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## ESRS for non-EU Groups: Summary of SR TEG Written Survey Feedback

### Objective

1. The drafting of non-EU ESRS will be performed as a markup from the Delegated Act of ESRS Set 1. With this session we start the discussion of the drafting.
2. The objective of this paper is to provide feedback on the survey on the EFRAG Secretariat analysis of the Set 1 datapoints and which should be included or not in the ESRS for the non-EU groups.

### Background

3. As discussed with the EFRAG SRB, the proposed approach is to start from the full inventory of disclosure requirements and data points in ESRS Set 1 and deleting only the items that are to be eliminated from the scope or should be redrafted.
4. The EFRAG Secretariat points out that Chapter 9a of the Accounting Directive excludes the risks, opportunities and resilience in article 29a, which describes the matters to be covered by Set 1. This understanding was confirmed by the European Commission.
5. The EFRAG Secretariat used the following decision tree to develop the Excel used in the survey and note the related action for each number used in the Excel during the Survey.

| Number in XL | Meaning   | Action   |
|--------------|---|--|
| <b>1</b>     | Excluded from the Non-EU ESRS                               | Excluded   |
| <b>2</b>     | Included in the non-EU ESRS                                 | Included   |
| <b>3</b>     | Requirement related to Impact included (R&O to be excluded) | To be reformulated (to maintain impacts only) and included |
| <b>4</b>     | Related to transitional provisions                          | Separate evaluation  |
| <b>5</b>     | Related to EU regulations                                   | Included   |
| <b>6</b>     | Related to Revenue & connectivity with FS                   | Included.  |

6. For item 4 the transition provisions of Set 1 may not be directly relevant to this standard, so a specific decision is needed. The Secretariat notes that transitional provisions do not form part of an Exposure Draft.
7. For items 5 and 6, two issue papers will be presented to support decision making. The peculiarity of item 5 is that when definitions are anchored in EU regulation, a question is whether they should be somehow internationalised. For item 6, the challenge is on possible misalignments with the scope of the financial reporting.

*Disagreement re exclusion of risks/opportunities etc.*

8. Various members disagreed with exclusion of disclosures about risks and opportunities/financial materiality for the following reasons:
  - (a) Important information;
  - (b) Interoperability with IFRS S standards at risk due to the exclusion of financial materiality;

- (c) Lack of comparability with disclosures by IFRS S preparers;
- (d) Supply chain-related risks are of importance; and
- (e) Alignment with CSDDD.

The EFRAG Secretariat notes that including risks and opportunities/financial materiality/resilience would be contradicting Level 1 which is not possible. See paragraph 4 above.

### The results from the survey

9. The EFRAG Secretariat analysed the responses received and have prepared the summary below.
10. Some SR TEG members were concerned that EU datapoints were to be excluded which was not what the Secretariat envisaged. As a reminder, only category 1 in the XL survey and the transitional provision-related aspects will be excluded from the ESRS for non-EU groups/companies. The topic of transitional provisions will be considered later in the process.
11. EFRAG TEG members proposed that ESRS E1-4\_19<sup>1</sup>, i.e., ‘Disclosure of past progress made in meeting target before current base year’) should be **included** (it was blank previously and the Secretariat agrees with this change).
12. EFRAG SR TEG members proposed reclassification **from excluded to included** for the following datapoints:
  - (a) Percentage of net revenue made with products and services that are or that contain substances of (very high) concern (E2-6\_02, E2-6\_03). *The Secretariat considers that this should be classified as 6.*
  - (b) ESRS E3-5 on financial effects: ‘Description of effects considered and related impacts’ and ‘Explanation of how time horizons are defined, financial amounts are estimated and critical assumptions made’. *Secretariat notes that these datapoints do explain the potential financial effects and not meaningful on its own (i.e. decoupled from financial effects).*
13. EFRAG SR TEG members proposed reclassification **from excluded to reformulate** (i.e. keep for impacts) for the following datapoints:
  - (a) ESRS S1 MDR-P\_01-06 should include policies with respect to impacts. *Agreed and the Secretariat will also consider whether there are other similar datapoints.*
14. EFRAG SR TEG members proposed reclassification **from included to excluded** for the following datapoints:
  - (a) Suggestion to exclude datapoints from EU legislation, including SFDR to shorten the standard. *The Secretariat notes that there is not an objective of simplification in this standard. In addition, the SFDR indicators cover impacts and often were the selected metrics rather than other possibilities in some areas. They have an informative value not only for investors due to the SFDR obligations but also for the other stakeholders. Excluding these would seriously hamper the standard and would not be justified by the CSRD provisions on non-EU.*
  - (b) There was a question as to whether Governance area of disclosure should be included. *The Secretariat is not clear why this would be the case as this was not envisaged in the legislation.*
  - (c) Description of ability to adjust or adapt strategy and business model to climate change (E1.SBM-3\_07) to be excluded as related to resilience (financial materiality). *The Secretariat agrees that resilience should be excluded but considers that the datapoint should be included in the standard. The reason is that art 29(2)(iii) which relates to ‘Business Model and strategy changes for transition’ is included in the level 1 text.*

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<sup>1</sup> These number refer to the numbering per IG 3 which formed the basis of the survey to SR TEG.

15. EFRAG SR TEG members proposed reclassification **from included to excluded** for the following datapoints as these relate to risks:

| Reference   | Link/Detail   | Reason for exclusion     |
|-------------|---|--------------------------|
| E1-3_02     | Adaptation solution type  | Physical risk-related    |
| E1.IRO-1_05 | <a href="#">Short-, medium- and long-term time horizons have been defined</a>   | Linked to physical risks |
| E1-8_01     | <a href="#">Carbon pricing scheme by type*</a>  | Tool to manage risks     |
| E1-8_02     | <a href="#">Type of internal carbon pricing scheme*</a>   | Tool to manage risks     |
| E1-8_03     | <a href="#">Description of specific scope of application of carbon pricing scheme*</a>  | Tool to manage risks     |
| E1-8_04     | <a href="#">Carbon price applied for each metric tonne of greenhouse gas emission*</a>  | Tool to manage risks     |
| E1-8_05     | <a href="#">Description of critical assumptions made to determine carbon price applied*</a>   | Tool to manage risks     |
| E1-8_06     | <a href="#">Percentage of gross Scope 1 greenhouse gas emissions covered by internal carbon pricing scheme*</a>   | Tool to manage risks     |
| E1-8_07     | <a href="#">Percentage of gross Scope 2 greenhouse gas emissions covered by internal carbon pricing scheme*</a>   | Tool to manage risks     |
| E1-8_08     | <a href="#">Percentage of gross Scope 3 greenhouse gas emissions covered by internal carbon pricing scheme*</a>   | Tool to manage risks     |
| E1-8_09     | <a href="#">Disclosure of whether and how carbon price used in internal carbon pricing scheme is consistent with carbon price used in financial statements*</a> | Tool to manage risks     |
| E1-9_30     | <a href="#">Net revenue from customers operating in coal-related activities</a>   | Relates to risks         |
| E1-9_31     | <a href="#">Net revenue from customers operating in oil-related activities</a>  | Relates to risks         |
| E1-9_32     | <a href="#">Net revenue from customers operating in gas-related activities</a>  | Relates to risks         |
| E1-9_33     | <a href="#">Percentage of net revenue from customers operating in coal-related activities</a>   | Relates to risks         |
| E1-9_34     | <a href="#">Percentage of net revenue from customers operating in oil-related activities</a>  | Relates to risks         |
| E1-9_35     | <a href="#">Percentage of net revenue from customers operating in gas-related activities</a>  | Relates to risks         |

(\*) = linked to carbon pricing disclosure

16. There were proposals to move SFDR indicators to **category 5 (EU regulation) rather than category 6 (Connectivity)**. Secretariat: [If the SR TEG agrees, this can be done. However, the consultation will focus on the outcomes \(i.e., exclude or not and as these two result in inclusion it would not impact the standard-setting approach\).](#)

*Comments noted for drafting*

17. An SR TEG member highlighted that in ESRS 1 par 92, references to risks need to be omitted. The EFRAG Secretariat agrees and eliminating 'risk' from ESRS 1 and 2 will require careful consideration.

ESRS1 par 92: "When assessing the possible outcomes, the undertaking shall consider all relevant facts and circumstances, including information about low-probability and high-impact outcomes, which, when aggregated, could become material. For example, the undertaking might be exposed to several impacts or risks, each of which could cause the same type of disruption, such as disruptions to the undertaking's supply chain. Information about an individual source of risk might not be material if disruption from that source is highly unlikely to occur. However, information about the aggregate risk of supply chain disruption from all sources might be material." (emphasis added)

18. The EFRAG Secretariat notes that 'opportunities' are mentioned in ESRS S1 and S2 in the context of 'Equal treatment and opportunities for all'. Therefore the words 'risks' or 'opportunities' has to be carefully evaluated before merely deleted.

## Non-EU: Feedback from survey

### Comments not included in analysis

19. The following comments have not been included above:

- (a) An assurance standard is required standard, but this is outside EFRAG's remit.
- (b) If the Subsidiary or Branch are obliged to report about Pillar 3, to be referenced in the art. 40a statement. Secretariat comment: As this is not envisaged in level 1, it is not clear why this is required.
- (c) References and explanations of financial materiality in ESRS 1 and 2 will be deleted.
- (d) A recommendation to understand the number of non-EU undertakings currently in the scope of the ESRS and the current state of their sustainability disclosure. The Secretariat notes that it has not been able to do this so far. Ideas as to identify these entities are welcome.

### Aspects in the remit of the SRB

20. The following aspects is to be determined by the SRB and comments received by SR TEG members are not addressed in this paper:

- (a) Perimeter of the disclosures: Global operations vs EU scope;
- (b) Sector standards for non-EU groups;
- (c) Digitalisation of the non-EU reporting.

21. The EFRAG SR TEG members will be updated about the 16 October 2024 SRB meeting.

### Impact on data point count

22. The EFRAG Secretariat has done a provisional estimation of the impact on the datapoint count per standard as follows:

#### Mandatory

|                             | ESRS 2 | E1  | E2 | E3 | E4 | E5 | S1  | S2 | S3 | S4 | G1 | TOTAL | %   |
|-----------------------------|--------|-----|----|----|----|----|-----|----|----|----|----|-------|-----|
| Set 1 mandatory             | 127    | 187 | 44 | 27 | 54 | 42 | 127 | 47 | 45 | 44 | 39 | 783   |     |
| Excluded from Non-EU        | 8      | 48  | 10 | 4  | 4  | 4  | 1   | 3  | 3  | 3  |    | 88    | 11% |
| Total                       | 119    | 139 | 34 | 23 | 50 | 38 | 126 | 44 | 42 | 41 | 39 | 695   |     |
| Of which to be reformulated | 15     | 1   | 1  | 1  | 1  | -  | -   | -  | -  | 1  | 1  | 21    | 3%  |

#### Voluntary

|                             | ESRS 2 | E1 | E2 | E3 | E4 | E5 | S1 | S2 | S3 | S4 | G1 | TOTAL | %  |
|-----------------------------|--------|----|----|----|----|----|----|----|----|----|----|-------|----|
| Set 1 voluntary             | 12     | 14 | 20 | 17 | 64 | 19 | 55 | 18 | 18 | 19 | 10 | 266   |    |
| Excluded from Non-EU        | -      | 10 | 1  | 2  | 2  | 2  | -  | -  | -  | -  | -  | 17    | 6% |
| Total                       | 12     | 4  | 19 | 14 | 62 | 17 | 55 | 18 | 18 | 19 | 10 | 248   |    |
| Of which to be reformulated | -      | -  | -  | 1  | -  | -  | -  | -  | -  | -  | -  | 1     | 0% |

### Questions for EFRAG SR TEG

23. Does the EFRAG SR TEG agree with the Secretariat proposals in paragraphs 11 to 0? If not, please provide your reasoning. Where there is no Secretariat orientation, such as paragraph 12, please indicate whether you think these points should be excluded.
24. Does the EFRAG SR TEG have further comments on the paper?

## Appendix 1: Disclosure content of non-EU ESRS

1. Article 40a says: “[...] a sustainability report covering the information specified in points (a)(iii) to (a)(v), points (b) to (f) and, where appropriate, point (h) of Article 29a(2), at the group level, or, if not applicable, the individual level, of the third-country undertaking.”

### The details

2. The information referred to in paragraph 1 shall contain:

- (a) a brief description of the group's business model and strategy, including:

✘ (i) the resilience of the group's business model and strategy in relation to risks related to sustainability matters;

✘ (ii) the opportunities for the group related to sustainability matters;

(iii) the plans of the group, including implementing actions and related financial and investment plans, to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1,5 °C in line with the Paris Agreement and the objective of achieving climate neutrality by 2050 as established in Regulation (EU) 2021/1119 and where relevant, the exposure of the group to coal-, oil- and gas-related activities;

(iv) how the group's business model and strategy take account of the interests of the group's stakeholders and of the impacts of the group on sustainability matters;

(v) how the group's strategy has been implemented with regard to sustainability matters;

(b) a description of the time-bound targets related to sustainability matters set by the group, including, where appropriate, absolute greenhouse gas emission reduction targets at least for 2030 and 2050, a description of the progress the group has made towards achieving those targets, and a statement of whether the group's targets related to environmental factors are based on conclusive scientific evidence;

(c) a description of the role of the administrative, management and supervisory bodies with regard to sustainability matters, and of their expertise and skills in relation to fulfilling that role or the access such bodies have to such expertise and skills;

(d) a description of the group's policies in relation to sustainability matters;

(e) information about the existence of incentive schemes linked to sustainability matters which are offered to members of the administrative, management and supervisory bodies;

(f) a description of:

(i) the due diligence process implemented by the group with regard to sustainability matters, and, where applicable, in line with Union requirements on undertakings to conduct a due diligence process;

(ii) the principal actual or potential adverse impacts connected with the group's own operations and with its value chain, including its products and services, its business relationships and its supply chain, actions taken to identify and monitor those impacts, and other adverse impacts which the parent undertaking is required to identify pursuant to other Union requirements to conduct a due diligence process;

(iii) any actions taken by the group to prevent, mitigate, remediate or bring an end to actual or potential adverse impacts, and the result of such actions;

✘ (g) a description of the principal risks to the group related to sustainability matters, including the group's principal dependencies on those matters, and how the group manages those risks;

(h) indicators relevant to the disclosures referred to in points (a) to (g).