

DISCLAIMER

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Additional disclaimer for SR TEG public agenda papers 25 October 2022

This paper is a draft [Draft] standard prepared by the EFRAG Secretariat for approval of SR TEG and, once approved, it forms the advice that according to EFRAG Due Process SR TEG delivers to SRB as recommended content of the [Draft] final standards to be delivered to the European Commission in November 2022.

This draft reflects the tentative decisions of the SRT in the meetings from June to October 2022 (and reflects the content of the Agenda Papers prepared for those meetings). It has been developed starting from the ESRS Exposure Draft of April 2022, taking into account:

- the revised CSRD text released at the end of June;
- alignment with EDs IFRS S1, S2 and GRI standards as required by the new CSRS whenever possible;
- feedback received from the public consultation.

This draft is an intermediate version of the [Draft] standard and quality checks are still in progress that will result in editorial changes and further presentation/language streamlining. This includes editorial and presentation review, consistency of language across the standards, update of the references to paragraphs/chapters/sessions within the standard and across all the standards, alignment of definitions and glossary across all standards, possible changes of terminology due to recent IFRS decisions. The items in yellow are also subject to change (reflecting the ongoing quality check or pending other external confirmations). In ESRS 2 items in grey mark the datapoints that have been added for alignment with IFRS S1.

Changes are also possible in the next steps of SRB deliberation and approval, including changes other than editorial.

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

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Objective

1. This [draft] Standard sets out the disclosure requirements of sustainability reporting under European Sustainability Reporting Standards (ESRS) that apply to all undertakings regardless of their sector of activity (cross-cutting). The Standard covers the reporting areas defined in paragraph 8 of ESRS 1 General Requirements.
2. In the preparation of disclosures under this Standard, the undertaking shall apply the Application Requirements in topical ESRS listed in Appendix C of this standard.

1. Basis for preparation

Disclosure Requirement GR-1 – General basis for preparation of the sustainability statements

3. **The undertaking shall disclose the general basis for preparation of its sustainability statements.**
4. The disclosure shall include:
 - (a) whether the sustainability statements have been prepared on a consolidated or individual basis and for consolidated sustainability statements, a confirmation that the reporting perimeter is the same as in the financial statements;
 - (b) the categories of disclosures that the undertaking has, on a risk-basis, expanded the reporting boundary to its upstream and downstream value chain (see chapter 5.1 of ESRS 1); and
 - (c) for undertakings based in an EU member state that allows for the exemption from disclosure of impending developments or matters in course of negotiation, as provided for in articles 19a (3) and 29a (3) of Directive 2013/34/CE revised by CSRD, a statement on its use of the option, if applied (see Chapter 7.7 of ESRS 1).

Disclosure Requirement GR-2 – Disclosures in relation to specific circumstances

5. **The undertaking shall provide disclosures in relation to specific circumstances.**
6. The objective of this disclosure requirement is to provide information on the effect of these circumstances in the sustainability statements.
7. The undertaking may report these disclosures alongside the information reported on the matter to which they refer.
8. When it has deviated from the medium- and long-term time horizons defined by ESRS 1 (see chapter 6.4 of ESRS 1), the undertaking shall describe:
 - (a) its definitions for medium- and long-term; and
 - (b) the reasons for applying those terms.

9. The undertaking shall identify the metrics for which it has expanded, on a risk-basis, the reporting boundary to value chain data through estimates using data from indirect sources, such as sector-average data or other proxies. For these metrics, the undertaking shall describe the basis for preparation, the resulting level of accuracy and, where applicable, the planned actions to improve the accuracy in the future (see chapter 5 of ESRS 1).
10. When significant estimation uncertainty or significant outcome uncertainty exists (see chapter 7.2 of ESRS 1), the undertaking shall:
 - (a) identify metrics it has disclosed that have significant estimation uncertainty, disclosing the sources and nature of the estimation uncertainties and the factors affecting the uncertainties;
 - (b) disclose information about the assumptions it makes about the future, and other sources of significant uncertainty, related to the information it discloses about the possible effects of impacts, risks or opportunities, when there is significant outcome uncertainty.
11. When changes in preparation and presentation of information occur compared to previous reporting period, such as redefinition or replacement of a metric or target (see chapter 7.4 of ESRS 1), the undertaking shall:
 - (a) explain the changes;
 - (b) explain the reasons for those changes, including why the replaced metric provides more useful information; and
 - (c) provide restated comparative figures, unless it is impracticable to do so.
12. When material prior period errors exist (see chapter 7.5. of ESRS 1), the undertaking shall disclose:
 - (a) the nature of the prior period material error;
 - (b) the correction, to the extent practicable, for each prior period disclosed; and
 - (c) if correction of the error is not practicable, the circumstances that led to the existence of that condition and a description of how and when the error has been corrected.
13. When the undertaking includes in its sustainability statements information based on other sustainability reporting pronouncements (see chapter 8.2 of ESRS 1), it shall disclose that it also reports in full or in part in accordance with pronouncements of other sustainability standard setting bodies, in addition to reporting in accordance with ESRS. In case of partial application of other sustainability pronouncements, the undertaking shall indicate the precise reference to the applied requirements within such framework (standard reference, disclosure requirement reference).
14. When the undertaking incorporates information by reference (see chapter 9.1 of ESRS 1), the undertaking 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

2. Governance

2. Disclosing material information on the undertaking's governance of sustainability matters

15. This chapter specifies disclosure requirements to report on governance processes, controls and procedures put in place to monitor and manage sustainability matters.

16. The Disclosure Requirements in this chapter apply to all sustainability topics, i.e., environmental, social and governance.

Disclosure Requirement GOV-1 – The role of the administrative, management and supervisory bodies

17. The undertaking shall report on the composition of the administrative, management and supervisory bodies, their roles and responsibilities and access to expertise and skills with regard to sustainability matters.

18. The objective of this Disclosure Requirement is to provide an understanding of:

- (a) the composition and diversity of the administrative, supervisory and management bodies;
- (b) the role and responsibilities of the administrative, supervisory and management bodies in exercising oversight of impacts, risks and opportunities, including management's role in governance processes;
- (c) the expertise of its administrative, supervisory and management bodies on sustainability matters or access to such expertise and skills.

19. The disclosure about the composition and diversity of the members of the undertaking's administrative, management and supervisory bodies and its committees shall include:

- (a) classification of members between executive and non-executive;
- (b) for each member, the number of significant positions and commitments, and the nature of the commitments;
- (c) representation of stakeholder groups such as representation of workers;
- (d) experience relevant to the sector, products and geographic locations of the undertaking; and
- (e) percentage by gender and other aspects of diversity that the undertaking reports on.

20. The disclosure on the roles and responsibilities of the administrative, management and supervisory bodies shall include:

- (a) the identity of the administrative, management and supervisory bodies (such as a board committee or similar) or individual within a body responsible for oversight of sustainability-related impacts, risks and opportunities;
- (b) how the body's responsibilities for impacts, risks and opportunities are reflected in the entity's terms of reference, board mandates and other related policies;
- (c) a description of management's role in assessing and managing impacts, risks and opportunities, including whether that role is delegated to a specific management-level position or committee and how oversight is exercised over that position or committee. The description shall include information about the reporting lines to the administrative, management and supervisory bodies, whether dedicated controls and procedures are applied to management of impacts, risks and opportunities and, if so, how they are integrated with other internal functions;
- (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 monitor progress towards them;

21. The disclosure shall include a description of how the administrative, management and supervisory bodies ensure the availability of the appropriate skills and expertise to oversee sustainability matters, including:

- (a) the sustainability-related expertise that the bodies as a whole and their individual members either directly possess or can leverage, which include, for example, access to experts or training; and
- (b) how it relates to the undertaking's material sustainability-related impacts, risks and opportunities.

22. The Board's gender diversity¹ shall be calculated as an average ratio of female to male board members expressed as a percentage of all board members.

Disclosure Requirement GOV-2 – Information provided to and sustainability matters addressed by the undertaking's administrative, management and supervisory bodies

23. **The undertaking shall describe how the administrative, management and supervisory bodies are informed about sustainability matters and how these matters were addressed during the reporting period.**

24. The objective of this Disclosure Requirement is to provide an understanding of how administrative, management and supervisory bodies are informed about sustainability-related matters as well as what information and matters they addressed. This in turn is to allow an understanding of whether they were adequately informed and whether they were able to fulfil their roles.

25. The undertaking shall disclose:

- (a) by whom and how frequently the administrative, management and supervisory bodies, relevant committees are informed about material impacts, risks and opportunities (ref. IRO 1) and about the results and effectiveness of policies, targets and actions adopted to address them, as well as about any other sustainability-related concern that may arise and would require their attention;
- (b) how the bodies and their committees oversee the setting of targets related to material sustainability-related risks and opportunities, and monitor progress towards them;
- (c) how the administrative, management and supervisory bodies and its committees consider sustainability-related risks and opportunities when overseeing the undertaking's strategy, its decisions on major transactions, and its risk management policies, including any assessment of trade-offs and analysis of sensitivity to uncertainty that may be required; and
- (d) the material sustainability matters addressed by the administrative, management and supervisory bodies in the reporting period - including those for which the undertaking has or will put in place initiatives to modify its strategy and business model(s). This includes to reduce or eliminate the risk or to benefit from the opportunity and/or in order to prevent and mitigate negative material impacts and enhance positive material impacts (see ESRS Disclosure Requirement SBM 4) - and the key decisions made to address them.

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

Disclosure Requirement GOV 3 - Integration of sustainability strategies and performance in incentive schemes

26. **The undertaking shall disclose on the integration of sustainability strategies and performance in incentive schemes.**
27. The objective of this Disclosure Requirement is to disclose information about the existence of incentive schemes offered to members of the administrative, management and supervisory bodies which are linked to sustainability matters.
28. The disclosure about incentive schemes for members of the undertaking's administrative, management and supervisory bodies shall include:
- (a) whether performance is being assessed against specific targets and/or impacts - and which ones - and whether and how sustainability-related performance metrics are being considered as performance benchmarks or included in or remuneration policies;
 - (b) where applicable, a description of the key characteristics of the incentive schemes including the proportion of variable compensation dependent on such metrics;
 - (c) where applicable, a description of the authority which approves and updates the terms of incentive schemes.

Disclosure Requirement GOV 4 - Statement on due diligence

29. **The undertaking shall disclose a general overview of its due diligence process implemented with regard to sustainability matters.**
30. The objective of this Disclosure Requirement is to inform on the undertaking's due diligence process with regard to sustainability matters.
31. Given that the main aspects and steps of due diligence referred to under **ESRS 1, chapter 3** are related to a number of cross-cutting and topical Disclosure Requirements under the ESRS, the undertaking shall provide 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 reporting, to allow a depiction of the actual practices of the undertaking with regards to due diligence.
32. This disclosure requirement does not mandate any specific behavioural requirements with regards due-diligence actions, and does not extend to or modify the role of governance bodies as mandated by other legislation or regulation.

Disclosure Requirement GOV-5 - Risk management and internal control system in relation to the sustainability reporting

33. **The undertaking shall provide information about the main features of its risk management and internal control systems in relation to the sustainability reporting process.**
34. The objective of this Disclosure Requirement is to inform about the aspects related to the governance factors that affect the undertaking's risk management and internal control processes in relation to sustainability reporting.
35. The disclosure shall provide information on the undertaking's risk management system and internal control related to the sustainability reporting process, in terms of:

- (a) its scope, main features and components;
- (b) the risk assessment approach followed, including the risk prioritisation methodology;
- (c) the main risks identified, actual and potential, and their mitigation strategies including related controls;
- (d) a description of how the undertaking integrates the findings of its risk assessment and internal controls as regards the sustainability reporting process into relevant internal functions and processes; and
- (e) a description of the periodic reporting of the findings to the administrative, management and supervisory bodies.

3. Strategy

3. Disclosing on strategy and material impacts, risks and opportunities

36. This chapter specifies disclosure requirements for how the undertaking reports on:

- (a) its strategy as a context to its sustainability statements;
- (b) the outcome of its assessment of material sustainability-related impacts, risks and opportunities; and
- (c) how material sustainability matters are related to, interact with, and inform its strategy and business model(s).

Disclosure Requirement SBM-1 – Market position and sector(s) of activity

37. **The undertaking shall provide a description of its significant activities, including the breakdown by sectors and by countries.**

38. The objective of this Disclosure Requirement is to provide contextual information to facilitate an understanding of where (sectors and geographical areas / countries) sustainability-related material impacts, risks and opportunities originate.

39. The disclosure shall include the following information:

- (a) a description of:
 - i. significant groups of products and services offered, including changes in the reporting period (new/removed products and services);
 - ii. significant markets and/or customer groups served, including changes in the reporting period;
 - iii. headcount of employees by geographical areas; and
 - iv. where applicable, products and services under bans, restrictions or authorisation systems, including public information regarding potential bans, restrictions or authorisation systems in certain markets;
- (b) breakdown of total revenue, as included in its financial statements, by significant ESRS sector and by significant country. When the undertaking provides segment reporting

as required by IFRS 8, this sector revenue information shall be, as far as possible, reconciled with IFRS 8 information;

- (c) a list of the additional ESRS sectors beyond the ones reflected under (b), where the undertaking develops significant activities, or is or may be connected to material impacts. The identification of these additional sectors shall be consistent with the way they have been considered by the undertaking when performing its materiality assessment and with the way it discloses material sector-specific information.; and
- (d) 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, i.e., it derives revenues from exploration, mining, extraction, production, processing, storage, refining or distribution, including transportation, storage and trade, of fossil fuels as defined in Article 2, point (62), of Regulation (EU) 2018/1999 of the European Parliament and of the Council; a
 - ii. chemicals production, i.e., its activities fall under Division 20 of Annex I to Regulation (EC) No 1893/2006; and/or
 - iii. controversial weapons such as anti-personnel mines, cluster munitions, chemical weapons and biological weapons.

(e) where applicable, if the undertaking is excluded from EU Paris-aligned benchmarks in accordance with points (d) to (g) of Articles 12.1 and 12.2 of Climate Benchmark Standards Regulation.

Disclosure Requirement SBM-2 – Business model and value chains

40. **The undertaking shall describe its business model(s) and its key value chains.**

41. The objective of this Disclosure Requirement is to describe the undertaking's business model and the key value chains, in order to provide relevant contextual information to the understanding of the undertaking's sustainability reporting and its materiality assessment of where impacts, risks and opportunities originate.

42. The undertaking shall disclose:

- (a) a brief description of its business model , including:
 - i. its inputs and its approach to gather, develop and secure those inputs; and
 - ii. its outputs and outcomes in terms of current and expected benefits for customers, investors and other stakeholders.
 - iii. the main features of its key upstream and downstream value chains and the undertaking's position in its value chain.

Disclosure Requirement SBM-3 – Overview of strategy

43. **The undertaking shall describe its general strategy as a context for its sustainability reporting.**

44. The objective of this Disclosure Requirement is to describe the goals and intended changes to its current market positions, as a contextual information to understand the forward-looking exposure to impacts, risks and opportunities.

45. The undertaking shall disclose the key features of its general strategy, including:

- (a) its goals in terms of groups of product and services, customer categories, geographic areas and relationships with stakeholders on the basis of the time horizon adopted by the undertaking in accordance with ESRs 1;
- (b) an assessment of its current market positions (ref. to SBM -1) in relation to its goals; and
- (c) a statement of the intended direction, including main challenges ahead, critical solutions or projects to be put in place.

Disclosure Requirement SBM-4 - Material impacts, risks and opportunities and their interaction with strategy and business model

46. The undertaking shall disclose its material sustainability-related impacts, risks and opportunities and how they interact with its strategy and business model.

47. The objective of this Disclosure Requirement is to provide the outcome of the undertaking's materiality assessment and to present how material impacts, risks and opportunities originate from and trigger adaptation of the undertaking's strategy and business model(s).

48. The undertaking shall disclose:

- (a) the list of material actual and potential impacts on the environment, and people, as they result from its materiality assessment described in DR IRO-1. Per each item in the list, the undertaking shall include:
 - i. a description of the impact and how it originates from or is connected to the undertaking's strategy and business model;
 - ii. whether the undertaking is involved with the negative or positive impact through its activities or because of its business relationships;
 - iii.
- (b) the list of the material risks and opportunities as they result from its materiality assessment described in DR IRO-1, including a description of them and of how they relate to the undertaking and:
 - i. a description of the risk or opportunity and how the undertaking is exposed to the risk or how it intends to pursue the opportunity;
 - ii. how material risks and opportunities have affected the undertaking's most recently reported financial development performance, position and cash flows. This includes information for which there is a significant risk that there will be a material adjustment to the carrying amount of assets and liabilities reported in the financial statements within the next financial year;

iii. how the undertaking expects financial development, performance, position and cash flows to change over time under the effects of material sustainability-related risks and opportunities, reflecting:

1. its current and committed investment plans and their anticipated effects on its financial position (for example, capital expenditure, major acquisitions and divestments, joint ventures, business transformation, innovation, new business areas and asset retirements); and

2. its planned sources of funding to implement its strategy;

(c) the changes to the lists compared to the previous reporting period; and

(d) specification of those impacts, risks and opportunities as disclosed in (a) and (b) above that are covered by ESRS disclosure requirements as opposed to those covered by the undertaking using entity-specific disclosure;

(e) information about the resilience of the undertaking's strategy and business model(s) regarding its capacity to address its material sustainability impacts and risks respectively or to pursue the opportunities. The undertaking shall disclose a qualitative and, when applicable, a quantitative analysis of the resilience of its strategy in relation to its material sustainability impacts and risks, including how the analysis was undertaken and its time horizon as defined in ESRS 1. When providing quantitative information, an entity can disclose single amounts or a range.

49. For each item in the list of material impacts, risks and opportunities, the undertaking shall specify those connected with planned or implemented initiatives to modify the undertaking's strategy and business model. Such modifications are intended to prevent and mitigate negative material impacts or risks and enhance positive material impacts or opportunities and how the undertaking has identified them from the list. This shall include:

(a) information about the effects of material impacts, risks and opportunities on its strategy and business model including how the undertaking is responding to these impacts, risks and opportunities;

(b) for the material impacts, a summarised description of the related policies, plans and targets or the link to other disclosures where these elements are presented.

Disclosure Requirement SBM-5 – Interests and expectations of stakeholders

50. **The undertaking shall describe how the interests and expectations of its stakeholders inform the undertaking's sustainability strategy and business model(s).**

51. The objective of this Disclosure Requirement is to provide an understanding of how stakeholders' interests and expectations inform the undertaking's strategy and business model(s).

52. The undertaking shall disclose a summarised description of:

(a) its stakeholders, whether engagement with them occurs, how it is organized and how the results are used by the undertaking;

(b) its understanding of interests and expectations of its stakeholders in relation to the undertaking's strategy and business model, as analysed during the undertaking's own materiality assessment process (ref. to IRO 1);

- (c) where applicable, how the undertaking has amended or expects to amend its strategy and business model(s) to address interests and expectations of its stakeholders, including what are the further steps which are considered and in what timeline and whether these steps are likely to modify the relationship with and views of stakeholders.

4. Management of impacts, risks and opportunities

4.1 Disclosing material sustainability impacts, risks and opportunities and on material information

53. The objective of this chapter is to specify disclosure requirements for:

- (d) how the undertaking reports on its processes to identify material sustainability-related impacts, risks and opportunities; and
- (e) the outcome of its assessment of material information included in the sustainability statements.

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

54. **The undertaking shall provide a description of its processes to identify its sustainability-related impacts, risks and opportunities and to assess which ones are material.**

55. The objective of this Disclosure Requirement is to provide information about the process of identification of sustainability-related impacts, risks and opportunities, its scope and the assessment of their materiality leading to the relevant disclosures in its sustainability reporting (see ESRS1, Appendix B for more guidance).

56. The undertaking shall disclose:

- (f) a description of the methodologies and assumptions for the materiality assessment of impacts, risks and opportunities, following the double materiality perspective;
- (g) a description of the processes and organization implemented and the internal control and risk management procedures in relation to sustainability decision-making steps;
- (h) an overview of the process to identify and assess its potential and actual impacts on the environment and people, informed by its due diligence steps, including the extent to which these involve (1) reviewing its activities and its business relationships, (2) assessing direct or indirect impacts of the undertaking's operations, products, or services or business relationships and involving and engaging stakeholders and external experts to understand how the impacts on stakeholders;
- (i) an overview of the process used to identify, assess and prioritise sustainability risks and opportunities that affect or may affect enterprise value, including how it assesses the likelihood and effects associated with such risks (such as the qualitative factors, quantitative thresholds and other criteria used);
- (j) the thresholds and/or how it has implemented the criteria in ESRS 1 Chapter 3 to determine when an impact, risk or opportunity is material, including the input parameters it uses (for example, data sources, the scope of operations covered and the detail used in assumptions);

- (k) an explanation of how the undertaking has determined (1) the potential and actual impacts on the environment and people connected with the undertaking, (2) the prioritisation of negative (positive) impacts and how this reflects their relative severity and likelihood, (see ESRS1 chapter 3.4 Impact materiality) and (3) the material sustainability risks and opportunities that affect or may affect its development, performance and position;
- (l) the extent to which and how the identification processes of impacts and risks are integrated into the undertaking's overall risk management process and the extent to which and, where applicable, how the identification process of opportunities is integrated into the undertaking's overall management process; and
- (m) whether it has changed the processes used compared to the prior reporting period, when the processes were modified for the last time and future revision dates of the materiality assessment.

Disclosure Requirement IRO-2 – Summary of material information covered by the undertaking's sustainability statements

57. The undertaking shall provide a summary of the application of topical ESRS.

58. The objective of this Disclosure Requirement is to allow an understanding of the Disclosure Requirements included and of the topics that have been omitted as not material as a result of the materiality assessment.

59. The undertaking shall disclose:

- (a) the list of the Disclosure Requirements complied with in preparing the sustainability statements following the outcome of the materiality assessment including the page number and/or paragraphs of where this is located (i.e., a content index) (ref. ESRS 1 section 4.7);
- (b) the thresholds and/or criteria to determine when a specific information, to be disclosed under a Disclosure Requirement for a material sustainability matter, is assessed to be 'not material for the undertaking' and, as such, omitted (ref. ESRS 1 par. 54) and when a specific entity-specific information is assessed to be material.

60. When all the Disclosure Requirements in a topical standard are omitted as the topic is assessed to be not-material for the undertaking, the undertaking shall report a brief explanation of the conclusions of its materiality assessment for the topic.

4.2 Cross-cutting disclosure requirements on policies, targets and actions

61. This section sets cross-cutting disclosure requirements that shall be applied when the undertaking discloses on policies, targets and actions. They shall be applied together with the additional data points and application requirements provided in the relevant topical standards, as well as when the undertaking prepares entity-specific disclosure.

62. The corresponding disclosures shall not be located under ESRS 2-related disclosures, but alongside the disclosure requirements prescribed by the topical standards for consistency reasons.

When applying disclosure requirements on policies, actions and targets required by a ESRS and when applying the cross-cutting disclosure requirements illustrated in this section, if the undertaking cannot disclose the required information, because it has not adopted policies, actions or targets with reference to the specific sustainability matter concerned, it shall disclose this to be the case, it shall provide

reasons for not having adopted policies, targets or actions, and may report a timeframe in which it aims to have such policies, objectives or actions.

Cross-Cutting Disclosure Requirement CCR 1 – On policies adopted to manage material sustainability matters

63. **This Cross-Cutting Disclosure Requirement defines the aspects to be described for the relevant policies in respect of each sustainability matter identified as material following the undertaking's materiality assessment.**

64. The objective of the Cross-Cutting Disclosure Requirement is to provide an understanding of the implemented policies that address the identification, assessment, management and/or remediation of material sustainability matter related impacts, risks and opportunities.

65. The disclosure of a policy to manage a material sustainability matter shall include the following summarised information:

- (a) a description of the overarching policy, including its general objectives and whether the policies are dedicated to impacts or risk management;
- (b) a description of the scope of the policy in terms of activities, value chain, geographies and if relevant, social stakeholder groups;
- (c) the most senior level in the undertaking's organisation that is accountable for the implementation of the policy;
- (d) a reference, if relevant, to the third-party standards or initiatives the undertaking commits to respect through the implementation of the policy;
- (e) if relevant, a description of the consideration given to the interests of key stakeholders in setting the policy; and
- (f) if relevant, a description of if and how the undertaking makes the policy available to potentially affected stakeholders, and stakeholders who need to help implement the policy.

66. The undertaking shall indicate:

- (a) whether and how its policies address mitigating negative impacts and maximising positive impacts related to material sustainability topics including prevention and control in its own operations and, where relevant, along the upstream and downstream value chain;
- (b) whether and how its policies address minimising, substituting and phasing out material sustainability topics, such as substances of concern, in particular for non-essential societal use and in consumer products; and
- (c) whether and how its policies address preparedness and response to incidents and emergencies;
- (d) the extent to which and how the assessment and management processes of risks and impacts are integrated into the undertaking's overall risk management and the extent to which and the assessment and management processes of opportunities, where applicable, are integrated into the undertaking's overall management process.

Cross-Cutting Disclosure Requirement CCR 2 – Actions and resources in relation to policies and targets

67. This Cross-Cutting Disclosure Requirement defines the sustainable-related aspects that are to be described for the actions, including action plans, and resources implemented and/or planned. .
68. The objective of the Disclosure Guideline is to provide an understanding of the key actions taken and planned to achieve the sustainability matter-related policy's objectives and targets.
69. Where the implementation of a policy requires actions or a comprehensive action plan to achieve its objectives, as well as when actions are implemented without a specific policy, the undertaking shall disclose:
- (a) the list of key actions taken in the reporting year and planned for the future and how their implementation contributes to the achievement of policy's objectives and targets;
 - (b) the scope of the key actions (i.e., coverage in terms of activities, value chain geographies and, where applicable, social stakeholder groups);
 - (c) the time horizons under which the undertaking intends to complete each key action;
 - (d) the expected outcomes of key actions or a group of key actions in relation to the achievement of the underlying policy objectives and targets;
 - (e) if applicable, any actions taken (along with results) to provide for, cooperate in supporting the provision or remedy for those harmed by the actual material impacts;
 - (f) if applicable, quantitative and qualitative information of the progresses of actions or action plans disclosed in prior periods and any further explanation deemed useful to understand key actions.
70. Where the implementation of an action plan requires significant operational expenses (Opex) and/or investments (Capex) the undertaking shall:
- (a) describe the type and amount of current and future financial and other resources allocated to the action plan, including the amounts, environmental objectives and relevant terms on sustainable finance instruments such as green bonds and green loans;
 - (b) provide complementary explanatory information, where the ability to implement the actions or action plan depends on specific preconditions, e.g., granting of financial support or public policy and market developments; and
 - (c) relate significant monetary amounts to the most relevant amounts presented in the financial statements.
- 71.

Cross-Cutting Disclosure Requirement CCR 3 – On targets, progress and tracking effectiveness

72. This Disclosure Guideline defines how the undertaking shall describe:
- (a) its measurable time-bound outcome-oriented targets set to meet the policy's objectives, in terms of expected results for people, the environment and the undertaking concerning material impacts, risks and opportunities;

- (b) the overall progress towards the adopted targets over time;
- (c) if no measurable outcome-oriented targets exist, if and how it tracks the effectiveness of its actions and measures the progress in achieving its policy objectives; and
- (d) whether and how stakeholders have been involved in target setting for material sustainability topics.

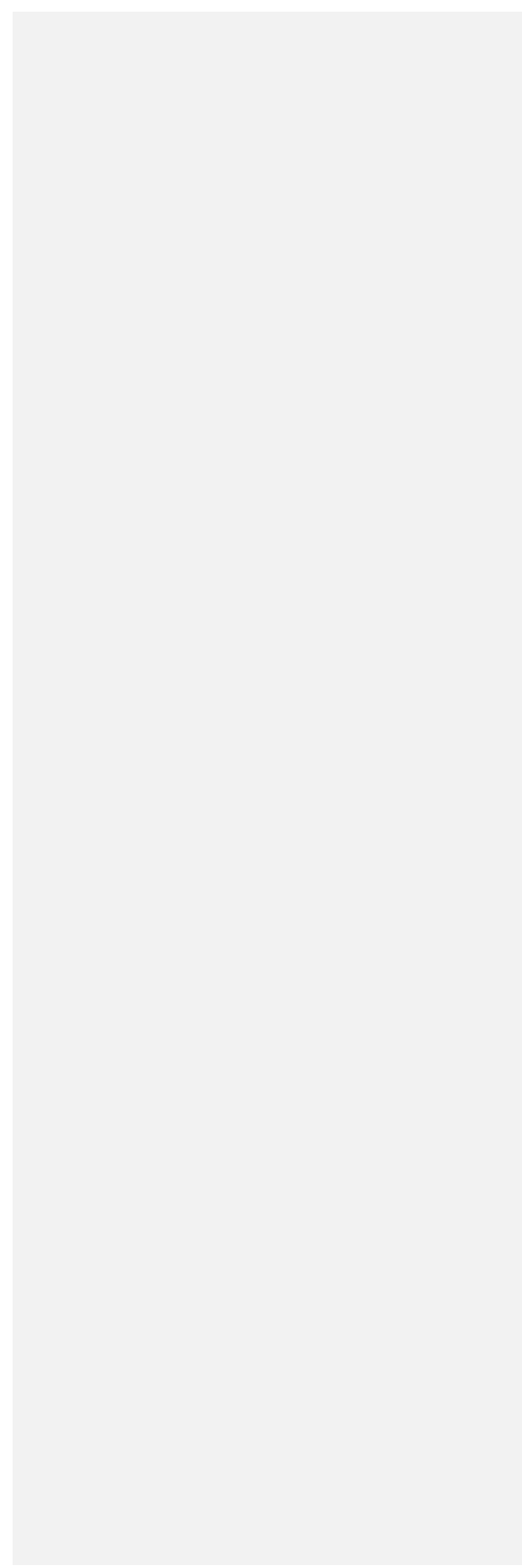
73. For each measurable outcome-oriented target, the undertaking shall include:

- (a) a description of the relationship of the target to the policy objectives;
- (b) the defined level of ambition in quantitative terms to be achieved, including, where applicable, whether the target is absolute or relative and the metrics used;
- (c) the measurement methodologies for the targets and corresponding metrics, including significant assumptions, limitations, sources;
- (d) the scope of the target, including activities, value chain where applicable and geographical boundaries;
- (e) the baseline value and base year from which progress is measured;
- (f) the period over which the target applies and if applicable, any milestones or interim targets;
- (g) 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;
- (h) whether measurement of the metric is validated by an external body and, if so, which body and whether the undertaking's targets related to environmental matters are based on conclusive scientific evidence;
- (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 together with an explanation of the rationale for those changes and their effect on comparability (as described in CCR 2); and
- (j) the performance against its disclosed targets, the overall progress towards the defined target, including information on how the target is monitored and reviewed, 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.

74. If the undertaking has not adopted any measurable outcome-oriented target, it shall describe:

- (a) whether such targets will be adopted and the timeframe for their adoption, or the reasons why the undertaking does not plan to adopt such targets,
- (b) whether it 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. any qualitative or quantitative indicators it uses to evaluate progress, including the base period from which progress is measure.

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Appendix A: Defined terms

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

Administrative, management and supervisory bodies	The governance bodies with the highest decision-making authority in the undertaking. Where they are no members of the administrative, management or supervisory body of the undertaking, the CEO and if such function exists in an undertaking, the deputy CEO should be included. In some jurisdictions, governance systems consist of two tiers, where supervision and management are separated. In such cases, both tiers are included under the definition of administrative, management and supervisory bodies.
Business model	An undertaking's system of transforming inputs through its business activities into outputs and outcomes that aims to fulfil the undertaking's strategic purposes and create value over the short-, medium- and long-term. The undertaking may develop one or several business models.
Business relationships	Those relationships an undertaking has with business partners, entities in its value chain and any other non-State or State entity directly linked to its business operations, products or services. They include indirect business relationships in its value chain, beyond the first tier, and minority as well as majority shareholding positions in joint ventures or investments
Content index	A tabular list of the parts of the management report that contain the sustainability information required by ESRS Standards indicating their location within the management report.
Governance	The system by which an undertaking is directed and controlled in the interests of shareholders and other stakeholders. Governance involves a set of relationships between an undertaking's management, its board, its shareholders, and other stakeholders. Governance provides the structure and processes through which the objectives of the undertaking are set, progress against performance is monitored, and results are evaluated. The term 'governance bodies' refers to the administrative, management and supervisory bodies with the highest decision-making authority in the undertaking.
Impact	The effect an undertaking has or could have on the environment and people, including effects on their human rights, as a result of the undertaking's activities or business relationships. The impacts can be actual or potential, negative or positive, short-term or long-term, intended or unintended, and reversible or irreversible. Impacts indicate the undertaking's contribution, negative or positive, to sustainable development.
<u>Independence</u>	Conditions that enable the members of the governance body to exercise independent judgment free from any external influence or conflicts of interest. Independence generally means the exercise of objective, unfettered judgement. When used as the measure by which to judge the appearance of independence, or to categorise a non-executive member of the administrative, management and supervisory bodies or their committees as independent, it means the absence of an interest, position, association or relationship which, when judged from the

	perspective of a reasonable and informed third party, is likely to influence unduly or cause bias in decision-making. For the avoidance of doubt, worker representatives on administrative, management and supervisory bodies or their committees are considered to be independent.
Sector	Subdivision of an economy, society or sphere of activity, defined on the basis of some common characteristic. A sector generally refers to a large segment of the economy or grouping of business types, while “industry” is used to describe more specific groupings of undertakings within a sector.
Severity of a negative impact	It is determined by the following characteristics (i) Scale: how grave the impact is, (ii) scope: how widespread the impact is, and (iii) its irremediable character: how hard it is to counteract or make good the resulting harm.
Stakeholder engagement	An ongoing process of interaction and dialogue between an undertaking and its stakeholders that enables the undertaking to hear, understand and respond to their interests and concerns.
Strategy	An undertaking’s plan to achieve its mission and vision and apply its core values. It incorporates the set of goals or purposes an undertaking assigns itself in terms of delivering certain defined products and services to defined categories of customers in certain defined geographic areas under a defined framework of relationships with all stakeholders.
Supply chain	The full range of activities or processes carried out by entities upstream from the undertaking, which provide products or services that are used in the development of the undertaking’s own products or services. This includes upstream entities with which the undertaking has a direct (often referred to as a first-tier supplier) or indirect business relationship.
Sustainability-related opportunities	Sustainability-related opportunities are uncertain environmental, social or governance events or conditions that, if they occur, could cause a potential material positive effect on the undertaking’s business model, strategy, its capability to achieve its goals and targets and to create value, and therefore may influence its decisions and those of its business relationship partners as regard to sustainability matters. Like any other opportunity, sustainability-related opportunities are measured as a combination of a probability of occurrence and an impact magnitude.
Sustainability-related risks	Sustainability-related risks are uncertain environmental, social or governance events or conditions that, if they occur, could cause a potential material negative effect on the undertaking’s business model, strategy and sustainability strategy, its capability to achieve its goals and targets and to create value, and therefore may influence its decisions and those of its business relationships as regard to sustainability matters. The risk management framework implemented by the undertaking aims at the identification, measurement, prevention and mitigation of sustainability-related risks. Like any other risks, sustainability-related risks are the combination of a probability of occurrence, and an impact magnitude.

Transition plan	A transition plan is a specific type of action plan that is adopted by the undertaking in relation to a strategic decision and that addresses: a public policy objective; and/ or an entity-specific action plan that the undertaking decides to organise as a structured set of targets and actions and is associated to (i) a key strategic decision; (ii) a major change in business model; and/or (iii) a particularly important action plan in terms of objectives or allocation of resources.
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Appendix B: Application Requirements

This appendix is an integral part of the proposed [draft] ESRS 2 General, Disclosures. It describes the application of the requirements of chapter 1. Basis for preparation to chapter 4 Management of impacts, risks and opportunities.

1. Basis for preparation

Disclosure Requirement GR-1 - General basis for preparation of the sustainability statements

AR 1. The period covered by the sustainability report follows the period used in the undertaking's (consolidated) financial reporting. Therefore, normally the undertaking consistently prepares sustainability reports for a one-year period. When the undertaking changes the reporting period used in its (consolidated) financial reporting, the period used for the sustainability report has to be modified accordingly. If so, amounts in sustainability reporting are not entirely comparable, the methodology to report is described in ESRS 1, [chapter 7](#).

2. Governance

Disclosure Requirement GOV-1 – The role of the administrative, management and supervisory bodies

AR 2. In describing the roles and responsibilities of the administrative, management and supervisory bodies over sustainability matters, the undertaking may specify:

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

AR 3. In describing the undertaking's governance organisational structure regarding sustainability matters, a description of complex governance may be complemented and presented in the form of a diagram.

AR 4. The description of the administrative, management and supervisory bodies' level of expertise or access to expertise may be substantiated by a description of their current expertise and skills

and how such expertise and skills have been updated as a group. The description also shall include how the expertise and skills are relevant to the undertaking's material sustainability risks, opportunities and impacts and if they have access to other sources of expertise such as specific experts. An example of access to expertise is training and other educational initiatives to update and develop sustainability-related expertise within these bodies.

Disclosure Requirement GOV-3 - Integration of sustainability strategies and performance in incentive schemes

AR 5. For listed undertakings, this Disclosure Requirement should be consistent with the remuneration report prescribed in articles 9a and 9b of the Directive 2007/36/EC on the exercise of certain rights of shareholders in listed companies.

Disclosure Requirement GOV-4 – Statement on due diligence

AR 6. The mapping required by paragraph 66 is presented in the form of a table referencing the main aspects of sustainability due diligence, for both impacts on people and the environment, to the relevant disclosures in its sustainability statements as set out below. The undertaking may include additional columns to the table below to clearly identify those disclosures that relate to impacts on people and/or the environment given that in some cases, more than one disclosure requirement provide information about a due diligence step².

AR 7. The references to the respective steps of the due diligence process as stated in the international instruments are illustrated in Appendix B of ESRS 1 (ref. to AR 14 of ESRS 1).

MAIN ASPECTS OF DUE DILIGENCE	PARAGRAPHS IN THE SUSTAINABILITY STATEMENT
a) Embedding due diligence in governance, the strategy and the business model	
b) Engaging with affected stakeholders in all key steps of the due diligence	
c) Identifying and assessing adverse impacts	
d) Taking actions to address those adverse impacts	
e) Tracking the effectiveness of these efforts and communicating	

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² This information supports the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting an additional indicator related to principal adverse impacts as set out by indicator #10 in Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments ("Lack of due diligence").

Strategy

Disclosure Requirement SBM-1 Market position and sector(s) of activity

AR 8. To provide the information on sectors required by paragraphs 37 and 39, the undertaking shall map its significant activities in accordance with ESRS sectors. If a code for a sub-sector does not exist, the caption "others" is detailed.

AR 9. To determine the significance of sectors, the undertaking shall consider:

- (a) Sectors generating revenues above 10 per cent of the revenues of all its activities or connected with material impacts; and, and
- (b) sectors that are connected with material actual impacts or material potential negative impacts.

Disclosure Requirement SBM-2 – Business model and value chains

AR 10. The boundary of the value chain is defined as relative to the undertaking's sustainability material risks, opportunities and impacts. Disclosing the material sustainability impacts, risks and opportunities of the undertaking are specified in ESRS 1.

AR 11. The description of the value chains shall be granular enough to allow an understanding of i) where the material sustainability-related impacts, risks and opportunities, are located in the value chain in which the undertaking operates, as determined by the undertaking in its assessment process; and ii) where in its value chain significant sustainability related impacts, risks and opportunities are concentrated (for example, geographical areas, facilities or type of assets, inputs, outputs or distribution channels).

AR 12. In preparing this Disclosure Requirement, the undertaking shall consider:

- (a) its key business relationships, including with customers, and their key characteristics, its key activities, suppliers, resources, distribution channels, customer segments;
- (b) cost structure and revenue for its business segments, where its margins are generated in line with IFRS 8 disclosure requirements in the financial statements;
- (c) the potential sustainability-related impacts, risks and opportunities in its sector(s) of operation;
- (d) how the business model creates and/or erode value through its activities, relationships and interactions (for example, the quality of relationships with its key stakeholders) and, therefore, the perspectives of key stakeholders (ref. to IRO 1); and
- (e) the sustainability risks and opportunities that can influence revenue generation, cost management and control, profitability, capex plans, financial structure and cash flow generation and, therefore, its enterprise value; and

AR 13. Contextual information may be relevant for users if the boundaries of the financial reporting and the sustainability reporting differ. The identification of key value chains by the undertaking follows the requirements of [ESRS 1- Chapter 5.2](#) and the materiality assessment performed by the undertaking under ESRS 1 Chapter 3 and [ESRS 2- SBM4](#). The required description may provide a high-level overview of the key features of the value chain participants indicating their relative contribution to the undertaking's performance and positions and explain how they contribute to the value creation of the undertaking.

Disclosure Requirement SBM-4 - Material impacts, risks and opportunities and their interaction with strategy and business model

AR 14. This disclosure may be provided aggregating groups of material sustainability-related impacts, risks and opportunities when this provides more relevant information and does not obscure material information. The detail of policies, targets, action plans and resources put in place to implement the strategic and business model level decisions are covered by the disclosures required under topical or other ESRS..

Disclosure Requirement SBM-5 – Interests and expectations of stakeholders

AR 15. Undertakings occasionally engage with stakeholders when developing initiatives that prevent, remediate or end its impacts or as part of its sustainability due diligence process (as described in ESRS 1- chapter 3). To the extent that these initiatives and due diligence process(es) are connected to the undertaking's strategy and business model, the undertaking shall consider the interest of the engaged stakeholders.

Management of impacts, risks and opportunities

Cross-Cutting Disclosure Requirement CCR 1 – On policies adopted to manage material sustainability matters

AR 16. Due to the interdependency between impacts on people and the environment, risks and opportunities, a single policy may apply to several material matters, including matters addressed by more than one ESRS. The undertaking may report the required information once in the relevant ESRS whilst providing information required by other applicable ESRS, with a clear explanation of the disclosures covered and appropriate cross-references to other disclosures. Therefore, the undertaking may have a single policy to address several interconnected material human rights or environmental issues in its value chain, provided the policy is specific with respect to the management of the underlying material impacts, risks, and opportunities.

AR 17. The description of the scope of the policy may explain which activities and/or segments of the undertaking's operations, value chain or other business relationships it concerns. The description may also explain further boundaries relevant to the specific topic or the undertaking's circumstances, which may include geographies, life cycles, etc. In certain cases, when the scope of the value chain perimeter differs from the one defined by other ESRS and the policy may not cover the full value chain, the undertaking may provide clear information regarding the extent of the value chain covered by the policy).

Cross-Cutting Disclosure Requirement CCR 2 – Actions plans and resources in relation to policies and targets

AR 18. Information on resources allocation should be presented in the form of a table and should be broken down between capital expenditures and operating expenditures, and across the relevant time horizons, at minimum for the current reporting year resources, and the planned allocation of resources over specific time horizons.

Cross-Cutting Disclosure Requirement CCR 3 – On targets, progress and tracking effectiveness

- AR 19. When setting targets related to the prevention or mitigation of environmental impacts, the undertaking shall prioritise targets related to the reduction of the impacts in absolute terms rather than in relative terms. When targets address prevention or mitigation of social impacts, they may be specified in terms of the effects on human rights, welfare or positive action for affected stakeholders.
- AR 20. In the description of the methodology, the undertaking describes how the targets are set, whether and how the targets consider the wider context of sustainable development and/or local situation in which impacts take place and whether the targets are based on scientific consensus (science-based), where applicable.
- AR 21. The information on progress made towards achieving the targets may be presented in a comprehensive table, including information on the baseline and target value, milestones, and achieved performance over the prior periods.
- AR 22. 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 a fair wage; or may assess the quality of its relationships with local communities 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 sustainability-related impacts, risks and opportunities which underpin the materiality of the matter addressed by the policy.

Appendix C: Application Requirements in topical ESRS that are applicable to ESRS 2 General Disclosures

The following table supports the correct identification of the Application Requirements paragraphs that are applicable in preparing the disclosures mandated by Disclosure Requirements in ESRS 2.

Disclosure Requirement	Related ESRS Standards [REFERENCES TO BE UPDATED FOLLOWING THE TEG DECISION TO MOVE 'SHALL' TO THE MAIN BODY OF TOPICAL STANDARDS]
GOV – 1 Roles and responsibilities of the administrative, management and supervisory bodies and management roles	ESRS G2 Business conduct (AG 3)
GOV – 2 Information provided to and sustainability matters addressed by the undertaking's administrative, management and supervisory bodies and management-level senior executives	ESRS S1 Own workforce (AG 105 to AG 107) ESRS G2 Business conduct (AG 3)
GOV – 3 Integration of sustainability strategies and performance in incentive schemes	ESRS E1 Climate change (AG 8 to AG 13)
SBM – 3 Overview of strategy	ESRS E1 Climate change (AG 7)
SBM – 4 Outcome of the undertaking's assessment of material sustainability impacts, risks and opportunities	ESRS E1 Climate change (AG 14 to AG 22) ESRS E2 Pollution (AG 5 to AG 8) ESRS E3 Water and marine resources (AG 1 to AG 13) ESRS E4 Biodiversity and ecosystems (AG 10 to AG 30) ESRS E5 Resource use and circular economy (AG 5 to AG 9) ESRS S1 Own workforce (AG 8 to AG 10) ESRS S2 Workers in the value chain (AG 9 to AG 13) ESRS S3 Affected communities (AG 9 to AG 12) ESRS S4 Consumers and end-users (AG 9 to AG 12)
SBM – 5 Interests and expectations of stakeholders	ESRS S1 Own workforce (AG 2 to AG 4) ESRS S2 Workers in the value chain (AG 3 to AG 5) ESRS S3 Affected communities (AG 3 to AG 5) ESRS S4 Consumers and end-users (AG 3 to AG 5)
SBM – 6 Interaction of impacts, risks and opportunities and the undertaking's strategy	ESRS E2 Pollution (AG 1 to AG 4) ESRS E4 Biodiversity and ecosystems (AG 7 to AG 9) ESRS E5 Resource use and circular economy (AG 1 to AG 4) ESRS S1 Own workforce (AG 5) ESRS S1 Own workforce (AG 6 to AG 7) ESRS S2 Workers in the value chain (AG 6) ESRS S2 Workers in the value chain (AG 7 to AG 8)

	<p>ESRS S3 <i>Affected communities</i> (AG 6)</p> <p>ESRS S3 <i>Affected communities</i> (AG 7 to 8)</p> <p>ESRS S4 <i>Consumers and end-users</i> (AG 6)</p> <p>ESRS S4 <i>Consumers and end-users</i> (AG 7 to AG 8)</p>
<p>IRO - 1 Description of the processes to identify and assess material sustainability impacts, risks and opportunities</p>	<p>ESRS E2 <i>Pollution</i> (AG 5 to AG 8)</p> <p>ESRS E3 <i>Water and marine resources</i> (AG 1 to AG 13)</p> <p>ESRS E4 <i>Biodiversity and ecosystems</i> (AG 10 to AG 30)</p> <p>ESRS E5 <i>Resource use and circular economy</i> (AG 5 to AG 9)</p> <p>ESRS G2 <i>Business conduct</i> (AG 4)</p>

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