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Additional disclaimer for SR TEG public agenda papers 25 October 2022
This paper is a draft [Draft] standard prepared by the EFRAG Secretariat for approval of SR TEG and, once approved, it forms the advice that according to EFRAG Due Process SR TEG delivers to SRB as recommended content of the [Draft] final standards to be delivered to the European Commission in November 2022.
This draft reflects the tentative decisions of the SRT in the meetings from June to October 2022 (and reflects the content of the Agenda Papers prepared for those meetings). It has been developed starting from the ESRS Exposure Draft of April 2022, taking into account:
• the revised CSRD text released at the end of June;
• alignment with EDs IFRS S1, S2 and GRI standards as required by the new CSRS whenever possible;
• feedback received from the public consultation.
This draft is an intermediate version of the [Draft] standard and quality checks are still in progress that will result in editorial changes and further presentation/language streamlining. This includes editorial and presentation review, consistency of language across the standards, update of the references to paragraphs/chapters/sessions within the standard and across all the standards, alignment of definitions and glossary across all standards, possible changes of terminology due to recent IFRS decisions. The items in yellow are also subject to change (reflecting the ongoing quality check or pending other external confirmations). In ESRS 2 items in grey mark the datapoints that have been added for alignment with IFRS S1.
Changes are also possible in the next steps of SRB deliberation and approval, including changes other than editorial.

[Draft] ESRS 1 General requirements is set out in paragraphs 1–126122 and Appendix A: Defined terms, Appendix B: Application Requirements; Appendix C: Qualitative characteristics of information prepared according to ESRS, Appendix D: List of disclosures in cross-cutting and topical standards

that are outside the scope of the materiality assessment; Appendix E: Classification of ESRS Reporting into four parts, Appendix F: Illustrative example. All the paragraphs of the standard, Appendices A through D, have equal authority. Appendices D and E accompany the standard but have not the same authority.

The [draft] Standard also uses terms defined in other [draft] ESRS and should be read in the context of its objective.

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Objective

1. The objective of this Standard is to set out the general requirements that undertakings shall apply when preparing and presenting sustainability-related information under the Corporate Sustainability Reporting Directive (CSRD).

2. This standard comprises of the following chapters:

    1. Categories of standards and disclosures under European Sustainability Reporting Standards (ESRS);
    2. Qualitative characteristics of information;
    3. Double materiality as the basis for sustainability disclosures;
    4. Due diligence;
    5. Boundary and value chain;
    6. Time horizon;
    7. Preparation and presentation of sustainability information;
    8. Structure of sustainability statements;
    9. Linkages with other parts of corporate reporting and connected information; and
    10. Transitional provisions.

1 Categories of standards and disclosures under European Sustainability Reporting Standards

1.1 Complying with ESRS

3. The undertaking (also referred to as the reporting entity) shall disclose all material information regarding:

    (a) its positive and negative sustainability impacts (which refer to the area of impact materiality and are identified in this and other ESRS as 'impacts'); and

    (b) its sustainability-related financial risks and opportunities (which refer to the area of financial materiality and are identified in this and other ESRS as 'risks and opportunities');

    in relation to the three sustainability topics of environmental, social, and governance, in accordance with applicable ESRS.

4. The undertaking shall present sustainability-related information as part of its management report (see chapter 8 Structure of sustainability statements).

5. Sustainability-related information shall cover the reporting areas, as defined under paragraph 8 7 below subject to materiality.

1.2 Cross-cutting and topical standards

6. ESRS are organised in cross-cutting (ESRS 1 General requirements and ESRS 2 General disclosures) and topical standards.

7. ESRS 2 addresses information related to several or all sustainability matters. It provides sector-agnostic, general Disclosure Requirements that are mandatory for all undertakings, regardless of the results of their materiality assessment (see chapter 3 Double materiality as the basis for sustainability disclosures).

8. The Disclosure Requirements in ESRS 2, in the topical standards and in sector-specific standards cover the following reporting areas:

    (a) **Governance** (GOV): the governance processes, controls and procedures used to monitor and manage impacts, risks and opportunities (see ESRS 2, chapter 2 Governance);

    (b) **Strategy** (SBM): how the undertaking's strategy and business model(s) interact with its material impacts, risks and opportunities, including the strategy for addressing them (see ESRS 2, chapter 3 Strategy);

    (c) **Management of impacts, risks and opportunities** (IRO): the process(es) by which impacts, risks and opportunities are identified, assessed and managed through policies and actions (see ESRS 2, chapter 4 Management of impacts, risks and opportunities); and

    (d) **Metrics and targets** (MT): how the undertaking sets targets and assesses monitors and measures its performance regarding its material impacts, risks and opportunities over time (see ESRS 2, chapter 5 Metrics).

9. Topical standards at the highest level are categorised as 'environmental', 'social' and 'governance'. The topical ESRS address multiple sustainability matters by grouping them based on their relative similarity. All the sustainability matters addressed within a single topical ESRS constitute collectively a sustainability topic. These topics are further divided into sub-topics and, when necessary, sub-sub-topics (all also referred to as 'matters').

10. The topical standards include additional requirements to some Disclosure Requirements of ESRS 2 General Disclosures. *Appendix C of ESRS 2* illustrates such additional requirements.

1.3 Sector-agnostic and sector-specific Disclosure Requirements

11. To achieve a high degree of comparability, information that is assessed by the standard-setter as material for all undertakings, or for all undertakings in a specific sector, is reflected in:

    (a) **Disclosure Requirements in sector-agnostic ESRS:** specifying information considered material for all sectors; and

    (b) **Disclosure Requirements in sector-specific ESRS:** specifying information considered material for all undertakings within a sector. They address impacts, risks and opportunities not covered, or not sufficiently covered, by the mandatory sector-agnostic Disclosure Requirements.

12. An undertaking shall apply the principles in chapter 3.2 Material matters and materiality of information where it concludes that information prescribed by an ESRS Disclosure Requirement is not material due to its specific facts and circumstances. Its conclusion in this regard shall be based on its materiality assessment as required by this Standard (see chapter 3 Double materiality as the basis for sustainability disclosures).

1.4 Developing entity-specific disclosures

13. When an undertaking concludes, following its materiality assessment, that an impact, risk or opportunity not covered or covered with insufficient granularity by ESRS is material due to its specific facts and circumstances (based on its materiality assessment), it shall provide additional entity-specific disclosures to cover such impact, risk or opportunity.

14. The entity-specific disclosures shall enable readers to understand the undertaking's impacts on people or the environment and risks and opportunities (ref. to Chapter 3).

15. In developing entity-specific disclosures the undertaking shall ensure that:

    (a) the disclosures meet the qualitative characteristics of information as set out in chapter 2 Qualitative characteristics of information;

    (b) the disclosures include all material information related to the reporting areas of governance; strategy; management of impacts, risks and opportunities; as well as targets and performance metrics (see ESRS 2 chapter 2 to 5); and

    (c) where applicable, it includes performance metrics to provide useful information to its stakeholders.

16. When determining the usefulness of information in paragraph above, the undertaking shall consider whether:

    (a) its chosen performance metrics regarding impacts, risks and opportunities shall include the likelihood that its practices are both:

        i. reducing negative outcomes and/or increasing positive outcomes for people and the environment (for impacts); and

        ii. affecting financial performance, position and cash-flows over the short-, medium- and long-term (for risks and opportunities);

    (b) the outcome can be measured reliably for quantitative metrics, i.e. without an excessive amount of conjecture and unknowns that would render the metrics too arbitrary to give a faithful representation; and

    (c) the performance metric can be appropriately interpreted even in the absence of contextual information and how variations in such contextual information may impact its comparability over time.

17. When developing its entity-specific disclosures the undertaking shall carefully consider comparability:

(a) Comparability between undertakings: Comparability between undertakings with regard to entity-specific disclosures may be limited. However, the undertaking shall consider whether available and relevant frameworks, initiatives, reporting standards and benchmarks provide elements that can support comparability to the maximum extent possible; and

(b) Comparability over time: Consistency of methodologies and disclosures is a key factor for achieving comparability over time. Consequently, changes in methodologies or disclosures shall be duly explained and justified.

18. Further guidance for developing entity-specific disclosures can be found by considering the information required under topical standards that address similar sustainability matters.

1.5 Cross-cutting Disclosure Requirements for policies, action plans and targets

19. Cross-cutting Disclosure Requirements ESRS 2 IRO DR 1 On policies adopted to manage material sustainability matters, ESRS 2 IRO DR 2 On Action plans and resources in relation to policies and targets and ESRS IRO DR 3 On targets, progress and tracking effectiveness prescribe the content to be reported when preparing the disclosure about policies, actions, targets and performance metrics. In this context:

    (a) **policies** refer to a set or framework of general objectives and management decisions that the undertaking uses for detailed implementation decision-making;

    (b) **actions** refer to (i) activities and action plans (including transition plans) that are undertaken to ensure that the undertaking delivers against targets set and through which the undertaking seeks to address material impacts, risks and opportunities; and (ii) decisions to support these with financial, human or technological resources;

    (c) **targets** refer to measurable, outcome-oriented goals that the undertaking aims to achieve in relation to material impacts, risks or opportunities; and

    (d) **performance metrics** refer to qualitative and quantitative indicators that the undertaking uses to judge the effectiveness of the delivery of its sustainability-related policies and against its targets over time. It also includes measuring its results in respect of affected people, the environment and the undertaking.

20. These Cross-cutting Disclosure Requirements shall be applied:

(a) when the undertaking is required by ESRS to describe policies; action plans in relation to policies and targets; targets, progress and tracking effectiveness alongside the Disclosure Requirements in the given ESRS; and

in the case of material impacts, risks and opportunities not covered by ESRS and covered by entity-specific disclosures.

2 Qualitative characteristics of information

21. When preparing its sustainability statements, the undertaking shall apply:

(a) the fundamental qualitative characteristics of information, i.e., relevance and faithful representation; and

(b) the enhancing qualitative characteristics of information, i.e., comparability, verifiability and understandability.

22. These qualitative characteristics of information are covered in more detail in Appendix C of this Standard.

3 Double materiality as the basis for sustainability disclosures

23. The undertaking shall report sustainability matters based on the double materiality principle as defined and explained in this chapter.

3.1 Stakeholders and their relevance to the materiality assessment process

24. Stakeholders are those who can affect or be affected by the undertaking. There are two main groups of stakeholders:

    (a) affected stakeholders: individuals or groups whose interests are affected or could be affected – positively or negatively – by the undertaking's activities and its direct and indirect business relationships across its value chain; and

    (b) users of sustainability statements: existing and potential investors, lenders and other creditors (including asset managers, credit institutions, insurance undertakings), as well as the undertaking's business partners, trade unions and social partners, civil society and non-governmental organisations, governments, analysts and academics.

    Some, but not all, stakeholders may belong to both groups defined in paragraph 24.

25. As users of sustainability statements need information about impacts on affected stakeholders to hold undertakings accountable for their impacts, the undertaking shall, in its materiality assessment, consider both its impacts on people and the environment and users' needs together.

26. Engagement with affected stakeholders is central to an undertaking's on-going due diligence process (see chapter 4 Due diligence). This includes its processes to identify and assess actual and potential negative impacts, which then inform the assessment process to identify the material impacts for the purposes of sustainability reporting (see chapter 3.4 Impact materiality).

3.2 Material matters and materiality of information

27. Performing a materiality assessment (see chapter 3.4 Impact materiality and 3.5 Financial materiality) is necessary for the undertaking to identify its material impacts, risks and opportunities to be reported on (see the list of sustainability matters covered in topical ESRS in Appendix B Application Requirements).

28. For this purpose, a sustainability matter is 'material' for an undertaking when it meets the criteria defined for impact materiality (see chapter 3.4 Impact materiality) or for financial materiality (see chapter 3.5 financial materiality) or both. The sustainability matters covered in ESRS E1 Climate change and in ESRS 2 General Requirements and ESRS 2- related requirements in the topical standards (as listed in Appendix C of ESRS 2) are outside the scope of materiality assessment and, as such, shall be applied by all the undertakings in all the sectors.

29. When, as a result of its materiality assessment, the undertaking concludes that a sustainability matter is material:

    (a) it shall report according to the Disclosure Requirements (including Application Requirements) related to that specific matter in the relevant ESRS;

    (b) it may omit specific information prescribed by a Disclosure Requirement for a material matter, if it assesses that such information is not material; and

    (c) when the material matter or a specific disclosure related to it is not covered by ESRS or it is covered with insufficient granularity, the undertaking shall develop additional appropriate entity-specific disclosures.

30. In determining (i) whether specific information prescribed in a Disclosure Requirement should be included or not and (ii) which entity-specific disclosure should be provided on a material sustainability matter, the undertaking shall refer to:

    (a) the significance of the information in relation to the matter it purports to depict or explain;

    (b) the capacity of such information to meet the users' needs allowing for proper decision-making; and

    (c) the need for transparency towards stakeholders.

31. Paragraphs 29 is applicable also to the information to be reported under ESRS E1 Climate change and ESRS 2 General Requirements, including ESRS 2-related requirements in the topical standards.

32. The undertaking shall establish how it applies the criteria in 3.4 Impact materiality and 3.5 Financial materiality, including appropriate thresholds, to determine:

    (a) when a sustainability matter is material; and

    (b) the materiality of information to be included in the sustainability statements, which refers to both when specific information:

        i. prescribed by a Disclosure Requirement for a material matter is assessed to be 'not material for the undertaking' and omitted; and

        ii. when such specific information is included as entity-specific disclosures.

33. The items of disclosure prescribed in topical ESRS listed in Appendix D List of disclosures in cross cutting and topical standards that are outside the scope of materiality assessment are outside the scope of materiality assessment and, therefore, shall be included irrespective of the undertaking's judgement of their materiality.

34. When all the Disclosure Requirements in a topical standard are omitted as the topic is assessed to be not material for the undertaking, the undertaking shall briefly explain the conclusions of its materiality assessment for the topic (see Disclosure Requirement 2 IRO-2).

35. When information to be disclosed under a Disclosure Requirement (under a specific datapoint or under an entire Disclosure Requirement) is omitted by the undertaking, it is considered implicitly disclosed as 'not material for the undertaking'.

3.3. Double materiality

36. The undertaking shall apply the double materiality principle for the identification of its principal impacts, risks and opportunities to be covered in its sustainability statements (see ESRS 2 chapter 4 Management of impacts, risks and opportunities).

37. Double materiality has two dimensions: impact materiality and financial materiality.

38. Impact materiality and financial materiality assessments are inter-related and the interdependencies between the two dimensions shall be considered. In general, the starting point is the assessment of impacts. A sustainability impact may be financially material from inception or become financially material when it translates or is likely to translate into financial effects in the short-, medium-, or long-term.

39. The undertaking shall consider how it is affected by its dependence on the availability of natural and social resources at appropriate prices and quality, independently of its impacts.

3.4 Impact materiality

40. A sustainability matter is material from an impact perspective when it pertains to significant actual or potential, positive or negative impacts on people or the environment over the short-, medium- or long term. This includes impacts directly caused or contributed to by the undertaking and impacts which are linked to the undertaking's operations, products, and services through its business relationships. Business relationships include the undertaking's upstream and downstream value chain and are not limited to contractual relationships.

41. The materiality assessment of a negative impact is informed by the due diligence processes defined in the international instruments.

42. For actual negative impacts, materiality is based on the severity of the impact, while for potential negative impacts it is based on the severity and likelihood of the impact. Materiality is based on the scale and scope of the impact for actual positive impacts, while for potential positive impacts, it is based on the scale, scope and likelihood of the impact. In the case of a potential human rights impact, the severity of the impact takes precedence over its likelihood.

3.5 Financial materiality

43. The scope of financial materiality for sustainability reporting is an expansion of the scope of materiality used in the process of determining which information should be included in the undertaking's financial statements.

44. The process of determination of information materiality described in paragraph 36 includes, but is not limited to, the identification of information that is useful to investors, lender and other creditors when they assess enterprise value. In particular, information is considered material for investors, lender and other creditors when they assess enterprise value if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that they make on the basis of the undertaking's reporting.

45. A sustainability matter is material from a financial perspective if it triggers or may trigger significant financial effects on the undertaking's development, performance, and position that are not captured or not yet fully captured by financial reporting at the reporting date. This is the case, in particular, when it generates or may generate significant risks or opportunities that influence or are likely to influence the future cash flows. Future cash flows with other critical factors such as business model, strategy, access to finance and cost of capital, in turn are likely to influence the enterprise value of the undertaking in the short-, medium- or long-term.

46. Risks and opportunities may derive from past events or future events and may have effects in relation to:

(a) assets and liabilities already recognised in financial reporting or that may be recognised as a result of future events; or

factors of enterprise value creation that do not meet the financial accounting definition of assets and liabilities and/or the related recognition criteria, but contribute to the generation of cash flows and creation/maintenance of enterprise value. The latter factors are generally referred to as 'capitals' in frameworks promoting a multi-capital approach.

47. Dependencies from natural and social resources are sources of financial risks or opportunities. Dependencies may trigger effects in two possible ways:

    (a) they may influence the undertaking's ability to continue to use or obtain the resources needed in its business process, as well as the quality and pricing of those resources; and

    (b) they may affect the undertaking's ability to rely on relationships needed in its business processes in acceptable terms.

48. The materiality of risks and opportunities is assessed based on a combination of a probability of occurrence and size of financial effects.

3.6 Material impacts or risks arising from actions to address sustainability matters

49. An undertaking's materiality assessment process shall encompass situations where its actions to address certain impacts or risks, or to benefit from certain opportunities in relation to a sustainability matter, might have material adverse impacts or cause material

risks in relation to one or several other sustainability matters. For example:

(a) an action plan to decarbonise production that involves abandoning certain products might have material negative impacts on an undertaking's own workforce and/or material risks due to redundancy payments; or

(b) an action plan of an automotive supplier to focus on the supply of e-vehicles might lead to stranded assets for the production of supply parts for conventional vehicles.

50. In such situations, the undertaking shall:

(a) mention the existence of material adverse impacts or material risks together with the actions and action plans that generate them, with a cross-reference to the topic to which the impacts or risks relate; and

(b) provide a description of how the material adverse impacts or material risks are addressed under the topic to which they relate.

4 Due diligence

51. The due diligence process informs the assessment of material impacts, risks and opportunities. ESRS do not mandate any requirement with regards to sustainability due diligence per se, neither do they extend nor modify the role of governance bodies.

52. Due diligence is the process undertakings carry out to identify, track, prevent, mitigate, remediate and end the principal actual and potential adverse impacts connected with their activities and identifies how they address those adverse impacts. Impacts connected with an undertaking's activities include impacts directly caused by the undertaking, impacts to which the undertaking contributes, and impacts which are otherwise linked to the undertaking's value chain. Due diligence is an on-going practice that responds to changes in the undertaking's strategy, business model, activities, business relationships, operating, sourcing and selling contexts. The process is defined in the international instruments of the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises.

53. These international instruments identify a number of steps in the overall due diligence process. In particular, the second step of due diligence entails identifying and assessing negative impacts connected with the undertaking through its activities and business relationships. Where an undertaking cannot address all impacts at once, the due diligence process allows for action to be prioritised based on the severity and likelihood of the impacts.

54. This second step of due diligence defines the process through which an undertaking identifies the impacts that are material from the perspective of impact materiality. Therefore, it is this step that informs which impacts should be addressed in its sustainability statements. The identification of material impacts supports also the full and accurate identification of material sustainability risks and opportunities, which are often a product of such impacts. The materiality assessment process is set out in paragraph 3.2 Material matters and materiality of information, in Appendix B, under Disclosure Requirement IRO-1 and its Application Requirements.

55. The main aspects of due diligence are:

(a) embedding due diligence in governance, the strategy and the business model;

(b) engaging with affected stakeholders in all key steps of the due diligence ;

(c) identifying and assessing adverse impacts;

(d) taking actions to address those adverse impacts;

(e) tracking the effectiveness of these efforts and communicating.

56. These aspects are also reflected directly in Disclosure Requirements of topical standards and Cross-cutting Disclosure Requirements (see ESRS 2 chapter 4.2 Cross-cutting Disclosure Requirements on policies, targets and actions) set out in ESRS 2. Appendix B illustrates:

(a) the references to the international instruments that define the main aspects of due diligence; and

(b) where in ESRS disclosures about each aspect are required.

5 Boundary and value chain

5.1 Reporting boundary

57. The reporting perimeter for the sustainability statements shall be the same for the related financial statements. In addition, the reporting boundary of each of the entities in the reporting perimeter shall be expanded on a risk basis to its upstream and downstream value chain as further explained below.

58. The undertaking shall expand the reporting boundary on a risk basis, leveraging on its due diligence activities and materiality assessment. Such expansion is aimed at integrating information on material impacts, risks and opportunities on matters connected to the undertaking through its direct and indirect business relationships in the upstream and/or downstream value chain ('value chain data'). The entity shall expand its reporting boundary when this is necessary to:

(a) allow users of sustainability reporting to understand the undertaking's material impacts, risks and opportunities; and

(b) produce a set of information that meet the qualitative characteristics of information (see Appendix C).

59. When determining at which level (within its own operations and its upstream and downstream value chain) a material sustainability matter arises, the undertaking shall use its assessment of impacts, risks and opportunities following the double materiality concept (see chapter 3 Double materiality as the basis for sustainability disclosures). In identifying and reporting material impacts, risks and opportunities:

(a) impact materiality includes matters that are within the undertaking's direct control and impacts that the undertaking causes or contributes to through its own activities. It also includes negative impacts directly linked to the undertaking's operations, products, and services through its business relationships. Where an impact is severe, the undertaking shall report on its efforts to obtain sufficient information to respond suitably to the impact or risk per the due diligence requirements under UNGPs and OECD Guidelines; and

(b) financial materiality of a sustainability matter is not constrained to matters that are within the control of the undertaking, but includes material risks and opportunities attributable to or associated with other undertakings/stakeholders beyond the scope of financial reporting.

60. Associates and joint ventures, accounted for under the equity method or proportionally consolidated in the financial statements, are considered in the sustainability statements as actors in the value chain for the risk-based expansion of the reporting boundary. In this case, when determining impact metrics, the data of the associate or joint venture are considered in full and not limited to the share of equity held but limited to the impacts, that are directly linked to the undertaking's products and services through its business relationships.

61. Whether or not a given performance measure requires the expansion of the reporting entity boundaries to include data about the value chain is specified in the relevant provisions of the topical standards. Any topical or sector-specific ESRS specifying a specific reporting boundary for a disclosure requirement, shall prevail.

5.2 Contractual ability to control activities and relationships

62. The undertaking's level of ability to control the operations of actors in its upstream and downstream value chain and the level of access to their sustainability-related information may vary, depending on its position in the value chain. The undertaking's contractual arrangements, its buying power (for direct suppliers), and the effectiveness of its own systems, among other factors, influence the level of access to the relevant information. It is more likely that the undertaking will have access to information in relation to undertakings in its value chain when it has the contractual ability to control activities and relationships in the upstream and downstream value chain.

5.3 Estimation using sector averages and proxies

63. In some circumstances, collecting the information about the undertaking's upstream and downstream value chain as required by paragraph 58 may be impracticable, i.e. the undertaking cannot collect the necessary data from the relevant actors of in its value chain, after making reasonable efforts to do so. In these cases, the undertaking shall estimate the information to be reported about its upstream and downstream value chain, by using all reasonable and supportable information. This includes internal and external information, such as data from indirect sources, sector-average data, sample analyses, market and peer groups data, other proxies or spend-based data. For example, this could be the case for value chain entities that are not in the scope of the CSRD. Reference is made to Disclosure Requirement GR-2.

64. Complying with the requirement in paragraph 58 does not require collection from the value chain in all circumstances, in particular when the undertaking does not have the contractual ability to control the activities of its value chain and its relationships. With reference to policies, targets, action plans and resources, the reporting includes the value chain information to the

extent that those policies, targets, action plans and resources are in respect of the actors in the value chain.. With reference to performance measures, in particular for environmental matters for which proxies are available, an undertaking may be able to comply with the reporting requirements without collecting data from the actors in its value chain in many cases.

65. The incorporation of estimations made using data from indirect sources, such as sector-average data or other proxies shall not result in information that does not meet the qualitative characteristics of information (see chapter 2 Qualitative characteristics of information and paragraph 83).

66. As an illustration of the concept of reasonable effort in collecting data from actors in its value chain, the undertaking may use its leverage over its value chain or may increase leverage over the value chain, e.g. through collaboration with other companies and stakeholders that could help to do so.

5.4 Level of disaggregation

67. When needed for a proper understanding of its material impacts, risks and opportunities, the undertaking shall disaggregate the reported information:

    (a) by country when there is significant variations of material impacts, risks and opportunities across countries and presenting the information aggregated at a higher level would obscure material impacts, risks and opportunities; or

    (b) in relation to a significant site or a significant asset, when material impacts, risks and opportunities are linked to the specific location or asset.

68. When defining the appropriate level of disaggregation for reporting, the undertaking shall consider the disaggregation adopted in its materiality assessment.

69. When the undertaking presents information disaggregated by sectors, it shall adopt the ESRS sector classification, to facilitate the application of ESRS Sector standards. Depending on the facts and circumstances, and following the outcome of its materiality assessment, a disaggregation by subsidiary may be necessary.

70. When a topical or sector-specific ESRS requires that a specific level of disaggregation is adopted in preparing a specific material item of information, the requirement in the topical or sector-specific ESRS shall prevail.

71. Where data from different levels, or multiple locations within a level, is aggregated, the undertaking shall ensure that does not obscure the specificity and context necessary to interpret the information. The undertaking shall avoid aggregating material items that differ in nature.

6 Time horizon

6.1 Reporting period

72. The reporting period for an undertaking's sustainability statements shall be consistent with that of its financial statements.

6.2 Linking past, present and future

73. The undertaking shall establish appropriate linkage in its sustainability statements between retrospective and forward-looking information, when relevant, to foster a clear understanding of how historical data relate to future-oriented data.

6.3 Reporting progress against the base year

74. A base year is the historical reference date or period for which information is available and against which subsequent information can be compared over time.

75. The undertaking shall present comparative information in respect of the base year for amounts reported in the current period when reporting the developments and progress towards a target, unless the relevant Disclosure Requirement already defines how to report progress. The undertaking may also include historical information about achieved milestones between the base year and the reporting period when this is relevant information.

6.4 Definition of short-, medium- and long-term for reporting purposes

76. When preparing its sustainability statements, the undertaking shall adopt the following time intervals as of the end of the reporting period:

    (a) for short-term: the same period adopted by the undertaking in its financial statements for current assets and liabilities;

    (b) for medium-term: from the end of the reporting period for short-term per (a) above to five years; and

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

77. The undertaking shall use an additional breakdown for long-term when several impacts or actions are expected in period longer than five years and the time difference between them is such that an additional breakdown is necessary to provide relevant information to users of sustainability statements.

78. 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.

79. There may be circumstances where the use of the time intervals in paragraph 7676 for medium- or long-term results in non-relevant information, as the undertaking uses a different

definition for (i) its processes of identification and management of material impacts, risks and opportunities or (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 statements conduct their assessments, and the planning horizons typically used in an undertaking's industry for decision-making. In these circumstances, the undertaking may adopt a different definition of medium- and/or long-term. Reference is made to Disclosure Requirement GR-2.

7 Preparation and presentation of sustainability information

80. This chapter provides general requirements to be applied when preparing and presenting sustainability information.

7.1 Presenting comparative information

81. An undertaking shall disclose comparative information in respect of the previous period for all metrics disclosed in the current period. When such information would be relevant to an understanding of the current period's sustainability disclosures, the undertaking shall also disclose comparative information for narrative and descriptive sustainability disclosures.

82. When a topical standard requires the undertaking to present more than one comparative period for a metric or key performance indicator, the requirements of that Standard shall prevail.

7.2 Sources of estimation and outcome uncertainty

83. When metrics, including value chain data (see chapter 5 Boundary and value chain), cannot be measured directly and can only be estimated, measurement uncertainty may arise. The use of reasonable assumptions and estimates is an essential part of preparing sustainability-related metrics and does not undermine the usefulness of the information if the assumptions and estimates are accurately described and explained. Even a high level of measurement uncertainty would not necessarily prevent such an assumption or estimate from providing useful information or meeting the qualitative characteristics of information (see Appendix C).

84. When sustainability-related disclosures include or are related to financial data and assumptions used the financial statements, such data and assumptions shall be consistent to the extent possible with the corresponding financial data and assumptions used in the undertaking's financial statements.

85. Some ESRS require the disclosure of information such as explanations about possible future events that have uncertain outcomes. In judging whether information about such possible future events is material, the undertaking shall refer to the criteria in Chapter 3 Double materiality as the basis for sustainability disclosures and consider:

    (a) the potential effects of the events on the value, timing and certainty of the undertaking's future cash flows, including in the long term (the possible outcome);

(b) the effect of possible future events on actual or potential significant impacts on people or the environment; and

(c) the full range of possible outcomes and the likelihood of the possible outcomes within that range.

86. When assessing the possible outcomes, an undertaking shall consider all relevant facts and circumstances, including information about low-probability and high-impact outcomes, which, when aggregated, could become material. For example, an undertaking might be exposed to several sustainability-related impacts or risks, each of which could cause the same type of disruption—such as disruptions to the undertaking's supply chain. Information about an individual source of risk might not be material if disruption from that source is highly unlikely to occur. However, information about the aggregate risk—the risk of supply chain disruption from all sources—might be material. Reference is made to Disclosure Requirement GR-2.

7.3 Updating disclosures about events after the end of the reporting period

87. Estimation involves judgements based on the latest available reliable data. An estimate may need revision if the circumstances on which the estimate was based change or due to new data or more experience.

88. If the undertaking receives material sustainability data after the reporting period but before the management report is approved for issuance and the data provides evidence or insights about conditions that existed at the end of the reporting period, it shall consider this data and update estimates and sustainability disclosures, in the light of the new information.

89. When the data provides evidence or insights about conditions that arise after the end of the reporting period and may modify the understanding by users of the related disclosure, the undertaking shall provide qualitative or narrative information indicating the existence, nature and potential consequences of these post-year end events.

7.4 Changes in preparation or presentation of sustainability information

90. The definition and calculation of metrics, including metrics used to set and monitor targets, shall be consistent over time. If a metric or target is redefined or replaced, an undertaking shall provide restated comparative figures, unless it is impracticable to do so. Reference is made to Disclosure Requirement GR-2.

7.5 Reporting errors in prior periods

91. An undertaking shall correct material prior period errors by restating the comparative amounts for the prior period(s) disclosed unless it is impracticable to do so.

92. Prior period errors are omissions from, and misstatements in, the undertaking's sustainability statements for one or more prior periods. Such errors arise from a failure to use, or misuse of, reliable information that:

(a) was available when the management report that includes the sustainability statements for those periods was authorised for issuance; and

(b) could reasonably be expected to have been obtained and considered in the preparation of sustainability disclosures included in these reports.

93. Such errors include: the effects of mathematical mistakes, mistakes in applying the definitions for metrics and targets, oversights or misinterpretations of facts, and fraud.

94. Potential current period errors discovered in that period are corrected before the management report is authorised for issue. However, material errors are sometimes not discovered until a subsequent period.

95. When it is impracticable to determine the effect of an error on all prior periods presented, the undertaking shall restate the comparative information to correct the error from the earliest date practicable. Hindsight should not be used when correcting amounts for a prior period, either in making assumptions about what the undertaking's intentions would have been in a prior period or in estimating the amounts disclosed in a prior period.

96. Corrections of errors are distinguished from changes in estimates. Estimates are to be revised as soon as additional information becomes available. Reference is made to Disclosure Requirement GR-2.

7.6 Consolidated reporting and subsidiary exemption

97. 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. It shall take care that all subsidiaries are covered in a way that allows for the unbiased identification of material impacts, risks and opportunities. Criteria and thresholds for assessing an impact, risk or opportunity as material shall be determined based on chapter 3 Double materiality as the basis for sustainability information.

98. Where the undertaking identifies significant differences between material impacts, risks or opportunities at group level and material impacts, risks or opportunities of one or more of its subsidiaries, the undertaking shall provide an adequate description of the impacts, risks and opportunities, as appropriate, of the subsidiary or subsidiaries concerned.

99. When assessing whether the differences between material impacts, risks or opportunities at group level and material impacts ,risks or opportunities of one or more of its subsidiaries are significant, the undertaking may consider different circumstances such as whether the subsidiary or subsidiaries operate in a different sector than the rest of the group or those reflected in chapter 5.4 Level of disaggregation.

7.7 Member state exemption for impeding developments or matters in course of negotiation

100. EU member states may allow for the exemption in articles 19a (3) and 29a (3) of the CSRD on disclosure of information relating to impending developments or matters in the course of negotiation to be omitted. If an undertaking is incorporated in a country where this member state option is granted, the undertaking may in exceptional cases omit this information, where:

(a) in the duly justified opinion of the members of the administrative, management and supervisory bodies, acting within the competences assigned to them by national law and having collective responsibility for that opinion, the disclosure of such information would be seriously prejudicial to the commercial position of the undertaking; and

(b) provided that such omission does not prevent a fair and balanced understanding of the undertaking's development, performance, position, and impact of its activity.

8 Structure of sustainability statements

101. This chapter provides the basis for the presentation of the information about sustainability matters prepared in compliance with the CSRD and the ESRS (i.e., sustainability statements) within the undertaking's management report. Such information is presented in a dedicated section of the management report identified as the sustainability statements. Appendix F provides an illustrative example on the requirements of this chapter.

8.1 General presentation requirement

102. Sustainability information shall be presented:

(a) in a way that allows a distinction between information required by disclosures in ESRS and other information included in the management report; and

(b) under a structure that facilitates access to and understanding of the sustainability statements, both in human and machine-readable formats, considering the qualitative characteristics.

8.2 Content and structure of the sustainability statements

103. Subject to the possibility to incorporate information by reference in chapter 9.1111, the undertaking shall report all the applicable disclosures (sector-agnostic, sector-specific and entity-specific) required by ESRS as per chapter 1 Categories of standards and disclosures under European Sustainability Reporting Standards, within a single section of the management report.

104. The undertaking shall report the disclosures pursuant to Article 8 of Regulation 2020/852 on the establishment of a framework to facilitate sustainable investment.

105. Subject to the provisions of chapter 2 Qualitative characteristics of information, the undertaking may include in its sustainability statements additional disclosures stemming from local legislation, generally accepted sustainability reporting pronouncements of other standard setting bodies and non-mandatory guidance including sector-specific guidance. Such disclosures shall be clearly identified with an appropriate reference to the related legislation, pronouncement or guidance and shall complement ESRS Disclosure Requirements. Reference is made to Disclosure Requirement GR-2.

106. The undertaking shall structure its sustainability statements in four parts: general information, environmental information, social information and governance information in the

order prescribed in Appendix E. The undertaking may apply the detailed structure illustrated in Appendix E.

107. When reporting the disclosures required by sector-specific ESRS, the undertaking shall group those disclosures by cross-cutting reporting areas and, where applicable, by sustainability sub-topics and report them alongside the relevant sector-agnostic disclosures.

108. Where the undertaking develops material entity-specific disclosures in accordance with section 1.4 Developing entity-specific disclosures1.4 Developing entity-specific disclosures, it shall report those disclosures alongside the most relevant sector-agnostic and sector-specific disclosures.

9 Linkages with other parts of corporate reporting and connected information

109. The undertaking shall provide information that enables users of its sustainability statements to assess the connections between various impacts, risks and opportunities, and how information about these impacts, risks and opportunities is linked to other parts of its corporate reporting.

9.1 Incorporation by reference

110. Provided that the conditions in paragraph 111 are met, information prescribed by a Disclosure Requirement of an ESRS (including a specific datapoint prescribed by a Disclosure Requirement) may be incorporated in the sustainability statements by reference to of:

(a) another section of the management report;

(b) the financial statements;

(c) the corporate governance report (if not part of the management report);

(d) the remuneration report required by the 2007/36/EC directive; and

(e) public disclosures under regulation 575/2013 (Pillar 3 disclosures) and regulation 2015/35 supplementing Directive 2009/138/EC (Solvency II). .

111. Incorporation by reference from the documents listed in paragraph 110 is allowed, provided that the disclosures incorporated by reference:

(a) constitute a separate element of information clearly identified as addressing the relevant Disclosure Requirement (or the relevant specific datapoint prescribed by a Disclosure Requirement) in such other document (as per paragraph 110 (a) to (e) respectively);

(b) are published at the same time as the management report;

(c) are subject to at least the same level of assurance as the sustainability statements;

(d) are located in a document that has the same technical digitalisation requirements as other information of the sustainability statements.

112. In the preparation of its sustainability statements using incorporation by reference, the undertaking shall consider the overall cohesiveness of the reported information and assure that the incorporation by reference does not impair the readability of the sustainability statements. Reference is made to Disclosure Requirement GR-2.

9.2 Connected information and connectivity with financial statements

113. The undertaking shall describe the relationships between different pieces of information. Doing so could require connecting narrative information on governance, strategy and risk management to related metrics and targets. For example, to allow users to assess connections in information, the undertaking might need to explain the effect or likely effect of its sustainability strategy on its financial statements or financial plans, or on metrics and targets used to measure progress against performance. Furthermore, the undertaking might need to explain how its use of natural resources and changes within its supply chain could amplify, change or reduce its significant sustainability impact, risks and opportunities. It may need to link this information to the potential or actual effect(s) on its production costs, its strategic response to mitigate such impacts, risks and its related investment in new assets. This information may also need to be linked to information in the financial statements and to specific metrics and targets. Information that describes connections shall be clear and concise.

114. When the sustainability statements include monetary amounts or other quantitative data points above a threshold for significant information that are directly presented in financial statements, the undertaking shall include a reference to the relevant paragraph of its financial statements where the corresponding information can be found.

115. In some cases, sustainability reporting may include monetary amounts or other quantitative data points above a threshold for significant information that are either an aggregation of, or a part of, monetary amounts or quantitative data presented in the undertaking's financial statements. If this is the case, the undertaking shall explain how these relate to the most relevant amount(s) presented in the financial statements. This disclosure shall include a reference to the line item and/or to the relevant paragraph(s) of its financial statements where the corresponding information can be found. For significant amounts, a reconciliation shall be provided and it may be presented in a tabular form.

116. When there is no direct or indirect link, the undertaking shall state (based on a threshold for significant information) the consistency of data, assumptions used, and qualitative information included in its sustainability statements with the corresponding data, assumptions and qualitative information included in the financial statements. This may occur when the sustainability statements include:

(a) monetary amounts or other quantitative data linked or interdependent with monetary amounts or other quantitative data presented in financial statements, but a direct reconciliation is not possible; or

(b) qualitative information linked or interdependent with qualitative information presented in financial statements.

117. Consistency as required by paragraph 116above shall be at the level of a single data point and shall include a reference to the relevant line item / paragraph of a footnote of the financial statements. When significant data, assumptions and qualitative information are not consistent, the undertaking shall state that fact and explain the reason.

118. Examples of items for which the statement in paragraph 116 above subject to the threshold for significant information is required are:

(a) when the same KPI is presented as of the reporting date in financial statements and in forecast for future periods in the sustainability statements; and

(b) when macroeconomic or business projections are used to develop KPIs in the sustainability statements and they are also relevant in estimating the recoverable amount of assets, the amount of liabilities or provisions in financial statements.

119. Topical and sector-specific Standards may include requirements to include reconciliations or consistent explanations for specific Disclosure Requirements. In such cases, the requirements in these Standards shall prevail.

10. Transitional provisions

10.1. Transitional provision related to chapter 1.4 Developing entity-specific disclosures

120. The extent to which sustainability matters are covered by ESRS is expected to evolve as further sector-agnostic and sector-specific Disclosure Requirements are developed. Therefore, the need for entity-specific disclosures is likely to decrease over time.

121. When defining its entity-specific disclosures, the undertaking may adopt transitional measures for their preparation in the first three annual sustainability statements under which it shall as a priority:

(a) introduce in its reporting those entity-specific disclosures that it reported in prior periods, if these disclosures meet or are adapted to meet the characteristics of quality referred to under chapter 2 Qualitative characteristics of information; and

(b) complement its disclosure, prepared on the basis of the sector-agnostic ESRS, with an appropriate set of additional disclosures to cover sustainability matters that are material for the undertaking in its sector(s), using the available best practice and/or frameworks or reporting standards.

10.2 Transitional provision related to chapter 5 Boundary and value chain

122. For the first three years of application of sustainability reporting under ESRS of an undertaking, if not all the necessary information regarding the value chain is available, the undertaking shall explain the efforts made to obtain the information about its value chain, the reasons why this information could not be obtained, and the plans of the undertaking to obtain such information in the future.

123. For the first three years of application of sustainability reporting under ESRS of an undertaking, the incorporation of information on impacts, risks and opportunities on matters connected to the undertaking by its direct and indirect business relationships in the upstream and/or downstream value chain (as required by paragraph 58(b)) is not required, except for the following:

(a) datapoints in ESRS derived from the SFDR PAI and

(b) ESRS 2 General Disclosure and Disclosure Requirements on policies, targets, action plans and resources in the topical ESRS, for which undertakings are allowed to report using solely data available in-house.

124. Starting from the fourth year of application, the undertaking shall incorporate information on impacts, risks and opportunities on matters connected to the undertaking by its direct and indirect business relationships in the upstream and/or downstream, as required by paragraph 5858.

10.3 Transitional provision related to chapter 7.1 Presenting comparative information

125. To ease the first-time application of this [draft] Standard, an undertaking may defer the presentation of comparative information as required by chapter 7.1 for one reporting period by one year.

10.4 Transitional provision: List of Disclosure Requirement that are phased-in for ESRS to year 2 or subsequent years

126. The following table lists the Disclosure Requirements respectively datapoints of Disclosure Requirements that can be phased-in to subsequent years:

ESRS	Disclosure Requirement	Full name of the DR	Years after first-time application disclosure is not required (including the first year)
ESRS E1	E1-9	Potential financial effects of material physical and transition risk and climate-related opportunities	1 year; up to 3 years of qualitative disclosures if quantitative disclosures are impracticable
ESRS E2	E2-6	Potential financial effects from pollution-related impacts, risks and opportunities	3 years
ESRS E3	E3-5	Potential financial effects from water and marine resources-related impacts, risks and opportunities	3 years
ESRS E4	E4-6	Potential financial effects from biodiversity-related impacts, dependencies, risks and opportunities	3 years

ESRS E5	E5-6	Potential financial effects from resource use and circular economy-related impacts, risks and opportunities	3 years
ESRS G1	G1-5 datapoint in paragraph 36 (a) (ii)	Payment practices - when considering invoices from suppliers defined as SME	3 years

Appendix A: Defined terms

This appendix is an integral part of the proposed [draft] ESRS 1 [General Requirements] and has the same authority as the other parts of the [draft] Standard.

Actions	Actions refer to (i) activities and action plans (including transition plans) that are undertaken to ensure that the undertaking delivers against targets set and through which the undertaking seeks to address material impacts, risks and opportunities; and (ii) decisions to support these with financial, human or technological resources.
Actors in the value chain	Actors in the value chain are individuals or entities in the upstream or downstream value chain. An entity is considered downstream from the undertaking (e.g., distributors, customers) when it receives products or services from the undertaking; it is considered upstream from the undertaking (e.g., suppliers) when it provides products or services that are used in the development of the undertaking's own products or services.
Business relationship	Business relationships include the undertaking's upstream and downstream value chain and are not limited to contractual relationships.
Double materiality	Double materiality has two dimensions: impact materiality and financial materiality. A sustainability matter meets the criterion of double materiality if it is material from both perspectives or only either from the impact perspective or the financial perspective.
Due diligence	Process(es) that the undertaking carries out to identify, assess, prevent, mitigate, remediate and end the principal actual and potential adverse impacts connected with their activities and identifies how they address those adverse impacts.
Enterprise value	The total value of an undertaking. It is the sum of the value of the undertaking's equity (market capitalisation) and the value of the undertaking's net debt. Enterprise value reflects expectations about the amount, timing and certainty of future cash flows over the short-, medium- and long-term and the value of those cash flows in the light of the undertaking's risk profile, and its access to finance and cost of capital.
Financial materiality	A sustainability matter is material from a financial perspective if it triggers or may trigger significant financial effects on the undertaking's development, performance, and position that are not captured or not yet fully captured by financial reporting at the reporting date.. This is the case, in particular, when it generates or may generate significant risks or opportunities that influence or are likely to influence the future cash flows. Future cash flows with other critical factors such as business model, strategy, access to finance and cost of capital, in turn are likely to influence the enterprise value of the undertaking in the short-, medium- or long-term
Impact materiality	A sustainability matter is material from an impact perspective when it pertains to significant actual or potential, positive or negative impacts on people or the environment over the short-, medium- or long term. This includes impacts directly caused or contributed to by the undertaking and impacts which are linked to the undertaking's operations, products, and services through its business relationships.
Policy	A policy is a set or framework of general objectives and management decisions that the undertaking uses for detailed decision-making.

Stakeholder(s)	Stakeholders are those who can affect or be affected by the undertaking. There are two main groups of stakeholders: (a) affected stakeholders: individuals or groups whose interests are affected or could be affected – positively or negatively – by the undertaking's activities and its direct and indirect business relationships across its value chain; and (b) users of sustainability statements: existing and potential investors, lenders and other creditors (including asset managers, credit institutions, insurance undertakings), as well as the undertaking's business partners, trade unions and social partners, civil society and non-governmental organisations, governments, analysts and academics. Some, but not all, stakeholders may belong to the two groups.
Sustainability matters	Sustainability factors as defined in Article 2, point (24) of Regulation (EU) 2019/2088 of the European Parliament and the Council, that is environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters; and governance factors.
Sustainability statements	A separately identifiable section or the parts of the management report that contain the sustainability information required by the applicable ESRS.
Value chain	Value chain is the full range of activities, resources and relationships related to a reporting undertaking's business model and the external environment in which it operates. A value chain encompasses the activities, resources and relationships an undertaking uses and relies on to create its products or services from conception to delivery, consumption and end-of-life. Relevant activities, resources and relationships include: a) those in the undertaking's operations, such as human resource; b) those along its supply, marketing and distribution channels, such as materials and service sourcing and product and service sale and delivery; and c) the financing, geographical, geopolitical and regulatory environments in which the entity operates.

Appendix B: Application Requirements

This appendix is an integral part of the proposed [draft] ESRS 1 [General Requirements] and has the same authority as the other parts of the [draft] Standard.

This appendix

(1) states application requirements for the assessment of materiality; and

(2) provides references to the international instruments that define the main aspects of due diligence and where in ESRS disclosures about each aspect are required.

1. Application requirements for the assessment of materiality

Stakeholders and their relevance to the materiality assessment process

AR 1. Common categories of stakeholders are: lenders, shareholders and other investors, business partners, employees and other workers, suppliers, trade unions, civil society and non-governmental organisations consumers, customers, end-users, governments, local communities and vulnerable groups, authorities (including regulators, supervisors and central banks).

AR 2. Nature may be seen as a silent stakeholder. In this case, ecological data and data on the conservation of species may support the undertaking's materiality assessment.

AR 3. The materiality assessment is informed by the dialogue with some categories of affected stakeholders or their representatives (such as employees or trade unions) that may be engaged by the undertaking, along with users of sustainability reporting and other experts, to provide inputs to, or feedback on, its overall conclusions regarding its material impacts, risks and opportunities.

AR 4. The undertaking may engage with some categories of affected stakeholders or their representatives (such as employees or trade unions), along with users of sustainability reporting and other experts, to provide inputs or feedback on its conclusions regarding its material impacts, risks and opportunities.

Assessment of impact materiality

AR 5. In assessing impact materiality and determining the material matters to be reported, the undertaking shall consider the following four steps:

(a) understanding of the context in relation to its impacts, risks and opportunities, including its activities, business relationships, sustainability context and stakeholders;

(b) identification of actual and potential impacts (both negative and positive), through engaging with relevant stakeholders and experts. In this step the undertaking may rely on scientific and analytical research on impacts on sustainability matters;

(c) assessment of the materiality of its actual and potential impacts. The undertaking shall consider:

i. for actual negative impacts, the severity of the impact;

ii. for potential negative impacts, the severity and likelihood of the impact;

iii. for actual positive impacts, the scale and scope of the impact;

iv. for potential positive impacts, the scale and scope, as well as the likelihood of the impact.

(d) determination of the material matters. In this step the undertaking should adopt thresholds to determine which of the impacts will be covered in its sustainability statements.

Assessment of the materiality of actual and potential impacts

AR 6. The severity is determined by the following factors:

(a) scale: how grave the negative impact is/how beneficial the positive impact is for people or the environment;

(b) scope: how widespread the negative/positive impacts are. In case of environmental impacts, the scope may be understood as the extent of environmental damage or a geographical perimeter. In case of impacts on people, the scope may be understood as the number of people adversely affected; and

(c) irremediable character: whether and to what extent the negative impacts could be remediated, i.e., restoring the environment or affected people to their prior state.

AR 7. Any of the three characteristics (scale, scope, and irremediable character) can make an impact severe. In the case of a potential negative human rights impact, the severity of the impact takes precedence over its likelihood.

Impacts directly linked to the undertaking

AR 8. As an illustration:

a. if the undertaking uses cobalt in its products that is mined using child labour, the negative impact (i.e., child labour) is directly linked to the undertaking's products through the tiers of business relationships in its supply chain. These relationships include the smelter and minerals trader, to the mining enterprise that uses child labour, even though the undertaking has not caused or contributed to the negative impact itself. Similarly, if the undertaking is using energy from on-shore wind-parks, it is directly linked to the negative impacts of land-use on biodiversity.

b. if the undertaking is manufacturing or selling products that in their end-of-life stage contribute to increase in microplastics pollution, this negative impact is directly linked to the undertaking through their downstream value chain. This is so even though the undertaking's own operations are not the cause of increased microplastics pollution.

Assessment of financial materiality

AR 9. The following are examples of how dependencies are sources of risks or opportunities:

(a) when an undertaking's business model depends, on a natural resource - like water - it is likely to be affected by changes in the quality, availability and pricing of that resource;

(b) when an undertaking's activities result in negative impacts, e.g., on local communities, it could become subject to stricter government regulation and/or trigger consequences of a reputational nature. These have negative effects on the undertaking's brand and higher recruitment costs might arise;

(c) when an undertaking's business partners face significant sustainability-related risks, the undertaking could be exposed to related consequences as well.

AR 10. The identification of sustainability risks and opportunities that affect or may affect the undertaking's financial development, performance and position is the starting point for financial materiality assessment. In this context, the undertaking shall consider:

(a) the existence of triggers of financial effects47;

(b) the materiality of these triggers;

(c) the classification of the material triggers as

i. risks (contributing to decrease in future cash inflows or increase in future cash outflows and/or decrease in capitals not recognised in financial statements); or

ii. opportunities (contributing to increase in future cash inflows or decrease in future cash outflows and/or increase in capitals not recognised in financial statements).

AR 11. Once the undertaking has identified its sustainability risks and opportunities, it shall determine which of them are material for reporting. This shall be based on a combination of (i) the probability of occurrence and (ii) the potential size/magnitude of financial effects determined on the basis of appropriate thresholds. In this step it shall consider the contribution of those risks and opportunities to decrease or increase the undertaking's future cash flows derived from:

(a) scenarios/forecasts that are deemed likely to materialise; and

(b) potential significant financial effects related to sustainability matters deriving either from situations with a below the "more likely than not" threshold or assets/liabilities not (or not yet) reflected in financial statements. This includes:

i. potential situations that following the occurrence of future events may affect cash flow generation potential;

ii. capitals that are not recognised as assets from an accounting and financial reporting perspective but have a significant influence on financial performance, such as natural, intellectual (organisational), human, social and relationship capitals; and

iii. possible future events that may have an influence on the evolution of such capitals.

Sustainability matters to be covered in materiality assessment for performance measures in topical ESRS

AR 12. When performing its materiality assessment, the undertaking shall consider the following list of sustainability matters covered in the topical standards. When, as a result of the undertaking's materiality assessment (see Disclosure Requirement 2 IRO 1), a given sustainability matter in this list is assessed to be material, the undertaking shall report according to the corresponding Disclosure Requirements of the relevant topical standard.

AR 13. Using this list is not a substitute for the process of determining material matters, but a tool to support the undertaking's materiality assessment. The undertaking still needs to consider its own specific circumstances when determining its material matters. The undertaking also shall develop entity-specific disclosures on material impacts, risks and opportunities not covered by ESRS as described in chapter 1.4 Developing entity-specific disclosures.

Topical standard	Sustainability matters covered in topical ESRS
ESRS E1	• Energy • GhG emissions • Climate-related financial effects
ESRS E2	• Pollution of air (both indoor and outdoor) • Pollution of water (including groundwater) • Pollution of soil • Pollution of living organisms and food resources • Substances of concern
ESRS E3	• Water withdrawals • Water consumption • Water use • Water discharges in water bodies and in the oceans • Habitat degradation and intensity of pressure on marine resources
ESRS E4	• State of genes • State of species • Extend and condition of ecosystems • Land and sea use change • Invasive alien species • Resource extraction (as activity)
ESRS E5	• Depletion of non-renewable resources • Regeneration of renewable resources • Circular business models • Waste
ESRS S1	Working conditions • Training & development • Health & safety • Working hours • Work-life balance • Fair remuneration • Social security Access to equal opportunities • Non-discrimination • Equality in pay • Access to secure employment • Equal treatment regarding working conditions, access to social protection and training

	• Inclusion of persons with disabilities Other work-related rights • Freedom of association & collective bargaining • Social dialogue • Child labour • Forced labour • Privacy at work
ESRS S2	Same as ESRS S1
ESRS S3	Communities' economic, social and cultural rights • Adequate housing • Adequate food • Water and sanitation • Land-related impacts • Security-related impacts Communities' civil and political rights • Freedom of expression • Freedom of assembly • Impacts on human rights defenders Rights of indigenous communities • Free, prior and informed consent • Self-determination • Cultural rights
ESRS S4	Consumers and end-users • Privacy • Freedom of expression • Access to information Personal safety of consumers and end-users • Health and safety • Security of a person • Protection of children Social inclusion of consumers and end-users • Non-discrimination

	• Access to products and services Others • Quality of information • Complaints management • Marketing practices
ESRS G1	• Political engagement and lobbying activities • Payment practices

2. Reference to international instruments on due diligence and related ESRS disclosures

AR 14. The table below illustrates the references to international instruments where the main aspects of due diligence are defined and where in ESRS standards disclosures about each aspect are required.

MAIN ASPECTS OF DUE DILIGENCE	REFERENCE TO INTERNAITONAL INSTRUMENTS	RELEVANT DISCLOSURES IN ESRS
a) Embedding due diligence in governance, the strategy and the business model	As reflected in (a) UN Guiding Principle 16 and its commentary; and the UN Interpretive Guide, Questions 21 and 25 as well as (b) OECD Guidelines Chapter II on General Policies (para A.10), and chapter IV on Human Rights (para 4; and para 44 of the Commentary); and OECD Due Diligence Guidance, Section II (1.1 and 1.2) and Annex, Questions 14 and 15.	The key disclosures shall be provided under the ESRS 2 Disclosure Requirements GOV.
b) Engaging with affected stakeholders in all key steps of the due diligence	As reflected in (a) UN Guiding Principle 18 and its Commentary, UN Guiding Principle 20, Commentary to UN Guiding Principles 21 and 29, and UN Guiding Principle 31(h) and its Commentary; and the UN Interpretive Guide, Questions 30, 33, 42 and 76 as well as (b) OECD Guidelines Chapter II on General Policies (para A.14 and para 25 of the Commentary); and OECD Due Diligence Guidance, Section II (2.1.c,	This (refer to paragraph 21) is relevant in all steps and addressed in the ESRS 2 Disclosure Requirements GOV and IRO. It is also addressed in the topical Standards reflecting the different stages and purposes of stakeholder engagement throughout the due diligence process.

	2.3. 2.4.a, 3.1.b and 3.1.f) and Annex Questions 8-11.	
c) Identifying and assessing adverse impacts	As reflected in (a) UN Guiding Principles 17, 18 and 24 and their Commentaries, and the Commentary to UN Guiding Principle 29; and the UN Interpretive Guide, Questions 9, 12-13, 27-28, 36-42, and 85-89 and (b) OECD Guidelines Chapter II on General Policies (paras A.10-11 and para 14 of the Commentary), and Chapter IV on Human Rights (paras 1-2 and paras	This step is reflected in the ESRS 2 Disclosure Requirements IRO where the undertaking identifies instances where it has or, may have, adverse impacts on the environment or people and then assesses the nature of those actual or potential impacts (their context, causes, severity etc). In addition, under the ESRS 2 Disclosure Requirements SBM, the undertaking shall provide additional information on the results of the assessment of how its business model and strategy play a role in creating or exacerbating the identified impacts, and the adopted changes to the business model and strategy.
d) Taking actions to address those adverse impacts	As reflected in (a) UN Guiding Principles 19, 22 and 23 and their Commentaries; and the UN Interpretive Guide, Questions 11, 32, 46-47, 64-68 and 82-83 and (b) OECD Guidelines Chapter II on General Policies (paras A.12 and paras 18-22 of the Commentary), and Chapter IV on Human Rights (paras 3 and 42-43 of the Commentary); and OECD Due Diligence Guidance, Section II (3.1-3.2) and Annex Questions 32-40).	This is addressed in ESRS 2 Disclosure Requirements IRO 1 to 3 as well as in the topical Standards.
e) Tracking the effectiveness of these efforts and communicating	Reflected in (a) UN Guiding Principles 20 and 31(g) and their Commentaries; and the UN Interpretive Guide, Questions 49-53 and 80 and (b) OECD Due Diligence Guidance, Section II (4.1 and 5.1) and Annex Questions 41-47	This is addressed in ESRS 2 Disclosure Requirements IRO 1 to 3 as well as in the topical Standards.

Appendix C: Qualitative characteristics of information in sustainability statements prepared according to ESRS

This appendix is an integral part of the [draft] ESRS 1 [General Requirements] and has the same authority as the other parts of the [draft] Standard.

This appendix states the qualitative characteristics that the information presented in sustainability statements prepared according to ESRS shall meet.

Relevance

1. Sustainability information is relevant when it may make a difference in the decisions of users under a double materiality approach (see chapter 3 Double materiality as the basis for ESRS disclosures).

2. Information may make a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources. Sustainability information may impact decisions of users if it has predictive value, confirmatory value or both. Information has predictive value if it can be used as an input to processes employed by users to predict future outcomes. Sustainability-related financial information do not need to be a prediction or forecast to have predictive value, but rather has predictive value it employed by users in making their own predictions.

3. Information has confirmatory value if it provides feedback about (confirms or changes) previous evaluations.

4. Materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the sustainability matters to which the information relates, as assessed in the context of the undertaking's sustainability reporting. Refer to Chapter 3 Double materiality as the basis for sustainability disclosures.

Faithful representation

5. To be useful, the information must not only represent relevant phenomena, it must also faithfully represent the substance of the phenomena that it purports to represent. Faithful representation requires information to be (i) complete, (ii) neutral and (iii) free from error.

6. A complete depiction of sustainability-related impacts, risks and opportunities includes all material information necessary for the users to understand that impact, risk or opportunity. This includes how the undertaking has adapted its strategy, risk management and governance in response to that impact, risk or opportunity, as well as the metrics identified to set targets and measure performance.

7. A neutral depiction is without bias in its selection or disclosure of information. Information is neutral if it is not slanted, weighted, emphasised, de-emphasised or otherwise manipulated to make it more likely that the users will receive that information favourably or unfavourably. It should be balanced, so as to cover favourable/positive and unfavourable/negative aspects. Both negative and positive material impacts from an impact materiality perspective as well as material risks and opportunities from a financial materiality perspective shall receive equal attention. Any aspirational sustainability information, for example targets or plans should

cover both aspirations and factors that could prevent an undertaking from achieving these aspirations in order to have a neutral depiction.

8. Neutrality is supported by the exercise of prudence which is the exercise of caution when making judgements under conditions of uncertainty. Information shall not be netted or compensated to be neutral. The exercise of prudence means that opportunities are not overstated and risks are not understated. Equally, the exercise of prudence does not allow for the understatement of opportunities or the overstatement of risks. The undertaking may present net information, in addition to absolute values, if such presentation does not obscure relevant information and includes a clear explanation about the effects of the netting and the reasons for the netting.

9. Information can be accurate without being perfectly precise in all respects. Accurate information implies that the undertaking has implemented adequate processes and internal controls to avoid material errors or material misstatements. As such, estimates should be presented with a clear emphasis on their possible limitations and associated uncertainty (see chapter 7.2 Sources of estimation and outcome uncertainty). The amount of precision needed and attainable, and the factors that make information accurate, depend on the nature of the information and the nature of the matters it addresses. For example, accuracy requires that:

   (a) factual information is free from material error;

   (b) descriptions are precise;

   (c) estimates, approximations and forecasts are clearly identified as such;

   (d) no material errors have been made in selecting and applying an appropriate process for developing an estimate, approximation or forecast, and the inputs to that process are reasonable and supportable;

   (e) assertions are reasonable and based on information of sufficient quality and quantity; and

   (f) information about judgements about the future faithfully reflects both those judgements and the information on which they are based.

Comparability

10. Sustainability information is comparable when it can be compared with information provided by the undertaking in previous periods and, can be compared with information provided by other undertakings, in particular those with similar activities or operating within the same industry. A point of reference for comparison can be a target, a baseline, an industry benchmark, comparable information from either other undertakings or from an internationally recognised organisation, etc.

11. Consistency is related to, but is not the same as, comparability. Consistency refers to the use of the same approaches or methods for the same sustainability matter, from period to period by the undertaking and other undertakings. Consistency helps to achieve the goal of comparability.

12. Comparability is not uniformity. For information to be comparable, like components shall look alike and different components shall look different. Comparability of sustainability information is not enhanced by making unlike things look alike any more than it is enhanced by making like things look different.

Verifiability

13. Verifiability helps to give users confidence that information is complete, neutral and accurate. Sustainability information is verifiable if it is possible to corroborate either such information itself or the inputs used to derive it.

14. Verifiability means that various knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation. Sustainability information shall be provided in a way that enhances their verifiability, for example:

    (a) including information that can be corroborated by comparing it with other information available to users about the undertaking's business, about other businesses or about the external environment;

    (b) providing information about inputs and methods of calculation used to produce estimates or approximations; and

    (c) providing information reviewed and agreed by the undertaking's board, board committees or equivalent bodies.

15. Some sustainability information will be in the form of explanations or forward-looking information. Those disclosures can be supportable by faithfully representing on a factual basis for example the strategies, plans and risk analyses of the undertaking. To help users decide whether to use such information, an undertaking shall describe the underlying assumptions and methods of producing the information, as well as other factors that provide evidence that verify that it reflects the actual plans or decisions made by the undertaking.

Understandability

16. Sustainability information is understandable when it is clear, and concise. Understandable information enables any reasonable knowledgeable user to readily comprehend the information being communicated.

17. For sustainability disclosures to be concise, they need to (a) avoid generic 'boilerplate' information, that is not specific to the undertaking; (b) avoid unnecessary duplication of information, including information also provided in financial statements; and (c) use clear language and well-structured sentences and paragraphs. Concise disclosures should only include material information. Complementary information presented pursuant paragraph 21shall be provided in a way that avoids obscuring material information.

18. Clarity might be enhanced by distinguishing information about developments in the reporting period from 'standing' information that remains relatively unchanged, from one period to the next. This can be done for example, by separately describing features of an undertaking's

sustainability-related governance and risk management processes that have changed since the previous reporting period compared to those that remain unchanged.

19. Some impacts, risks and opportunities are inherently complex and may be challenging to present in a manner that is easy to understand. An undertaking shall present such information as clearly as possible. However, complex information about these impacts, risks and opportunities shall not be excluded from sustainability reporting to make those reports easier to understand. The exclusion of such information would render those reports incomplete and, therefore, possibly misleading.

20. The completeness, clarity and comparability of sustainability disclosures all rely on information being presented as a coherent whole. For sustainability disclosures to be coherent, they shall be presented in a way that explains the context and the relationships between the related information. Coherence also requires an undertaking to provide information in a way that allows users to relate information about its sustainability-related impacts, risks and opportunities to information in the undertaking's financial statements.

21. If sustainability-related risks and opportunities discussed in the financial statements have implications for sustainability reporting, the undertaking shall include in the sustainability statements the information necessary for users to assess those implications and present appropriate links to the financial statements (see **chapter 8 Linkages with other parts of corporate reporting and connected information**). The level of information, granularity and technicality should be aligned with the needs and expectations of users. Abbreviations should be avoided, and the units of measure should be defined and disclosed.

22.

Appendix D: List of disclosures in cross-cutting and topical standards that are outside the scope of the materiality assessment

Appendix under construction. It will include:

- *Individual datapoints SFDR in each topical standard, this will be basically and update of the content of Appendix III to the cover note of the consultation*

  https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FED_ESRS_AP3.pdf

- *Individual datapoints Benchmark requirements in (few additional datapoints in ESRS E1 as this is largely overlapping with SFDR datapoints)*

- *Individual datapoints pillar 3 requirements in ESRS E1 (few additional datapoints in ESRS E1 as this is largely overlapping with SFDR datapoints)*

- *Fundamental ESG indicators not covered by SFDR [EFRAG SR TEG RECOMANDATION]*

  1. *Former ESRS E5-4 /E5-5 – Circular economy: qualitative info on: resources inflow/outflow*
  2. *Former ESRS S1-7 Characteristics of the Undertaking's Employees*
  3. *Former ESRS S1-14 Fair remuneration*
  4. *Former ESRS S1-15 – Social security*
  5. *Former S1-19 Disability expanded for Diversity indicators*
  6. *Former S1-22 Collective bargaining coverage*
  7. *Former G2-9 Political engagement*
  8. *Former G2-10 Payment practices.*

Appendix E: Classification of ESRS reporting into four parts

This appendix is an integral part of the proposed [draft] ESRS 1 [General Requirements] and has the same authority as the other parts of the [draft] Standard with respect to reporting in four parts as outlined in paragraph 106.

Part of the management report	ESRS codification	Title of ESRS
1. General information	ESRS 1	1. General requirements
	ESRS 2	2. General disclosures, including information provided under the Application Requirements of topical ESRS listed in Appendix C of ESRS 2.
2. Environmental information	ESRS E1	3. Climate change
	ESRS E2	4. Pollution
	ESRS E3	5. Water and marine resources
	ESRS E4	6. Biodiversity and ecosystems
	ESRS E5	7. Resource use and circular economy
3. Social information	ESRS S1	8. Own workforce
	ESRS S2	9. Workers in the value chain
	ESRS S3	10. Affected communities
	ESRS S4	11. Consumers and end-users
4. Governance information	ESRS G1	12. Business conduct

Appendix F: Illustrative example

This appendix complements the [draft] ESRS 1. It provides non-binding illustrations of the structure of the sustainability statements outlined in chapter 8.2.

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