepted methodology to assess or measure how material physical risks and transition risks may affect the undertaking’s future financial position, financial performance and cash flows. Therefore, the disclosure of the financial effects (as required by paragraphs 64, 66 and 67) will depend on the undertaking’s internal methodology and the exercise of significant judgement in determining the inputs and assumptions needed to quantify their anticipated financial effects.’

Note for the SRB

Some **SRB members** (also in the context of the SRB WG) objected and commented that this ID should not be published as an Explanation but as an IG because the drafted explanation goes beyond the current ESRS stipulations and to allow stakeholders to provide feedback on this utmost important topic.

EFRAG SR TEG discussed the need to develop an IG as well but reached a consensus on the fact that the current explanation reflects the content of ESRS and IFRS AR on the matter as described in the background.

Another **SRB member** objected, expressing concerns around the overall clarity of the draft explanation (i.e. what should an undertaking do in practice?)

To respond to this second concern, **EFRAG Secretariat** has amended the Explanation to clarify further the concepts in it, hoping that the content is more clear and less contentious. The EFRAG Secretariat considers that the text, in line with EFRAG SR TEG agreement, explains the current applicable literature and as such does not require public feedback.

The alternative, is to expose it for feedback as an IG.

Answer

A sustainability matter is material from a financial perspective if it generates risks or opportunities that have a material influence, or that could reasonably be expected to have a material influence, on~~,~~ the undertaking's development, financial position, financial performance, cash flows, access to finance or cost of capital **over the short-, medium- or long-term** (ESRS 1 paragraph 49). When assessing a risk or opportunity for (financial) materiality, the undertaking considers the perspective of the investors (ESRS 1 paragraph 48).

Assessing whether a ~~Determining if a~~ risk or opportunity is material or not shall be based on a combination of (i) the **likelihood** of occurrence and (ii) the potential **magnitude** of financial effects determined on the basis of appropriate thresholds' (see ESRS 1 paragraph AR 15).

Magnitude

Looking at the magnitude, the time horizon is generally factored in the financial materiality assessment based on the time value of money, i.e. using the discounted cash-flow method, in line with investors' information needs. This means that a cash inflow/cash outflow is worth more/less now than the same cash flow at a future date due to its earnings potential in the interim.

However, there might be situations when the undiscounted amount is the relevant figure to report. If a possible future event is expected to affect an entity's cash flows, but only many years in the future, information about that event is usually less likely to be judged material than information about a possible future event with similar effects that are expected to occur sooner. However, in some circumstances, an item of information could reasonably be expected to influence primary users' decisions regardless of the magnitude of the potential effects of the future event or the timing of that event. For example, this might happen if information about a particular sustainability-related risk or opportunity is highly scrutinised by primary users of an

Commented [BR1]: Comment LR: Discounting need to consider: 1) the time value of money (passage of time), 2) the uncertainty about the amounts of the cash flows, and 3) the uncertainty about the timing of the cash flows . Item 2) is not discussed in the Q&A. I also understand that normally item 1) is considered in assessing the magnitude of financial effects as of today, but not always.

Commented [SH2R1]: Okay: tried to address this by especially mentioning item 2) and 3) under „likelihood" entity's general purpose financial reports.' (See IFRS S1 B 24 (cited below, in 'Supporting material').

~~In other cases, determining the discounted financial effects might not be feasible, such as when the timing of the event is uncertain (e.g. a flooding in an area exposed to it), but the undiscounted financial effects would nevertheless be relevant for investors. This is also acknowledged in ESRS E1 Disclosure Requirement E1-9 paragraphs 67 and 68 for anticipated financial effects (see above 'Background').~~

Judgements, estimates and assumptions made when considering the time value of money shall consider connectivity of information (see ESRS 1 Chapter 9.2 *Connected information and connectivity with financial statements*), noting that when measuring assets or liabilities in financial statements, time value of money is often considered.

Likelihood

Time horizon may also affect the assessment of **likelihood** of a financial effect be it regarding the uncertainty about (a) the amount of the cash flow or (b) its timing.

There are instances where a higher likelihood is associated with a specific time horizon. Consider the risk of impairing an asset due to the end of its useful life, as a result of a potential ban of a specific technology, starting from a given period in the future. The likelihood of a risk arising might be affected by whether the ban is expected in the near future or further ahead in the future. However, if the ban is already decided (there is no uncertainty), the financial effect is not affected by likelihood (the probability of occurrence is 100%) and the time horizon only affects the magnitude (not the likelihood).

In other instances, the longer the time horizon, the higher the likelihood of an event happening (i.e. the higher the likelihood of the associated risk or opportunity). For example, a flooding or a situation of water stress is less likely to occur during the short-term one-year time horizon as compared to longer mid-term and long-term time horizons.

In other cases, determining the financial effects may require the use of scenario weighted probabilities, such as when the timing of the event is uncertain (e.g. a flooding in an area exposed to it). But also, in these cases the undiscounted financial effects might nevertheless be relevant for investors. This is also acknowledged in ESRS E1 Disclosure Requirement E1-9 paragraphs 67 and 68 for anticipated financial effects (see above 'Background').

Commented [BR3]: LR disagrees with this statement: Financial reporting is used to address such situations, through consideration of scenario weighted by probabilities. The statement conveys a message that where you have uncertainty, you are likely not able to do discounting. This is misleading.

Commented [SH4R3]: Mentioned „scenario weighted probabilities"; deleted the „might not be feasible" and replaced it with „difficult" and moved it to the „likelihood" section because it belongs there.

Supporting material

IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* B19 – B24 states:

'Identifying material information

B19 Materiality judgements are specific to an entity. Consequently, this Standard does not specify any thresholds for materiality or predetermine what would be material in a particular situation.

B20 To identify material information about a sustainability-related risk or opportunity, an entity shall apply, as the starting point, the requirements of the IFRS Sustainability Disclosure Standard that specifically applies to that sustainability-related risk or opportunity. In the absence of an IFRS Sustainability Disclosure Standard that specifically applies to a sustainability-related risk or opportunity, the entity shall apply the requirements on sources of guidance specified in paragraphs 57–58. Those sources specify information, including metrics, that may be relevant to a particular sustainability-related risk or opportunity, to a particular industry or in specified circumstances.

B21 An entity shall assess whether the information identified in applying paragraph B20, either individually or in combination with other information, is material in the context of the entity's sustainability-related financial disclosures taken as a whole. In assessing whether information is material, an entity shall consider both quantitative and qualitative factors. For example, an entity might consider the magnitude and the nature of the effect of a sustainability-related risk or opportunity on the entity.

B22 In some cases, IFRS Sustainability Disclosure Standards require the disclosure of information about possible future events with uncertain outcomes. In judging whether information about such possible future events is material, an entity shall consider:

(a) the potential effects of the events on the amount, timing and uncertainty of the entity's future cash flows over the short-, medium- and long-term (referred to as 'the possible outcome'); and

(b) the range of possible outcomes and the likelihood of the possible outcomes within that range.

B23 When considering possible outcomes, an entity shall consider all pertinent facts and circumstances. Information about a possible future event is more likely to be judged as being material if the potential effects are significant and the event is likely to occur. However, an entity shall also consider whether information about low-probability and high-impact outcomes might be material either individually or in combination with information about other low-probability and high-impact outcomes. For example, an entity might be exposed to several sustainability-related risks, each of which could cause the same type of disruption – such as disruption to the entity's supply chain. Information about an individual source of risk might not be material if disruption from that source is highly unlikely to occur. However, information about the aggregate risk – the risk of supply chain disruption from all sources – might be material.

B24 If a **possible future event** is expected to affect an entity's cash flows, but only **many years in the future**, information about that event is usually less likely to be judged material than information about a possible future event with similar effects that are expected to occur sooner. However, in some circumstances, an item of information could reasonably be expected to influence primary users' decisions regardless of the magnitude of the potential effects of the future event or the timing of that event. For example, this might happen if information about a particular sustainability-related risk or opportunity is highly scrutinised by primary users of an entity's general purpose financial reports.'

SRB objected ID 870 and 1210 in the traffic light. ~~Some~~ SRB members asked to merge both and to cut the content of ID 1210 as it was considered to lengthy and repetitive to what is in IG1 Materiality assessment. Below now is the combined ID 870 (mostly unchanged) and 1210 with the content of ID 1210 drastically shortened mostly referring to IG 1 and copying only (a) and (b) in line with the feedback from SRB. Also added answer to fact pattern 'that it is not possible to report for the big sector 2 years and the rest after.'

ID 870 and 1210 – Materiality threshold for group company (Merged version)

Category

Cross-cutting

Question asked

(1) Is it technically possible to identify consolidated issues and establish a 'consolidated' materiality matrix for a group comprising several companies operating in various sectors of activity by averaging the issues?

(2) How to approach multi-sector reporting where there are large and small entities?

ESRS Reference

ESRS 1 Chapter 3 Double materiality as the basis for sustainability disclosures and paragraph 102

Key terms

Consolidated reporting

Background

ID 870 and ID 1210 asked the related questions (1) and (2) above. ID 1210 had the following background which is considered helpful when answering ID 1210: 'We are a group that has 100+ entities within 5 different sectors. One of them being a financial sector where some entities from this sector fall under the criteria of 500+ employees - clearly we have to report for this sector/ entity. However, our group also has smaller entities in industries such as wine, real estate, hotels. For instance, the entity in wine industry has around 30 employees, turnover below 40 million EUR and is far from CSRD scopes for upcoming 2 years. We have mapped IROs for all of the sectors, including wine. However, the scope of data reporting for all of the sectors is very wide and our staff is quite limited to cover all ESG data. Should the largest entities (falling under 2025 reporting) be prioritized in reporting and can the smaller entities such as wine be omitted for this initial reporting period? In the larger scope of the group, we see the wine group as financially immaterial in the group reporting perspective, despite being material on an individual sector level. We are ready to disclose mapped impacts, risk and opportunities, however we do not plan to disclose much more than that.'

ESRS 1 paragraph 102 states: 'When the undertaking is reporting at a consolidated level, it shall perform its assessment of material impacts, risks and opportunities for the entire consolidated group regardless of its group legal structure. It shall ensure that all subsidiaries are covered in a way that allows for the unbiased identification of material impacts, risks and opportunities.

Criteria and thresholds for assessing an impact, risk or opportunity as material shall be determined based on chapter 3 of this Standard.'

Answer

(1) Is it technically possible to identify consolidated issues and establish a 'consolidated' materiality matrix for a group comprising several companies operating in various sectors?

No, when assessing the materiality of the impacts, risks and opportunities of different subsidiaries operating in different sectors, they should not be averaged but assessed in their own right. This is because the assessment of material impacts, risks and opportunities is agnostic, whether the business activities are conducted in a group comprising several subsidiaries operating in various sectors of activity or whether those same business activities are all conducted by one legal entity that is active in various sectors.

As stated in ESRS 1 paragraph 102, 'when the undertaking is reporting at a consolidated level, it shall perform its assessment of material impacts, risks and opportunities for the entire consolidated group, regardless of its group legal structure. It shall ensure that all subsidiaries are covered in a way that allows for the unbiased identification of material impacts, risks and opportunities.'

In respect of thresholds for impacts, risk or opportunities of subsidiaries operating in various sectors, IG 1 Materiality assessment states in paragraph 125: 'When performing the materiality assessment at a group level , paragraph 103 [of ESRS 1] does not require the adoption for a given sustainability matter of a common threshold that is the same for the group in its entirety but rather to adopt an approach that is at the same time consistent across the whole group and unbiased, i.e. able to capture the specificities that may exist in a specific subsidiary.'

(2) How to approach multi-sector reporting where there are large and small entities?

Useful guidance is provided in IG 1 Materiality assessment in Chapter 3.6.3 *Consideration for groups and subsidiaries* and FAQ 13: *Performing the impact materiality assessment when the undertaking operates in different sectors*, mentioning a top-down approach and a bottom-up approach or a combination of the two approaches to materiality assessment in group situations. It states: '… when … impacts are occurring in the operations of just one subsidiary within a large corporate group, … the impacts may still … meet the group materiality threshold.' and '(c)onversely, … there may be situations where a matter is assessed to be material for some subsidiaries in isolation but, despite the aggregation of data of such subsidiaries, the matter is assessed as not material for the group in its entirety.' (see IG 1 Materiality assessment paragraph 127 and 128).

Based on that and given the background provided for the question asked, the following can be concluded:

(a) It is not possible to prioritize in reporting the largest entities (falling under 2025 reporting for the fiscal year 2024) and to omit the smaller entities such as wine for the initial reporting period;

(b) whether the undertaking (here a group) needs to report on its activities in the sector of wine, real estate, and hotel does not depend on size (e.g., scope of impacts or risks), the sector revenue (e.g., scale of financial effects) or the number of employees (e.g., relevance to social issues) in that sectors / entities but on the basis of whether these

Commented [BR5]: LR: Need to be discussed with ID 1210 - If ID 1210 is rejected, some paragraphs of that latter ID would appropriately fit ID 870

Commented [SH6R5]: merged

Commented [BR7]: Cristina: A proposal could be to merge the answer of this ID and ID 1210

Commented [SH8R7]: merged

Commented [BR9]: Cristina suggests to add here: When the group operates in multiple sectors, a proportionate materiality analysis is recommended for each significant sector. In accordance with ESRS 2, a sector is considered significant for the company if it meets one of the following criteria: it represents more than 10% of the turnover or is associated with particularly material negative impacts;

Commented [SH10R9]: Would not want to add the reference to ESRS 10% revenue criteria as this is not a helpful threshold for determining material subsidiaries.

sectors are connected to impacts, risks or opportunities assessed as material for the group;

~~(a)~~(c) appropriate qualitative and/or quantitative thresholds shall be used to determine at group level which matters are material and which are not, and therefore applicable information prescribed within a Disclosure Requirement, including datapoints, or an entity-specific disclosure included in the sustainability.

Commented [BR11]: LR: Need to be discussed with ID 870. May be the two could be merged. a) and b) are interesting and should not be lost.

Commented [SH12R11]: merged

ID 1057 – Targets – only qualitative?

Category

Cross-cutting

Question asked

Can targets also be qualitative if they are specific enough?

ESRS Reference

ESRS 1 paragraph 33; ESRS 2 paragraphs 80-81; definitions of 'target' and 'metrics' in Annex II *Acronyms and Glossary of Terms*.

Key terms

Targets, only qualitative; targets; metrics

Background

The submitter provided the following background to the question asked: 'In all topical ESRS, it is required to disclose the targets that the company has set. While in certain cases targets must be quantitative (e.g. ESRS E1) in others this is not defined, so could a qualitative target still be compliant?

For example, regarding ESRS E4, could 'align in the next two years with EU Biodiversity 2030 Strategy' be considered a target? And in ESRS S2, could 'engage with value chain workers through annual surveys' be considered a target?'

Annex II Acronyms and Glossary of Terms defines targets as: 'Measurable, outcome-oriented and time-bound goals that the undertaking aims to achieve in relation to material impacts, risks or opportunities. They may be set voluntarily by the undertaking or derive from legal requirements on the undertaking.'

Annex II Acronyms and Glossary of Terms defines metrics as 'Qualitative and quantitative indicators that the undertaking uses to measure and report on the effectiveness of the delivery of its sustainability-related policies and against its targets over time. Metrics also support the measurement of the undertaking's results in respect of affected people, the environment and the undertaking.'

ESRS 1 paragraph 33 states: 'When disclosing information on policies, actions and targets in relation to a sustainability matter that has been assessed to be material, the undertaking shall include the information prescribed by all the Disclosure Requirements and datapoints in the topical and sector-specific ESRS related to that matter and in the corresponding Minimum Disclosure Requirement on policies, actions and targets required under ESRS 2. If the undertaking cannot disclose the information prescribed by either the Disclosure Requirements and datapoints in the topical or sector-specific ESRS or the Minimum Disclosure Requirements in ESRS 2 on policies, actions and targets because it has not adopted the respective policies, implemented the respective actions or set the respective targets, it shall disclose this to be the case and it may report a timeframe in which it aims to have these in place.'

ESRS 2 paragraph 80 states: 'The undertaking shall disclose the measurable, outcome-oriented and time-bound targets on material sustainability matters it has set to assess progress. For each target, the disclosure shall include the following information:

(a) a description of the relationship of the target to the policy objectives;

(b) the defined target level to be achieved, including, where applicable, whether the target is absolute or relative and in which unit it is measured;

(c) the scope of the target, including the undertaking's activities and/or its upstream and/or downstream value chain where applicable and geographical boundaries;

(d) the baseline value and base year from which progress is measured;

(e) the period to which the target applies and, if applicable, any milestones or interim targets;

(f) the methodologies and significant assumptions used to define targets, including, where applicable, the selected scenario, data sources, alignment with national, EU or international policy goals and how the targets consider the wider context of sustainable development and/or local situation in which impacts take place;

(g) whether the undertaking's targets related to environmental matters are based on conclusive scientific evidence;

(h) whether and how stakeholders have been involved in target setting for each material sustainability;

(i) any changes in targets and corresponding metrics or underlying measurement methodologies, significant assumptions, limitations, sources and processes to collect data adopted within the defined time horizon. This includes an explanation of the rationale for those changes and their effect on comparability (see Disclosure Requirement BP-2 Disclosures in relation to specific circumstances of this Standard); and

(j) the performance against its disclosed targets, including information on how the target is monitored and reviewed and the metrics used, whether the progress is in line with what had been initially planned, and an analysis of trends or significant changes in the performance of the undertaking towards achieving the target.'

ESRS 2 paragraph 81 states: 'If the undertaking has not set any measurable outcome-oriented targets:

(a) it may disclose whether such targets will be set and the timeframe for setting them, or the reasons why the undertaking does not plan to set such targets;

(b) it shall disclose whether it nevertheless tracks the effectiveness of its policies and actions in relation to the material sustainability-related impact, risk and opportunity , and if so:

i. any processes through which it does so;

ii. the defined level of ambition to be achieved and any qualitative or quantitative indicators it uses to evaluate progress, including the base period from which progress is measured.'

Answer

Yes, targets can be qualitative only if they are specific enough.

Targets as defined in ESRS (see Background) are 'measurable, outcome-oriented, time-bound goals that the undertaking aims to achieve in relation to material impacts, risks or opportunities.' Metrics are used to measure results against targets. As metrics per the metrics definition can be 'qualitative and quantitative indicators that the undertaking uses to measure and report on the effectiveness of the delivery of its sustainability-related policies and against its targets over time', targets can be quantitative or qualitative.

ESRS do not require undertakings to set targets on a quantitative basis only except when explicitly specified (see, e.g., ESRS E1 Disclosure Requirement E1-4).

If the undertaking sets qualitative targets, they shall be specific enough to meet the Disclosure Requirements of the Minimum Disclosure Requirements – Targets MDR-T – Tracking effectiveness of policies and actions through targets and of the datapoints in the respective topical or sector-specific ESRS. Reference is made to ESRS 2 paragraph 80.

As such, the example provided by the submitter (see background section) regarding the 'alignment in the next two years with EU Biodiversity 2030 Strategy' could be a qualitative target in the context of ESRS E4 if it would refer to concrete, measurable aspects of EU Biodiversity 2030 Strategy. However, 'engaging with value chain workers through annual surveys' in the context of ESRS S2 would not qualify as an outcome-oriented target and would not meet the MDR-T requirements referenced above.

Commented [BR13]: LR: I would like to understand why engaging with VC workers through an annual survey would not be considered to a target, if the survey is really specific and targeted?

Commented [SH14R13]: TBD - it was the view of one SRB member, to not have as a target

If the qualitative target cannot be considered a measurable and outcome-oriented target, disclosures under ESRS 2 paragraph 81 and not under paragraph 80 are applicable (see also ESRS 1 paragraph 33).

Environment

ID 1058 – ESRS E4 metrics covering own operations or upstream/downstream value chain

Category

Environment, Biodiversity

Question asked

ESRS E4-5 paragraph 37 mentions that 'For datapoints specified in paragraphs 38 to 41, the undertaking shall consider its own operations'. Does that mean that ESRS E4 paragraph 33 'The undertaking shall report metrics related to its material impacts on biodiversity and ecosystems.' also refers to the undertaking's own operations only?

ESRS Reference

ESRS E4 paragraph 37

Key terms

Metrics, own operations, materiality

Background

ESRS E4-5 paragraph 33 states 'The undertaking shall report metrics related to its material impacts on biodiversity and ecosystems.'

ESRS E4-5 paragraph 37 states: 'For datapoints specified in paragraphs 38 to 41, the undertaking shall consider its own operations.'

ESRS E4 paragraph 38 states: 'If the undertaking has concluded that it directly contributes to the impact drivers of land-use change, freshwater-use change and/or sea-use change, it shall report relevant metrics. The undertaking may disclose metrics that measure:

(a) the conversion over time (e.g. 1 or 5 years) of land cover (e.g. deforestation or mining);
(b) changes over time (e.g. 1 or 5 years) in the management of the ecosystem (e.g., through the intensification of agricultural management, or the application of better management practices or forestry harvesting);
(c) changes in the spatial configuration of the landscape (e.g. fragmentation of habitats, changes in ecosystem connectivity);
(d) changes in ecosystem structural connectivity (e.g. habitat permeability based on physical features and arrangements of habitat patches); and
(e) the functional connectivity (e.g. how well genes or individuals move through land, freshwater and seascape).'

ESRS E4 paragraph 39 states: 'If the undertaking concluded that it directly contributes to the accidental or voluntary introduction of invasive alien species, the undertaking may disclose the metrics it uses to manage pathways of introduction and spread of invasive alien species and the risks posed by invasive alien species.'

ESRS E4 paragraph 40 states: 'If the undertaking identified material impacts related to the state of species, the undertaking may report metrics it considers relevant. The undertaking may:

(a) refer to relevant disclosure requirements in ESRS E1, ESRS E2, ESRS E3, and ESRS E5;

(b) consider population size, range within specific ecosystems as well as extinction risk. These aspects provide insight on the health of a single species' population and its relative resilience to human induced and naturally occurring change;

(c) disclose metrics that measure changes in the number of individuals of a species within a specific area;

(d) disclose metrics on species at extinction risk (80) that measure:

  (i) the threat status of species and how activities/pressures may affect the threat status; or

  (ii) changes in the relevant habitat for a threatened species as a proxy for the undertaking's impact on the local population's extinction risk.'

ESRS E4 paragraph 41 states: 'If the undertaking identified material impacts related to ecosystems, it may disclose:

(a) with regard to ecosystems extent, metrics that measure area coverage of a particular ecosystem without necessarily considering the quality of the area being assessed, such as habitat cover. For example, forest cover is a measure of the extent of a particular ecosystem type, without factoring in the condition of the ecosystem (e.g., provides the area without describing the species diversity within the forest).

(b) with regard to ecosystems condition:

  (i) metrics that measure the quality of ecosystems relative to a pre-determined reference state;

  (ii) metrics that measure multiple species within an ecosystem rather than the number of individuals within a single species within an ecosystem (for example: scientifically established species richness and abundance indicators that measure the development of (native) species composition within an ecosystem against the reference state at the beginning of the first reporting period as well as the targeted state outlined in the Kunming-Montreal Global Biodiversity Framework, or an aggregation of species' conservation status if relevant); or

  (iii) metrics that reflect structural components of condition such as habitat connectivity (i.e., how linked habitats are to each other).'

ESRS 1 paragraph 11 states: 'In addition to the disclosure requirements laid down in the three categories of ESRS, when an undertaking concludes that an impact, risk or opportunity is not covered or not covered with sufficient granularity by an ESRS but is material due to its specific facts and circumstances, it shall provide additional entity-specific disclosures to enable users to understand the undertaking's sustainability-related impacts, risks or opportunities . Application requirements AR 1 to AR 5 provide further guidance regarding entity-specific disclosures.'

ESRS 1 paragraph 30 states 'When the undertaking concludes that a sustainability matter is material as a result of its materiality assessment, on which ESRS 2 IRO-1, IRO-2 and SBM-3 set disclosure requirements, it shall:

(a) disclose information according to the Disclosure Requirements (including Application Requirements) related to that specific sustainability matter in the corresponding topical and sector-specific ESRS; and

(b) disclose additional entity-specific disclosures (see paragraph 11 and AR 1 to AR 5 of this Standard) when the material sustainability matter is not covered by an ESRS or is covered with insufficient granularity.'

ESRS 1 paragraph 31 states 'The applicable information prescribed within a Disclosure Requirement, including its datapoints, or an entity-specific disclosure, shall be disclosed when the undertaking assesses, as part of its assessment of material information, that the information is relevant from one or more of the following perspectives:

~~(b)~~(a) (a) the significance of the information in relation to the matter it purports to depict or explain; or

~~(c)~~(b) (b) the capacity of such information to meet the users' decision-making needs, including the needs of primary users of general-purpose financial reporting described in paragraph 48 and/or the needs of users whose principal interest is in information about the undertaking's impacts.'

ESRS 1 paragraph 133 states: 'For the first 3 years of its sustainability reporting under the ESRS, in order to take account of the difficulties that undertakings may encounter in gathering information from actors throughout their value chain and in order to limit the burden for SMEs in the value chain:

~~(~~...~~)~~

(b) when disclosing metrics , the undertaking is not required to include upstream and downstream value chain information, except for datapoints derived from other EU legislation, as listed in ESRS 2 Appendix B.'

Answer

ESRS E4 paragraph 33 does not mention any specifications in terms of its scope. However, EFRAG IG2 "Value Chain Implementation Guidance", specifies in its "VC coverage map of ESRS Set 1" table, in page 44, that E4-5 only reflects own operations, as no coverage of VC is required. For clarity, ~~it refers to own operations and the upstream and downstream value chain, as no further specifications in terms of the scope are mentioned in this paragraph. For other paragraphs~~ it is to be noted that:

(a) ESRS E4-5 specifies in relation to the disclosure requirements in paragraphs 38 to 41 to consider only own operations ~~exclusive~~;

(b) ESRS E4 paragraph 35 specifies metrics focusing on sites owned, leased or managed by the undertaking; and

(c) ESRS E4 paragraph 36 is a voluntary disclosure on land use based on a Life Cycle Assessment, which inherently ~~addresses~~ considers the undertaking's value chain, as it involves assessing the impact of products or services on land use across all stages, from raw material sourcing to production and disposal.

In addition, if the undertaking identified material impacts, risks and opportunities in the value chain, it shall determine whether and what additional entity-specific disclosures it needs to disclose in line with ESRS 1 paragraphs 11 and 30(b). ~~This may but does not have to include metrics.~~ See in particular ESRS 1 paragraph AR3~~.~~ on how to determine the usefulness of metrics for inclusion in entity-specific disclosures. It is to be noted that, in any case, transitional provisions apply related to the disclosure of value chain information (see particularly ESRS 1 paragraph 133 (b)).

Commented [BF15]: Comment SRB 27 Nov:

Cristina (objected): 'ESRS E4 paragraph 33 refers to own operations and the upstream and downstream value chain, as no further specifications in terms of the scope are mentioned in this paragraph. It is strange. Usually it is written when a Value chain disclosure is prescribed. in 33 it is not foreseen and here we are adding something not explicitly stated in the ESRS. '

If it can help, to explain my position on ID 1058 please find below the table at page 44 of the IG on VC.
As such, I don't see how we can answer that "ESRS E4 -5 paragraph 33 refers to own operations and the upstream and downstream value chain" as it would be in contrast with the IG.'

Laurence (yellow) : editorials

ID 1116 – Disclosure requirements related to ESRS E4 SBM-3 if biodiversity is material for the upstream or downstream value chain only

Category

Environment

Question asked

Is the SBM-3 metric to be reported for ESRS E4 if biodiversity was assessed as not material for the company's own operations, but only for the upstream value chain? The SBM-3 metric specifically refers to the company's own sites, i.e. own operations. Additionally, no sites were found located in or near biodiversity-sensitive areas that have negative impacts on these areas.

ESRS Reference

ESRS E4 SBM-3

Key terms

Value Chain

Background

ESRS E4-4 states: 'Disclosure Requirement SBM 3 – Material impacts, risks and opportunities and their interaction with strategy and business model

16. The undertaking shall disclose:

(a) a list of material sites in its own operations, including sites under its operational control, based on the results of paragraph 17(a). The undertaking shall disclose these locations by:

i. specifying the activities negatively affecting biodiversity sensitive areas;

ii. providing a breakdown of sites according to the impacts and dependencies identified, and to the ecological status of the areas (with reference to the specific ecosystem baseline level) where they are located; and

iii. specifying the biodiversity-sensitive areas impacted, for users to be able to determine the location and the responsible competent authority with regards to the activities specified in paragraph 16(a) i.

(b) whether it has identified material negative impacts with regards to land degradation, desertification or soil sealing; and

(c) whether it has operations that affect threatened species.'

Answer

If the topic 'Biodiversity and Ecosystems' has been identified as material for the undertakings upstream (or downstream) value chain only, the undertaking:

(a) would not disclose the information required by ESRS E4 paragraph 16 (a), which refers to own operations only;

(b) would be required to disclose information required by ESRS E4 paragraph 16 (b)in connection with its upstream (or downstream) value chain, as ESRS E4 paragraph 16 (b) applies not only to impacts connected to the undertaking's sites in its own operations.

(c) In relation to ESRS E4 paragraph 16 (c), the undertaking would be required to disclose whether it has operations that affect threatened species (this refers to own operations and not to operations in the upstream or downstream value chain). If ESRS E4 is material and it does not have operations that affect threatened species, it shall state so.

Finally, where appropriate following ESRS 1 paragraph 11, the undertaking shall include information, including about its upstream and downstream value chain, on entity-specific basis.

Commented [BF16]: SRB 27 Nov:
Comment by Laurence 27 Nov (objected): "Needs to clarify whether answer c) considers that "operations" also cover the value chain. The answer is not clear currently.''

Commented [BF17R16]: BF: My understanding is that para 16 (c) refers to own operations. We originally used same wording in the answer as in the standard ('has operations' instead of saying in the answer explicitly 'own operations'). This was intended on my end. I made edits now.