

EFRAG Outreach Event on the Revised ESRS Exposure Drafts

➔ FOCUS ON CIVIL SOCIETY ORGANISATIONS & NGOs

18 September, 14:00-17:00 CET



DISCLAIMER

The views expressed in this presentation are those of the presenter, except where otherwise indicated. EFRAG positions, as approved by the EFRAG SRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.



Introduction

Saskia Slomp,
CEO, EFRAG

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Closing Remarks

Evidence Gathering

- Public Consultation
- Outreach Events
- Field Tests

Drafting & Revisions

- SRB directions
- Version 0: 1st re-write of Amended ESRS delivered on 31 July 2025
- Version 1: Final revisions to Amended ESRS

Delivery of Technical Advice to European Commission

- Revised ESRS
- Supporting documents

Levers of Simplification

SIMPLIFICATION OF DOUBLE
MATERIALITY ASSESSMENT
(DMA)

BETTER READABILITY /
CONCISENESS OF
SUSTAINABILITY STATEMENTS

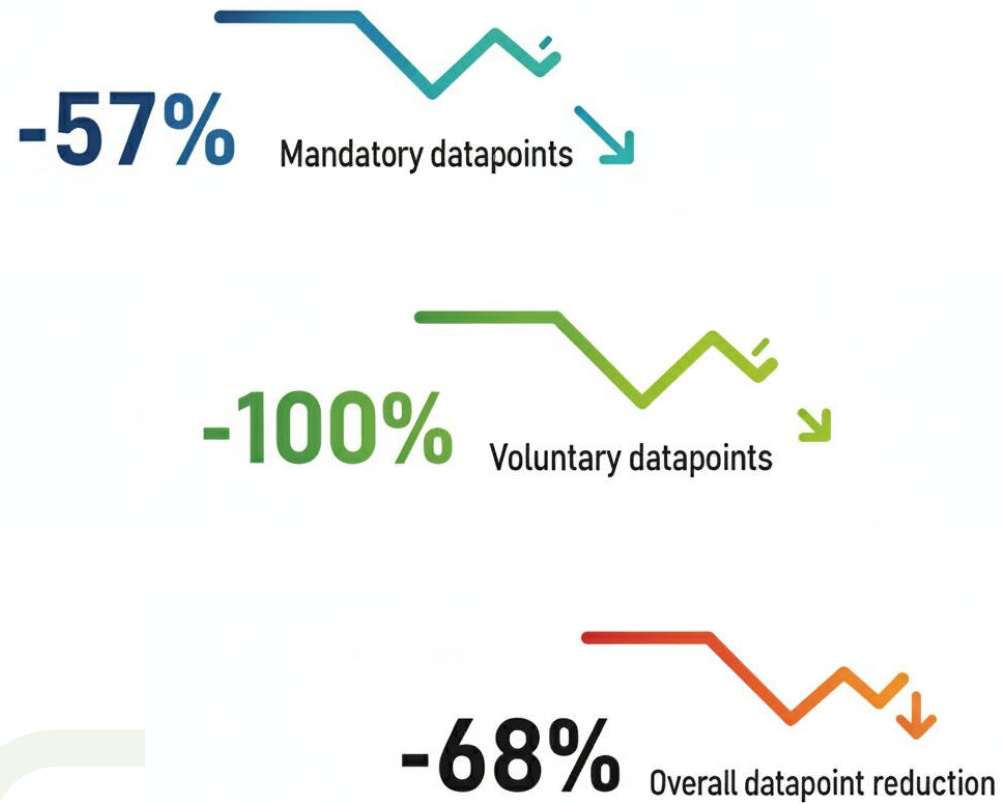
RELATION OF GENERAL
DISCLOSURE REQUIREMENTS
(FORMER MDR) TO TOPICAL
STANDARDS

UNDERSTANDABILITY, CLARITY
AND ACCESSIBILITY OF ESRS
STANDARDS

HORIZONTAL BURDEN-
REDUCTION RELIEFS

ENHANCED INTEROPERABILITY
WITH GLOBAL REPORTING
STANDARDS

DP Reductions



ESRS Set 1 2023	Revised ESRS EDs 2025
Total “shall” DPs (excl.tables)	Total “shall” DPs after reduction
803	347



Session I: Overview of [Draft] Amended ESRS & focus on Cross-cutting Standards

14:15-15:15

Introduction

Chiara Del Prete, Chair, EFRAG SR TEG

ESRS simplification – overarching logic

Combining two policy priorities:

- (1) reducing the administrative burden and
- (2) ensuring quality sustainability reporting

Gathering evidence ahead of the ED
(exposure draft):

Capitalising on a wealth of knowledge and
experience

- Public consultation: 60 days online based survey => by **September 29, 2025**
- Field test on specific aspects with sample of companies
- CBA (cost benefit analysis) => by **September 12, 2025**

Levers of Simplification (1/2)

Simplification of Double Materiality Assessment (DMA)

The amendments simplify the DMA process and documentation for audit purposes.

- More emphasis on fair presentation
- New section on 'Practical considerations'
- Information materiality as a general filter and better connection of this concept with users' needs
- New guidance on gross vs net
- Illustrative nature of former AR 16
- Clarification on IROs vs topics and flexibility on which level to report

Better readability / conciseness of sustainability statements

Improved flexibility on how to organise the information, more emphasis on how the company manages its sustainability issues.

- Executive summary
- Option to use appendices. E.g. details on the calculation of the reported metrics, non-material matters, EU Taxonomy-related information
- Connected information

Relation of General Disclosure Requirements (former MDR) to Topical standards

Deleting most granular narrative requirements in topical standards.

- MDR renamed GDR and significantly simplified
- No topical specifications on GOV, SBM or IRO and requirements only in ESRS 2
- Significant reduction of PAT in topical: mostly deletion and, for some specifications, moved to NMIG as illustrations
- PAT: only reported "if you have them" and deletion of MAY datapoints (e.g. timeframe)

Levers of Simplification (2/2)

Understandability, clarity and accessibility of ESRS Standards

Voluntary disclosures eliminated, clarified language, various concepts are simplified, text is shortened.

- Elimination of voluntary disclosures
- Separation of mandatory and non-mandatory content
- Simplification of language
- Option to present some of the quantitative disclosures as tables or narrative. Tables are no longer mandatory
- Non-mandatory illustrative guidance (NMIG) as a separate document with content explicitly meant to be guidance for reference only.

Horizontal burden-reduction reliefs

New flexibilities and reliefs have been included.

- IFRS reliefs
- Undue cost or effort principle
- Anticipated financial effects
- Relief for metrics due to lack of data quality
- Abandon data hierarchy in value chain
- Exclusion of non-material activities
- Qualitative information only on resilience
- Acquisitions and disposals
- Boundaries (own operations)
- Value chain cap

Enhanced interoperability with global reporting standards

Enhanced interoperability with the ISSB Standards (IFRS S1 & S2)

- Alignment of language between ESRS and IFRS
- Emphasis on fair presentation
- Materiality of information as filter for the reported info
- Reporting boundary GHG emissions
- Reference to IFRS Industry based Guidance is permanent
- Reliefs from IFRS (with exceptions)
- Negatively affecting interoperability: reliefs exceeding IFRS S1 and S2 reliefs
- Work in progress: Option 1 versus option 2 for quantitative financial effects
- Reduction of datapoints results in only -7 aligned datapoints

DP Reductions



Six datapoints exceptionally moved from “may” to shall (justified exception)

1. Water - Own operations total withdrawal [ESRS E3]
2. Own operations total discharges [ESRS E3]
3. Biodiversity transition plans if already published [ESRS E4]
4. Training of procurement team for Bus. conduct [ESRS G1]
5. Business conduct confirmed incidents (number) [ESRS G1]
6. Business conduct confirmed incidents (nature) [ESRS G1]

METHOD FOR DATAPOINT REDUCTIONS:

- Elimination of least relevant datapoints (i.e., those that were not necessary to meet the disclosure objectives).
- Most deleted datapoints stem from the narrative policies, actions, and targets (PAT) disclosures. A less prescriptive or rules-based and more principles-based approach has been implemented.
- Note: merging two datapoints was *not* counted as a reduction.

Four “new” shall datapoints (justified exception)

1. ESRS 2 BP 1 - Compliance statement with ESRS 1
2. Secondary microplastics (clarification) [ESRS E2-4]
3. % or weight of materials (ESRS E5) that are critical and strategic [ESRS E5-4]
4. % or weight waste with unknown destination [ESRS E5-4]

ESRS 1 - General Requirements: Overview of Changes

KEY CHANGES: ESRS 1			
Fair presentation has been introduced as a principles-based overarching approach.		Resilience assessment now limited to risks only, with qualitative disclosure only	
Guidance on “gross vs net” when assessing materiality of an impact. <i>Field test ongoing</i>		Removed systematic preference for direct data in value chain metrics	
Broad use of “undue cost or effort” principle		Flexible reporting: by topic or by specific impacts/risks/opportunities as managed internally	
Relief for metrics without time limit; forward-looking quantitative information on financial effects; acquisitions; and to exclude non-material activities from calculations		Materiality assessment process simplified with new ‘practical considerations’ section in ESRS 1 Chapter 3 and no datapoints required outside scope of information materiality	
More flexible disclosure approach for strategy, business model, value chain, and governance (option to use appendices for granular information)		No sector-specific definition of value chain for financial institutions yet	
Clearer distinction between own operations and value chain reporting		Treatment of commercially sensitive information under discussion	
All voluntary disclosures were deleted and standards’ language simplified		Financial holdings: exception to consolidate subsidiaries	

Type of change:  = New  = Amended  = Out of scope of the ED

ESRS 2 - General Disclosures: Overview of Changes

KEY CHANGES: ESRS 2			
BP-1 simplified with direct reference to ESRS 1 via “comply or explain” principle		MDRs relabelled as GDRs (Policies, Actions, Metrics, Targets)	
Governance: less granularity in narrative requirements and consolidation of GOV-1 and GOV-2.		GDRs on Policies, Actions, Metrics and Targets simplified by deleting potential overlaps with topical standards and move to a more principles-based approach	
Less granularity in SBM: - SBM-1 – reduced detail on business model & value chain; - SBM-2 – stakeholder-engagement-driven strategy changes removed; - SBM-3 – focus on IROs interacting with strategy & business model and resilience analysis now limited to qualitative information on risks interacting with strategy & business model		On SBM-3, two options for anticipated financial effects disclosure: - Option 1: Quantitative with reliefs for current and anticipated financial effects; qualitative if quantification is not possible considering the reliefs— <i>stronger</i> ISSB interoperability between the two options - Option 2: Mandatory qualitative, voluntary quantitative — <i>less strong</i> ISSB alignment for quantitative disclosures, more sensitivity protection	
IRO-2 now covers DMA outcomes and general IRO description while IRO-1 focuses on DMA process description			

Type of change:  = New

 = Amended

 = Specific question included in the public consultation survey



Session I: Overview of [Draft] Amended ESRS & focus on Cross-cutting Standards

14:15-15:15

Moderation:

- **Chiara Del Prete**, Chair, EFRAG SR TEG

Feedback Session on ESRS 1 and ESRS 2 Main Changes

- **Filip Gregor**, Head of the Responsible Companies Section, Frank Bold

Revised EU Sustainability Reporting Standards

Filip Gregor

Head of Responsible Companies

Member of EFRAG Sustainability Reporting Board

frank bold

Materiality & fair presentation

Materiality & fair presentation

- **“Practical considerations” in materiality assessment**
 - Improved alignment with due diligence
 - Risk-based approach more clearly articulated
 - Guidance on interaction between due diligence and materiality would be helpful
- **Fair presentation**
 - Requires disclosure of **relevant information about material impacts**, risks and opportunities and their **faithful representation**
 - Alternative: tick-box compliance
- **Materiality of information**
 - (a) what is needed by users of financial reports (i.e. investors)
 - (b) what all users need to understand impacts and how they are addressed
 - ... many for-profit stakeholders ask for removal of (b)

Contentious issues

Contentious issues

Materiality
& fair
presentation

Contentious
issues

- **Anticipated Financial Effects**
 - IFRS relief preserves disclosures where feasible and meaningful
 - Quantifications are critical for investors
 - Equally critical for integrating sustainability in corporate strategy making
- **No hard safeguards for reliefs**
 - Combination of *undue cost and effort & lack of quality of data*
 - No hard requirement or time limits
- **Quality of disclosures**
 - Focus on reliefs for preparers - aggregation, data reliefs, specific methodologies
 - Quality of data primarily addressed by fair presentation
 - Missed opportunity to address specific problems with quality in concrete disclosures

Evidence from first-year CSRD application

A comprehensive analysis of 100 companies' disclosures on their climate transition and sustainability priorities through double materiality

Supported by:



Federal Ministry
for Economic Affairs
and Climate Action



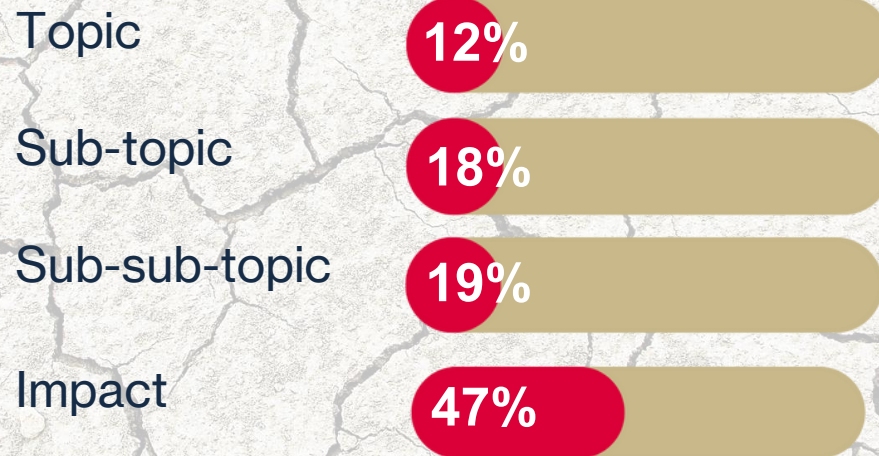
European
Climate Initiative
EUKI

on the basis of a decision
by the German Bundestag

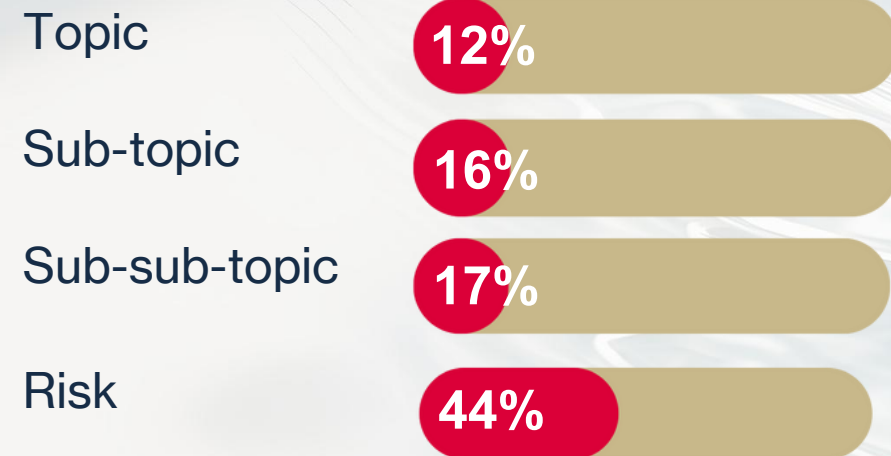
Impacts and risks descriptions (100 companies)

Level of specificity

Description of impacts



Description of risks



Information flows to governance bodies

92 %
companies

have a section addressing
governance of
sustainability matters

74 %
companies

claims to have a **due
diligence** process

Governance and supervisory bodies are informed about:

 **73%** material impacts

 **31%** effectiveness of measures

 **24%** stakeholders' views on company impacts

 **14%** IROs addressed by governance bodies

 **11**
% implementation of due diligence

Climate targets and transition plans



73 %
companies

claiming to have
decarbonisation targets

65 %

companies with clear timeframe
for emissions targets

56 %

companies with targets covering
all 3 emission scopes

40 %

companies present their targets
as net-zero ones



54 %
companies

present basic climate
transition plans to reach
decarbonisation goals

45 %

full scope coverage, and levers
and actions for decarbonisation

23 %

explanation of alignment of
targets with 1.5°C Paris goal

22 %

explanation and quantification
of investment and funding

15 %

assessment of locked-in GHG
emissions

Open floor for attendees' feedback to EFRAG (via chat)

SHARE YOUR FEEDBACK IN THE CHAT!





Session II: Environmental Standards

15:15-16:00

Introduction

Bernhard Frey,

Senior Technical Manager, EFRAG

Cross-cutting changes to E standards

KEY CHANGE ACROSS ALL E STANDARDS

Elimination of redundancies and excessive granularity of E standards PAT disclosures covered by ESRS 2.	
Some E aspects brought to GDR PAT, e.g. mitigation hierarchy (AR33), contextual information, consideration of ecological thresholds in targets	
Anticipated financial effects specifications deleted for E2 to E5 standards.	

Type of change:  = New  = Amended  = Out of scope of the ED

ESRS E1 – Climate Change

KEY CHANGES: ESRS E1	WHAT HAS CHANGED		
E1-1 — Transition plan now focuses on a high-level description of key features	Transition plan	Emphasis on single, narrative, high-level description of the key features of the transition plan.	
	Dependencies	Introduced wording requiring information about dependencies relied upon for closer alignment with IFRS.	
E1-2 & E1-3 — Climate resilience and climate-related risk content reorganised, narratives streamlined and improved aligned with IFRS S2.22	Reorganisation	Content reorganisation for improved flow logic – how IROs are identified and what they are precedes assessment of resilience.	
	Interoperability	Improved alignment with IFRS S2.22 on climate resilience.	
E1-4 & E1-5 — Policies and actions streamlined, with reference to general disclosures in ESRS 2 (GDR-P & GDR-A)	Policies	Moved requirements to ESRS 2, avoiding repetition in topical standards relying on general disclosures (ESRS 2 GDR-P).	
	Actions and resources	Streamlined with higher reliance on general disclosures (ESRS 2 GDR-A), and simplified climate specific provisions.	
	EU Taxonomy	Deletion of mandatory requirement to relate financial resources to EU taxonomy.	
	Resource availability	Deleted requirement to explain if and how implementing actions depends on resource availability.	

Type of change:  = New  = Amended

ESRS E1 – Climate Change

KEY CHANGES: ESRS E1	WHAT HAS CHANGED		
E1-6 — Target disclosures simplified with added flexibility provisions	Base year and baseline	Prescriptive base year requirement deleted, as well as the detailed explanation of baseline representativeness.	
	Absolute targets for FIs	Seeking feedback in public consultation on exempting disclosure of absolute GHG targets when only intensity targets are set.	
E1-7 — Energy consumption metrics simplified, energy intensity and HCIS disaggregation deleted.	Energy intensity	Deletion of the energy intensity based on net revenue (SFDR datapoint).	
	High climate impact sectors (HCIS)	Notion of HCIS deleted – the term was ill-defined and restrictive. Provisions now applicable for all (materiality and fair presentation applies).	
E1-8 — GHG emission boundary clarified and other provisions simplified	GHG boundary	Reduced complexity and improved alignment with GHG Protocol. Financial control required as default approach, with provision for operational control when needed for fair presentation.	
	Total GHG emissions	Total GHG emission provisions has been deleted	
	GHG intensity	GHG intensity requirement deleted (SFDR datapoint), users can easily derive the data based on other metrics (energy total/GHG) and revenue.	

Type of change:  = New  = Amended  = Specific question included in the public consultation survey

ESRS E1 – Climate Change

KEY CHANGES: ESRS E1	WHAT HAS CHANGED		
E1-9 — Carbon credits & GHG removals simplified, with net-zero provisions deleted.	Net zero	Deleted as a term. Provision on neutralising residual emissions (after 90-95% reduction) therefore also deleted.	
	Carbon credits	Deleted disclosure of share per each recognised quality standard, issued from projects within EU, credits qualifying under Art.6 of Paris Agreement.	
E1-10 — Carbon pricing disclosure streamlined and aligned with IFRS S2.29(f)	Simplification	Streamlined disclosure and reduced the level of granularity and detailed information required about the use of carbon pricing.	
	IFRS S2 Alignment	Strengthened interoperability with IFRS S2.29(f) on language and scope.	
E1-11 — Anticipated financial effects simplified, improved clarity and decision-usefulness, and alignment with IFRS language	Options 1 and 2	This DR needs to be put in perspective with the option 1 and 2 on relief of financial effects.	

Type of change:  = New  = Amended



= Specific question included in the public consultation survey

Key changes made: ESRS E2 Pollution, ESRS E3 Water, ESRS E4 Biodiversity and Ecosystems

KEY CHANGES: ESRS E2

E2-4 — Replaced E-PRTR references with general pollutant reporting; microplastics now clearly split into primary/secondary categories	
E2-5 — substances of concern only for chemical manufacturers/importers; substances of very high concern apply to chemical manufacturers/importers & users; REACH threshold added to SVHC in articles	

KEY CHANGES: ESRS E3

E3 standard scope reduced: focus only on water resources (including marine water use);	
E3-4 Metrics — Water balanced better articulated, with inclusion of withdrawals and discharges (under fair presentation); revenue-based water intensity metric removed	

KEY CHANGES: ESRS E4

E4-1 — Transition plan for biodiversity & ecosystems mandatory only if plan exists and is publicly available	
Removed biodiversity/ecosystem resilience requirements	
Consolidated metrics into one generic requirement for all material E4 topics; companies free to choose relevant metrics	
Consolidated location-specific disclosure requirements related to material IROs under metrics section (previously spread across E4)	

Type of change:  = New  = Amended

Key changes made E5: definitions, PAT and metrics

KEY CHANGES: Definitions	
“sustainably sourced”, “technical/biological material”, “recyclable”, “Critical and strategic raw materials”, “key materials”, “durability”, “scope of reparability”, “circularity and “eco-design”	
KEY CHANGES: PATs	
Significant reduction of DRs on policies, actions and targets	
Explanation of integration of circularity and eco-design principles in its key products and services	

KEY CHANGES: Metrics	
Scope clarification on “key materials”	
NEW DP on % “Critical and strategic raw materials”	
NEW DP on “Waste for which the final destination is unknown”	
Additional flexibility on metric outflow: information on the expected durability of its key products	
Additional flexibility on metric outflow: information on the scope of reparability of its key products	

Type of change:  = New  = Amended



Session II: Environmental Standards

15:15-16:00

Moderation:

- **Bernhard Frey**, Senior Technical Manager, EFRAG

Roundtable: Feedback Session on E1-E5 Main Changes

- **Guillaume Bone**, Sustainable Finance Advocacy Officer, WWF
- **Christoph Töpfer**, Head of Section "Sustainable Companies, Sustainable Finance and Environmental Valuation", German Environment Agency

Environmental Standards - (ESRS E1, E4)

Global remarks : E1 essentially unchanged, key elements of the transition plan are maintained

Recommendations :

- On locked-in emissions push for quantitative assessment and not only a qualitative assessment.
- WWF calls for reintroducing the previous definition of net zero, given that “neutrality claims” are not grounded in science.
- On Target setting, the selected base year should not only be recent, as proposed in the standard, but also representative of the company’s normal activities (e.g. avoiding atypical years such as the COVID period).

Global remarks : E4 is fairly undermined

1. No examples of metrics are included, even though voluntary guidelines already exist.
2. Reference to value chain has been removed from the metrics/targets section, and reliefs are worrisome
3. Reference to site level is too weak (own operations, lack of clear content requirements), and BSA proximity or operations should not be conditional on the materiality analysis
4. Biodiversity transition plan lacks structure and guidelines (while voluntary guidance have arise). WWF recommends including resources such as TNFD, SBTN, WWF, WEF and other sectoral resources

Environmental Standards - (ESRS E2, E3 and E5)

Global remarks : E2, E3 and E5 are fairly undermined

ESRS E2 : Pollution

- Limited direct value chain disclosure
- Location-specific considerations could be further specified (highlighted in the standard objectives but lack clear guidelines to support corporate)
- Limited details on how to disclose PAT, with NMIG suggestions vs. “whether and how” disclosures

ESRS E3 : Water

- No clear focus on value chain disclosure
- Location-specific considerations could be further specified (highlighted in the standard objectives but lack clear guidelines to support corporate)
- Weakening of marine resources disclosure

ESRS E5 : Circular economy

- Location-specific considerations could be further specified

Open floor for attendees' feedback to EFRAG (via chat)

SHARE YOUR FEEDBACK IN THE CHAT!





Session III Social Standards

16:00-16:35

Introduction:

Gemma Sanchez Danes,
Director Social, EFRAG

Overview: Changes across all Social standards (S1-S4)

KEY CHANGES: ESRS S1-S4			
The disclosures have been significantly simplified following a principle-based approach for the narrative disclosures on Policies, Actions and targets. This led to the reduction of the common narrative disclosures from five to four across ESRS S1-S4.		Simplification and merger of previous ESRS S1-S4 DR 2 and 3 into one disclosure requirement. These relate to stakeholder engagement, channels to raise concerns/grievance mechanism and approach to remedy. This avoids potential overlaps in the disclosures.	
Human rights policy disclosures centralised in ESRS 2 GDR-P rather than in each Social standards (S1-S4 DR1) hence they can be disclosed once when covering all affected stakeholder groups. Consolidation of SFDR datapoints related to this matter.			

Type of change:  = New  = Amended

ESRS S1 – Own Workforce: Overview of Changes

KEY CHANGES: ESRS S1

S1-5 Characteristics of employees — Reduced granularity in breakdowns. Threshold changed to the ten largest countries with at least 50 employees. Also applicable to S1-7		S1-12: Training and skills development – gender breakdowns removed	
Disclosure tables - In the case of S1-5 and S1-7 preparers have the option of using a standardised tabular format or narrative text for their disclosures		S1-13: Health and safety – fatalities due to ill health among non-employees or on-site workers excluded; clarification on what counts as work-related injury/illness has been added.	
S1-6 Characteristics of non-employees (self-employed or people provided by undertakings primarily engaged in employment activities) - reduced to one essential datapoint and clarification of when these people are material added via Application Requirements. New flowchart in NMIG.		S1-14: Work-life balance - now only reports entitlement to family-related leave (not those that took the family-related leave)	
S1-7: Collective bargaining coverage and social dialogue – the disclosure now uses the same “significant” threshold as S1-5.		S1-15: Remuneration – removal of the voluntary datapoint on adjusted gender pay gap by employee category and breakdown by country. SFDR datapoints kept.	
S1-9: Adequate wages — the non-EU hierarchy has been revised following the ILO agreement in February 2024. <i>This DR is subject to a specific field test.</i>		S1-16: Incidents of discrimination & other human rights incidents – only SFDR PAI datapoints and connectivity datapoints kept. Clarification of the universe of human rights to consider and the substantiated test for incidents	

Type of change:  = New  = Amended



= Specific question included in the public consultation survey



Session III Social Standards

16:00-16:35

Moderation:

- **Gemma Sanchez Danes**, Director Social, EFRAG

Feedback Session on S1-S4 Main Changes

- **Sigurt Vitols**, Senior Researcher at Wissenschaftszentrum Berlin für Sozialforschung, Associate Researcher at the European Trade Union Institute, Vice Chair of the EFRAG SR TEG
- **Ben Granjé**, Board member of BETTER FINANCE & CEO of its Belgian member VFB
- **Ruben Zandvliet**, Director for Standards, ShiftProject

Open floor for attendees' feedback to EFRAG (via chat)

SHARE YOUR FEEDBACK IN THE CHAT!



Ruben Zandvliet, Director for Standards, ShiftProject

Presentation slides at the end of this slide deck.



Session IV Governance Standard

16:35-16:55

Introduction

Prof. dr. Abigail Levrau,
Senior Technical Manager, Governance,
EFRAG

ESRS G1 - Governance: Overview of Changes

KEY CHANGES: ESRS G1

G1-1 to G1-3 now follows PAT (Policies, Actions, Targets) approach			
G1-1 – POLICIES RELATED TO BUSINESS CONDUCT		G1-4 – METRICS RELATED TO INCIDENTS OF CORRUPTION & BRIBERY	
Maintains SFDR indicators on anti-corruption & whistleblower protections		Maintain SFDR indicator - convictions and fines - plus one provision on confirmed incidents, and new guidance (scope, legal thresholds and definitions to be used)	
Clarifies concept of “functions-at-risk”		G1-5 – METRICS RELATED TO POLITICAL INFLUENCE & LOBBYING ACTIVITIES	
G1-2 – ACTIONS RELATED TO BUSINESS CONDUCT		Clarification of political influence and lobbying and reduction of mandatory and voluntary datapoints	
Maintains key datapoints on suppliers’ relationship and prevention of corruption and bribery		G1-6 – METRICS RELATED TO PAYMENT PRACTICES	
Consolidates all training disclosures under this disclosure requirement		Simplified by eliminating metric on average time to pay an invoice [Survey question also applies to G1-2.]	
G1-3 – TARGETS RELATED TO BUSINESS CONDUCT		  = Specific question included in the public consultation survey	
Introduction of measurable, time-bound, outcome-oriented qualitative or quantitative targets		Type of change:  = New  = Amended	



Session IV Governance Standard

16:35-16:55

Moderation:

- Prof. dr. Abigail Levrau, Senior Technical Manager, Governance, EFRAG

Feedback Session on G1 Main Changes

Open floor for attendees' feedback to EFRAG (via chat)

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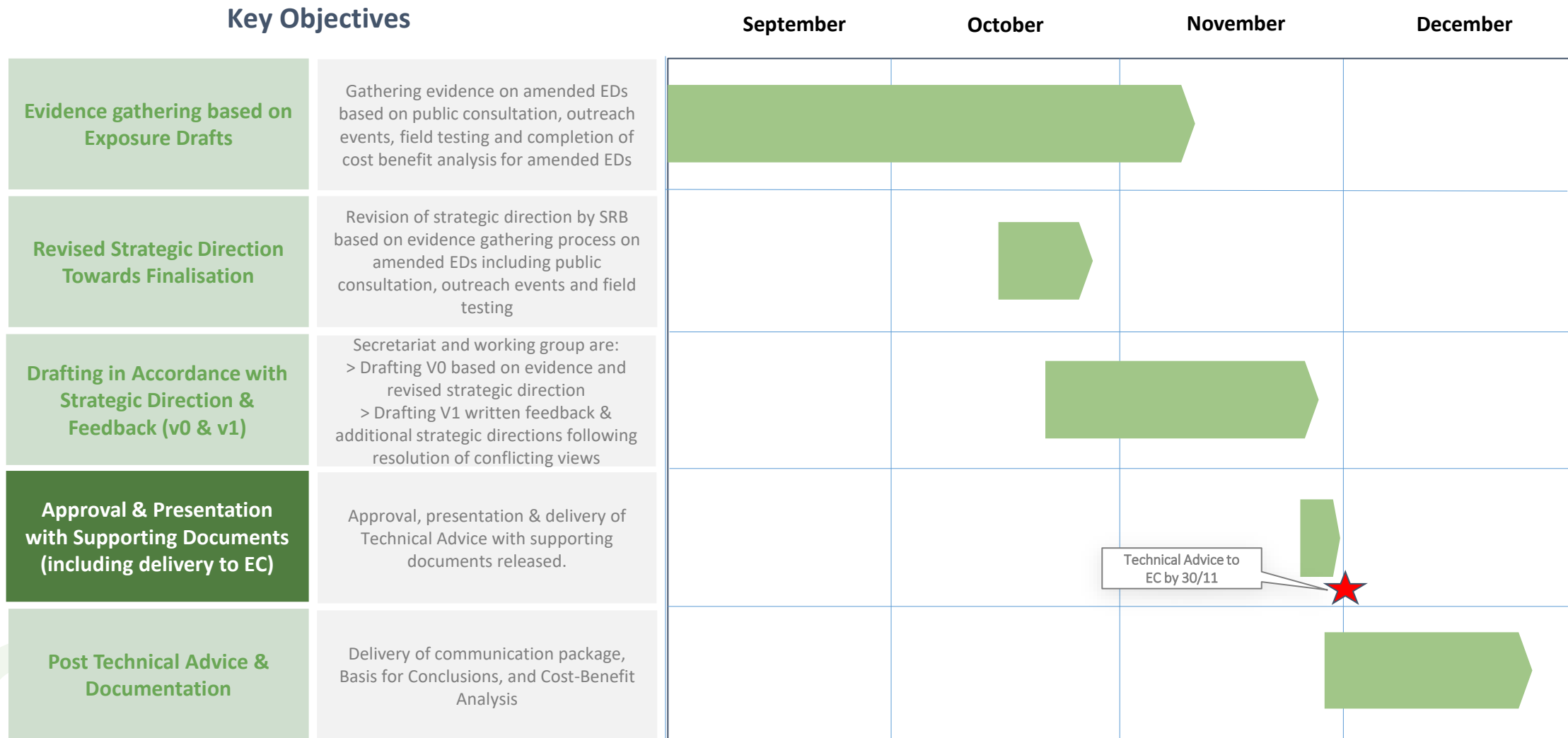


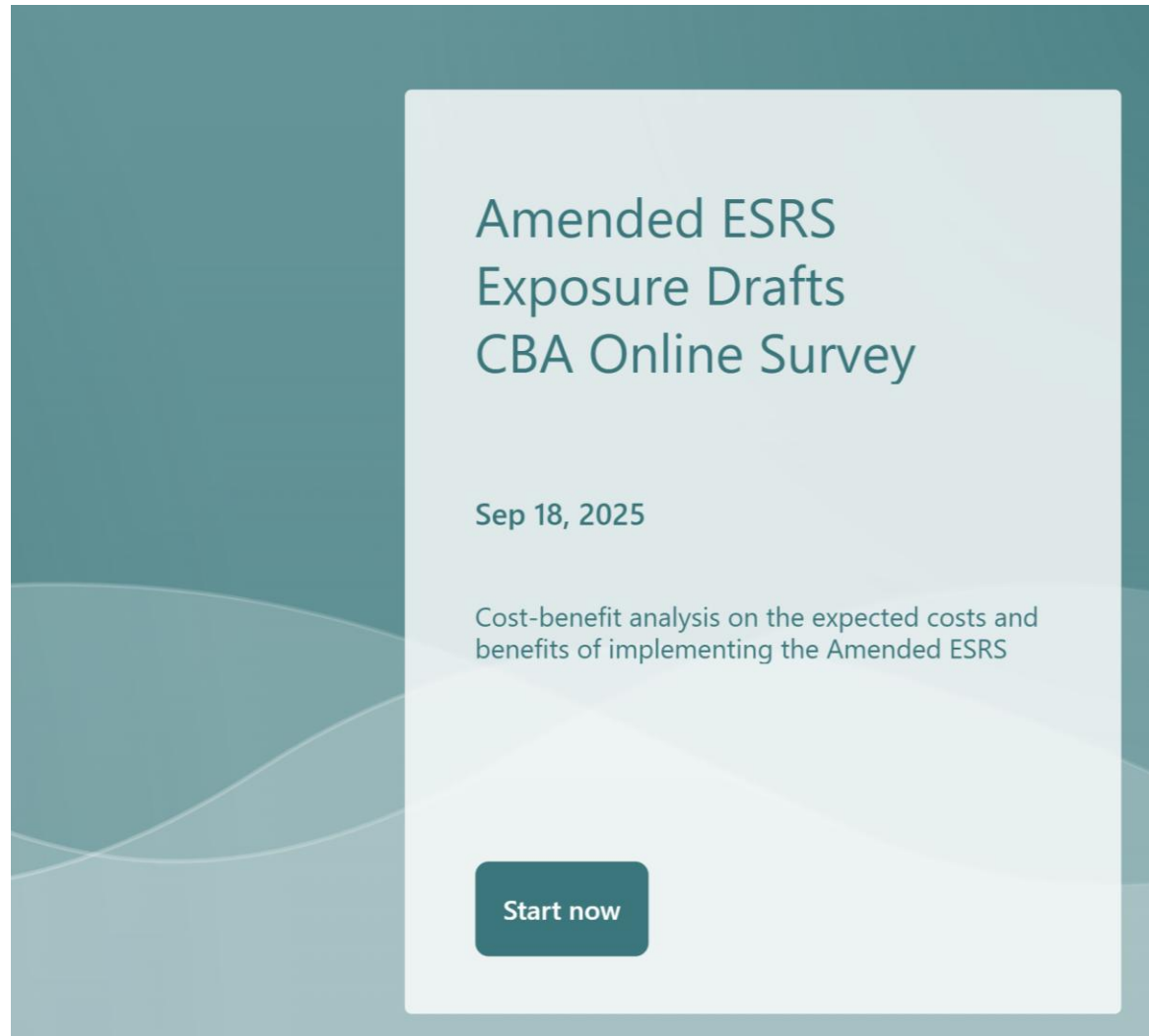


Closing Remarks

16:55-17:00

Amended ESRS Exposure Draft Timeline - Phase 2 in 2025

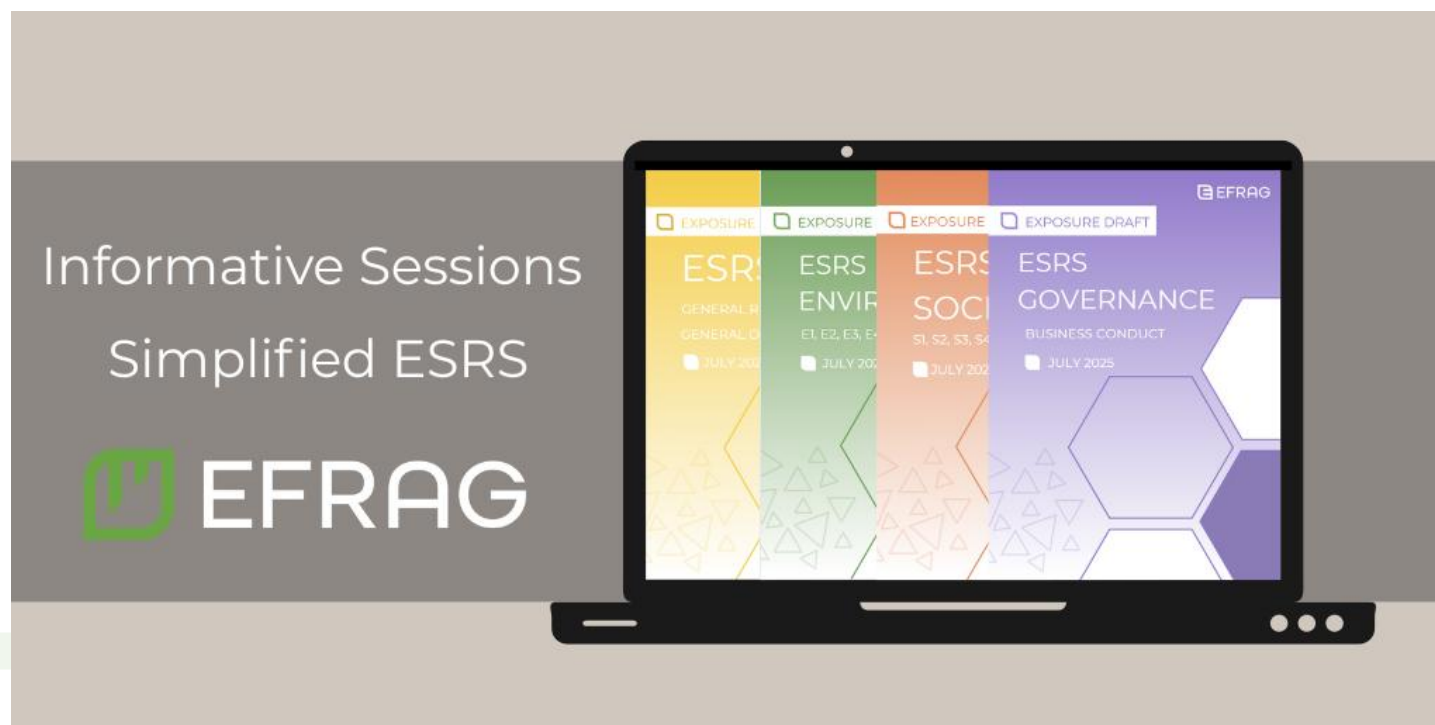




Provide your
feedback until
25 September

Last days before the closing of the public consultation survey!

Informative sessions on Youtube



Factsheet



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THANK YOU



ESRS Public Consultation: CSO Briefing

EFRAG – 18 September 2025

THE LEADING CENTER OF EXPERTISE ON THE UN GUIDING PRINCIPLES
ON BUSINESS AND HUMAN RIGHTS

Shift

Evaluating the ESRS Exposure Draft



- Clearer language, improved structure
- Significant reduction of datapoints → but preserved what is important
- Maintained alignment with the UN Guiding Principles and OECD Guidelines
- Clear structure in the social standards for distinct stakeholder groups
- Flexibility to present information in a way that reflects practice
- But... need to revisit the proposal on adequate wages

Adequate (Living) Wages

- International law and the CSDDD use ‘living wages’ – CSRD and other EU law uses ‘adequate wages’
- Basis for Conclusions Set 1: “The term ‘adequate wages’ can be seen as synonymous with the terms ‘fair wage’ and ‘living wage’ insofar as all three make reference to the level of income needed to support a minimum standard of living.”
- Living wages enable fulfilment of other human rights
- More and more companies express their ambition to pay living wages
- The ESRS does not require payment of living wages, but they should increase transparency
- That requires a robust methodology

The prescribed methodology in the new draft ESRS

Application Requirement (AR) for Disclosure Requirement S1-9 – Adequate wages

AR 22.

The adequate wage benchmark used for comparison with the lowest wage shall not be lower than:

- a) in the EU: the wage level established through collective bargaining or the statutory minimum wage set in accordance with Directive (EU) 2022/2041 of the European Parliament and of the Council on adequate minimum wages in the EU.
- b) outside of the EU:**
 - i. the wage level established through collective bargaining or the statutory minimum wage established by legislation or collective bargaining agreement, which is periodically reviewed/adjusted every two years and takes into account the ILO wage setting principles;
 - ii. if an adequate minimum wage does not exist, any living wage estimate produced by an institution mandated by the public authorities of the country where the workers are based and which takes into account the ILO principles on estimating a living wage; or
 - iii. if none of the instruments identified in (i) or (ii) exist, any existing living wage estimate, which takes into account the ILO principles on estimating a living wage.

The problem

- Most countries have statutory (legal) minimum wages, but often these wages aren't high enough to cover basic needs for individuals and their families.
- In many cases, minimum wages are far below what's considered an adequate/living wage.
- The WageIndicator Foundation, which tracks minimum wages and calculates living wages around the world, estimates that **only 29 of 175 countries tracked have a statutory minimum wage that is above the living wage benchmark.**

Implications of a flawed methodology



Out of step with the objective: A disclosure about adequate wages should not include an option to apply legal minimum wages instead.



Discriminatory: The method discriminates against employees outside the EU, measuring their wages against a lower – often much lower – local minimum wage.



Non-comparable: Company X that uses prong (iii) may need to report adequate wage gap. Company Y that uses prong (i) not. But that is because Company X uses a more robust method.



Misleading: Many companies that applied the ESRS for FY 2024 reported that they pay adequate wages outside the EU just because they pay the low local minimum wage, which is incorrect and demonstrates how the current methodology is misleading both for companies and for users.

Can be addressed in Question 28

28. ESRS S1: Calculation approach to adequate wages outside the European Union (EU)

The Amended ESRS S1 reflects an amended methodology for the calculation of non-EU adequate wages set out in the Application Requirements (ESRS S1 AR 22). This change draws on language from different parts of the agreement on the issue of wage policies, including living wages, adopted by the ILO Governing Body in 2024, after the ESRS Delegated Act was adopted. A minority of EFRAG SRB members flagged three interrelated concerns: (1) the reference to wage-setting principles risks disclosures of minimum wages that fall well-below an adequate wage standard, (2) the hierarchy requires companies to only assess relevant living wage data sets as a last resort, and (3) the DR/AR does not require companies to disclose which prong of the methodology is used, which leads to lack of comparability.

In consideration of the complexity of this issue, EFRAG is running a targeted field test and is interested in involving a diversified sample of companies. This entails participating in dedicated working sessions with EFRAG Secretariat where the company is expected to present how the revised methodology is feasible and relevant in practice (refer to the non-EU hierarchy described in ESRS S1 paragraph AR 22 (b) i) to iii) to ensure transparency and comparability on this issue. A dedicated questionnaire will be sent directly to the companies participating in the test to allow for their preparation. The working sessions will take place between 8 and 26 September. To confirm your interest in participating to the field test on Adequate Wage please send an email to fieldtestadeqwages@efrag.org by August 18, 2025.

Do you agree with the proposed change to the methodology for the calculation of non-EU adequate wages in ESRS S1?

- ☐ I agree
- ☐ I partially agree and partially disagree
- ☒ I disagree

More information



Scan to go to the
Shift website

Or reach out to: ruben.zandvliet@shiftproject.org