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## **NESRS: Transitional provisions Issues Paper**

### **Objective**

1. The objective of this paper is to set out the EFRAG Secretariat’s proposed approach to transitional provisions in the ED for the ESRS for non-EU Groups (‘NESRS’) and the reasons for such approach.

### **Background information**

2. Chapter 9a of the Accounting Directive requires sustainability reporting by non-EU groups for each financial year beginning on or after 1 January 2028 (per article 5(2) second subparagraph of CSRD).
3. Article 40d of the Accounting Directive states that such reporting should be published with 12 months of the balance sheet date of the financial year for which the report is drawn up. This means that the first sustainability reports under NESRS would have to be prepared only in 2029 for financial year 2028. This would mean that EU undertakings in scope of the CSRD would have already issued three or four annual sustainability reports by the time that the non-EU groups issue their first reports.
4. Article 40b of the Accounting Directive requires that the European Commission adopts the NESRS as a delegated act by 30 June 2026.
5. For Set 1, the adoption by the European Commission was less than six months before the beginning of the reporting period for the first set of reporters and less than 18 months before the first reporting year for the remainder of those in scope of CSRD.
6. LSME’s have a two year opt-out period for sustainability reporting per CSRD.

#### *Summary of transitional provisions and phasing-in for set 1*

7. The following transitional provisions are in ESRS 1:
  - (a) Continuation of entity-specific disclosures;
  - (b) Value chain requirements; and
  - (c) Comparative information.
8. The following are a list of phased-in provisions per Appendix C of ESRS 1 for all undertakings:

ESRS	DR	Full name of the DR	Phase-in or effective date (including the first year)
ESRS 2	SBM-1	Strategy, business model and value chain	The undertaking shall report the information prescribed by ESRS 2 SBM-1 paragraph 40(b) (breakdown of total revenue by significant ESRS sector) and 40(c) (list of additional significant ESRS sectors) starting from the application date specified in a Commission Delegated Act to be adopted pursuant to article 29b(1) third subparagraph, point (ii), of Directive 2013/34/EU.
ESRS 2; E1 to E5	SBM-3; E1-9; E2-6; E3-5;	Material impacts, risks and opportunities and their interaction with strategy	The undertaking may omit the information anticipated financial effects for the first year of preparation of its sustainability report. The undertaking may comply by reporting only qualitative disclosures for

ESRS	DR	Full name of the DR	Phase-in or effective date (including the first year)
	E4-6; E5-6	and business model/ Anticipated financial effects	the first 3 years of preparation of its sustainability report, if it is impracticable to prepare quantitative disclosures.
ESRS S1	S1-7	Characteristics of non-employee workers	The undertaking may omit reporting for all datapoints for the first year of preparation of its sustainability report.
	S1-8	Collective bargaining coverage and social dialogue	The undertaking may omit this DR for own employees in non-EEA countries for the first year of preparation of its sustainability report.
	S1-11	Social protection	The undertaking may omit the information for the first year of preparation of its sustainability report.
	S1-12	Persons with disabilities	
	S1-13	Training and skills development	
	S1-15	Work-life balance	
	S1-14	Health and safety	The undertaking may omit reporting on non-employees for the first year of preparation of its sustainability report.
The undertaking may omit the data points on cases of work-related ill-health and on number of days lost to injuries, accidents, fatalities and work-related ill health for the first year of preparation of its sustainability report.			

10. The following are a list of phased-in provisions per Appendix C of ESRS 1 for undertakings with less than 750 employees:

ESRS	DR	Full name of the DR	Phase-in or effective date (including the first year)
ESRS E1	E1-6	Gross Scopes 1, 2, 3 and Total GHG emissions	May omit the datapoints on scope 3 emissions and total GHG emissions for the first year of preparation of their sustainability statement.
ESRS E4	All DR's	All DR's	May omit the information specified in the DR's of ESRS E4 for the first 2 years of preparation of their sustainability statement.
ESRS S1	All DR's	All DR's	May omit the information specified in the DR's of ESRS S1 for the first year of preparation of their sustainability statement.
ESRS S2	All DR's	All DR's	May omit the information specified in the DR's of ESRS S2 for the first 2 years of preparation of their sustainability statement.
ESRS S3	All DR's	All DR's	
ESRS S4	All DR's	All DR's	

*The position under IFRS*

11. Please note that the following is a simplified summary of the IFRS requirements. For the full picture, please consult IFRS S1 Appendix E and/or IFRS S2 Appendix C.

*IFRS S1 General Requirements*

- Undertakings are not required to disclose comparative information in the first annual reporting period in which it applies IFRS S1 or S2. [IFRS S1:E3; S2:C3]
- For its first reporting under IFRS S1, the undertaking may report its sustainability-related financial disclosures after it publishes its related financial statements with certain specifications as to timing. [IFRS S1:E4]
- For its first reporting under IFRS S1, the undertaking may disclose information on only climate-related risks and opportunities (per IFRS S2). [IFRS S1:E5] In the first year of reporting the undertaking does not have to provide comparative information. [IFRS S1:E6]

*IFRS S2 Climate-related Disclosures*

- For its first reporting under IFRS S2, the undertaking may continue to report its GHG emissions using another approach than the *Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004)*, the entity is permitted to continue using that other method. Secondly, if an undertaking does not have to disclose its Scope 3 greenhouse gas emissions (e.g., participants in asset management, commercial banking or insurance activities), the

additional information about its financed emissions may be included. [IFRS S2:C4] These numbers may be used for comparative purposes. [IFRS S2:C5]

### Description of the issue

16. The first question is whether the NESRS ED should contain transitional provisions when issued for consultation. If the conclusion is that the NESRS ED should have transitional provisions, the question is which ones should be considered for inclusion.
17. The EFRAG Secretariat considers the following aspects to be important:
  - (a) For many reporters NESRS may represent significantly increased reporting compared to their current position or if this is not the case, the auditing requirements may increase the burden;
  - (b) Compared to ESRS reporters, NESRS reporters would have significantly more time to prepare for the requirements;
  - (c) Considering that ESRS reporters will in 2028 be reporting under the full scope with no more transitional provisions available, providing NESRS reporters with such an option would not enable a level playing field.
  - (d) It would not seem appropriate to go beyond the transitional provisions in Set 1 and the provisions for undertakings with less than 750 employees do not seem relevant.

### Questions for EFRAG SR TEG

The EFRAG Secretariat plans to use Slido to obtain SR TEG views on the following aspects:

18. Do you agree or not with the following:

Ref	Question	Yes	No
A	Should NESRS include transitional provisions?		
B	Should the transitional provisions for undertakings with less than 750 employees be considered?		
C	Should NESRS include transitional provision related to comparative numbers for first year of application?		
D	Should NESRS include transitional provision related to entity-specific information?		
E	Should NESRS include transitional provision related to value chain requirements for first three years of application?		
F	Should NESRS include Set 1 transitional provision for SBM-1?		
G	Should NESRS include Set 1 transitional provision for SBM-3 and Anticipated financial effects E1 to E5 (the remaining aspects, i.e. after removal of risks and opportunities)?		
H	Should NESRS include Set 1 transitional provision with respect to S1-7 <i>Characteristics of non-employee workers</i> for the first year?		
I	Should NESRS include Set 1 transitional provision with respect to S1-8 <i>Collective bargaining coverage and social dialogue</i> for the first year?		
J	Should NESRS include Set 1 transitional provision with respect to S1-11, 12 and 13 for the first year?		
K	Should NESRS include Set 1 transitional provisions with respect to S1-14 <i>Health and safety</i> for the first year?		
L	Should NESRS include a transitional provision with respect to Scope 3 emissions?		
M	Any additional transitional provisions to be considered?		

19. Please be ready to explain your rationale for your choices.