

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.

ESRS: Reporting at consolidated level – new text of the CSRD (Subsidiary exemption)

Background

- 1 In an SR TEG meeting on 20 June it was agreed that some guidance on qualitative aspects/triggers should be developed and if possible, some illustrative examples for the November 2022 deadline.
- 2 In its meeting on the 6 September 2022 EFRAG SR TEG considered a proposal for re-drafting of paragraph 128 of ESRS 1 that would allow to incorporate the new wording introduced by the CSRD for the subsidiary exemption. Please refer to Agenda Paper 07.01 of the SR TEG on 6 September 2022 that can be found at this link:
<https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FMeeting%20Documents%2F2208261335242821%2F07%20-%2001%20Issues%20paper%20Subsidiary%20exemption%20SR%20TEG%206%20September%202022.pdf>
- 3 In its meeting on the 12 September 2022 EFRAG SRB considered a version of the proposal for re-drafting of paragraph 128 of ESRS 1 modified to reflect the drafting suggestions made by SR TEG members. Please refer to Agenda Paper 05.01 of the SRB on 12 September 2022 that can be found at this link:
<https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FMeeting%20Documents%2F2207181007468440%2F05-01%20EFRAG%20SRB%20220912-%20%20Issues%20paper%20Subsidiary%20exemption.pdf>
- 4 EFRAG SRB agreed with the direction of travel, but suggested to eliminate the first paragraph (*There might be cases where...*) as it comes from the recitals and from the new articles of the CSRD so it is not strictly needed in a Delegated Act. The SRB also asked SR TEG to consider appropriate wording that would use the same concepts in the two examples to develop indicators. In fact, they disagree with the inclusion of examples that can be difficult to audit and enforce (may they be generalised to other cases?).

Objective

- 5 To provide inputs on the development of indicators that would replace the examples in the proposed text.

Proposed text

- 6 *When the undertaking is reporting at a consolidated level the undertaking shall perform its assessment of material impacts, risks and opportunities for the entire consolidated group, regardless of its group legal structure, making sure that all subsidiaries are covered in a way that allows for the unbiased identification of material impacts, risks and opportunities.*
- 7 *Where the undertaking identifies significant differences between the risks or impacts of the group and the risks or impacts of one or more of its subsidiaries, the undertaking shall provide an adequate understanding of the risks and impacts, as appropriate, of the subsidiary or subsidiaries concerned.*
- 8 *When assessing whether the differences between the risks or impacts of the group and the risks or impacts of one or more of its subsidiaries are significant, the undertaking may consider, among other factors, the following:*
 - (a) *the subsidiary/subsidiaries operates in a different sector than the rest of the group;*
 - (b) *differences in local conditions, such as conducting operations in a biodiversity hot spot or in a water-stress area.*

Questions for EFRAG SR TEG

- 9 Do EFRAG SR TEG members agree with the EFRAG Secretariat's proposal for re-drafting of paragraph 128?
- 10 Which other indicators would you suggest to include in the text to identify situations of differences in IROs?