

# Exposure Draft ESRS 2 – General strategy, governance and materiality assessment

19 May, 2022



**EFRAG**

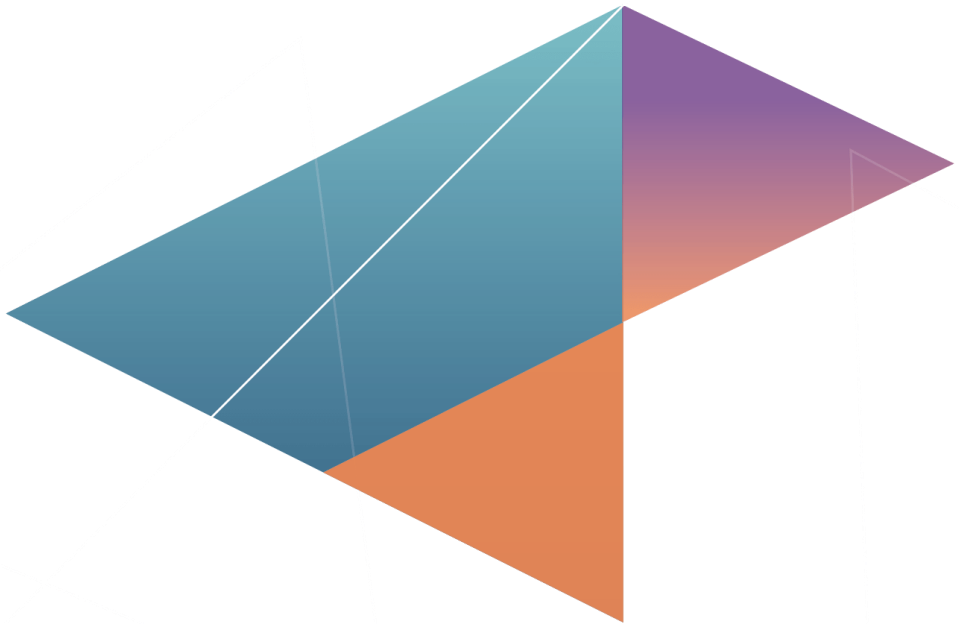
European Financial Reporting Advisory Group



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## Agenda

1. Objective of the [draft] standard and overview
2. Deep dive on Disclosure Requirements
3. Questions

## *Objective and Overview* Overview of ESRS 2

**22** Disclosure requirements

Provides DRs for principles laid out in  
ESRS 1

Not subject to "rebuttable presumption"  
= fully obligatory

Cross-cutting  
= provides context for all topical DRs

1st step in sustainability reporting in line with ESRS:  
**MATERIALITY ASSESSMENT**

## Objective and Overview

### Objective of ESRS 2

To set out the disclosure requirements of the undertaking's sustainability reporting that are of a cross-cutting nature. They are those:

A. of a general nature

2-GR 1

to

2-GR 10

B. on the strategy and business model of the undertaking

2-SBM 1

2-SBM 2

2-SBM 3

2-SBM 4

C. on its governance in relation to sustainability

2-GOV 1

2-GOV 2

2-GOV 3

2-GOV 4

2-GOV 5

D. on its materiality assessment of sustainability impacts, risks and opportunities

2-IRO 1

2-IRO 2

2-IRO 3

# Objective and Overview

## Content of ESRS 2

### GENERAL CHARACTERISTICS

DR 2-GR1: **General characteristics** of the sustainability reporting of the undertaking

DR 2-GR2: **Sector(s) of activity**

ISSB

SFDR

DR 2-GR3: **Key features** of the value chain

ISSB

TCFD

DR 2-GR4: **Key drivers** of the value creation

ISSB

DR 2-GR5: **Using approximations** on the disclosure in relation to boundary and value chain

DR 2-GR6: Disclosing on significant **estimation uncertainty**

DR 2-GR7: **Changes** in preparation and presentation

DR 2-GR8: Prior period **errors**

DR 2-GR9: On other sustainability reporting **pronouncements**

DR 2-GR10: General **statement of compliance**

ISSB

### STRATEGY & BUSINESS MODEL

DR 2-SBM1: **Overview** of strategy and business model

ISSB

CSRD

DR 2-SBM2: Views, interests and expectations of **stakeholders**

ISSB

CSRD

DR 2-SBM3: **Interaction of impacts and the undertaking's Strategy** and business model

ISSB

CSRD

DR 2-SBM4: **Interaction of risks and opportunities and the undertaking's strategy** and business model

TCFD

CSRD

ISSB

# Objective and Overview

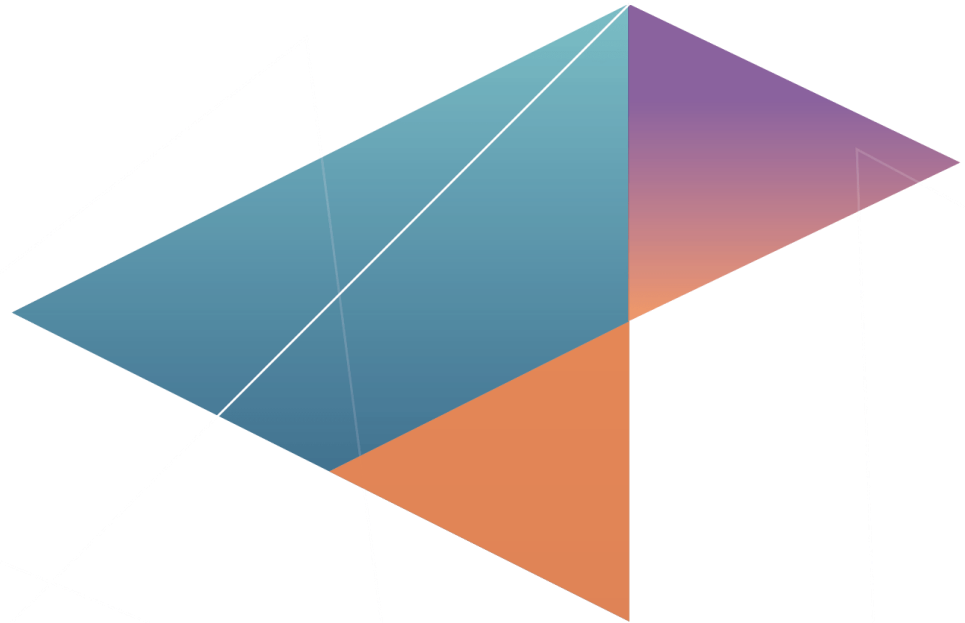
## Content of ESRS 2

### GOVERNANCE

DR 2-GOV1: <b>Roles and responsibilities</b> of the administrative, management and supervisory bodies	TCFD ISSB	CSRD
DR 2-GOV2: <b>Information</b> of administrative, management and supervisory bodies <b>about sustainability matters</b>	TCFD ISSB	
DR 2-GOV3: <b>Sustainability matters addressed</b> by the undertaking's administrative, management and supervisory bodies	ISSB	
DR 2-GOV4: Integration of sustainability strategies and Performance in <b>incentive schemes</b>	TCFD ISSB	
DR 2-GOV5: Statement on <b>due diligence</b>	ISSB	SFDR

### IMPACTS, RISKS & OPPORTUNITIES

DR 2-IRO1: <b>Description of the processes</b> to identify material sustainability impacts, risks and opportunities	ISSB	CSRD TCFD
DR 2-IRO2: <b>Outcome of the undertaking's assessment</b> of material sustainability impacts, risks and opportunities as identified by reference to and in compliance with <b>sector-agnostic and sector-specific level ESRS</b>	SFDR ISSB	CSRD TCFD
DR 2-IRO3: <b>Outcome of the undertaking's assessment</b> of material sustainability impacts, risks and opportunities that are not covered by an ESRS ( <b>entity-specific level</b> )	ISSB	SFDR CSRD TCFD



# General characteristics

2-GR ...




## Deep dive on Disclosure Requirements

### DR related to general characteristics

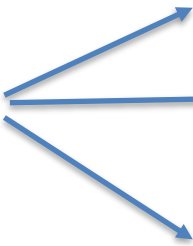
#### DR 2-GR 1: General characteristics of the sustainability reporting of the undertaking

The undertaking shall disclose:

The key features of its sustainability report

- 
1. Consolidated or individual
  2. Reporting scope // financial reporting
  3. Exemption
  4. Identification of the auditor & level of assurance

The option selected for the sustainability statement

- 
- Single separate section of the management report
  - Four sections of the management report
  - On a standard by standard basis

## Deep dive on Disclosure Requirements

### DR related to general characteristics

#### DR 2-GR 2: Sector(s) of activity

The undertaking shall disclose:

illustration of the significant sector(s) the undertaking is active in, with the significant countries

Significant groups of products, services offered, markets and customer groups targeted

Number of headcount per significant country or region

Breakdown of revenue per significant sector and country

Sectors in accordance with ESRS SEC 1 (available in a further stage) but mapped with **NACE codification**.

Based on information available in the undertaking and,

Reconciled with IFRS 8 for undertakings applying segment reporting.

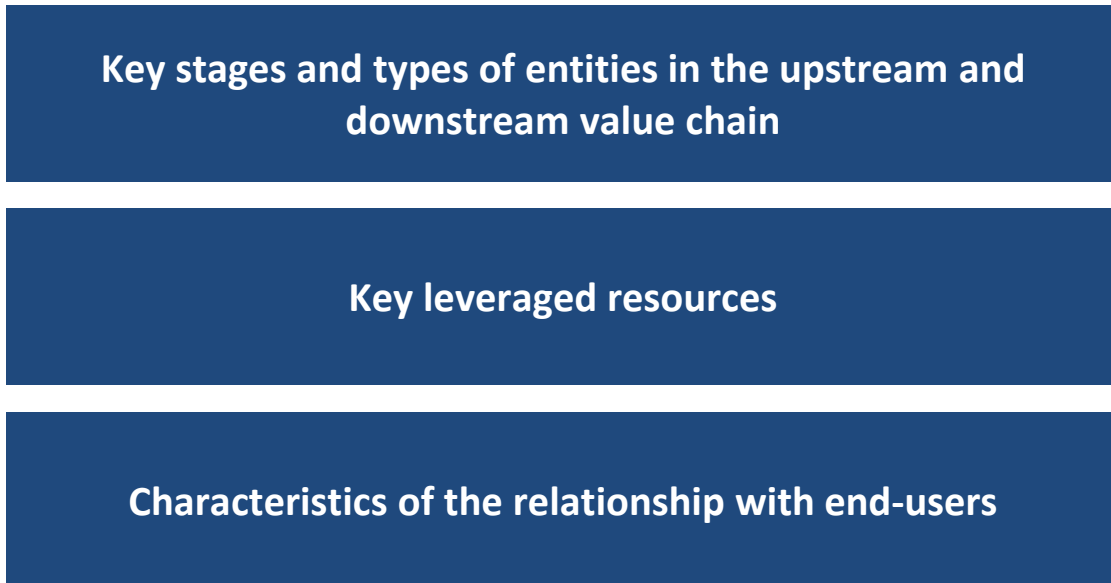
Include significant internal transactions for faithful representation of vertically integrated undertaking

## Deep dive on Disclosure Requirements

DR related to general characteristics

### DR 2-GR 3: Key features of the value chain

The undertaking shall describe its value chain:



**High-level overview but granular enough** to allow an understanding of where the material impacts, risks and opportunities are located in the value chain

Importance to understand relations with suppliers, customers, distribution channels (contractual terms)

Provide examples to illustrate links

## Deep dive on Disclosure Requirements

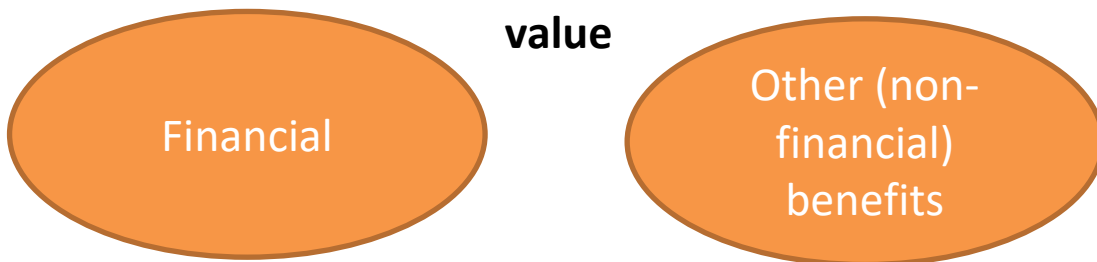
DR related to general characteristics

### DR 2- GR 4: Key drivers of the value creation

The undertaking shall describe how it creates value:

How the operations are structured as context to impacts, risks and opportunities

Link with drivers of value creation in the financial statement or in management report



*In the perspective of:*

- Shareholders
- Credit institutions
- Lenders
- Other stakeholders

**RECONCILE DATA WITH FINANCIAL DATA WHEN POSSIBLE**

## *Deep dive on Disclosure Requirements*

DR related to specific disclosures on compliance


**DR 2-GR 5 – Using approximations on the disclosure in relation to boundary and value chain**

**DR 2-GR 6 – Disclosing on significant estimation uncertainty**

**DR 2-GR 7 – Changes in preparation and presentation**

**DR 2-GR 8 – Prior period errors**

**DR 2-GR 9 – On other sustainability reporting pronouncements**



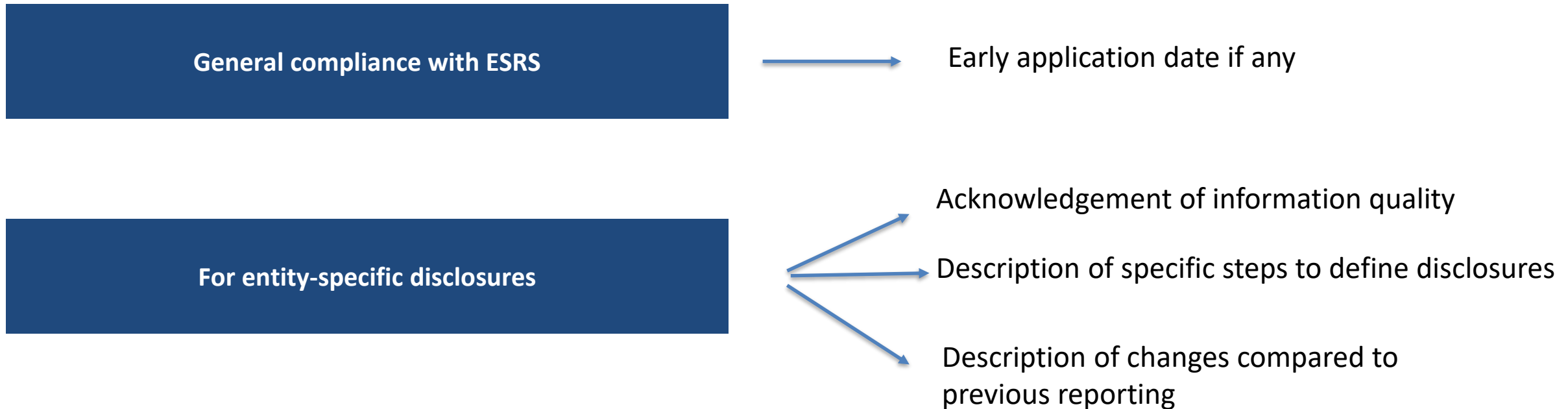
Where  
applicable

## Deep dive on Disclosure Requirements

DR related to general compliance

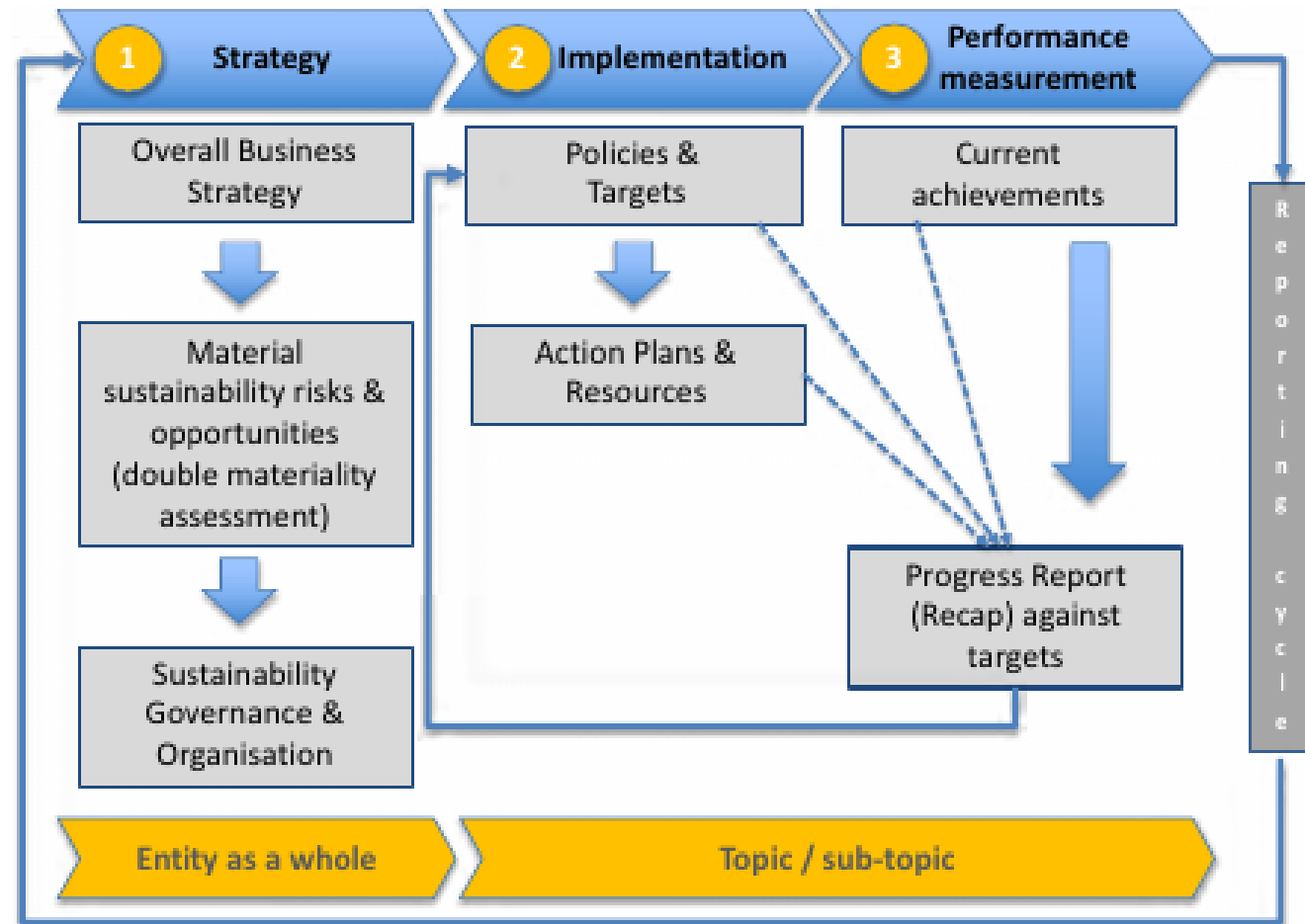
### DR 2- GR 10: General statement of compliance

The undertaking shall provide a **statement of compliance** with ESRS:

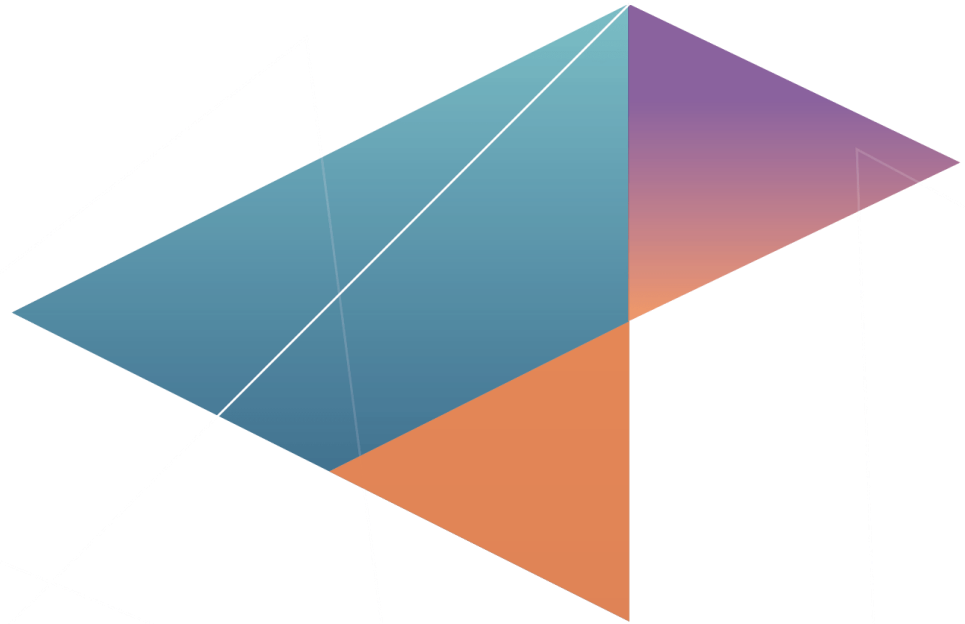


## Deep dive on Disclosure Requirements

DR related to strategy and business model, Governance and Impacts, risks and opportunities



All requirements apply for each material topic which will be detailed in the related **topical standards**



# Strategy and business model

2-SBM ...

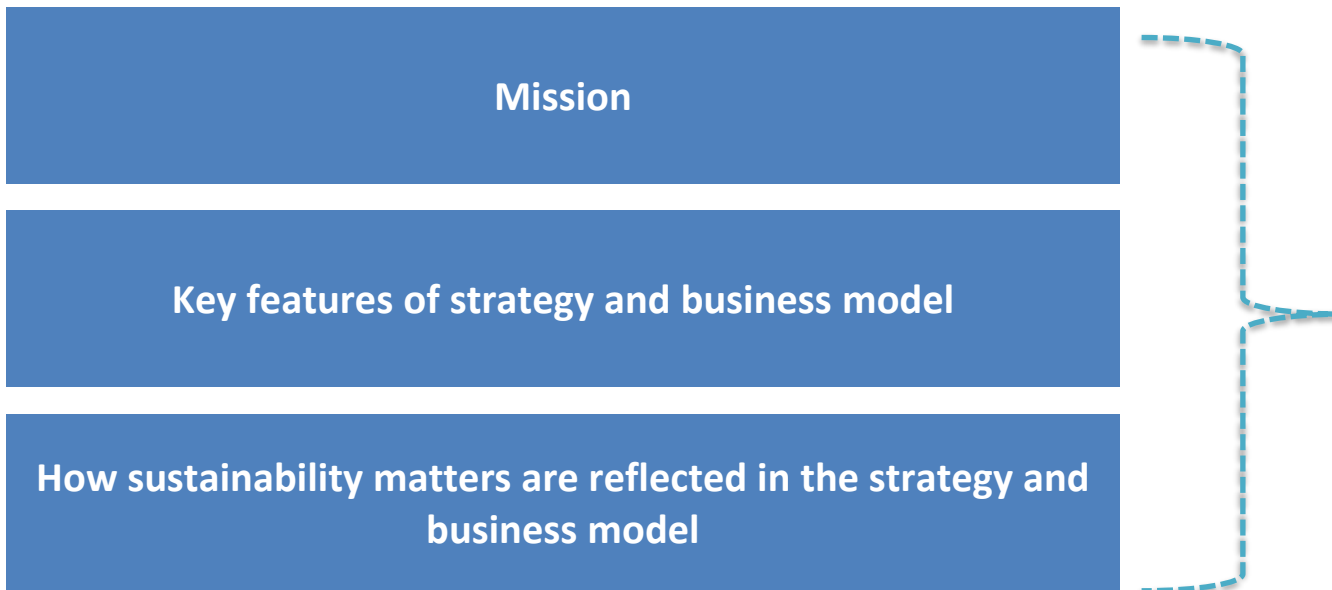


## Deep dive on Disclosure Requirements

DR related to Strategy and business model

### DR 2- SBM 1: Overview of strategy and business model

The undertaking shall describe its strategy and business model as a context for its sustainability reporting:



#### Link and interrelations with:

- Sustainability targets and how to achieve to the **targets**
- **Inputs** and **outputs**, how the value is created
- **Time horizon**

## Deep dive on Disclosure Requirements

DR related to Strategy and business model

### DR 2- SBM 2: Views, interests and expectations of stakeholders

The undertaking shall describe how stakeholders' views are taken into account:

Summarised description of the stakeholders' views, interests and expectations

How they are integrated in the Strategy and business model

In reference with disclosing on material sustainability impacts, risks and opportunities

- **For each category of relevant key stakeholders**
- **Steps** already put in place
- **Needed further steps, in what time line**

## Deep dive on Disclosure Requirements

DR related to Strategy and business model

**DR 2 - SBM 3: Interaction of impacts and the undertaking's strategy and business model**

**DR 2 – SBM 4: Interaction of risks and opportunities and the undertaking's strategy and business model**

SAME FORMAT

### ELEMENTS TO DISCLOSE FOR EACH MATERIAL TOPIC:

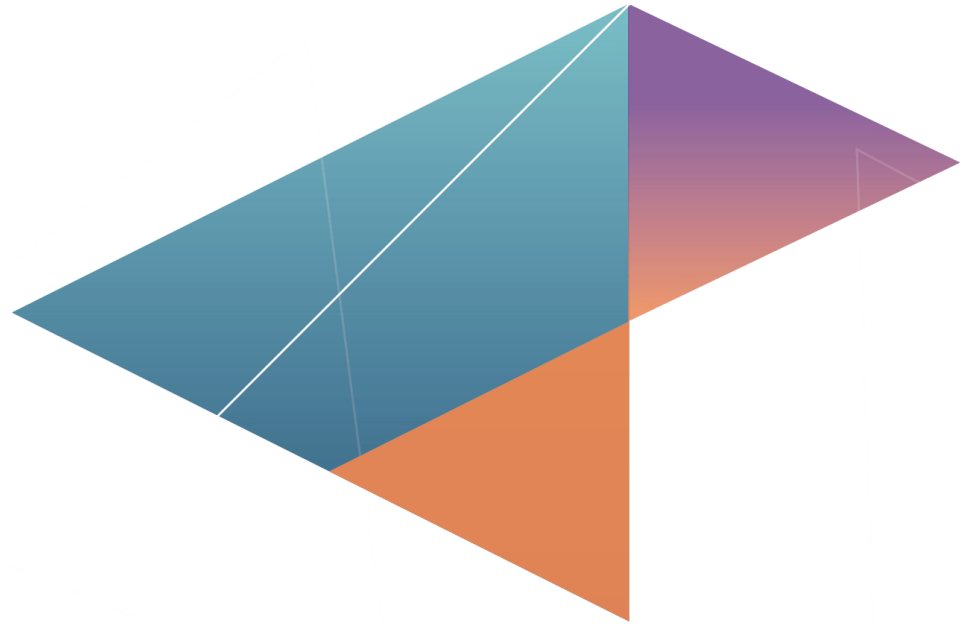
Identification of material topics (IRO)

- In relation to chapter 4

How actual and potential material topics (IRO) originate from or are connected to Strategy and business model

How actual and potential material topics (IRO) inform and contribute to adapting the Strategy and business model

- Including resilience of the business model and strategy to IROs



# Governance

**2-GOV ...**

## *Deep dive on Disclosure Requirements*

### DR related to Governance

#### **DR 2- GOV 1: Roles and responsibilities of the administrative, management and supervisory bodies**

The undertaking shall describe:

Mandate, roles and responsibilities

Sustainability expertise,  
Training and initiatives to update and develop sustainability  
expertise

Organisational structure related to sustainability matters

Selection and nomination criteria related to sustainability  
matters

Global sustainable management structure: executives and  
employees level

## *Deep dive on Disclosure Requirements*

### DR related to Governance

#### **DR 2- GOV 2: Information of the administrative, management and supervisory bodies about sustainability matters**

##### **ELEMENTS TO DISCLOSE:**

**How are they informed about material IROs, and results of policies, targets and action plans**

**How are they informed about perspectives of stakeholders**

**How are they informed about any other sustainability-related concerns**

**How are they informed about steps of due diligence processes**

## *Deep dive on Disclosure Requirements*

### DR related to Governance

#### **DR 2- GOV 3: Sustainability matters addressed by the undertaking's administrative, management and supervisory bodies about sustainability matters**

- Information on those sustainability matters that required direct attention of the administrative, management and supervisory body
- Key decisions made by the bodies addressing those issues

#### **DR 2- GOV 4: Integration of sustainability strategies and performance in incentives plans**

##### **ELEMENTS TO DISCLOSE:**

**How incentives for members of administrative, management and supervisory bodies consider sustainability-related objectives and performance**

**Any sustainability-related incentive schemes for other employees**

**How those incentive schemes contribute to sustainability-related objectives of the undertaking's strategy**

# Deep dive on Disclosure Requirements

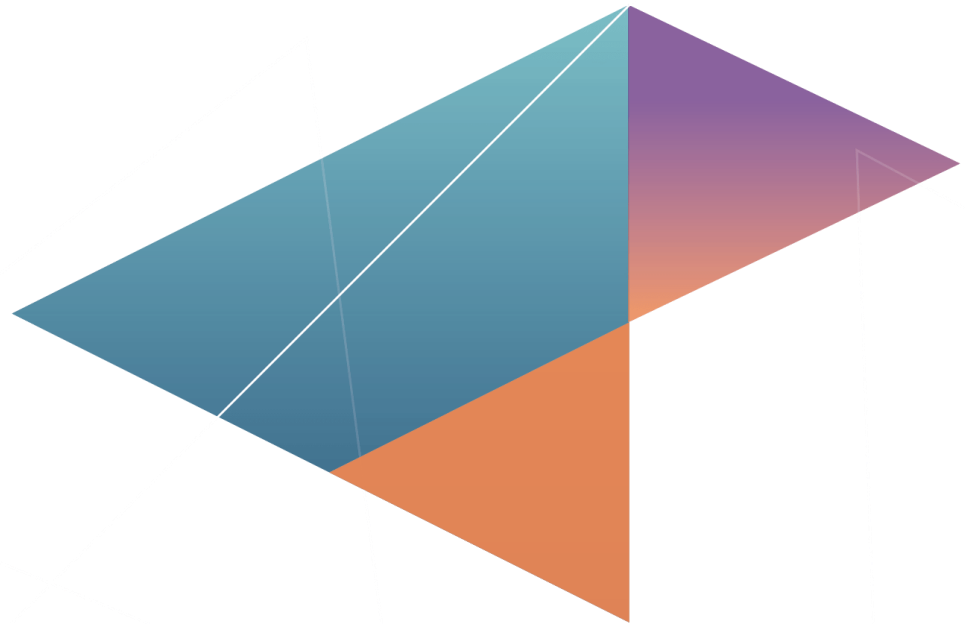
## DR related to Governance

### DR 2- GOV 5: Statement on due diligence

The undertaking shall provide a mapping that reconciles the main aspects of sustainability due diligence to the relevant disclosures in its sustainability statements

Main aspect of sustainability due diligence	Relevant disclosures
• Embedding due diligence in governance and organizations	
• Engaging with stakeholders	
• Identifying and assessing adverse impacts	
• Taking action	
• Tracking effectiveness and communicating	





# Materiality assessment of sustainability impacts, risks and opportunities

2-IRO ...

## Deep dive on Disclosure Requirements

DRs related to Materiality assessment impacts, risks and opportunities

**DR 2- IRO 1: Description of the processes to identify material sustainability impacts, risks and opportunities**

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**DR 2- IRO 3: Outcome of the undertaking's assessment of material sustainability impacts, risks and opportunities that are not covered by an ESRS (entity-specific level)**



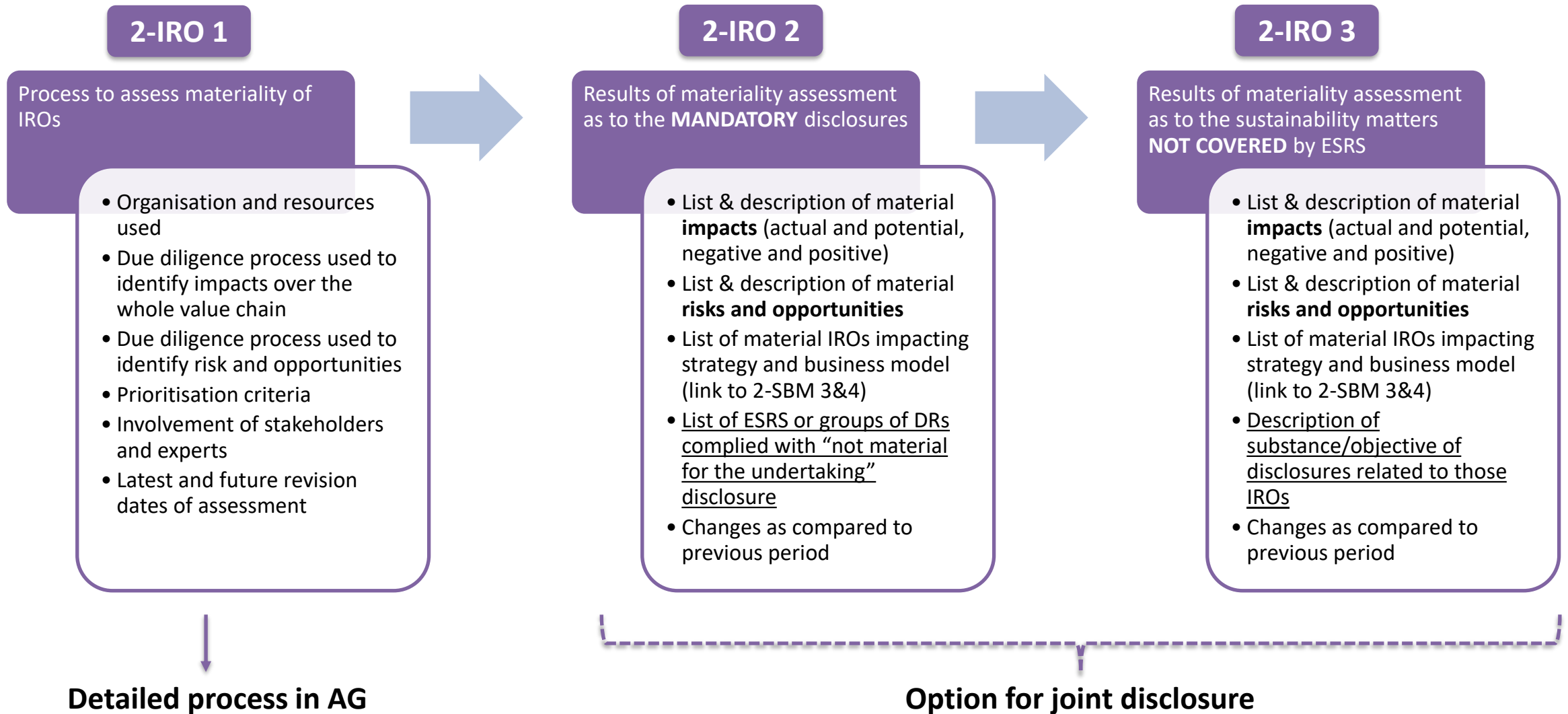
PROCESS



OUTCOMES

## Deep dive on Disclosure Requirements

DRs related to Materiality assessment impacts, risks and opportunities





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