



European Sustainability Reporting Standards

Presentation to EFRAG SRB

14 June 2023

Context and overall approach

- Sustainability crisis, European Green Deal, sustainable finance agenda
- Covid, Russian invasion of Ukraine, challenging economic context
- Announcement of general 25% reduction in reporting requirements

In this context =>

- Consistent with CSRD ambition
- Respect EFRAG technical expertise
- Keep overall package together (12 standards)
- Proportionality and flexibility, especially at the start and especially for smaller companies

Principal modifications compared to EFRAG advice

1. Materiality
2. Phasing-in
3. Making some disclosures voluntary
4. Other targeted modifications
5. Coherence EU legal framework
6. Interoperability global standards
7. Editorial and presentational

1. Approach to materiality

EFRAG advice

ESRS 1	Pollution	Circular economy	Consumers & end-users
ESRS 2	Water	Own workforce	Affected communities
		Own workforce	
Climate	Biodiversity	Workers in value chain	Business conduct

Revised proposal

ESRS 1	Pollution	Circular economy	Consumers & end-users
ESRS 2	Water	Own workforce	Affected communities
Climate	Biodiversity	Workers in value chain	Business conduct



Mandatory irrespective of materiality assessment



Subject to materiality. Assurer checks materiality assessment process.

○ Indicators deriving from SFDR, BMR, CRR/CRD

Company may explain why the topic covered by a given standard is not material.

2. Additional phase-ins

EFRAG advice: Some disclosure requirements phased-in for all companies e.g. value chain metrics (3 years), quantitative data on financial effects from environment-related risks (3 years), certain indicators with regard to non-employees (1 year).

Revised proposal: Keep EFRAG phase-ins where relevant, and add:

For companies with < 750 employees:

- a) 1-year phase-in for scope 3 GHG emissions
- b) 1-year phase-in for own workforce standard ESRS S1
- c) 2-year phase-in for biodiversity (ESRS E4)
- d) 2-year phase in for value chain workers (ESRS S2), affected communities (ESRS S3) and consumers & end-users (ESRS S4).

For all companies:

- a) 1 year phase-in for anticipated financial effects under pollution, water, biodiversity and resource use/circular economy
- b) 1 year phase-in certain social indicators, (persons with disability, social protection coverage, family leave etc.)

New provision in ESRS 2 to ensure minimum CSRD requirements met during phase-in period.

For full list of phase-ins, see ESRS 1 *General Requirements*, Annex C

Phase-in provisions of CSRD and ESRS: overview

	FY 24 (report 25)	FY 25 (report 26)	FY 26 (report 27)	FY 27 (report 28)	FY 28 (report 29)
NFRD > 750 emp	Light phase-in	Light phase-in	Light phase-in	Full reporting	Full reporting
NFRD < 750 emp	Strongest phase-in	Moderate phase-in	Light phase-in	Full reporting	Full reporting
Non-NFRD > 750 emp	No reporting	Light phase-in	Light phase-in	Light phase-in	Full reporting
Non-NFRD < 750 emp	No reporting	Strongest phase-in	Moderate phase-in	Light phase-in	Full reporting
Listed SME	No reporting	No reporting	May opt out*	May opt out*	Full reporting*

“**NFRD**” = companies previously subject to Non-Financial Reporting Directive: large listed companies, large banks, large insurance companies, all if they have more than 500 employees.

“**Non-NFRD**” = all large companies (non-SMEs) not covered by NFRD. It is mainly large non-listed companies.

* Listed SMEs may use separate, proportionate standards

3. Making some disclosures voluntary

EFRAG advice: Drafts standards already contain many datapoints that are voluntary, to encourage good practice (“may disclose” as opposed to “shall disclose”).

Revised proposal: A number of disclosures that EFRAG proposed to be mandatory would become voluntary.

Examples of disclosure requirements and data points that have been made voluntary:

Cross-cutting standards

- Brief explanation if company concludes a topic is not material.
- Reconciliation of any monetary amount with amounts in financial statements.

Making some disclosures voluntary

Environmental standards

- ESRS E2-E5: classification of each action according to a layer of the mitigation hierarchy.
- ESRS E4: biodiversity transition plan.
- ESRS E4: compatibility of business model and strategy with “planetary boundaries”.
- ESRS E4: metrics on invasive alien species, impact drivers of land-use change, and ecosystem extent and condition.
- ESRS E4: land-use based on life-cycle assessment.

Making some disclosures voluntary

Social standards

- ESRS S1: Certain disclosures and metrics regarding non-employees:
 - Breakdown of number of non-employees by category and type of work performed
 - Collective bargaining coverage
 - Whether paid adequate wage
 - Social protection coverage
 - Cases of work-related ill-health
 - Number of days lost of injuries, accidents, fatalities
- ESRS S1: for employees not covered by collective bargaining agreements, whether their working conditions are determined by reference to agreements which apply to its other employees or undertakings
- ESRS S1: for employees not covered by social protection, breakdown by country and type of employee
- ESRS S1: breakdown by employee category regarding participation in training.

Making some disclosures voluntary

Governance standard ESRS G1

- Number and nature of confirmed incidents of bribery or corruption
- Details of public legal cases brought against the undertaking for bribery and corruption
- Actions taken to support “vulnerable suppliers”

4. Other targeted modifications

Other modifications, mainly designed to ensure proportionality. Examples:

Cross-cutting standards

- ESRS 1: Companies may omit “classified” and “sensitive” information.
- ESRS 2: Provision to allow companies to signal uncertainty of forward-looking information.
- ESRS 1: deletion of requirement to use “in-house” info during 1st 3 years if company cannot gather value-chain info.
- ESRS 1: Disaggregation of information by significant site or asset if material impact, risk or opportunity is “highly dependent on” specific site or asset (“is linked to” in EFRAG advice).
- ESRS 2: disclosure of “sustainability-related goals in terms of significant groups of products and services, customer categories, geographical areas and relationships with stakeholders” – “significant” added.
- ESRS 2: disclosure of “the undertaking’s understanding of the interests and views of its key stakeholders” – “key” added.

Other targeted modifications

Environmental standards

- ESRS E2-E5: use of LEAP methodology for materiality assessment made voluntary.
- ESRS E1: when disclosing energy consumption from different sources, nuclear is now presented as a separate category, no longer as part of “non-renewable” together with fossil.
- Removal of many references to private sources of information and possible guidance.

Other targeted modifications

Social standards

- ESRS S1: Diversity policies: removal of requirement to disclose whether or not each criterion from a specified list is covered by company policy on diversity. Requirement therefore only applies in the case of policies on non-discrimination.
- ESRS S1: 1) Employee headcount breakdown at country level, and 2) country-level data on collective bargaining coverage => both only required for countries where company has >50 employees representing >10% of its total workforce. (10% threshold added compared to EFRAG advice).
- ESRS S1-S4: company to disclose engagement with relevant stakeholders regarding impacts that “are likely” affect them (EFRAG advice: “that may affect” them). Also, company to state whether disclosure of material IROs covers all stakeholders who “are likely to be” impacted by the company (EFRAG advice: “who can be impacted”).
- ESRS S1: disclosure of work-related ill-health subject to national restrictions on collection of data.
- ESRS S1: Classification of work-related health and safety incidents only applies if it does not conflict with applicable national legislation.
- ESRS S4: unlawful use and misuse of products excluded from scope of this standard.

Other targeted modifications

Governance standard ESRS G1

- Modification of requirement to disclose any “insufficiencies” in actions taken to address identified cases of bribery and corruption, to remove risk of self-incrimination. Requirement now is only to disclose actions taken, but not “insufficiencies”.
- Disclosure of average time the undertaking takes to pay an invoice: new provision to allow disclosure based on representative sampling instead of making calculation of average based on all payments made.

5. Coherence EU legal framework

Certain targeted changes to improve coherence with EU legal framework, including:

ESRS 2

Breakdown of revenue by ESRS sector: new provision to say that company may omit information if based in a Member State that allows for the omission of turnover by categories of activity and by geographical markets under article 18 of the Accounting Directive.

ESRS E2

Pollution metrics: simplification of approach, to align with requirements on companies under the European Pollutant Release and Transfer Register (E-PRTR).

ESRS S1

Remuneration metrics: datapoints modified to align with Pay Transparency Directive and Shareholder Rights Directive.

ESRS G1

Policy on protection of whistle-blowers: new provision to say that companies subject to EU Whistle-blower Directive can comply simply by stating that they are subject to that Directive.

6. Interoperability global standards

Changes from the ISSB bilateral discussions include:

- All climate related definitions in IFRS S2 and ESRS E1 with the exception of carbon credits were made common.
- Several changes to be fully aligned on financial materiality:
 - Changes to the concept of financial materiality in ESRS 1 (para 49);
 - using “anticipated” instead of “potential” financial effects in ESRS 2 para 48 (plus aligned throughout E standards);
 - Defining “current” financial effects (ESRS 2 para 48).

7. Editorial and presentation

- Single annex with definitions, common to all standards
- Defined terms in ***bold italics***
- Avoidance of “dynamic references” to external sources
- Avoidance of term “shall consider disclosing”
- Other editorial work

Thank you



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