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Draft Cover note for ESRS public consultation

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Part I – The context and the process

1. The Corporate Sustainability Reporting Directive and the contribution expected from EFRAG

- 1 On 21 April 2021, The European Commission adopted a legislative proposal for a Corporate Sustainability Reporting Directive (CSRD). One of the key provisions of the CSRD is that companies in scope would have to report in compliance with European sustainability reporting standards (ESRS) adopted by the European Commission as delegated acts, on the basis of technical advice provided by EFRAG.
- 2 Article 19b.1.a of the [CSRD proposal](#) states that the European Commission is expected to adopt two sets of ESRS taking into consideration the technical advice from EFRAG. This has resulted in the elaboration of draft sustainability reporting standards in parallel to both the legislative process of the proposed CSRD and the revision of EFRAG's governance. In this context, in a letter dated 12 May 2021, Commissioner McGuinness requested EFRAG to:
 - (a) reform its governance following the recommendations made by Jean-Paul Gauzès in his [report](#) issued in March 2021; and
 - (b) put in place interim working methods to start the technical work immediately building on the membership, leadership, expertise and recommendations of the Project Task Force that undertook preparatory work for the elaboration of possible EU non-financial reporting standards (PTF-NFRS), with reference to its report issued in [March 2021](#).

2. EFRAG's governance reform

- 3 Executing on Commissioner McGuinness' invitation, EFRAG immediately engaged in moving the reform of its governance along. In December to February 2022, EFRAG's General Assembly approved its enlarged membership, including organisations of a new Civil Society Organisations Chapter that was included in the membership of the EFRAG Sustainability reporting pillar. On 21 January 2022 the EFRAG General Assembly approved its new Statutes and Internal Rules, integrating a new Sustainability reporting pillar in EFRAG's organisational structure mirroring its Financial reporting pillar and organising a clear allocation of responsibilities between the Financial Reporting Board (FRB) and the EFRAG Sustainability Reporting Board (SRB) on the one hand (technical matters) and the newly created EFRAG Administrative Board on the other hand (administrative, governance, oversight and due process). The EFRAG Administrative Board was appointed in December (and its President and Vice-President and the Civil Societies Organisations' representative in February) and became operational after the approval of the EFRAG Internal Rules and EFRAG Statutes in January.
- 4 EFRAG Administrative Board supported by its Nominating Committee then proceeded with selecting the members of the EFRAG SRB, following a public call for candidates, and recommending its composition to the EFRAG General Assembly. Members of the EFRAG SRB were appointed by the EFRAG General Assembly in its 1 March meeting. The first EFRAG SRB meetings took place on 31 March 2022, [x and 22 April 2022].
- 5 On 15 March 2022, the EFRAG General Assembly also approved EFRAG's [Due Process Procedures EU Sustainability Reporting Standard- Setting](#). Following a public call for candidates, the EFRAG Administrative Board supported by the Extended SRB EFRAG Administrative Board Nominating Committee recommended the composition of the EFRAG Sustainability Reporting



Technical Expert Group (SR TEG), who was appointed by the EFRAG SRB on [x] April 2022]. The first SR TEG meeting took place on [insert date].

3. The work carried out in project mode to elaborate exposure drafts

6 In parallel with the governance reform, and in order to ensure that EFRAG’s new SRB would be in a position to deliver its technical advice to the European Commission in time for the European Commission to meet its own deadline to adopt the first set of ESRS, the PTF-NFRS was invited by EFRAG, following Commissioner McGuinness recommendation, to launch the preparation of a first set of ESRS Exposure Drafts based on the CSRD mandate. The PTF-NFRS became the Project Task Force on the elaboration of ESRS (PTF-ESRS) and started working in June 2021.

7 Members of the PTF itself were selected following a public call for candidates in July 2020. Beyond PTF-wide consensus building presentations, surveys and debates, preparatory work of the ESRS exposure drafts also involved interactions with external Expert Working Groups, the members of which were selected following a public call for candidates. All intermediary Working Papers were made publicly available on EFRAG’s website as they were presented and debated by the PTF-ESRS in plenary meetings.

8 **Tentative. Subject to EFRAG SRB decision.**

[On [22 April 2022], the PTF-ESRS submitted its proposed public consultation package, including the first set of Exposure Drafts, to EFRAG SRB. Using the possibility given by paragraph 1.5 of its Sustainability Reporting Due Process Procedures to go through an accelerated due process¹ the EFRAG SRB decided, in its [22 April 2022] session, to submit these Exposure Drafts to public consultation immediately.]

9 **Tentative. Subject to EFRAG SRB decision.**

[It is indeed critical that stakeholders are given enough time to consider the Exposure Drafts of ESRS and submit their comments that will then be considered by EFRAG SR TEG and EFRAG SRB when finalising EFRAG’s technical advice to the European Commission on the first set of ESRS to be adopted by delegated act, as set by the CSRD proposal. The EFRAG SRB approved to launch the consultation without further delay and to grant to the constituents 90 days of consultation period. As per the Due Process Procedures, the EFRAG Administrative Board was consulted on these decisions and did not object].

10 **Tentative. Subject to EFRAG SRB decision.**

[For similar reasons, the EFRAG SRB also decided to progress in parallel with the public consultation in respect of three key components of the due process:

(a) Finalisation of the Bases for Conclusions in relation to the ESRS Exposure Drafts.

As a reminder, Bases for Conclusions are not part of a standard per se – and for this reason will not be part of the delegated act adopted by the European Commission – but aim to clarify the reasoning and logic followed by the standard setter in drafting the relevant disclosure

¹ EFRAG Sustainability Reporting Due Process Procedures, paragraph 1.5: “A robust, agile and adaptable due process is necessary to meet urgent standard-setting needs within a rapidly-moving landscape. Therefore, all the steps described in this document may not need to be applied mechanically or sequentially in all instances. In some circumstances, an accelerated due process may be appropriate whereby a core of necessary due process steps will be defined. In such cases, the EFRAG Administrative Board, in its oversight role of due process, will be consulted.”



requirements. Bases for conclusions will be made publicly available on EFRAG's website and will be announced by a dedicated news item.

(b) *Cost-Benefit Analysis*

In consideration of the very tight timeline and of the available resources, the PTF-ESRS prioritised the preparation of the ESRS Exposure Drafts. The Cost-Benefit analysis, which is an important aspect of the standard setting process, will be managed by EFRAG in parallel to the public consultation, in order for the EFRAG SRB supported by the EFRAG SR TEG to be in a position to provide a complete technical advice to the European Commission, as per the CSRD proposal.

(c) *Digital Guidance.*

The digital guidance aims at helping reporting undertakings to publish their ESRS compliant information in an ESAP-compatible digital format. This will be considered in due course when following the public consultation and deliberations by the EFRAG TEG and SRB the technical advice will be delivered to the European Commission.]

4. The public consultation

- 11 The current public consultation is organised to receive feedback from constituents on both relevance and priorities of the ESRS Exposure Drafts (including disclosure requirements and application guidance) designed to cover the first set of ESRS defined by Article 19b.1.a of the CSRD proposal.

Part II – The 7 key features of the exposure drafts

- 12 Articles 19a, 19b, 19c and 19d provisions of the CSRD proposal provide key elements framing and driving the architecture and content of the ESRS. The following paragraphs illustrate the way these provisions have guided the standard setting process and are covered by the ESRS Exposure Drafts submitted to this public consultation.

1. Exposure Drafts may need to be adjusted to meet the requirements of the final CSRD

- 13 Exposure Drafts were prepared on the basis of the April 2021 CRSD legal mandate, as at the time of their issuance the final revised text of the Directive is not available, pending the ongoing legislative negotiation by European Council and Parliament.
- 14 Therefore, any change adopted in the final CSRD (potentially during the public consultation period) will have to be reflected in the final draft standards approved by the EFRAG SRB and submitted to the European Commission.



2. Exposure Drafts take account of existing European law and initiatives

- 15 As clearly articulated in the March 2018 EU action plan financing sustainable growth, robust, reliable, and relevant sustainability information is a key element of success for a number of leading initiatives embedded in the action plan. Some of which create sustainability reporting obligations, sometimes with specific disclosures being defined, while others influence or frame the definition of relevant sustainability information.
- 16 SFDR Principal Adverse Impact metrics (PAI KPIs) are indicators required to be reported by Financial Market Participants subject to the SFDR². In order for Financial Market Participants to be able to collect such indicators from their clients, these SFDR PAI KPIs as defined by the RTS adopted by the European Commission on 6 April 2022, are included in the Exposure Drafts and specifically flagged as being SFRD PAI KPIs³.
- 17 The Taxonomy “Article 8” delegated act⁴ defines disclosure requirements for undertakings subject to the Taxonomy regulation. Exposure Draft ESRS E1 on Climate includes dedicated placeholders to host taxonomy “Article 8” disclosure requirements.
- 18 Included in the list of European texts to be considered are the Benchmark Regulation, the GHG allowance Directive, the EMAS regulation or European Commission recommendation on the life cycle environmental performance of products and services. All have direct or indirect implications for the climate and other environmental standards. The way and extent to which they are taken into account in the definition of the disclosure requirements and application guidance of the environmental standards will be found in their respective basis for conclusions.
- 19 Beyond this list, other key ongoing European initiatives have been considered in the drafting of the ESRS. This was notably the case for the recently released proposal by the European Commission of a Corporate Sustainability Due Diligence Directive. Due diligence related disclosure requirements found throughout the ESRS Exposure Drafts – the overview of which can be found in ESRS 1 General provisions and ESRS 2 General, strategy, governance, and materiality assessment disclosure requirements – are designed to provide transparency on the undertaking’s approach to due diligence. The related disclosure requirements may need to be adjusted in the future, following the completion of the ongoing legislative process.

3. Exposure Drafts take account of European and international sustainability reporting initiatives

- 20 Another direct request of article 19b.3 relates to the consideration to be given to international standard setters and other frameworks or initiatives pertaining to sustainability reporting.
- 21 Aiming to capitalise upon and consolidate the sustainability reporting achievements to date the PTF-ESRS fully considered the lessons learned from the implementation of the current European legislation, the Non-Financial Reporting Directive (NFRD), the existing related guidelines and the best practices that have developed in such a context.

² <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2088&from=EN>

³ A mapping of where SFDR PAI KPIs are covered in the ESRS can be found in appendix 3.

⁴ [taxonomy-regulation-delegated-act-2021-4987_en.pdf \(europa.eu\)](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021L0498&from=EN)



- 22 It is with this objective in mind that the PTF-ESRS signed statements of cooperation with the GRI⁵, Shift⁶ and WICI⁷. Doing so enabled the PTF-ESRS to work closely with representatives of these three institutions, being direct contributors to the drafting work and ensuring the appropriate inclusion of impact related information, human rights principles, and best practices, and, in preparation of future Exposure Drafts, intangible-related sustainability information.
- 23 Robust and constructive dialogue was also entertained with other leading international initiatives regardless of any cooperation agreement being formalised, with the common goal of both mutual understanding of approach and goals and search for ways to facilitate compatibility and convergence wherever possible. With this in mind, the PTF-ESRS had regular technical dialogue with a delegation of experts of the IFRS Foundation's TRWG and now of the ISSB on their two recently issued Exposure Drafts⁸. This was also the case with the Value Reporting Foundation with which the PTF-ESRS discussed both the approach to sector classification and sector specific metrics as proposed by the SASB, for consideration and possible inclusion in the future sector-specific ESRS⁹.
- 24 Other international initiatives were also considered. A comparison between the ESRS on climate-related disclosures and the recently issued proposal of the US Securities and Exchange Commission was prepared¹⁰. The reconciliation with the TCFD framework¹¹ was also discussed with the delegation of experts from the TRWG and then the ISSB when comparing approaches to climate-related disclosures. And experts from the TNFD were invited to compare approaches on biodiversity-related disclosures.

4. The overall architecture of Exposure Drafts is designed to ensure that sustainability information is reported in a carefully articulated manner

- 25 Article 19a.2 of the CSRD proposal gives a list of sustainability information to be covered by the ESRS. Many elements of information contained in this list would apply to all sustainability subject matters – also identified as sustainability topics, subtopics or even sub-subtopics in the Exposure Drafts – listed in article 19b.
- 26 Therefore, the Exposure Drafts architecture is designed r a) to guide the reporting of the relevant information over generally agreed upon sustainability subject matters on the basis of relevant disclosures, b) to also foster maximum comparability across sectors while ensuring appropriate room for and balance between sector-agnostic, sector-specific and entity-specific information, and c) to facilitate the navigation through the reported information.
- 27 Following this approach, standards are organised by categories which all complement and interact with each other. There are three categories of standards:
 - (a) The **cross-cutting standards** cover the general provisions applying to sustainability reporting under the CSRD (ESRS 1) and the sustainability disclosure requirements (ESRS 2) that relate to how the undertaking complies with ESRS, to the way sustainability is embedded in the

⁵ [GRI - Home \(globalreporting.org\)](https://www.globalreporting.org). A mapping of the GRI standards and the draft ESRS can be found in appendix 2.

⁶ [Shift Home - Shift \(shiftproject.org\)](https://www.shiftproject.org)

⁷ [WICI - the world's business reporting network- \(wici-global.com\)](https://www.wici-global.com)

⁸ A mapping of the ISSB exposure drafts and the draft ESRS 1 on General provisions and ESRS E1 on climate can be found in appendix 7.

⁹ A mapping of the SASB standards and the draft ESRS SEC 1 can be found in appendix 5.

¹⁰ A comparative analysis of the SEC climate risk-related disclosure draft rule and the draft ESRS E1 on climate can be found in appendix 8.

¹¹ A mapping of the TCFD recommendations and the draft ESRS can be found in appendix 6.



undertaking’s “company-wide” business strategy and business model(s), its governance and to how the undertaking identifies and manages its principal sustainability impacts, risks and opportunities. These aspects are meant to be transversal to all sustainability subject matters, as defined in article 19b (hence the name “cross-cutting” standards). The related disclosure requirements correspond to the governance, strategy and risk management reporting pillars of the TCFD and the ISSB¹². The cross—cutting standards also frame how to report with a single approach under topical standards (sector-agnostic and sector-specific) for disclosure requirements related to *policies, targets, actions and action plans, resources* across all sustainability subject matters.

- (b) **Topical standards** cover a specific sustainability topic or sub-topic – as defined by article 19b and described in the next section – from a sector agnostic perspective. They set disclosure requirements relating to sustainability impacts, risks and opportunities that are deemed to be material for all undertakings, regardless of the sectors they operate in. Such disclosure requirements complement those prescribed by the cross-cutting standards and cover information to be reported on
- the *policies, targets, actions and action plans, resources* adopted by the undertaking on a given sustainability topic or subtopic,
 - as well as corresponding *performance measurement metrics* for each sustainability topic or subtopic.

Such targets and performance measurement metrics correspond to the TCFD and ISSB targets & metrics fourth and last reporting pillar¹³.

- (c) The ESRS architecture foresees the preparation of **sector-specific standards**, not yet included in this consultation. Such standards will prescribe disclosure requirements designed to provide for the preparation of information relating to sustainability risks, impacts and opportunities that are deemed to be material for all undertakings operating in a given sector. Such disclosure requirements complement those prescribed by the cross-cutting standards and the topical (sector-agnostic) standards and cover additional information to be reported on the *policies, targets, actions and action plans, resources* adopted by the undertaking on a given sustainability subject matter, as well as on the corresponding *performance measurement metrics*.

- 28 All three categories of standards are meant to organise the reporting of information in a way that will foster relevance and comparability (across sectors and within sectors) while being reader / user friendly. They also prescribe how mandatory information resulting from all other ESRS should be organised and presented in the Management Report.

5. Exposure Drafts address sustainability matters¹⁴ as per Article 19b of the CSRD proposal

- 29 Article 19b.2 of the CSRD proposal provides a list of sustainability subject matters to be covered by the ESRS. The ESRS structure is designed to organise the coverage of listed matters in a way that avoids duplication and confusion.

¹² See appendix 6 and 7 for a mapping of TCFD and ISSB recommendations and ESRS disclosure requirements.

¹³ Ibid.

¹⁴ Referred to as sustainability topics or subtopics in the Exposure Drafts.



- 30 Article 19b.2(a) covers **environment-related matters** and identifies six specific subtopics. Five environmental Exposure Drafts have been designed to cover these six subtopics, with the two climate-related subtopics of mitigation and adaptation being covered by one single climate standard – ESRS E1. Other environmental standards include ESRS E2 on *Pollutions*, ESRS E3 on *Water and marine resources*, ESRS E4 on *Biodiversity and ecosystems*, and ESRS E5 on *Circular economy*.
- 31 Article 19b.2(b) covers **social-related matters**. The approach taken to organise the social-related standards to cover all listed matters is driven by the category of population potentially concerned by the listed social matters. Therefore, the PTF-ESRS proposes to organise the social ESRS around the categories of affected population: own workforce, workforce in the value chain, affected communities and end-users / consumers. Yet, the number of social matters to be addressed for each category being potentially very extensive, another level of subdivision of the ESRS is proposed. This is why social matters pertaining to an undertaking's own workforce are covered by four distinct Exposure Drafts: ESRS S1: *Own workforce – general*, ESRS S2: *Own workforce – working conditions*, ESRS S3: *Own workforce – equal opportunities* and ESRS S4: *Own workforce – other work-related rights*.
- 32 Article 19b.2(c) covers **governance-related matters**. These are addressed by two governance Exposure Drafts: ESRS G1 on *Governance, risk management and internal control*, ESRS G2 on *Business conduct*. The governance topical standards aim at prescribing disclosure requirements pertaining to governance aspects, as sustainability matters *per se* (i.e. not limited to governance of sustainability matters), like business ethics and conduct, Board diversity and inclusion.

6. Exposure Drafts are a first step of journey towards a faithful representation of sustainability performance

- 33 In its article 19b.1 the CRSD proposal calls for an adoption of ESRS, in the form of a delegated act, in two subsequent sets. The first one shall cover sustainability information over all sustainability subject matters, as identified in articles 19a.2 and 19b.2 – i.e. all cross-cutting and topical (sector-agnostic) standards meant to be used by large undertakings. The second set of ESRS shall cover SME-proportionate standards and sector-specific standards.
- 34 ESRS Exposure Drafts submitted to this public consultation follow this phased-in approach and, as a consequence, do not include SME-proportionate standards nor sector-specific standards. Such standards are still being developed and will be submitted to a separate public consultation in due time¹⁵.
- 35 Article 19b.1 also requires the European Commission to review, at least every three years, any previously adopted delegated act (i.e. ESRS). This continuous enhancement approach aims at ensuring that the ESRS remain relevant and up-to-date with recent developments, should such developments result from the evolution of European law and/or from progress made by international sustainability reporting standard setters and frameworks, as well as addressing any challenge or potential need for improvement arising from the implementation of the already applied standards. This means that the ESRS submitted to this public consultation will most likely evolve in the future, as the legislative and standard setting environment and actual reporting practices evolve, in the EU and on the global stage.
- 36 For the time being, they represent the PTF-ESRS's best assessment of the right balance between the consolidation of observed best practices to date in terms of sustainability reporting by large

¹⁵ See appendix 1 for a comprehensive mapping of all ESRS and tentative scope for set 1 and set 2 submission by EFRAG.



undertakings and the Commission's goal as set in the April 2021 CSRD proposal to enhance the quality of sustainability reporting in Europe fast enough that it can support its sustainable development and sustainable finance agenda.

7. The public consultation will help to strike the right balance between proper relevance and comparability on the one hand and proportionality on the other hand

- 37 Exposure Drafts were thought in search of the right balance between:
- the need to make significant progress in improving the quality of sustainability information (enhancing relevance, verifiability, and comparability, among other things),
 - meeting the growing needs of users (some of which derive from a number of sustainable finance-related regulations with tight implementation deadlines)
 - while not overburdening preparers (some of which will be first time preparers).
- 38 Given the time constraints and the sequencing of adoption of sector-specific and SME-proportionate standards in a second step, Exposure Drafts may need to additional fine-tuning to better strike the optimal balance between maximum comparability and proportionality. The comments collected as part of the public consultation will help in that regard.
- 39 Some aspects have already been considered to foster a proportionate implementation of the Exposure Drafts:
- (a) **Entity-specific materiality assessment as the primary proportionality lever.** The presumption that all disclosure requirements covered by the sector-agnostic topical standards are material is rebuttable on the basis of the undertaking's own materiality assessment of its risks, impacts and opportunities. The presumption of materiality can be rebutted at the level of sub/sub-subtopic or an aspect of them. When presumption can be properly rebutted, the undertaking will be allowed to simply report "not material". The disclosure requirements included in the Exposure Drafts mainly result from the consolidation of current best practices, based on the use of existing international standards and frameworks, complemented by new sustainability reporting obligations resulting from recent European regulations and legislation (like SFDR and Taxonomy, for example). It was decided to include them in the sector-agnostic standards in order to foster relevance and faithful information for all sectors. Keeping in mind that, as said above, the primary and ultimate gauge of what has to be ultimately reported is based upon the undertaking's own materiality assessment, the undertaking shall be able to mitigate any risk of over-burden while offering a mapping of its impacts, risks and opportunities against a broad spectrum of disclosure requirements providing for maximum comparability, including by reference to their « not material » nature.
 - (b) **Prioritising and potentially phasing-in reaching the end game vision of comprehensive sustainability reporting.** Acknowledging the fact that the proposed vision of a comprehensive sustainability reporting might be challenging to implement in year one for the new preparers and potentially to some of the large preparers as well, EFRAG will consider using some prioritisation levers to smoothen out the implementation of the first set of standards. These would include, for example:
 - i) considering prioritising reporting on the most mature sustainability topics and leaving the reporting on less mature topics to voluntary reporting (except for the mandatory disclosures imposed by existing EU law, such as the SFDR PAI KPIs for example) for a transition period to be defined.



- ii) phasing-in over time the ramp-up to full disclosure on some sustainability topics, even the most mature ones, by introducing optional disclosures that would convert – or not – into mandatory disclosures over time.
- iii) introducing transitional provisions to ease the first-time application of the ESRS, like postponing the requirements for comparatives to year 2 and for long term forward-looking metrics to a later stage to be defined.

The list is indicative and for illustration purpose only. One of the objectives of this public consultation is to solicit feedback and input from the various stakeholder categories on the adequacy of such prioritisation levers and on potential other prioritisation solutions that would be appropriate for consideration.

Part III – The objectives and practical aspects of this public consultation:

1. Objectives of the public consultation

40 EFRAG is consulting on:

(a) The overall ESRS architecture, content and substance, and specifically:

- i) Whether the ESRS and the proposed disclosure requirements do promote relevant, verifiable, understandable, comparable information and ultimately are adequate to support the production of faithful information,
- ii) Whether the ESRS and the proposed disclosure requirements do strike the right balance between feasibility, preparation costs and decision-usefulness.
- iii) The completeness of the ESRS, in terms of datapoints and of disclosure requirements, per each sustainability topics / subtopics.

(b) The prioritisation opportunities and options to further ensure that the ESRS strike the right balance between covering all CSRD requirements while achieving a reasonably ambitious enhancement of current reporting practices.

41 As mentioned above, EFRAG is not consulting on standards that are due to be considered and adopted by the European Commission in a second set, namely the sector-specific and SME-proportionate standards.

2. Practical aspects of the consultation

42 EFRAG will hold outreach events in a number of geographies to engage more closely with stakeholders. For more information on these events, see here: [xxx](#)



- 43 You are invited to reply by **31 July 2022** at the latest to the **online questionnaire** available on the following webpage: xxx
- 44 Please note that in order to ensure a fair and transparent consultation process **only responses received through the online questionnaire will be taken into account and included in the report summarising the responses.**
- 45 This consultation follows the normal rules of EFRAG for public consultations. Responses will be published unless respondents indicate otherwise in the online questionnaire.
- 46 Responses authorised for publication will be published on the following webpage: xxx

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