

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG SR TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG SRB or EFRAG SR TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG SRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

## **Time horizons in ESRS 1**

### **Background**

- 1 As required by the CSRD, undertakings shall include in their sustainability reporting information related to short, medium and long term time horizons as applicable.
- 2 This topic represents a key concept for the overall materiality approach and, as such, it is relevant for achieving alignment with the IFRS Standards.
- 3 EFRAG SR TEG discussed the feedback of the consultation at its meeting on the 6 September and agreed to recommend a compromise text. Refer to Agenda Paper 06.01 of the SR TEG on 6 September 2022 that can be found at the link below:

<https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FMeeting%20Documents%2F2208261335242821%2F06-01%20Time%20horizons%20in%20ESRS%201.pdf>

- 4 EFRAG SRB discussed the outcome of the SR TEG discussion and asked to prepare an alternative text for a different compromise between flexibility and standardized definitions. Refer to Agenda Paper 04.01 of the SRB on 12 September that can be found at the link below:

<https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FMeeting%20Documents%2F2207181007468440%2F04-01%20EFRAG%20SRB%20220912%20-%20Time%20horizons%20in%20ESRS%201.pdf>

### **Purpose of this session**

- 5 To discuss the text proposed by the SRB on 12 September and provide a technical advice to SRB on it.

### **Proposed re-drafting of paragraph 128**

- 6 The SRB on 12 September asked to develop a different wording, with the following specifications:
  - (a) Short term mandatory defined as the period used by the undertaking for financial statements, to grant connectivity with financial reporting;
  - (b) For medium and long term, mandate the use of defined horizons and grant an option to use other time horizons when the undertaking considers that the use of the pre-defined time horizon would not result in providing relevant information;
  - (c) Require a disclosure of whether and in which instances the option has been used and of the definition of medium or long term that the undertaking has used in those instances;

(d) Topical standards may adopt different time horizons for specific Disclosure Requirements and in this case those horizons will prevail.

7 The following text would replace paragraphs 83 and 84 of ESRS 1:

*83. When preparing its sustainability report, the undertaking shall adopt the following time intervals as of the end of the reporting period:*

*(a) the same period adopted by the undertaking in its financial statements for short-term;*

*(b) two to five years for medium-term; and*

*(c) more than five years for long-term.*

*The undertaking shall use additional breakdown for the long-term, when this is necessary.*

*If different definitions of medium or long term time horizons are required for specific items of disclosure in a topical [or sector specific] ESRS, the definitions in the topical [or sector specific] ESRS prevail.*

*84. There may be circumstances in which the use of the time intervals in paragraph 83 for medium-term or long-term could result in providing non relevant information, as the undertaking uses a different definition in (i) its processes of identification and management of material impacts, risks and opportunities or in (ii) the definition of its action plans and setting targets.*

*These circumstances may be due to industry-specific characteristics, such as cash flow and business cycles, the expected duration of capital investments, the time horizons over which the users of sustainability reporting conduct their assessments, and the planning horizons typically used in an entity's industry for strategic decision-making.*

*In these circumstances the undertaking may adopt a different definition of medium-term or long term.*

*The undertaking shall disclose which information has been prepared using a different definition of medium-term and long-term horizons than the one used in paragraph 83 and how it has defined medium-term and long-term in this situation.*

**Questions to SRT members and observers**

8 Do you agree with the proposed re-drafting?

9 Do you have any specific suggestion on how to improve the proposed drafting?