This paper has been prepared by the EFRAG Secretariat for internal input by EFRAG SR TEG and the EFRAG SRB.

Amendments to ESRS 2 – V1

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Objective

1. This paper presents the Version 1 ('V1') of the amendments to ESRS 2 and it is based on the feedback received from EFRAG SR TEG and the EFRAG SRB on V0.

Status of this draft V1

2. The draft reflects:
   - reorganisation of the content of V0. Mandatory Application Guidance (same language of IFRS) maintained in main body below the respective DRs. Non-mandatory guidance moved to Appendix 1 (former 'orange box'), split between 'priority one' non-mandatory guidelines (to be ideally kept in the DA to support proper implementation) and 'not priority one' non-mandatory guidelines (to be considered for possible EFRAG guidelines if the SRB/ the EC decide to reduce the content of the DA);
   - written feedback received from the SRB and SRT members on V0;
   - reservations/objections (7) received regarding paragraph 11 (omitting DP's when subject to national law), which was defined by the sub group. Ongoing analysis to assess the coverage in the CG statement of these datapoints when complying with Art. 20 of Accounting Directive;
   - compared to V0, a 'by exception' approach to BP 1 and BP2, where only one DP remains in each of the two DR, requiring to disclose the information required by the corresponding ESRS 1 provisions;
   - deletion of Appendix C of ESRS 2, as the topical specifications have been deleted except few datapoints moved to specific DR in topical standards.
3. This draft does not yet reflect:
   - adjusting Appendix B *List of datapoints in cross-cutting and topical standards that derive from other EU legislation*;
   - possible new AG in SBM-1 to clarify that for investments (such as JV) the relevant sector in relation to material impacts is the one of the investee;
   - the drafting of OG for SBM-2 and SBM-3 from current social datapoints that have been deleted from the topical standards and became specifications in the form of Guidance.
   - horizontal harmonisation of language and wording across similar requirements;
   - horizontal considerations on how to treat SFDR datapoint on the basis of V0 of different standards;
   - horizontal considerations on how to treat IFRS datapoints on the basis of V0 of ESRS 1, ESRS 2 and ESRS E1;
   - linguistic simplification and English review;

- cross-reference check with paragraphs from other ESRS;
- new application guidance on mitigation hierarchy (for E).

4. Following the objections received in the written consultation, there are few additional elements of substance that should be discussed in plenary meeting/to be included in the next version:

- whether to delete the datapoint on controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons), which is and SFDR PAI, considering the objections by members in the written consultation in the context of the present geopolitical situation;
- the most appropriate language for the non-mandatory guidance priority 1, depending on the expected approach to audit: ‘the following are possible elements to cover’ or ‘the following elements may be covered’ (this is also affecting topical standards);
- the disclosure of anticipated financial effects is limited to ‘announced’ investments and disposal plans;
- explore duplications between MDR-A (financial resources) and SBM-3 – financial effects (investments, disposal plans and funding);

ESRS 2 V1

1. (1) This ESRS sets out the general disclosure requirements that apply across sustainability topics (i.e. cross-cutting). This ESRS covers the reporting areas defined in ESRS 1 *General requirements*, Section 1.2 *Reporting areas and minimum content disclosure requirements on policies, actions, targets and metrics*.

BP-1 Basis for preparation of the sustainability statement

2. (4 and 7 amended) The objective of this Disclosure Requirement is to provide an understanding of the basis for preparation of the sustainability statement and of deviations if any from the general requirements, including disclosure required in ESRS 1 in specific circumstances and information about the phasing in.

3. (5 amended) The undertaking shall disclose:

   (a) whether the sustainability statement has been prepared on a consolidated or individual basis and in case the reporting boundary is different from the one adopted in the consolidated financial statements, the description and reasons for this circumstance;

   (b) any deviation from the general requirements in ESRS 1, the reasons for it and the effects on the reported information;

   (c) the extent of inclusion of value chain information in the reported material impacts, risks and opportunities, in the reported policies, actions and targets and in metrics;

   (d) when the undertaking incorporates information by reference (ESRS 1 paragraph 134), it shall disclose a list of the disclosure requirements of ESRS, or the specific datapoints mandated by a Disclosure Requirement, that have been incorporated by reference.

4. For the following specific circumstances, the undertaking shall disclose the relevant information in accordance with the respective paragraphs of ESRS 1:

   (a) deviation from pre-defined time horizons (ESRS 1 paragraph 80); (b) adjustments to comparative information (ESRS 1 paragraphs 85 and 86);

   (c) judgement and significant uncertainties (ESRS 1 paragraph 91);

   (d) relief when the undertaking discloses metrics with a partial scope (ESRS 1 paragraph 98);

   (e) updating disclosures for events after the end of the reporting period (ESRS 1 paragraph 99 and 100);

   (f) changes in preparation or presentation of sustainability information (ESRS 1 paragraph 101);

   (g) reporting errors in prior periods (ESRS 1 paragraph 102 and 104)

   (h) option to omit classified and sensitive information, information about impending developments or matters in the course of negotiation, sensitive information about opportunities (ESRS 1 paragraphs 106, 110 and 113);

   (i) presentation of additional information (ESRS 1 paragraphs 123 and 124);

   (j) relief for metrics in the value chain (ESRS 1 paragraph 73);

   (k) relief for acquisitions and disposals (ESRS 1 paragraph 75).

5. (17 amended) If an undertaking has used one or more of the phasing-in provisions in chapter 10 and in appendix C of ESRS 1, it shall disclose this circumstance. (17 amended) If an undertaking decides to omit the information required by ESRS E4, ESRS S1, ESRS S2, ESRS S3 or ESRS S4 in accordance with Appendix C of ESRS 1, it shall nevertheless disclose whether the sustainability topics covered respectively by ESRS E4, ESRS S1, ESRS S2, ESRS S3 and ESRS S4 have been assessed to be material as a result of the undertaking's materiality assessment. In

addition, if one or more of these topics has been assessed to be material, the undertaking shall:

(a) briefly describe its policies in relation to the matters in question, if it has implemented such policies; and

(b) briefly describe actions implemented for the matters in question, if it has implemented such actions.

APPLICATION GUIDANCE - AG (mandatory)
AG 1. for par. 2) (new) The undertaking shall report the required information (see following paragraphs) in the Basis for Preparation section of its sustainability statement, or alongside the relevant disclosures / metrics to which the information pertains.

GOVERNANCE

GOV-1 The role the administrative, management and supervisory bodies with regards to sustainability matters

6. (20 amended) The objective of this disclosure requirement is to provide an understanding of the governance processes, controls and procedures put in place to monitor, manage and oversee sustainability-related impacts, risks and opportunities.
7. The undertaking shall disclose:

(a) (22 a and 23 amended) information about the administrative, management and supervisory bodies (which can include a board committee or similar) or individual(s) within a body responsible for oversight of impacts, risks and opportunities including how the administrative, management and supervisory bodies ensure the availability of the appropriate skills and expertise to oversee sustainability matters;

(b) (22 a) a description of management's role in the governance processes, controls and procedures used to monitor, manage and oversee impacts, risks and opportunities;

(c) (21 d & e) the percentage by gender and other aspects of diversity that the undertaking considers regarding the composition of the administrative, management and supervisory bodies; and the percentage of independent board members;

(d) (21 b) representation of employees and other workers.

8. If the undertaking is not subject to legal requirements under national law transposing **Directive (EU), 2013/34/EU** or to equivalent legal requirements regarding a corporate governance statement, it shall disclose:

(a) (22b) how each body's or individual's responsibilities for impacts, risks and opportunities are reflected in the undertaking's terms of reference, board mandates and other related policies;

(b) (22 d) how the administrative, management and supervisory bodies and senior executive management oversee the setting of targets related to material impacts, risks and opportunities, and how they monitor progress towards them

(c) (26 a) whether, by whom and how frequently the administrative, management and supervisory bodies, including their relevant committees, are informed about material impacts, risks and opportunities (see Disclosure Requirement IRO–1 - Description of the processes to identify and assess material impacts, risks and opportunities of this Standard),

(d) (26 b) how the administrative, management and supervisory bodies consider impacts, risks and opportunities when overseeing the undertaking's strategy, its decisions on major transactions, and its risk management process, including whether they have considered trade-offs associated with those impacts, risks and opportunities;

(e) (22 c i) whether management's role is delegated to a specific management-level position or committee and how oversight is exercised over that position or committee; and

(f) (22 c ii) whether dedicated controls and procedures are applied to the management of impacts, risks and opportunities and, if so, how they are integrated with other internal functions.

APPLICATION GUIDANCE - AG (mandatory)

AG 1. for par. 8 a) (22 a) The undertaking **shall identify** the administrative, management and supervisory bodies (which can include a board committee or similar) or individual(s) within a body responsible for oversight of impacts, risks and opportunities.

AG 2. for par. 8 a) (23 a & AR 5 amended) The description **shall refer** to the sustainability-related expertise that the bodies, as a whole, either directly possess or can leverage, for example through access to experts, training or other educational initiatives.

AG 3. for 8 c) (21d)The board's gender diversity **shall be calculated** as an average ratio of female to male board members; and

AG 4. for 8 c) (21e)For undertakings with a 1- tier board, this corresponds to the percentage of independent non-executive board members. For undertakings with a 2-tier board, it corresponds to the percentage of independent members of the supervisory body.

GOV-2 – Integration of sustainability-related performance in incentive schemes

9. (28) The objective of this Disclosure Requirement is to provide an understanding of whether incentive schemes are offered to members of the administrative, management and supervisory bodies that are linked to sustainability matters.

10.(29) Where they exist, the undertaking shall disclose:

(a) (29 b) whether performance is being assessed against specific sustainability-related targets and (or) impacts, and if so, which ones;and

(b) (29 d) the proportion of variable remuneration dependent on sustainability-related targets and/or impacts.

GOV-3: statement on due diligence

11.(31) The objective of this Disclosure Requirement is to facilitate an understanding of the undertaking's due diligence process with regard to sustainability matters.

12.(32) The undertaking shall disclose a mapping that explains how and where its application of the main aspects and steps of the due diligence process are reflected in its sustainability statement (footnote).

GOV-4: Risk management and internal controls over sustainability reporting

13.(35) The objective of this Disclosure Requirement is to provide an understanding of the undertaking's risk management and internal control processes and systems in relation to sustainability reporting.

14.(36 a) The undertaking shall disclose the scope, main features and components of the risk management and internal control processes and systems in relation to sustainability reporting.

STRATEGY

15.(37) This chapter sets disclosure requirements that enable an understanding of:

(a) the elements of the undertaking's strategy that relate to or affect sustainability matters, its business model and its value chain;

(b) how the interests and views of the undertaking's stakeholders are taken into account by the undertaking's strategy and business model; and

(c) the outcome of the undertaking's assessment of material impacts, risks and opportunities, including how they inform its strategy and business model.

SBM-1 Strategy, business model and value chain

16.(39) The objective of this Disclosure Requirement is to describe the key elements of the undertaking's general strategy that relate to or affect material impacts, risks and opportunities, and the key elements of the undertaking's business model and value chain, in order to provide an understanding of its exposure to material impacts, risks and opportunities and where they originate.

17.(40 amended) The undertaking shall disclose the following information about the key elements of its general strategy that relate to or affect sustainability matters:

(a) a description of:

i. significant groups of products and/or services offered and, significant markets and/or customer groups served, and the sustainability-related goals that the undertaking has associated to them, including significant changes in the reporting period (new/removed products, services, markets and/or customer groups); and

ii. where applicable and material, products and services that are banned in certain markets.

(b) the list of significant sectors including activities that are internal to the group and the sector classification system adopted for this disclosure;

(c) where applicable, a statement indicating, together with the related revenues, that the undertaking is active in:

i. the fossil fuel (coal, oil and gas) sector;

ii. chemicals production, i.e., its activities fall under Division 20.2 of Annex I to Regulation (EC) No 1893/2006;

iii. controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons); and/or

iv. the cultivation and production of tobacco.

18.(42 amended) The undertaking shall disclose a description of its business model and value chain and the undertaking's position in its value chain.

APPLICATION GUIDANCE - AG (mandatory)

AG 1. for par. 17 c) i) (40 d) i.) In preparing the disclosure on the revenues in the fossil fuel sector, the undertaking shall include 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 the Council), including a disaggregation of revenues derived from coal, from oil and from gas, as well as the revenues derived from Taxonomy-aligned economic activities related to fossil gas as required under Article 8(7)(a) of Commission Delegated Regulation 2021/21781.

AG 2. for par. 17 a) and b) (AR 13 amended) When disclosing information on a group of products and/or services, a group of markets and/or customers, and on a sector, the undertaking shall refer to the following criteria to assess if they are significant:

(a) it accounts for more than 10 per cent of the undertaking's revenue or is a reportable sector in accordance with IFRS 8;

(b) it is connected with material actual impacts or material potential negative impacts of the undertaking.

AG 3. for par. 18) (42 c and AR 13 amended) In disclosing the information on its business model and value chain the following are possible elements to cover:

(a) main business actors (such as key suppliers, customers, distribution channels and end-users) and their relationship to the undertaking;

(b) coverage of the key value chains, if the undertaking has multiple value chains;

(c) its key business relationships and their key characteristics;

(d) its key activities, resources, distribution channels and customer segments and

(f) the impacts, risks and opportunities that are common in its significant sector(s) and their possible relationship to the business model or value chain.

AG 4. for par. 18) (AR 15) Contextual information may be particularly relevant for users of the undertaking's sustainability statement, to understand to what extent the disclosures include upstream and/or downstream value chain information. The description of the main features of the upstream and/or downstream value chain and where applicable the identification of key

value chains should support an understanding of how the undertaking applies the requirements of ESRS 1 chapter 5 and the materiality assessment performed by the undertaking in line with ESRS 1 chapter 3. The description may provide a high-level overview of the key features of upstream and/or downstream value chain entities indicating their relative contribution to the undertaking's performance and position and explaining how they contribute to the value creation of the undertaking.

SBM-2 Interests and views of stakeholders

19.(44 amended) The objective of this Disclosure Requirement is to provide an understanding of the undertaking's stakeholder engagement and how stakeholders' interests and views are brought to the attention of the administrative, management and supervisory bodies and inform the strategy and business model.

20.(45 amended) The undertaking shall disclose:

(a) a summarised description of its stakeholder engagement, including information about the key stakeholders with which it engaged;

(b) the undertaking's understanding of the interests and views of its key stakeholders as they relate to the undertaking's strategy and business model;

(c) whether and how the administrative, management and supervisory bodies are informed about the views and interests of key affected stakeholders (including workers' representatives) with regard to the undertaking's material sustainability-related impacts.

APPLICATION GUIDANCE – AG
AG 1. for par. 20 a) (new) Key stakehloders refer to categories of stakeholders, including affected stakeholders.

SBM-3 Material impacts, risks and opportunities and their interaction with strategy and business model

21.(47 amended) The objective of this Disclosure Requirement is to provide an understanding of the material impacts, risks and opportunities as they result from the undertaking's materiality assessment and how they originate from and trigger adaptation of the undertaking's strategy and business model including its resources allocation.

22.(48 amended) The undertaking shall disclose:

(a) its material (positive and negative, actual and potential) impacts, risks and opportunities resulting from the materiality assessment by providing a concise overview of them,

(b) description of the impacts, how they affect or are likely to affect people or the environment, if they originate from or are connected to the undertaking's strategy and business model, where in its business model, its own operations and its upstream and downstream value chain they are concentrated;

(c) the effects of material risks and opportunities. This shall include:

i. a high-level description of how material risks and opportunities affect its business model, value chain, strategy and decision-making, and how it has responded or plans to respond to these effects, including any changes it has made or plans to make to its strategy or business model as part of its actions to address particular material risks, or to pursue particular material opportunities;

ii. the effects on the entity's financial position, financial performance and cash flows for the reporting period (current financial effects), by reference to the financial statements where this information is presented there;

iii. the anticipated effects on its financial position, financial performance and cash flows over the short, medium and long term, taking into consideration how sustainability-related risks and opportunities are included in the entity's financial planning (anticipated financial effects), with separate disclosure of those for which there is a significant risk of a material adjustment within the next annual reporting period to the carrying amounts of assets and liabilities reported in the related financial statements;

(c) information about the resilience of the undertaking's strategy and business model regarding its capacity to address its material impacts and risks and to take advantage of its material opportunities. The undertaking shall disclose a qualitative analysis of the resilience, including how the analysis was conducted and the time horizons that were applied as defined in ESRS 1 (see ESRS 1 chapter 6 Time horizons), and may disclose a quantitative analysis;

(d) changes to the material impacts, risks and opportunities compared to the previous reporting period.

APPLICATION GUIDANCE - AG (mandatory)

AG 1 for par. 22 The disclosure about impacts, risks and opportunities may be presented either individually or at an aggregated level (groups of impacts, risks and opportunities or matters) as appropriate in accordance with ESRS 3.6. ;

AG 1 bis for par. 22 b) (new from Social placeholder on SFDR PAI 12 and 13 of from table 3) Where the undertaking determines that its operations or value chains are exposed to factors that give rise to heightened risk of material negative impacts related to chid labour; and forced or compulsory labour, this conclusion shall be specifically disclosed in relation to ESRS S2-S4.

AG 3 for par. 22 c) iii. (new) Regarding anticipated financial effects, this shall include how the undertaking expects its financial position, financial performance and cash flows to change over the short, medium- and long-term, given its strategy to manage risks and opportunities, taking into consideration:

(a) its announced investment and disposal plans (for example, capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas and asset retirements), including plans the undertaking is not contractually committed to; and

(b) its planned sources of funding to implement its strategy.

AG 4. for par. 22 c) iii. (new) An undertaking need not provide quantitative information about the current or anticipated financial effects if the undertaking determines that:

(a) the effects related to a specific matter (or its impact(s), risk(s) and opportunities) are not separately identifiable from those related to another matter or impact, risk, opportunity; or

(b) the level of measurement uncertainty involved in estimating those effects is so high that the resulting quantitative information would not be useful (see paragraphs XX of ESRS 1), such as when there are no reasonable and supportable information derived from the undertaking's business plans to be used as input in the calculation of anticipated long-term financial effects.
AG 5. for par. 22 c) iii. (new) In preparing disclosures about the anticipated financial effects, an undertaking shall use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort (see paragraphs XX of ESRS 1).

AG 6. for par. 22 c) iii. (new) If an undertaking determines that it cannot provide quantitative information about the current or anticipated financial effects of a sustainability-related risk or opportunity applying the criteria set out in paragraphs XX–XX, the undertaking shall:

(a) explain why it has not provided quantitative information;

(b) provide qualitative information about those financial effects, including identifying line items, totals and subtotals within the related financial statements that are likely to be affected, or have been affected, by that risk or opportunity; and

(c) provide quantitative information about the combined financial effects of that risk or opportunity with other sustainability-related risks or opportunities and other factors, unless the undertaking determines that quantitative information about the combined financial effects would not be useful.

AG 7. for par. 22 c) (48 f) When providing quantitative information, the undertaking may disclose single amounts or ranges.

AG 8. for par. 22. When the undertaking presents the descriptive information required in paragraph 25 alongside the disclosures provided in accordance with the topical ESRS, it shall present a statement of its material impacts, risks and opportunities alongside its disclosures prepared under this chapter of ESRS 2.

IRO-1 - Description of the process to identify and assess material impacts, risks and opportunities and material information to be reported

23.(52) The objective of this Disclosure Requirement is to provide an understanding of the process through which the undertaking identifies impacts, risks and opportunities and assesses their materiality, as the basis for determining the disclosures in its sustainability statement (see ESRS 1 chapter 3), as well as how it determines the information to be reported for material matters.

24.(53 amended) The undertaking shall disclose the following:

(a) an overview of its process to assess its sustainability impacts, risks and opportunities for materiality in line with the provisions of ESRS 1 [chapter 3.5], and particular methodologies applied as part of that process, the input parameters used and how it determines qualitative or quantitative thresholds;

(b) a description of the decision-making process to determine which impacts, risks and opportunities are material and which sustainability matters are to be reported on;

(c) how it has implemented the criteria for determining the materiality of information to be disclosed, including the use of thresholds (ESRS 1 section 3.3 Materiality of information);

(d) whether and how the process has changed compared to the prior reporting period.

APPLICATION GUIDANCE - AG (mandatory)

AG 1. for par. 24 a) (53 b and c amended) In disclosing the information related to the process to assess its sustainability impacts, risks and opportunities the following are elements to cover. In particular, whether and how the process:

(a) focusses on specific activities, business relationships, geographies or other factors that give rise to heightened risk of adverse impacts; and

(b) prioritises negative impacts based on their relative severity and likelihood, (see ESRS 1 section 3.4 Impact materiality);

(c) includes consultation with affected stakeholders to understand how they may be impacted and with external experts;

(d) the undertaking assesses the likelihood, magnitude, and nature of effects of the identified risk and opportunities (such as the qualitative or quantitative thresholds and other criteria used as prescribed by ESRS 1 section 3.3 Financial materiality);

(e) the undertaking prioritises sustainability-related risks relative to other types of risks, including its use of risk-assessment tools.

AG 2. XX. – Specification for environmental topics

Where the company determines that its operations or value chains are exposed to factors that give rise to heightened risk of adverse impacts related to pollution, use of water and other natural resources, as well as to ecosystems and biodiversity, the description of its [materiality assessment process] shall enable users to understand how the company screened its site locations [or assets] and business activities to further investigate impacts that may be material in the local context.

The undertaking may consider, in particular, how its operations and, where relevant, its value chain affect:

i. local air quality situation,

ii. water availability in areas at water risk, and

iii. threatened species and ecosystems in biodiversity-sensitive areas.

The undertaking may consider four phases of the LEAP approach and guidance provided by TNFD how to (1) locate where in its own operations and along the value chain the interface with nature takes place, (2) evaluate the dependencies and impacts, (3) assess risks and opportunities, and (4) prepare and report results]

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

25.(55) The objective of this Disclosure Requirement is to provide an understanding of the Disclosure Requirements included in the undertaking's sustainability statement and of the topics that have been omitted as not material, as a result of the materiality assessment.

26.(56) The undertaking shall include:

a) a list of the Disclosure Requirements complied with in preparing the sustainability statement, following the outcome of the materiality assessment (see ESRS 1 chapter 3), including the page numbers and/or paragraphs where the related disclosures are located in the sustainability statement. This may be presented as a content index. The undertaking shall also include a table of all the datapoints that derive from other EU legislation as listed in Appendix B of this standard, indicating where they can be found in the sustainability statement and including those that the undertaking has assessed as not material, in which case the undertaking shall indicate "Not material";

b) (57 amended) if the undertaking concludes that climate change is not material and therefore omits all disclosure requirements in ESRS E1 Climate change, the basis for that conclusion.

Minimum disclosure requirements on policies and actions

27.(60 amended) This section sets out minimum disclosure requirements to be included when the undertaking discloses information on its policies and actions to prevent, mitigate and remediate actual and potential material impacts, to address material risks and/or to pursue material opportunities (collectively, to "manage material sustainability matters").

28.(new) The level of disaggregation in disclosing implemented policies, actions and targets shall reflect the approach taken by the undertaking in managing its material impacts, risks and opportunities, i.e. at level of topic, sub-topic or group of sub-topics, unless a more granular level is necessary.

29.(62 amended) If the undertaking cannot disclose the information on policies and actions required under relevant ESRS, because it has not adopted policies and/or actions with reference to the specific sustainability matter concerned, it shall disclose this to be the case.

APPLICATION GUIDANCE - AG (mandatory)
AG 1. for par. 29) (new) When the undertaking uses a tabular form for presenting its matters to be reported and associated impacts, risks and opportunities (SBM 3) it may present this information by including a tick mark in the table.

Minimum Disclosure Requirement – Policies MDR-P – Policies adopted to manage material sustainability matters

30.(64) The objective of this Minimum Disclosure Requirement is to provide an understanding of the policies that the undertaking has in place to prevent, mitigate and remediate actual and potential impacts and to address risks and to pursue opportunities.

31.(65 amended) The undertaking shall disclose information about policies adopted to manage material impacts, risks and opportunities according to this paragraph and, where applicable, the requirements in the topical standards, including:

(a) a description of the key contents of the policy, including its general objectives and which material impacts, risks or opportunities the policy relates to;

(b) a description of the scope of the policy, or of its exclusions, in terms of activities, upstream and/or downstream value chain, geographies and if relevant, affected stakeholder groups;

(c) if relevant a reference to the third-party standards or initiatives the undertaking commits to respect through the implementation of the policy; and

(d) when the undertaking has considered affected stakeholders' views and interests in the definition of the policy (in particular, for social matters), a description of the consideration given to the interest of these stakeholders in setting this policy.

32.(new from S1-S4) The undertaking shall disclose whether it has an overarching human rights policy committing to implement the UN Guiding Principles on Business and Human Rights, ILO Declaration on Fundamental Principles and Rights at Work and the OECD Guidelines for Multinational Enterprises (SFDR table 1 indicator 11 and SFDR table 3 indicator 9).

APPLICATION GUIDANCE - AG (mandatory)
AG 1. for par 31 (new from existing S1-S4 S1 AR10) The undertaking may include explanations of significant changes to the policies adopted during the reporting year (for example, new acquisitions) as contextual information for users. **AG 2. for par. 31 (new from exsting S1-S4)** The policy may take the form of an overarching policy or it could be broken down into different stand-alone policies that cover different groups of affected stakeholders (for example, own workforce and workers in the value chain being distinct from consumers and end-users)**.**
AG 3. for par. 32 (moved from Social AR as indicated in the Social PAT version zero) When disclosing the human rights policy, the International Bill of Human Rights, which consists of the

Universal Declaration of Human Rights and the two Covenants that implement, should be the reference point of human rights from the UN Guiding Principles on Business and Human Rights.

Minimum Disclosure Requirement – Actions MDR-A – Actions and resources in relation to material sustainability matters

33.(67) The objective of this Minimum Disclosure Requirement is to provide an understanding of the key actions taken and/or planned to prevent, mitigate and remediate actual and potential impacts, and to address risks and opportunities, and where applicable achieve the objectives of related policies.

34.(68 amended) When the undertaking implements key actions to manage material impacts, risks and opportunities, it shall disclose:

(a) the description of key actions taken in the reporting year and planned for the future, including their scope and timeframe; and

(b) the current year and/or expected outcomes and, where applicable, how their implementation contributes to the achievement of policy objectives.

35.(69 amended) Where the implementation of key actions related to material impacts, risks or opportunities requires significant and/or specific resources (operational and/or capital expenditure) the undertaking shall:

(a) describe the type of current and future financial and other resources allocated to the key actions, and whether the ability to implement these key actions depends on specific preconditions (e.g., granting of financial support or public policy and market developments);

(b) when financial resources have been allocated in the reporting period, disclose their amount and indicate the line items or paragraphs of the notes to the financial statements from which they are sourced; and

(c) provide the indicative range of future financial resources.

APPLICATION GUIDANCE - AG (mandatory)

AG 1. for par. 34 a) (68 a and b amended) The scope of the key actions refers to the coverage in terms of activities, upstream/downstream value chain, geographies and, if applicable, affected stakeholder groups.

The timeframe refers to the time horizons under which the undertaking intends to complete each action.

AG 2. for par. 34 (AR 22) Key actions in the context of this Minimum Disclosure Requirement are those actions that have played a significant role in addressing material impacts, risks and opportunities, including those actions to provide or support the provision for remedy. For reasons of understandability, key actions may be aggregated where appropriate. Conversely, when key actions cover more than one material impact, risks or opportunities, this can be indicated and cross-reference if necessary.

AG 3. for par. 35) (AR 23) Information on resource allocation may be presented in the form of a table and broken down between capital expenditure and operating expenditure, and between resources applied in the current reporting year and the planned allocation of resources over specific time horizons.

Metrics and targets

36.(70 amended) This chapter sets out Minimum Disclosure Requirements that shall be included when the undertaking discloses information on its metrics and targets related to each material sustainability matter. The minimum disclosure requirements shall be applied together with the Disclosure Requirements provided in the relevant topical ESRS. They shall also be applied when the undertaking prepares entity-specific disclosures on metrics and targets.

37.(71) The corresponding disclosures shall be located alongside disclosures prescribed by the topical ESRS.

38.(72 amended) If the undertaking cannot disclose the information on targets required under the relevant topical ESRS, because it has not set targets with reference to the specific sustainability matter concerned, it shall disclose this to be the case.

Minimum disclosure requirement – Metrics MDR-M – Metrics in relation to material sustainability matters

39.(74) The objective of this Minimum Disclosure Requirement is to provide an understanding of the metrics the undertaking uses to evaluate the performance and track the effectiveness of its actions to manage material impacts, risks and opportunities.

40.(75 amended) The undertaking shall disclose any metrics that it uses to evaluate performance and track effectiveness, in relation to a material impact, risk or opportunity, including entity-specific basis.

41.(77 amended) For each metric, the undertaking shall disclose:

(a) the metric, and its unit of measurement, where relevant, the estimation methodology, significant assumptions and limitations;

(b) explanations regarding significant changes in the performance during the reporting year.

APPLICATION GUIDANCE - AG (mandatory)
AG 1 for par. 41 a) (77 d) amended) When currency is specified as the unit of measurement, the undertaking shall use the presentation currency of the financial statements.

Minimum Disclosure Requirement – Targets MDR-T – Tracking effectiveness of policies and actions through targets

42.(79 amended) The objective of this Minimum Disclosure Requirement is to provide an understanding of how the undertaking tracks the effectiveness of its policies and actions in relation to the material impacts, risks and opportunities. In particular, whether the undertaking uses (i) measurable time-bound outcome-oriented targets set by the undertaking to meet the policy's objectives and (ii) the overall progress and effectiveness towards the adopted targets over time.

43.(80 amended) The undertaking shall disclose the measurable, outcome-oriented and time-bound qualitative or quantitative targets related to its material impacts, risks and opportunities. For each target, the undertaking shall disclose:

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

(b) the defined target value (or level when qualitative) 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 (or level when qualitative) and base year from which progress is measured;

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

(f) where applicable, the methodologies and significant assumptions used to define targets, including if the undertaking considered conclusive scientific evidence (i.e. related with ecological thresholds and entity-specific allocations); and,

(g) the performance against its disclosed targets, including information on how the target is monitored and reviewed and the metrics used.

44.(81 amended) If the undertaking has not set any measurable outcome-oriented targets, it shall disclose whether and how it nevertheless tracks the effectiveness of its policies and actions in relation to the material impacts, risks and opportunities.

APPLICATION GUIDANCE - AG (mandatory)
AG 1. for par. 38) (new) The undertaking may present the information required by paragraph 38 alongside the disclosure of its material impacts risks and opportunities or its reported sustainability matters, such as by using a flag when the content of ESRS SBM 3 is presented in a tabular form. **AG 2. for par. 43 g) (new)** The undertaking's performance against its disclosed targets refers to whether the progress is aligned with plan, and/or significant changes in the performance affect the achievement of the target. **AG 3. for par. 43 (AR 24)** When disclosing targets related to the prevention or mitigation of environmental impacts, a distinction can be made on whethertargets related to the reduction of the impacts in absolute terms or relative terms. When targets address the prevention or mitigation of social impacts, they may be specified in terms of the effects on human rights, or positive outcomes for affected stakeholders.

Appendix 1: Other Guidance

Introduction

This appendix is an integral part of ESRS 2 V1 and includes “Other Guidance” related to Disclosures Requirements such as examples, sector-specific issues, and other relevant information. Where applicable, this guidance is divided into:

i. “Priority 1”: Non-mandatory guidelines that the EFRAG Secre recommends to retain in the Delegated Act (DA) to support p implementation.

OTHER GUIDANCE – priority 1

ii. “Non-Priority 1”: Other non-mandatory guidelines.

OTHER GUIDANCE – non-Priority 1

iii. This could be moved outside the DA if necessary.

GOV-1 The role the administrative, management and supervisory bodies with regards to sustainability matters

OTHER GUIDANCE – Priority 1

OG 1. for par. 10 (AR 3) When disclosing on the body responsible for oversight of impacts, risks and opportunities, the following are possible aspects to cover: (a) the aspects of sustainability over which oversight is exercised, including strategy adjustments, materiality assessment, related policies, targets, actions and resources, and sustainability reporting;

(b) the form of oversight (e.g., information, consultation, decision-making), and how it is organised and formalised within governance processes.

OTHER GUIDANCE – non-Priority 1

OG 1. for par. 10 In disclosing the information required under par. 21) the following are possible elements to be covered:

(a) (21a) the number of executive and non-executive members.

OG 2. for par. 10 (AR 4) In describing the undertaking’s organisation of governance regarding sustainability matters, the undertaking may presen**t** its governance structure in the form of a diagram.
OG 3. for par. 10 a) (par 21 c) The description may includ**e** information about the experience relevant to the sectors, products and geographic locations of the undertaking

OG 4 for par. 10 (AR 6) Depending on the undertaking’s structure, the undertaking may detail how the governance bodies ensure that an appropriate mechanism for performance monitoring is in place in case the administrative, management and supervisory bodies focuses on overarching targets, while management focuses on the more detailed targets.

GOV-2 – Integration of sustainability-related performance in incentive schemes

OTHER GUIDANCE – Priority 1
OG 1. for par. 13 (AR 7) For listed undertakings, this Disclosure Requirement should be consistent with the remuneration report prescribed in articles 9a and 9b of Directive 2007/36/EC on the exercise of certain rights of shareholders in listed companies. Subject to the provisions of ESRS 1, paragraphs 119, 120 and 122, a listed undertaking may include a reference to its remuneration report.

GOV-3: statement on due diligence

OTHER GUIDANCE – non-Priority 1
OG 1. for par. 15 (AR8) The undertaking may present the mapping required by paragraph 30 in the form of a table, cross referencing the core elements of due diligence, for impacts on people and the environment, to the relevant disclosures in the undertaking's sustainability statement, as set out below. **OG 2. for par. 15** (AR 9) The undertaking may include additional columns to the table below **(xxxto insertxx)** to clearly identify those disclosures that relate to impacts on people and/or the environment given that, in some cases, more than one disclosure may provide information about the same due diligence step.

GOV-4: Risk management and internal controls over sustainability reporting

OTHER GUIDANCE – non-Priority 1
OG 1. for par. 17 In disclosing the information required under par. 27 the following are possible elements to be covered: (a) (26 b) the risk assessment approach followed, including the risk prioritisation methodology; (b) (26 c&e) how the undertaking integrates the findings of its risk management and internal controls in relation to sustainability reporting into relevant internal functions and processes as well as how it reports these findings to the AMSB. **OG 2. for par. 17** (AR 11) The undertaking **may include** risks such as the completeness and integrity of the data, the accuracy of estimation results,

SBM-1 Strategy, business model and value chain

OTHER GUIDANCE – Priority 1
OG 1. for par. 20 b) (new) There are specific impacts, risks and opportunities that are likely to arise when an undertaking is active in a given sector. The identification of significant sectors supports the provision of relevant entity-specific information, in accordance with ESRS 1 AR 4. In the identification of significant sectors, the undertaking may refer to: (a) the NACE classification system (Nomenclature générale des Activités Economiques dans les Communautés Européennes NACE Rev.2.1;

(b) the reportable segments disclosed in the financial statements in accordance with IFRS 8 Operating segments;

(c) available classification best practices or frameworks.

When reporting on its significant sectors, the undertaking may refer to the breakdowns of its financial performance measures, as reported in the financial statements.

OTHER GUIDANCE – non-Priority 1

OG 1. for par. 20 a) i. (new) In disclosing this information, the undertaking may incorporate by reference to the key elements of its strategy as disclosed in the management report.

SBM-2 Strategy, business model and value chain

OTHER GUIDANCE – Priority 1

OG 1. for par. 23 b) (ESRS S1 AR4.) The strategy and business model may play a role in creating, exacerbating or mitigating significant material impacts on the undertaking' own workforce and other affected stakeholders, and whether and how the business model and strategy are adapted to address such material impacts.

OG 2. for par. 23 a) (ESRS 2 para 45 a) iii -v). When disclosing this information, the following are possible elements to cover: how the engagement is organised and its purpose.

OTHER GUIDANCE – non-Priority 1

Work in progress- illustrations of engagement with stakeholders and linkage with due diligence where applicable.

SBM-3 Material impacts, risks and opportunities and their interaction with strategy and business model

OTHER GUIDANCE – Priority 1

OG 1. for par. 25 b) and 25 c) i. (new) The description of impacts, risks and opportunities could be provided in SBM-3 or in (topical) sections of the report, where the undertaking explains its PATM related to them.

OG 2 for par XX anticipated financial effects: When the undertaking discloses qualitative information only about long term financial effects, it may refer to grades of magnitude (e.g. high-medium-low), explaining how the respective thresholds are determined (e.g. as a percentage of earning before tax depreciation and amortisation of other financial indicators).

[PLACEHOLDER ENVIRONMENT]

PLACEHOLDER: SBM-3 guidance from current Social disclosures

OTHER GUIDANCE – non-Priority 1

OG 1. for par. 25) (AR 17 amended) When describing where in its upstream and/or downstream value chain material impacts, risks and opportunities are concentrated, the following are possible elements to cover: geographical areas, facilities or types of assets, inputs, outputs and distribution channels.

OG 2. for par. 25) (new) The undertaking may present:

(a) a concise overview of its material impacts, risks and opportunities as a summary of the outcomes of its materiality assessment;

(b) the description of each material impact, risk or opportunity, as required under para 28, together with material information on the policies, actions, targets and other measures it took to manage the matter during the reporting period, in line with the Minimum Disclosure Requirements in ESRS 2 and the relevant topical standards.

IRO-1 - Description of the process to identify and assess material impacts, risks and opportunities

OTHER GUIDANCE – Priority 1

OG 1. for par. 27 a) (new) In disclosing the methodologies and the input parameters used, the following are possible elements to cover:

(a) scope of operations and value chain covered;

(b) sustainability due diligence processes relied upon;

(c) data sources;

(d) details used in assumptions, findings from consultations with affected or other stakeholders, engagement with workers' representatives.

OTHER GUIDANCE – non-Priority 1

OG 1. for par. 27 b) (new) In describing the decision-making process, the following are possible elements to cover: the extent to which and how the process to assess and manage material sustainability impacts, risks and opportunities is integrated into the undertaking's overall risk management process

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

OTHER GUIDANCE – non-Priority 1

OG 1. for par. 29 (AR 19) The undertaking may use a content index, i.e., a tabular list of the Disclosure Requirements included in the sustainability statement, with the indication of where they are located (page/paragraphs).

Minimum disclosure requirements on policies and actions

OTHER GUIDANCE – non-Priority 1

OG 1. for par. 34 (new) An example whereby an undertaking shares the same policy across the environmental standards could be in relation to a Responsible Care management system that covers pollution and water impacts. Another example is an undertaking that has a sustainable purchasing policy, which includes a forest policy, that covers both ESRS S2 Workers in the value chain and ESRS S3 Affected communities and it is disclosed once.

Minimum Disclosure Requirement – Policies MDR-P – Policies adopted to manage material sustainability matters

OTHER GUIDANCE – Priority 1

OG 1 for par. 37 for Social (new from existing S1-S4; S1 AR10, AR13) The following are possible elements to cover when disclosing its policies:

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(b) alignment with other policies relevant to the particular affected stakeholder group; for example, for own workers,regarding forced labour. Or

(c) supplier codes of conduct that the undertaking may have, indicating whether they include provisions addressing the safety of workers, precarious work (i.e., use of workers on short-term or limited hours contracts, workers employed via third parties, sub-contracting to third parties or use of informal workers), human trafficking, the use of forced labour or child labour, and whether such provisions are fully in line with applicable ILO standards; policies and commitments of the undertaking to prevent or mitigate the risks and negative impacts on people in its own workforce of reducing carbon emissions and transitioning to greener and climate-neutral operations as well as to provide opportunities for the workforce such as job creation and upskilling, including explicit commitments to a 'just transition'.

OTHER GUIDANCE – non-Priority 1

OG 1 for par. 37 b) (AR 21 amended) The description of the scope of the policy can detail further boundaries relevant to the specific topic or the undertaking's circumstances, which may include geographies, life cycles, etc.

Minimum Disclosure Requirement – Actions MDR-A – Actions and resources in relation to material sustainability matters

OTHER GUIDANCE – Priority 1

OG 1 for par. 41 (69 a) amended) The financing description can detail the relevant terms of sustainable finance instruments, such as green bonds, social bonds and green loans.

Minimum Disclosure Requirement – Targets MDR-T – Targets in relation to material sustainability matters

OTHER GUIDANCE – Priority 1

OG 1. for par. 49 f) (80 f) amended) The following are possible elements to cover when disclosing on calculation methodology:

(a) data sources;

(b) alignment with national, EU or international policy goals;

(c) how the targets consider the wider context of sustainable development and/or local situation in which impacts take place (for example, if the targets that it has set are mandatory as required by law).

OTHER GUIDANCE – non-Priority 1

OG 1. for par. 50 (AR 26) Where the undertaking describes progress in achieving the objectives of a policy in the absence of a measurable target, it may specify a baseline against which the progress is considered. For example, the undertaking may assess an increase of wages by a certain percentage for those below an adequate wage; or may assess the quality of its relationships with affectedcommunities by reference to the proportion of issues raised by communities that were resolved to their satisfaction. The baseline and the assessment of the progress shall be related to the impacts, risks and opportunities which underpin the materiality of the matter addressed by the policy.

OG 2. for par. 49 g) (AR 25 amended) When disclosing the information on progress made towards achieving the targets the undertaking may be present it in a comprehensive table, including information on the baseline and target value, milestones, and achieved performance over the prior periods.

Appendix 2: Voluntary disclosures

Introduction

This appendix is an integral part of ESRS 2 V1 and includes "Voluntary" datapoints related to Disclosures Requirements.

BP-2 Disclosures in relation to specific circumstances

VOLUNTARY DISCLOSURE - V
V 1. (AR 2) The undertaking may disclose whether it relies on any European standards approved by the European Standardisation System (ISO/IEC or CEN/CENELEC standards), as well as the extent to which data and processes that are used for sustainability reporting purposes have been verified by an external assurance provider and found to conform to the corresponding ISO/IEC or CEN/CENELEC standard.

GOV-2 – Integration of sustainability-related performance in incentive schemes

VOLUNTARY DISCLOSURE – V - IF THE UNDERTAKING REPORTS UNDER IFRS
V 1. for par. 13 (29 a) The undertaking **may disclose** the key characteristics of the incentive schemes offered to the AMSB and the level in the undertaking at which the terms of incentive schemes are approved and updated.
V 2. for par. 13 (a) (29 c) The undertaking **may disclose** whether, and how and sustainability-related performance metrics are considered as performance benchmarks or included in remuneration policies
V 3. for par. 13 (E1 – GOV 3) The undertaking **may disclose** whether and how climate-related considerations are factored into the remuneration of members of the administrative, *management and supervisory bodies*, including if their performance has been assessed against the *GHG emission reduction targets* reported under Disclosure Requirement E1-4 and the percentage of the remuneration recognised in the current period that is linked to climate related considerations

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

VOLUNTARY DISCLOSURE - V
V 1. for par. 28 (58) If the undertaking concludes that a topic other than climate change is not material and therefore omits all the Disclosure Requirements in the corresponding topical ESRS, it may provide a brief explanation of the conclusions of its materiality assessment for that topic.

Minimum Disclosure Requirement – Actions MDR-A – Actions and resources in relation to material sustainability matters

VOLUNTARY DISCLOSURE - V
V 1. for par. 40 for Environment (new from E2-E5;) The undertaking may disclose how it has applied the mitigation hierarchy (avoidance, minimisation, restoration and compensation) with regard to its actions and targets. [PENDING: Further guidance and illustrations to be added and this might change whether it remains in ESRS 2 or E standards]
V 2. for par. 40 (68 e) amended) If the undertaking monitors the progress against the actions disclosed in previous reporting periods, including quantitative and qualitative information, it may disclose it. [Possible deletion pending further IFRS S1 analysis on alignment]