

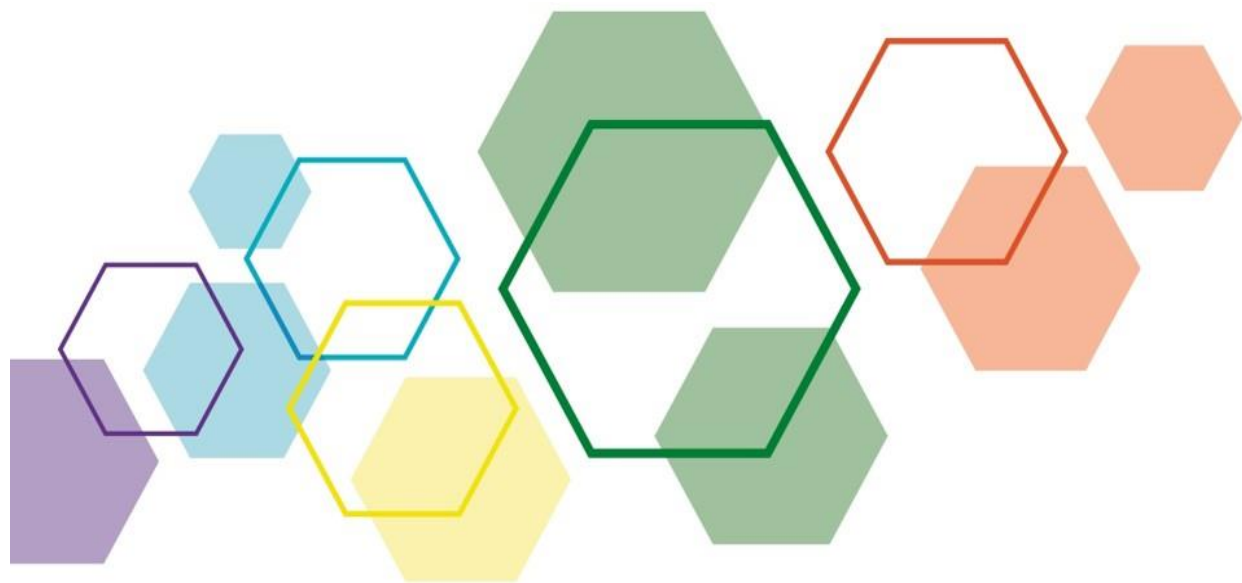
# First set of draft ESRS

## General presentation

Department of Enterprise, Trade and Employment  
In IRELAND

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# DISCLAIMER

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# FIRST SET OF DRAFT ESRs: THE STANDARDS

## CROSS-CUTTING STANDARDS

**ESRS 1**  
General requirements

**ESRS 2**  
General disclosures

## TOPICAL STANDARDS

### ENVIRONMENT

**ESRS E1**  
Climate change

**ESRS E2**  
Pollution

**ESRS E3**  
Water and marine  
resources

**ESRS E4**  
Biodiversity  
and  
ecosystems

**ESRS E5**  
Resource use  
and circular  
economy

### SOCIAL

**ESRS S1**  
Own  
workforce

**ESRS S2**  
Workers in the  
value chain

**ESRS S3**  
Affected  
communities

**ESRS S4**  
Consumers and  
end-users

### GOVERNANCE

**ESRS G1** Business conduct

## FIRST SET OF DRAFT ESRS: THE PACKAGE

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- ✓ Cover letter
- ✓ Due process note
- ✓ Explanatory note, including its Annex, of how draft ESRS take account of the initiatives and legislation listed in Article 29b CSRD
- ✓ EFRAG’s Cover Letter on the Cost-benefit analysis of the First Set of draft ESRS and Cost-benefit analysis of the First Set of draft ESRS prepared by CEPS and Milieu
- ✓ First set of 12 draft ESRS to be issued as delegated Acts
  - Appendix I –Disclosure Requirements, Application Guidance index
  - Appendix II – CSRD requirements for the development of sustainability reporting standards and their coverage by the draft ESRS
  - Appendix III – Datapoints in accordance with EU laws in the ESRS
  - Appendix IV – TCFD Recommendations and ESRS reconciliation table
  - Appendix V – IFRS Sustainability Standards and ESRS reconciliation table
  - Appendix VI – Acronyms and glossary of terms

# SIMPLIFICATIONS AND KEY CHANGES FROM EXPOSURE DRAFTS

## 1. Materiality approach

- The rebuttable presumption mechanism has been replaced by materiality approach, combined with a list of mandatory items
- Mandatory datapoints: ESRS 2, EU regulation datapoints (i.e. SFDR, Pillar 3 for banks, EU benchmark regulation), ESRS E1, for 250+ employees: S1.1/1.9
- Flexibility granted to disclose the outcome of the double materiality assessment
- Value chain refocused wording with emphasis on materiality

## 2. Significant streamlining of datapoints

- The number of disclosure requirements reduced from 136 in the April EDs to 82 (inc enhancing alignment with ISSB/GRI)
- Number of datapoints reduced by nearly half

## 3. Final text of the CSRD June 2022

- 3-year transitional provisions for value chain information
- "Value chain cap" to be implemented in the LSME standard
- Governance factors limited to governance of sustainability matters. Merger of G1 into ESRS 2.

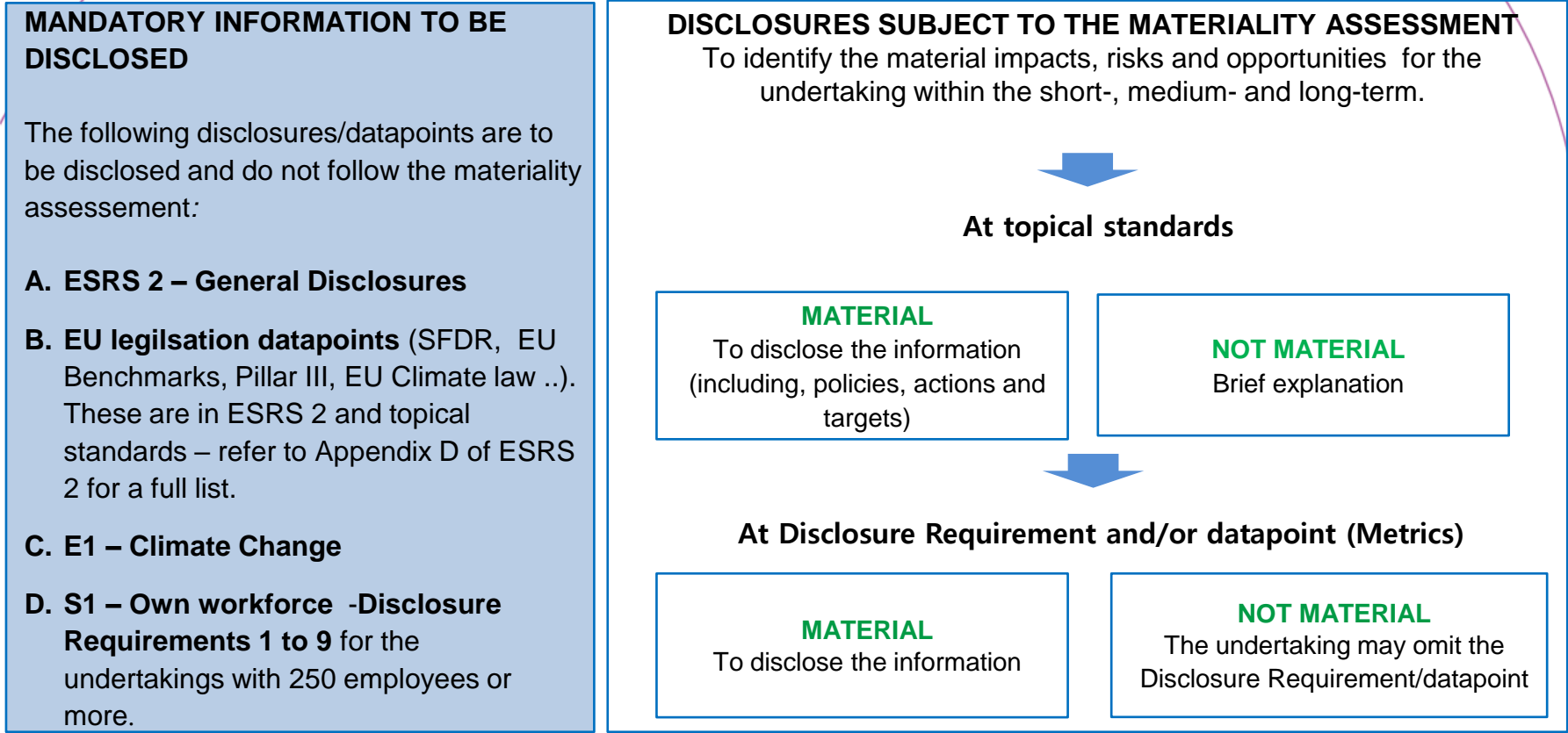
## 4. Global alignment

- Significantly increased alignment with IFRS and GRI

## 5. Transitional provisions

- Value chain postponed to take account of the difficulties companies may face in obtaining information, especially in the first few years. "Phase in" from 1 to 3 years for a number of datapoints (inc financial effects) to increase time for difficult areas

# DOUBLE MATERIALITY



- Content Index / List of all Disclosure Requirements reported
- When a topic (ESRS) is not material, brief explanation required

## APPROACH TO VALUE CHAIN FOCUSED ON MATERIALITY (1/2)

- Incorporation of value chain information not required for each disclosure
- Language has been refocused to include value chain information only when specific provisions in the topical standards require to do so in the preparation of a specific disclosure and, in general, limited to impacts, risk or opportunity that are material.
- **Value chain:** *Information about the reporting undertaking provided in the sustainability statements shall be **extended** to include information on the **material impacts, risks and opportunities** connected to the undertaking through its direct and indirect business relationships in the upstream and/or downstream value chain. (ESRS 1 para 67)*
- **Impacts** include those caused or contributed to by the undertaking and those which are directly linked to the undertaking's own operations, products, or services through its business relationships

Reporting undertaking

=

scope retained for the related financial statements



VALUE CHAIN (upstream and downstream)  
MATERIAL IMPACT/RISK/OPPORTUNITY BASED

If after every reasonable effort undertaking cannot collect information it shall be estimated  
e.g. through data from indirect sources, sector-average data, sample analyses, market and peer group data, other proxies or spend data

## APPROACH TO VALUE CHAIN FOCUSED ON MATERIALITY (2/3)

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- **Policies, actions and targets**, the undertaking's reporting shall include value chain information to the extent that those policies, actions and targets do involve actors in the value chain.
- **Metrics**, in many cases, in particular for environmental matters for which proxies are available, the undertaking may be able to comply with the reporting requirements without collecting data from the actors in its value chain, for example, when calculating the undertaking's GHG Scope 3 emissions.
- Most of the metrics in the sector-agnostic standards are limited to the own operations (no value chain).



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### ***For the first 3 years if information is not available***

#### **ESRS 1 para 133**

**the undertaking shall explain the efforts made to obtain the value chain information, the reasons why this information could not be obtained, and the plans of the undertaking to obtain such information in the future. Regardless of these limitations, the undertaking is expected to use in-house available value chain information**

#### **ESRS 1 para 134**

- a) no reporting metrics in the value chain (except for EU law datapoints- ESRS 2 Appendix C);
- b) option to limit to information available in-house when applying ESRS 2 and the policies, actions and targets disclosures on topical standards for material impacts, risks and opportunities

# DUE DILIGENCE PRINCIPLES

Alignment with international instruments **UN Guiding Principles on Business and Human Rights** and the **OECD Guidelines for Multinational Enterprises**

<b>0. Embedding due diligence in governance, strategy and business models</b>	ESRS 2- GOV 2/3 ESRS 2- SBM 3
<b>1. Engaging with affected stakeholders</b>	ESRS 2- GOV 2 / SBM 2 ESRS 2 – IRO 1 / DC-P ESRS S1 –S4 DR 2-3 + topical standards
<b>2. Identifying and assessing negative impacts on people and the environment</b>	ESRS 2 IRO-1 ESRS 2 SBM-3
<b>3. Taking action to address negative impacts on people and the environment</b>	ESRS 2 DC-A ESRS S1-S4 DR 4 + topical standards
<b>4. Tracking effectiveness of these efforts</b>	ESRS 2 DC-M /DC –T ESRS S1-S4 DR 5

Not pre-empting the draft CSDDD - future amendments to take place if required

# ISSB INTEROPERABILITY/ ALIGNMENT

- Comments received: great desire for interoperability ESRS and IFRS S
- EFRAG has sought to include all of the disclosures of IFRS S1 ED in ESRS 2, while the principles in IFRS S1 have been included in ESRS 1
- EFRAG has sought to include the disclosures of IFRS S2 ED in ESRS E1, ESRS 1 and ESRS 2
- Financial materiality of ESRS is intended to be aligned with the IFRS investor materiality
- The concept of ‘connected information’ is aligned, as well as the definition of ‘value chain’ and the qualitative characteristics of quality
- Architecture of ESRS 2 and other standards modified to mirror the IFRS (and TCFD) architecture
- Meetings of the JWG, bilateral meetings at management level and bilateral meetings of climate experts: continued dialogue and cooperation
- More work on interoperability mapping will follow once the ISSB will finalize the drafts

**Compared to IFRS, ESRS providing the EU data infrastructure and being more comprehensive:**

- Double materiality
- EU sustainable finance regulation for financial services (SFDR, Pillar 3)
- Other EU regulation and international human rights instruments (for example, Climate law)



## GRI ALIGNMENT

- Definitions, concepts and disclosures in ESRS built leveraging on GRI, aligned to the maximum extent
- ESRS deviate from materiality assessment, due to list of datapoints always mandatory due to EU legislations + ESRS E1 climate change
- Similarly to the GRI Standards, ESRS require to include value chain information. However, differently from GRI, ESRS do not allow to omit information when the information is unavailable or incomplete
- Similarly to the GRI Standards, ESRS 2 General disclosures set DR applicable across the topics that are not subject to materiality assessment
- Language on sustainability due diligence has been aligned to the international instruments and, in this way, to GRI Standards
- GRI allows incorporation by reference to information published in any location. ESRS allow incorporation by reference to a limited list of other sources provided that they meet certain conditions.

### Compared to GRI

- ESRS mandatory regime VS voluntary
- Double materiality in ESRS VS single materiality (impact)



# ESRS 2 General disclosures

## GENERAL CHARACTERISTICS

**BP-1: General basis for preparation of the sustainability statements**

**BP-2: Disclosures in relation of specific circumstances**

- ✓ Time horizons ISSB
- ✓ Value chain estimation GRI
- ✓ Sources of estimation and outcome uncertainty
- ✓ Changes in preparation or presentation
- ✓ Reporting errors in prior period
- ✓ Disclosures stemming from local legislation or generally accepted sustainability reporting pronouncements
- ✓ Incorporation by reference

## GOVERNANCE

**GOV-1: The role the administrative, management and supervisory bodies**

TCFD  
GRI  
ISSB

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

TCFD  
ISSB  
GRI

**GOV-3: Integration of sustainability-related incentive schemes**

ISSB  
TCFD

**GOV-4: Statement on sustainability due diligence**

GRI

**GOV-5: Risk management and internal controls over sustainability reporting**

ISSB  
SFDR  
GRI

- *Architecture aligned with IFRS*
- *IFRS S2 entirely incorporated*
- *Significant streamlined and reduction of granularity*

# ESRS 2 General disclosures

## STRATEGY

SBM-1: Market position, strategy, business model(s) and value chain

GRI  
ISSB

SBM-2: Interests and views of stakeholders

GRI ISSB

SBM-3: Interaction of risks and opportunities and the undertaking's strategy and business model

GRI  
ISSB TCFD

## IMPACTS, RISKS & OPPORTUNITIES MANAGEMENT

IRO-1: **Description of the processes** to identify material sustainability impacts, risks and opportunities

ISSB  
TCFD  
GRI

IRO-2: Disclosure Requirements in ESRS by the undertaking's sustainability statement

GRI

## DISCLOSURE CONTENT

For each material sustainability matter disclose\*

Policies  
DC-P

Actions  
DC-A

Targets  
DC-T

Metrics  
DC-M

\* If the undertaking has not defined policies, actions or targets, it should disclose this

## ESRS E1 is a climate standard aligned with IFRS S2 and TCFD

Covered topics: energy, CC mitigation and adaptation

### General requirements

DR related to GOV-3: Integration of climate change strategies and performance in **incentive schemes**

E1-1: **Transition plan** for climate change **mitigation**

DR related to SBM 3: **Resilience of strategy** and business model

DR related to IRO-1: Description of **processes to identify and assess** material climate-related impacts, risks and opportunities

### IRO management

E1-2: **Policies** related to:

- Climate change mitigation
- Climate change adaptation
- Energy efficiency
- Renewable energy deployment
- Other

E1-3: **Action plans** and **resources** in relation to climate change policies and targets

### Metrics and Targets

E1-4: **Targets** related to climate change mitigation and adaptation

E1-5: **Energy consumption and mix** (inc intensity)

E1-6: Gross Scopes 1, 2, 3 and Total **GHG emissions** (inc intensity)

E1-7: **GHG removals** and GHG mitigation projects financed through **carbon credits**

E1-8: Internal **carbon pricing**

E1-9: **Potential financial effects** from material physical risks, material transition risks and climate-related opportunities



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