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## ESRS for non-EU groups Cover note

### Objective

1. The objective of this session is to obtain SR TEG feedback on the drafting of the NESRS exposure drafts for the sustainability report as required under article 40a of the Accounting Directive for non-EU groups.
2. The focus of the meeting will be the cross-cutting working papers, NESRS 1 and 2. However, the entire package of the draft NESR has been uploaded for SR TEG consideration. We would not anticipate discussion on the topical sessions as they reflect the outcome of the previous SR TEG discussions and survey.
3. The focus of this meeting will be on:
  - (a) Agenda paper 02-02 *NESRS 1 working paper*;
  - (b) Agenda paper 02-03 *NESRS 2 working paper*;
 And the following supporting issue papers:
  - (a) Agenda paper 02-04 *Financial information and connectivity*;
  - (b) Agenda paper 02-05 *Internationalisation of EU references*; and
  - (c) Agenda paper 02-06 *Transitional provisions*.

### Timeline for NESRS

4. As CSRD/the Accounting Directive requires the European Commission to adopt the related delegated act by 30 June 2026, the deadline for EFRAG delivery of the draft standard is end 2025. This means that the consultation should be launched in January 2025 at the latest to meet these deadlines.
5. The EFRAG Secretariat therefore proposes the following meetings to meet this deadline:

Date	Who	Objective
7 Nov	SR TEG	First discussion on working papers / sharing of complete draft of NESR
18 Nov	SR TEG	Preparation for vote – red flags
21 Nov	SR TEG	Recommendation to SRB to issue the ED for consultation
4 Dec	SRB	Additional meeting to initiate approval process
12 Dec	SRB	Approval for issuance
18 Dec	SRB	Approval for issuance (additional meeting if required)

6. The plan is to send the ‘Basis for conclusions’ and consultation questionnaire to the SRB and SR TEG before Christmas and request written approval/feedback by 2 January 2025. The public consultation will follow as soon as possible thereafter.

### Work performed so far

7. All datapoints in set 1 ESRS were analysed and categorised to determine the impact on drafting the ESRS as follows:

	Meaning	Action
1	Excluded from the Non-EU ESRS	Excluded
2	Included in the non-EU ESRS	Included
3	Reformulated	Maintain impacts only and delete R&O
4	Related to transitional provisions	Separate evaluation
5	Related to EU regulations	Included
6	Related to Revenue & connectivity with FS	Included.

8. At the previous [SR TEG meeting](#), the EFRAG Secretariat validated its response to comments received from SR TEG members about the allocation of datapoints in IG 3.

### Cross-cutting standards

9. The EFRAG Secretariat drafted working papers for the NESRS as agreed with SRB and SR TEG at previous meetings. The basic principle is to start from set 1 and remove/reformulate the datapoints as required by CSRD.
10. The EFRAG Secretariat is also aiming to maximise alignment between ESRS and NESRS in a way that will mean that NESRS preparers could use the EFRAG IG documents (as relevant) as well as the explanations to the Q&A platform. This means preserving paragraph and appendix numbers and resulting in some paragraphs or sections being marked as deleted.

#### NESRS 1 General requirements

11. For NESRS 1 *General requirements*, the EFRAG Secretariat wants to draw the attention of SR TEG members to the following:
- (a) Paragraphs 4A and B are marked in grey. It is expected that these will be moved to the basis of conclusions for the next iteration;
  - (b) Section 1.3A *Perimeter of disclosures* – specifically paragraphs 18A and B;
  - (c) Changes to section 3 on materiality including paragraph 37A;
  - (d) Changes to paragraph 62 and inclusion of 62A under *Value chain*;
  - (e) Deletion of Section 7.8 *Reporting on opportunities*;
  - (f) Changes to Chapter 9: Connectivity and incorporation by reference; and
  - (g) Deletion of transitional provisions in Chapter 10 and Appendix C, Please refer to see Agenda paper 02-06 for the rationale behind the deletion.
12. The EFRAG Secretariat has the following questions for SR TEG on NESRS 1:
- (a) Question re consultation on perimeter of disclosure approach in paragraph 18B: The EFRAG Secretariat suggests testing an alternative approach to this option in the consultation. Such option would explore whether undertakings could choose whether to report on the limited scope for all the topics or only for topics other than climate. The advantage of reporting globally for topics in general is that this is consistent with the scope ESRS 2 reporting. The advantage of reporting globally for climate is the synergy with IFRS S2 which will be applied by many territories internationally. [Do you agree with this approach?](#)
  - (b) Should section 7.6 *Consolidated reporting and subsidiary exemption* be deleted or reformulated? This section was included with reference to recital 26 of CSRD which states that adequate understanding of risks and impacts pertaining to subsidiaries is required.

Explained in the basis for conclusions as follows: “There might be cases where the differences between the situation of the group and that of its individual subsidiary undertakings, or between the situation of individual subsidiary undertakings in different territories are particularly significant and would, in the absence of additional information about the individual subsidiary undertaking concerned, cause the user of the information to reach a substantially different conclusion about the risks for, or impacts of, the subsidiary undertaking.

The SRB noted that significant risks for, and impacts of, subsidiary undertakings - subject to a possible different materiality threshold of the group - are in general also material risks for the group. Nevertheless, the SRB considered it helpful to clarify that relationship, as it is explicitly required by the CSRD, and added additional guidance in paragraph 103 and 104.”

The EFRAG Secretariat considers that this should be deleted as the subsidiary exemption is not relevant to sustainability report under NESRS.

- (c) In paragraph 119B, the EFRAG Secretariat has highlighted in green aspects that create difficulties to qualify for incorporation by reference of information provided by the ultimate parent. [Does EFRAG SR TEG consider that these aspects should be deleted or maintained?](#)
- (d) Does the EFRAG SR TEG have comments on incorporation by reference for undertakings using the option specified in para 18B with respect to the Perimeter of disclosures? Drafting suggestions in writing before the meeting are very welcome.
- (e) In some cases, the EFRAG Secretariat has highlighted in yellow references to the word “risk” or “risk management” which signifies that while principal risks were removed in article 40a, in this context the word refers to a broader perspective than the financial materiality lens applied to sustainability reporting. [The proposal is to leave the words as they are, i.e. not to omit them.](#)

#### *Perimeter of disclosures*

- 13. With respect to the perimeter of disclosures, the SRB preferred a default of reporting related to the global operations with an option to apply an ‘EU-specific scope’.
- 14. The ‘EU-specific scope’ is different to the activities/turnover of the operations (e.g. subsidiaries, branches) in the European Union. In agreement with the European Commission, the draft proposes that the reporting focus on impacts related to European customers. The drafting reflects that this includes both natural and legal persons. This is reflected in NESRS 1 paragraphs 18A and B.
- 15. One of the key aspects of this proposal to field test in the public consultation is the of the feasibility EU-specific. The following examples reflect this:
  - (a) A Canadian headquartered group with such activity in the EU that an EU subsidiary undertaking has to report under article 40a for the group. Also assume that the Canadian parent has two intermediate holding companies: One for production and distribution of sales of products to the EU, called E and one for the rest of the world, called R. In this case, the NESRS option allowing ‘EU specific scope’ would perfectly correlate to the activities of E.
  - (b) A South African headquartered group with such activity in the EU that an EU subsidiary undertaking has to report under article 40a for the group. This parent has manufacturing plant and distribution units in Europe for its sales to EU customers, but there are also some isolated transactions with some EU clients directly from South Africa. In this case, the sustainability report under article 40a would also capture the impacts related to these

isolated transactions (on the assumption that the related sustainability matters are material).

- (c) A third example is that of an integrated manufacturing and distribution system which does not differentiate in their value chain and operations between the location of customers during the manufacturing phase. In this case, preparers using option 18B would have to perform a materiality assessment for topics beyond climate designed to capture impacts (also arising outside Europe) when they are connected with EU sales of goods or provision of services. This would also mean for example a quantification of the metrics for impacts, wherever they emerge, when connected with sales/services to the EU.

#### *NESRS 2 General disclosures*

16. For NESRS 2 *General disclosures*, the EFRAG Secretariat wants to draw the attention of SR TEG members to the changes to BP2 to explain the general basis for preparation of the sustainability report.
17. Similarly to paragraph 12(e) above, references to risk have been highlighted in yellow. The EFRAG Secretariat proposes to leave these in as it does not refer to financial materiality.

#### *Topical standards*

18. The EFRAG Secretariat also highlights that similarly to paragraph 12(e) above certain references to risks in the topical standards are of a general nature and not related to financial materiality. An example is in ESRS E3 *Water and marine resources* referencing 'areas at water risk'. [The Secretariat proposes to maintain these references in NESRS.](#)
19. However, the EFRAG Secretariat confirms that the subparagraph under the objective of the topical standard referencing financial effects have been deleted.

#### **Questions for EFRAG SR TEG**

20. Does EFRAG SR TEG have comments on the NESRS working papers prepared by the Secretariat for this meeting.
21. Also refer to the EFRAG Secretariat questions or proposals in paragraphs 12, 17 to 19 above.

#### **Agenda papers**

22. In addition to the papers mentioned in paragraph 3, the following agenda papers are also included for this session:
- (a) Agenda paper 02-07 NESRS E1 *Climate change* working paper
  - (b) Agenda paper 02-08 NESRS E2 *Pollution* working paper
  - (c) Agenda paper 02-09 NESRS E3 *Water and marine resources* working paper
  - (d) Agenda paper 02-10 NESRS E4 *Biodiversity and ecosystems* working paper
  - (e) Agenda paper 02-11 NESRS E5 *Resource use and circular economy* working paper
  - (f) Agenda paper 02-12 NESRS S1 *Own workforce* working paper
  - (g) Agenda paper 02-13 NESRS S2 *Workers in the value chain* working paper
  - (h) Agenda paper 02-14 NESRS S3 *Affected communities* working paper
  - (i) Agenda paper 02-15 NESRS S4 *Consumers and end-users* working paper
  - (j) Agenda paper 02-16 NESRS G1 *Business conduct* working paper