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**WORKING PAPER IN PREPARATION OF  
DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARD  
ESRS LSME – SECTION I GENERAL REQUIREMENTS**

**DISCLAIMER**

[Draft] ESRS 1 *General requirements* is set out in paragraphs 1 – 136. The following appendices have the same authority as the main body of the [draft] Standard:

- Appendix A: *Defined terms*;
- Appendix B: *Application Requirements*;
- Appendix C: *Qualitative characteristics of information*;
- Appendix D: *List of phased-in Disclosure Requirements*;
- Appendix E: *Structure of ESRS sustainability statements*;

[Draft] ESRS 1 is accompanied by the following illustrative non-authoritative appendices:

- Appendix F: *Flowchart for determining disclosures to be included*;
- Appendix G: *Example of structure of ESRS sustainability statements*;
- Appendix H: *Example of incorporation by reference*.

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

**CONTENT AND STATUS OF THIS DRAFT**

This draft has to be read in conjunction with the Agenda Papers on LSME discussed in SR TEG and SRB meeting in January 2023.

This draft has been developed as a markup from [draft] ESRS 1 and [draft] ESRS 2 (November 2022).

Parts in yellow are to be adjusted (the text is still the same as in ESRS 1 and ESRS 2).  
Parts in grey are to be discussed with EFRAG SR TEG to assess whether they could further simplified.

To reflect the principle of proportionality, the following key simplifications have been implemented in this document (on the basis of the SR TEG discussions/ approach presented by the EFRAG Secretariat at those meetings):

- The text of SET 1 standards has been integrally considered and amended where appropriate, so that LSME will be a standalone document.
- EFRAG will consult on the applicability of each Sector specific ESRS to LSMEs, as part of the consultation on that ESRS. A question on the general approach to sector standards in LSME will also be included in LSME Exposure Draft. Pending the definition of such an approach, in this draft the references to sector-specific ESRS has been eliminated.
- The reporting covers material impacts and risks. Opportunities are voluntary.
- Impacts only cover negative impacts. Positive impacts are not covered.
- The approach to entity-specific disclosure is unchanged from Set 1 ('shall').
- Reporting areas do not include targets. There will be a requirement to disclose whether the undertaking has targets, and if it has targets, the requirement to specify whether they are science-based. The undertaking may additionally report on how they are calculated and implemented.
- ESRS 2 Disclosure Contents have been eliminated. They are mentioned (via a cross-reference to draft ESRS 2 as a source of guidance to be applied on a voluntary basis).
- Due diligence: as part of its disclosure on policies and actions (limited to matters that are assessed to be material), the undertaking would be required to disclose whether and to what extent it has implemented sustainability due diligence processes as defined in the relevant OECD, UNGP and ILO instruments. No specific chapter on Due Diligence.
- Limited list of items outside the materiality assessment: General Disclosures (equivalent to ESRS 2) and ESRS E1 Climate.
- Pending a conclusion in EFRAG SR TEG, no specific simplifications have been implemented in this text for Value Chain (Chapter 5).

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## Objective

1. The objective of this [draft] Standard is to set out the general requirements (Section 1), General disclosures (Section 2) and Topical Disclosure requirements (Sections 3, 4 and 5) that shall be applied when preparing and presenting sustainability-related information under the Accounting Directive as amended by the Corporate Sustainability Reporting Directive (CSRD) ) art. 19a (6) and 29c, by the following undertakings, together and hereafter the “LSME” or “undertaking”:
  - (a) small and medium-sized undertakings, which are public-interest entities according to point (a) of point (1) of article 2 of Directive 2013/34/EU and which are not micro-undertakings as defined in Article 3(1) of that Directive;
  - (b) small non - complex financial institutions defined in point (145) of Article 4(1) of Regulation (EU) No 575/2013;
  - (c) captive insurance undertakings defined in point (2) of Article 13 of Directive 2009/138/EC of the European Parliament and of the Council ; and
  - (d) captive reinsurance undertakings defined in point (5) of Article 13 of that same Directive.

## Section 1: LSME General requirements

### Objective

- ~~1.2.~~ This section sets out the general requirements that undertakings shall comply with when preparing and presenting sustainability-related information under the Accounting Directive as amended by the Corporate Sustainability Reporting Directive (CSRD). In particular it refers to article 19a (6) and article 29c of the CSRD that establish sustainability reporting standards for small and medium sized undertakings that are proportionate and relevant to their capacities and characteristics and to the scale and complexity of their activities.

### **~~1. Categories of [draft] Standards and disclosures under [draft] European Sustainability Reporting Standards~~**

#### **~~1.1 Complying with [draft] LSME ESRS~~**

- ~~3.~~ The undertaking shall disclose, in accordance with applicable [draft] European Sustainability Reporting Standards (ESRS) this [draft] Standard, all the material information regarding negative impacts and risks and opportunities in relation to environmental, social, and governance matters. The information shall enable the understanding of the undertaking’s principal actual or potential negative impacts impacts on those matters and how they affect the undertaking’s development, performance and position.
- ~~4.~~ The undertaking may disclose sustainability-related financial opportunities that generate or are likely to generate material financial effects in the short-, medium- or long- term.

Disclosure on opportunities is on voluntary basis. When reporting on opportunities, the undertaking shall consider the materiality of the information to be disclosed and may refer to disclosure requirements and applications requirements defined in Set 1. Opportunities can contribute to positive deviation in future expected cash inflows or decrease in deviation in future cash outflows and/or positive deviation from expected change in capitals not recognised in financial statements. The information shall enable the understanding of the

~~undertaking's impacts on those matters and how they affect the undertaking's development, performance and position.~~

~~2. The information shall enable the understanding of the undertaking's principal actual or potential adverse impacts on those matters and how they affect the undertaking's development, performance and position.~~

~~3.5. In this<sup>11</sup> [draft] ~~ESRS~~Standard, the term "impacts" refers to actual or potential ~~adverse sustainability related impacts (i.e. material negative impacts on people and environment)~~ ~~to positive and negative sustainability-related impacts~~ that are connected with the undertaking's business, as identified through an impact materiality assessment process (see section 3.4 *Impact materiality* of this [draft] Standard). The term "risks" ~~and opportunities~~ refers to the undertaking's sustainability-related financial risks ~~and opportunities~~, as identified through a financial materiality assessment process (see section 3.5 *Financial materiality* of this [draft] Standard). Collectively, these are referred to as "impacts ~~and~~, risks ~~and opportunities~~".~~

~~4.6. The undertaking shall present material sustainability-related information as part of its management report (see chapter 8 *Structure of sustainability statements*).~~

~~5.7. Sustainability-related information shall cover the reporting areas, as defined under paragraph ~~4~~12 below.~~

~~6.8. This [Draft] ~~ESRS~~ structure ~~defines~~ the information to be disclosed under Disclosure Requirements. Disclosure Requirements consist of more granular datapoints. The term "datapoint" in this context also refers to a narrative sub-element of a Disclosure Requirement.~~

~~7.9. [Draft] ~~ESRS~~ ~~Section~~ 2 includes provisions on disclosure contents that the undertaking shall include when disclosing on policies, actions and/or targets, as illustrated in paragraph 13. In addition, ~~this~~ [draft] ~~Standard~~~~ESRS~~ use the following terms for Disclosure Requirements and datapoints:~~

- (a) shall disclose – indicates that the provision is prescribed by a Disclosure Requirement or datapoint;
- (b) shall consider – indicates factors that the undertaking is expected to consider - if they are applicable - in the preparation of the reporting prescribed by a Disclosure Requirement or datapoint; and
- (c) may disclose – indicates voluntary disclosure to encourage good practice.

## **1.2 Cross-Cutting Standards and reporting areas**

~~8. [Draft] ~~ESRS 1 General requirements~~ and [draft] ~~ESRS 2 General disclosures~~ are ~~Cross-Cutting Standards~~, meaning that they apply to all sustainability matters.~~

~~9.10. [Draft] ~~LSME~~ ~~ESRS~~ 4 is composed of the following ~~Section~~~~chapters~~:~~

~~Section 1 ~~Chapter 1 Categories of [draft] Standards and disclosures under [draft] European Sustainability Reporting Standards~~ General requirements;~~

~~Section ~~Chapter 2~~ General disclosures; Qualitative characteristics of information;~~

~~Section ~~Chapter 3~~ 3 Double materiality as the basis for sustainability disclosures Environmental disclosures;~~

~~Chapter ~~Section 4~~ Sustainability due diligence Social disclosures;~~

~~Section ~~Chapter 5~~ Governance disclosures 5 Value chain;~~

~~Chapter 6 Time horizons;~~

~~Chapter 7 Preparation and presentation of sustainability information;~~

~~Chapter 8 Structure of sustainability statements;~~



- ~~Chapter 9 Linkages with other parts of corporate reporting and connected information; and~~
11. ~~Chapter 10 Transitional provisions. Section 1 General requirements and Section 2 General disclosures of this [draft] Standard are Cross-Cutting Sections, meaning that they apply to all sustainability matters.~~
- 10.12. The Disclosure Requirements in [draft] ~~ESRS Section 2~~, in the [draft] topical ~~Sections (Sections 3, 4 and 5) ESRS and in [draft] sector-specific ESRS~~ cover the following reporting areas:
- (a) **Governance (GOV)**: the governance processes, controls and procedures used to monitor and manage impacts ~~and~~, risks ~~and opportunities~~ (see [draft] ~~ESRS Section 2, chapter paragraph 2 Governance~~);
  - (b) **Strategy (SBM)**: how the undertaking's strategy and business model(s) interact with its material ~~adverse~~ impacts, ~~and~~ risks ~~and opportunities~~, including the strategy for addressing them (see [draft] ~~ESRS Section 2, chapter paragraph 3 Strategy~~);
  - (c) **Impact ~~and~~, risk ~~and opportunity~~ management (IRO)**: the process(es) by which ~~adverse~~ impacts ~~and~~, risks ~~and opportunities~~ are identified, assessed and managed through policies and actions (see [draft] ~~ESRS Section 2, chapter paragraph 4 Impact ~~and~~, risk ~~and opportunity~~ management~~); and
  - (d) **Key Metrics ~~and targets~~ (MT)**: how the undertaking measures its performance ~~with key indicators~~, ~~including progress towards the targets it has set~~ (see [draft] ~~ESRS Section 2, chapter 5 Key Metrics ~~and targets~~~~).

### **1.3 Topical Sections/ESRS**

- 11.13. ~~An [draft] ESRS Topical Section covers a topic and may be structured to cover several sub-topics and/or sub-sub-topics where necessary. These are also referred to as "sustainability matters". Disclosure requirements prescribed by sector-agnostic or sector-specific [draft] ESRS LSME ESRS are organised in accordance with this topical approach. Appendix B Application Requirements of this [draft] Standard, paragraph AR 12, presents the list of sustainability matters covered in [draft] topical ESRS Section.~~
12. ~~Topical [draft] ESRS Sections include sector-agnostic and sector-specific Disclosure Requirements. To achieve a high degree of comparability, information that has been assessed by the standard setter as likely to be material for all undertakings, or for all undertakings in a specific sector, is reflected in:~~
- (a) ~~**Sector-agnostic ESRS/Disclosure Requirements**: applicable to all undertakings independent of the sector(s) they operate in; and~~
  - (b) ~~**Sector-specific ESRS/Disclosure Requirements**: applicable to all undertakings within a sector. They address impacts, risks and opportunities not covered, or not sufficiently covered, by sector-agnostic Disclosure Requirements.~~
- 13.14. ~~[Draft] Section 2 of this [Draft] ESRS 2 Standard establishes information to be mandatorily provided by the undertaking at a general level, across all sustainability topics, ~~with the exception of targets and opportunities for which disclosure remains on a voluntary basis~~. The [draft] topical ESRS include additional specific requirements of a topical nature that are necessary to comply with certain Disclosure Requirements of [draft] ESRS 2. [Draft] ESRS 2 Appendix D Disclosure/Application Requirements in [draft] topical ESRS that are applicable jointly with [draft] ESRS 2 General Disclosures includes a list such additional requirements. These additional requirements are applicable when the undertaking has assessed the relevant topic to be material, except for those in [draft] ESRS E1 Climate change and those in the other topical ESRS linked to [draft] ESRS 2 IRO-1 Description of the processes to identify and assess material impacts, risks and opportunities, that are applicable regardless of the outcome of the materiality assessment.~~

### 1.4 Entity-specific disclosures

~~14.15.~~ When the undertaking concludes that an ~~adverse~~ impact ~~or, a risk risk or opportunity~~ not covered or covered with insufficient granularity by a ~~Section of this [draft] ESRS Standard~~ is material due to its specific facts and circumstances, it shall provide additional entity-specific disclosures to cover such impact ~~or, risk or opportunity~~.

~~15.16.~~ The entity-specific disclosures shall enable readers to understand the undertaking's ~~adverse~~ impacts ~~and,~~ risks ~~and opportunities~~ in relation to environmental, social or governance matters.

~~16.17.~~ 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*; and
- (b) its disclosures include, where applicable, all material information related to the reporting areas of governance; strategy; ~~adverse~~ impact ~~and,~~ risk ~~and opportunity~~ management; and metrics ~~and targets~~ (see [draft] ~~ESRS Section 2 chapters 2 to 5~~).

~~17.18.~~ When determining the usefulness of metrics for inclusion in its entity-specific disclosures, the undertaking shall consider whether:

- (a) its chosen performance metrics provide insight into:
  - i. how effective its practices are in reducing negative outcomes ~~and/or increasing positive outcomes~~ for people and the environment (for ~~adverse~~ impacts); and/or
  - ii. the likelihood that its practices result in financial effects on the undertaking (for risks ~~and opportunities~~);
- (b) the measured outcomes are sufficiently reliable, that is, they do not involve an excessive number of assumptions and unknowns that would render the metrics too arbitrary to provide a faithful representation; and
- (c) it has provided sufficient contextual information to interpret performance metrics appropriately, and whether variations in such contextual information may impact the comparability of the metrics over time.

~~18.19.~~ When developing its entity-specific disclosures, the undertaking shall carefully consider:

- (a) comparability between undertakings, while still ensuring relevance of the information provided, recognising that comparability may be limited for entity-specific disclosures. The undertaking shall consider whether the available and relevant frameworks, initiatives, reporting standards and benchmarks (such as technical material issued by the International Sustainability Standards Board or the Global Reporting Initiative) 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.

~~19.20.~~ Further guidance for developing entity-specific disclosures can be found by considering the information required under ~~topical Sections of this [draft] Standard topical ESRS~~ that addresses similar sustainability matters.

### 1.5 Voluntary application of the Disclosure Contents defined in [draft] ESRS 2 for policies, actions and targets

~~20.~~ [Draft] ESRS Section 2 includes a Centralised four Disclosure Content Requirements regarding policies and, actions, metrics and targets, covering all topical sections and sustainability matters that have been assessed by the undertaking as material. A



~~Disclosure Content prescribes the content that the undertaking shall include when it reports respectively on policies, actions, metrics and targets, to harmonise the content of certain categories of disclosures in a multi-topical environment.~~

**21. In this context:**

- (a) **policies** refer to sets or frameworks of general objectives and management decisions that the undertaking uses for detailed implementation and decision-making. A policy implements the undertaking's strategy or management decisions related to a material sustainability matter included in this [Draft] Standard. Each policy is under the responsibility of defined person(s), specifies its perimeter of application, and includes one or more objectives (linked when applicable to measurable targets). A policy ~~is could be~~ validated and reviewed following the undertaking's applicable governance rules or not formalised according to those rules. When a policy is not formalised the undertaking may refer to it as practice or procedure. A policy is implemented through actions or action plans. (see [draft] ~~ESRS 2 DC-P Section 2 IR -3 adopted to manage material sustainability matters~~);
- (b) **actions** refer to (i) actions and action plans (including transition plans) that are implemented to ensure that the undertaking identifies, monitors, prevents, mitigates or remediates actual or potential material adverse impacts and through which the undertaking manages material risks related to sustainability matters, 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~~ (see Section 2 IR -4 [draft] ESRS 2 DC-A Actions and resources in relation to material sustainability matters);
- (c) **key metrics** refer to qualitative and quantitative key indicators that the undertaking uses to measure and report on the effectiveness of the delivery of its sustainability-related policies and actions taken to manage material adverse impacts and risks over time and against its targets over time. Metrics ~~also~~ support the measurement of the undertaking's results in respect of each topical section disclosure affected people, the environment and the undertaking (see [Section 2 s draft] ESRS 2 DC-M Metrics in relation to material sustainability matters); and
- (d) **targets** refer to measurable, outcome-oriented goals that the undertaking aims to achieve in relation to material adverse impacts, risks, policies or actions. The undertaking may disclose on targets only to the extent that has established them. When reporting on targets, the undertaking shall consider the materiality of the information to be disclosed, or opportunities (see [draft] ESRS 2 DC-T Tracking effectiveness of policies and actions through targets);

**22. The undertaking may refer to the guideline contained in [draft] ESRS 2 General Disclosures (paragraphs from 58 to 79 and relative AR), when disclosing on policies, actions and metrics: The Disclosure Content requirements, referred to in paragraph 20, shall be applied:**

- (a) alongside the Disclosure Requirements in the given [draft] topical ESRS, when the undertaking is required by [draft] ESRS to describe policies, actions, metrics and targets; and
- (b) when the undertaking provides entity-specific disclosures on material adverse impacts and risks and opportunities not covered by [draft] topical ESRS or not covered with sufficient granularity.

**2. Qualitative characteristics of information**

**23. 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.
24. These qualitative characteristics of information are defined and described in Appendix C of this [draft] Standard.

### **3. Double materiality as the basis for sustainability disclosures**

25. The undertaking shall report on 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**

26. 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: primary users of general-purpose financial reporting (existing and potential investors, lenders and other creditors, including asset managers, credit institutions, insurance undertakings), as well as other users, including the undertaking’s business partners, trade unions and social partners, civil society and non-governmental organisations, governments, analysts and academics.
27. Some, but not all, stakeholders may belong to both groups defined in paragraph 268.
28. Engagement with affected stakeholders is central to the undertaking’s ~~on-going due diligence process (see chapter 4 Sustainability due diligence)~~ and sustainability materiality assessment. 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 section 3.4 of this [draft] Standard).

#### **3.2 Material matters and materiality of information**

29. Performing a materiality assessment (see sections 3.4 and 3.5 of this [draft] Standard) is necessary for the undertaking to identify the material ~~adverse impacts, and~~ risks ~~and opportunities~~ to be reported.
30. The Application Requirements in Appendix B of this [draft] Standard include the list of sustainability matters covered in ~~{draft}~~ topical ~~Sections of this [draft] ESRStandard,~~ categorised by topics, sub-topics and sub-sub-topics, to support the materiality assessment. Appendix F *Flowchart for determining disclosures to be included* of this [draft] Standard provides an illustrative the materiality assessment described in this section.
31. For this purpose, a sustainability matter is “material” for the undertaking when it meets the criteria defined for impact materiality (see section 3.4 of this [draft] Standard) or financial materiality (see section 3.5 of this [draft] Standard) or both.
32. Irrespective of the outcome of the materiality assessment, the undertaking shall always disclose the following information:
- (a) ~~Section 2 of this [draft] ESRStandard,~~ i.e., all its Disclosure Requirements (including their datapoints);
  - (a) ~~\_\_\_\_\_~~

- ~~(b) the datapoints prescribed in topical [draft] ESRS that are listed in [draft] ESRS 2 Appendix C List of datapoints in cross-cutting and [draft] topical standards that are required by EU law which stem from other EU legislation;~~
- ~~(c) Section 3 of this [draft] ESRS Standard, E1, i.e., all its Disclosure Requirements (including their datapoints); and~~
- ~~(d)(b) only for undertakings with 250 or more employees, the Disclosure Requirements ESRS S1-1 to S1-9 (including their datapoints) in [draft] ESRS S1 Own workforce.~~
33. When the undertaking concludes that a sustainability matter is material as a result of its materiality assessment, it shall:
- (a) report according to the Disclosure Requirements (including Application Requirements) related to that specific sustainability matter in the relevant 'section of this [draft] ESRS Standard'; and
  - (b) develop and report additional appropriate entity-specific disclosures (see section 1.4 *Entity-specific disclosures* of this ~~[draft] Standard~~section) when the material sustainability matter, is not covered by ~~this an~~ [draft] ESRS Standard or is covered with insufficient granularity.
- ~~34. When reporting on policies and, actions and targets in relation to a sustainability matter, the undertaking shall include the information prescribed by Section 2 of this [draft] Standard, all the Disclosure Requirements in the topical ESRS related to that matter and in the corresponding Disclosure Contents on policies, actions, and targets required under ESRS 2 (including their datapoints). However, if the undertaking cannot disclose the information prescribed by either the Disclosure Requirements in the topical ESRS Sections or the Centralised Disclosure Contents Requirements in ESRS Section 2 (including their datapoints) on policies and, actions and targets, because it has not implemented the respective policies and, actions and targets, it shall disclose this to be the case and it may report a timeframe in which it aims to have these in place.~~
- ~~34. When reporting on targets and related financial plan in relation to a sustainability matter, the undertaking may disclose the information prescribed by Section 2 of this [draft] Standard to the extent that the undertaking do has targets and plans and expand the content only when such targets/plans do exist.~~
35. When reporting on metrics for a material sustainability matter according to the Metrics ~~and targets~~ section of the relevant topical Sections of this [draft] Standard ~~topical ESRS~~, the undertaking:
- (a) shall include the information prescribed by a Disclosure Requirement, if it assesses such information to be material; and
  - ~~(b) may omit the information prescribed by a datapoint of a Disclosure Requirement, if it assesses such information to be not material, and concludes that such information is not needed to meet the objective of the Disclosure Requirement.~~
  - ~~(b)~~
36. The applicable information prescribed within a Disclosure Requirement (including its datapoints) or within an entity-specific disclosure shall be included when the undertaking assesses it to be relevant from one or more of the following perspectives in the sustainability statements:
- (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' decision-making needs (including the needs of primary users of general-purpose financial reporting described in paragraph 514); or
  - (c) the need for transparency towards stakeholders.

37. The undertaking shall establish how it applies criteria, including appropriate thresholds, to determine:
- (a) the information to be reported when reporting on metrics for a material sustainability matter according to the Metrics ~~and targets chapter paragraph~~ of the relevant topical Sections of this [draft]- Standard topical ESRs, per paragraph 358 above; and
  - (b) the information to be disclosed as entity-specific disclosures.
38. If the undertaking concludes that a topic is not material and therefore it omits all the Disclosure Requirements in a topical Sections of this [draft]-Standard topical ESRs, it shall briefly explain the conclusions of its materiality assessment for the topic (see Section 2 of this [draft] ESRs-Standard? IRO-2 Disclosure Requirements in ESRs covered by the undertaking's sustainability statements). ~~In this case, the undertaking shall nevertheless report the information referred to in paragraph 324.~~
39. When reporting on metrics, if the undertaking omits information prescribed by either a Disclosure Requirement or a datapoint of a Disclosure Requirement in the Metrics ~~and Targets~~ section of a topical Section of this [draft] topical ESRs Standard, such information is considered to be implicitly reported as “not material for the undertaking”.

### **3.3. Double materiality**

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40. Double materiality has two dimensions, namely: impact materiality and financial materiality.
41. Impact materiality and financial materiality assessments are inter-related and the interdependencies between these two dimensions shall be considered. In general, the starting point is the assessment of impacts. A sustainability adverse impact may be financially material from inception or become financially material when it becomes investor relevant, including due to its present or likely effects on cash-flows, development, performance and position in the short-, medium- and long-term time horizons. Irrespective of their being financially material, adverse impacts are captured by the impact materiality perspective.
42. In identifying and assessing the adverse impacts ~~and~~, ~~risks and opportunities~~ in the undertaking's value chain to determine their materiality, the undertaking shall focus on areas where they are deemed likely to arise, based on the nature of the activities, business relationships, geographies or other risk factors concerned.
43. 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 potential impacts on those resources.
44. An undertaking's principal adverse impacts ~~and~~, ~~risks and opportunities~~ are understood to be the same as the material adverse impacts, ~~and~~ ~~risks and opportunities~~ identified under the double materiality principle and therefore reported on in its sustainability statements.
45. The undertaking shall explain how it applies criteria set under sections 3.4 and 3.5 in this [draft] Standard, using appropriate thresholds. Appropriate thresholds are necessary to determine which adverse impacts, ~~and~~ ~~risks and opportunities~~ are identified and addressed by the undertaking as material (also referred to in some existing standards and frameworks related to impacts as “most significant”) and to determine which sustainability matters are material for reporting purposes.

### **3.4 Impact materiality**

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46. A sustainability matter is material from an impact perspective when it pertains to the undertaking's material actual or potential, ~~positive or negative~~ adverse impacts on people or the environment over the short-, medium- and long-term time horizons. Adverse  ~~impacts~~ include those caused or contributed to by the undertaking and those which are

directly linked to the undertaking's own operations, products, or services through its business relationships. Business relationships include the undertaking's upstream and downstream value chain and are not limited to direct contractual relationships.

47. In this context, adverse impacts on people or the environment include adverse impacts in relation to environmental, social and governance matters.

~~48. To the extent that the undertaking adopts contents of the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises in its impact management processes, its impact materiality assessment. The materiality assessment of an adverse negative impact is informed by the the sustainability due diligence<sup>1</sup> process, and it may involve groups of stakeholders. Sustainability due diligence is the process by which undertakings identify, prevent, mitigate and account for how they address the actual and potential adverse impacts on the environment and people connected with their business. These include material adverse impacts caused or contributed by the undertaking and material adverse impacts which are directly linked to the undertaking's own operations, its products or services through its business relationships.~~

~~48.49. defined in the international instruments of the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises.~~ 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. Severity is based on:

- (a) the scale;
- (b) scope; and
- (c) irremediable character of the impact.

In the case of a potential ~~negative~~ adverse negative human rights impact, the severity of the impact takes precedence over its likelihood.

~~49. For positive impacts, materiality is based on:~~

- ~~(a) the scale and scope of the impact for actual impacts; and~~
- ~~the scale, scope and likelihood of the impact for potential impacts.~~

### **3.5 Financial materiality**

50. 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.

51. The financial materiality assessment process described in paragraph 41 includes, but is not limited to, the identification of information that is useful to investors, lenders and other creditors when they, as primary users of general-purpose financial reporting, assess the effects of sustainability matters on the undertaking's cash flows, development, performance, position, cost of capital or access to finance. In particular, information is considered material for primary users of general-purpose financial reporting if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that they make on the basis of the undertaking's sustainability statements.

52. A sustainability matter is material from a financial perspective if it triggers or may trigger material financial effects on the undertaking. This is the case when it generates or may generate risks ~~or opportunities~~ that have a material influence (or are likely to have a material influence) on the undertaking's cash flows, development, performance, position, cost of capital or access to finance in the short-, medium- and long-term time horizons.

<sup>1</sup> This process is described in the international instruments of the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises.



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
- (b) factors of 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 more generally to the development of the undertaking. The latter factors are generally referred to as “capitals” in frameworks promoting a multi-capital approach; the capitals may in some cases (but not in all cases) meet the criteria for recognition and reporting in financial statements.

53. The financial materiality of a sustainability matter is not constrained to matters that are within the control of the undertaking but includes information on material risks ~~and opportunities~~ attributable to business relationships with other undertakings/stakeholders beyond the scope of consolidation used in the preparation of financial statements.

54. 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 processes, 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 on acceptable terms.

55. The materiality of risks ~~and opportunities~~ is assessed based on a combination of the likelihood of occurrence and the size of the potential financial effects.

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

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56. The undertaking’s materiality assessment process shall encompass situations where its actions to address certain adverse impacts or risks, ~~or to benefit from certain opportunities~~ in relation to a sustainability matter, might have material negative 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 the undertaking’s own workforce and result in 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.

57. In such situations, the undertaking shall:

- (a) mention the existence of material negative impacts or material risks together with the actions 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 negative impacts or material risks are addressed under the topic to which they relate.

### **3.7 Level of disaggregation**

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



- (a) by country, when there are significant variations of material adverse impacts and, risks and opportunities across countries and when presenting the information at a higher level of aggregation would obscure material information about adverse impacts and, risks or opportunities; or
  - (b) by significant site or by significant asset, when material adverse impacts and, risks and opportunities are linked to a specific location or asset.
59. When defining the appropriate level of disaggregation for reporting, the undertaking shall consider the disaggregation adopted in its materiality assessment. Depending on the facts and circumstances, a disaggregation by subsidiary may be necessary.
60. Where data from different levels, or multiple locations within a level, is aggregated, the undertaking shall ensure that this aggregation does not obscure the specificity and context necessary to interpret the information. The undertaking shall not aggregate material items that differ in nature.
- ~~61.~~ When the undertaking presents information disaggregated by sectors, it shall adopt the ESRS sector classification. When a topical Section of this [draft] topical ESRS Standard requires that a specific level of disaggregation is adopted in preparing a specific item of information, the requirement in the ~~[draft] topical Section of this [draft] Standard or sector-specific ESRS~~ shall prevail.

~~4. Sustainability due diligence~~

- ~~62.~~ ~~The outcome of the undertaking's sustainability due diligence process (referred to as "due diligence" in the international instruments mentioned below) inform the undertaking's assessment of its material impacts, risks and opportunities. [Draft] ESRS do not impose any conduct requirements in relation to sustainability due diligence; nor do they extend or modify the role of governance bodies.~~
- ~~63-61.~~ ~~Sustainability due diligence is the process by which undertakings identify, prevent, mitigate and account for how they address the actual and potential negative impacts on the environment and people connected with their business. These include negative impacts caused or contributed by the undertaking and negative impacts which are directly linked to the undertaking's own operations, its products or services through its business relationships. Sustainability 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. This process is described in the international instruments of the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises.~~
- ~~64.~~ ~~These international instruments identify a number of steps in the sustainability due diligence process, including the identification and assessment of negative impacts caused and contributed to by the undertaking and negative impacts which are directly linked to the undertaking's own operations, its products or services through its business relationships. Where the 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. It is this aspect of the sustainability due diligence process that informs the assessment of material impacts (see section 3.4 of this [draft] Standard). The identification of material impacts also supports the identification of material sustainability risks and opportunities, which are often a product of such impacts.~~
- ~~65.~~ ~~The core elements of due diligence are reflected directly in Disclosure Requirements set out in [draft] ESRS 2 and in the [draft] topical ESRS, as illustrated below:~~
- ~~(a)~~ ~~embedding sustainability due diligence in governance, strategy and business model(s)<sup>2</sup>. This is addressed under:~~

<sup>2</sup>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 (paragraph A.10); and chapter IV on Human Rights (paragraph 4; and paragraph 44 of the Commentary); and OECD Due Diligence Guidance, Section II (1.1 and 1.2) and Annex, Questions 14 and 15.

- ~~66. [draft] ESRS 2 GOV-2: Information provided to and sustainability matters addressed by the undertaking's administrative, management and supervisory bodies;~~
- ~~67. [draft] ESRS 2 GOV-3: Integration of sustainability-related performance in incentive schemes; and~~
- ~~68. [draft] ESRS 2 SBM-3: Material impacts, risks and opportunities and their interaction with strategy and business model(s).~~
- ~~(a) engaging with affected stakeholders<sup>3</sup>. This is addressed under:~~
- ~~69. [draft] ESRS 2 GOV-2;~~
- ~~70. [draft] ESRS 2 SBM-2: Interests and views of stakeholders;~~
- ~~71. [draft] ESRS 2 IRO-1;~~
- ~~72. [draft] ESRS 2 DC-P; and~~
- ~~73. Topical ESRS: reflecting the different stages and purposes of stakeholder engagement throughout the sustainability due diligence process.~~
- ~~(a) identifying and assessing negative impacts on people and the environment<sup>4</sup>. This is addressed under:~~
- ~~74. [draft] ESRS 2 IRO-1 (including Application Requirements related to specific sustainability matters in the relevant [draft] ESRS); and~~
- ~~75. [draft] ESRS 2 SBM-3;~~
- ~~(a) taking action to address negative impacts on people and the environment<sup>5</sup>. This is addressed under:~~
- ~~76. [draft] ESRS 2 DC-A; and~~
- ~~77. Topical ESRS: reflecting the range of actions, including transition plans through which impacts are addressed; and~~
- ~~(a) tracking the effectiveness of these efforts<sup>6</sup>. This is addressed under:~~
- ~~78. [draft] ESRS 2 DC-M;~~
- ~~79. [draft] ESRS 2 DC-T; and~~
- ~~80-82. Topical ESRS: regarding performance metrics and targets.~~

## **45. Value chain**

### **45.1 Reporting undertaking and value chain**

**84-83.** The reporting undertaking for the sustainability statements shall be the one retained for the related financial statements. For example, if the reporting undertaking is a group and

<sup>3</sup>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 (paragraph A.14 and paragraph 25 of the Commentary); and OECD Due Diligence Guidance, Section II (2.1.c, 2.3, 2.4.a, 3.1.b and 3.1.f) and Annex Questions 8-14.

<sup>4</sup>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 (paragraphs A.10-11 and paragraph 14 of the Commentary), and Chapter IV on Human Rights (paragraphs 1-2 and paragraphs 41-43 of the Commentary); and OECD Due Diligence Guidance, Section II (2.1-2.4) and Annex Questions 3-5, and 19-31).

<sup>5</sup>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 (paragraphs A.12 and paragraphs 18-22 of the Commentary), and Chapter IV on Human Rights (paragraphs 3 and 42-43 of the Commentary); and OECD Due Diligence Guidance, Section II (3.1-3.2) and Annex Questions 32-40).

<sup>6</sup>As 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.

if the parent company is required to prepare consolidated financial statements, the consolidated financial and sustainability statements will be for the parent and its subsidiaries.

**82.64.** The information about the reporting undertaking provided in the sustainability statements shall be extended to include information on ~~the material~~ **adverse** impacts ~~and~~, risks ~~and opportunities~~ connected to the undertaking through its direct and indirect business relationships in the upstream and/or downstream value chain (“value chain information”). In extending the information about the reporting undertaking, the undertaking shall include material **adverse** impacts ~~and~~, risks ~~and opportunities~~ connected with its upstream and downstream value chain(s):

- (a) following the outcome of its ~~sustainability due diligence process(es) and of its~~ materiality assessment, ~~which is informed by its sustainability due diligence process(es) to the extent that the undertaking has implemented contents of the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises in its impact management processes~~; and
- (b) in accordance with specific requirements of ~~topical Sections of this [draft] topical ESRS Standard, when they exist~~.

**83.65.** The extension of the information about the reporting undertaking to include value chain information does not require information on each and every entity in the value chain, but the inclusion of material value chain information.

**84.66.** The undertaking shall include material value chain information when this is necessary to:

- (a) allow users of sustainability statements to understand the undertaking’s material **adverse** impacts ~~and~~, risks ~~and opportunities~~; and/or
- (b) produce a set of information that meets the qualitative characteristics of information (see Appendix C of this [draft] Standard).

**85.67.** 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 **adverse** impacts ~~and~~, risks ~~and opportunities~~ following the double materiality principle (see ~~chapter paragraph 3~~ of this ~~Section[draft] Standard~~).

**86.68.** When associates or joint ventures, accounted for under the equity method or proportionally consolidated in the financial statements, are part of the undertaking’s value chain, the undertaking shall include information related to those undertakings, following paragraph ~~6766~~, consistent with the approach adopted for the other business relationships in the value chain. In this case, when determining impact metrics, the data of the associate or joint venture are not limited to the share of equity held, but taken into account on the basis of the impacts that are directly linked to the undertaking’s products and services through its business relationships.

## ***45.2 Estimation using sector averages and proxies***

**87.69.** The undertaking’s ability to obtain the necessary value chain information, as well as its capacity to contribute to the management of **adverse** impacts ~~and~~, risks ~~and opportunities~~ arising in the value chain, may vary depending on various factors, such as the undertaking’s contractual arrangements, the level of control that it exercises on the operations outside the consolidation scope and its buying power. When the undertaking does not have the ability to control the activities of its value chain and its business relationships, obtaining value chain information may be more challenging.

**88.70.** There are circumstances where the undertaking cannot collect the information about the undertaking’s upstream and downstream value chain as required by paragraph ~~6767~~ (after making reasonable efforts to do so). In these circumstances, the undertaking shall estimate the information to be reported about its upstream and downstream value chain,

by using all reasonable and supportable information, such as sector-average data and other proxies.

89.71. Obtaining value chain information could also be challenging in the case of SMEs and other value chain entities that are not in the scope of the CSRD ~~(see [draft] ESRs 2 BP-2 Disclosures in relation to specific circumstances).~~

90.72. With reference to policies, actions and targets, the undertaking's reporting shall include value chain information to the extent that those policies, actions and targets do involve actors in the value chain. With reference to metrics, in many cases, in particular for environmental matters for which proxies are available, the undertaking may be able to comply with the reporting requirements without collecting data from the actors in its value chain, for example, when calculating the undertaking's GHG Scope 3 emissions.

94.73. The incorporation of estimates made using sector-average data or other proxies shall not result in information that does not meet the qualitative characteristics of information (see chapter 2 and [section paragraph 67.2 Sources of estimation and outcome uncertainty of this \[draft\] StandardSection](#)).

92.74. One way through which the undertaking can demonstrate reasonable effort in collecting data from actors in its value chain(s), is by using or increasing leverage over them, e.g., through collaboration with other companies and stakeholders that could help to do so.

## **56. Time horizons**

### **56.1 Reporting period**

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

### **56.2 Linking past, present and future**

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

### **56.3 Reporting progress against the base year**

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95.77. 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.

96.78. 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.

### **56.4 Definition of short-, medium- and long-term for reporting purposes**

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

- (a) for the short-term time horizon: the period adopted by the undertaking as the reporting period in its financial statements;
- (b) for the medium-term time horizon: from the end of the short-term reporting period per (a) above to five years; and
- (c) for the long-term time horizon: more than five years.

98-80. The undertaking shall use an additional breakdown for the long-term time horizon when impacts or actions are expected in a 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.

99-81. If different definitions of medium- or long-term time horizons are required for specific items of disclosure in a ~~{draft}~~ topical ~~Section of this [draft] Standard or sector specific ESRS~~, the definitions in the ~~{draft}~~ topical ~~Section of this [draft] Standard or sector specific ESRS~~ prevail.

400-82. There may be circumstances where the use of the medium- or long-term time horizons in paragraph 8~~1282~~ results in non-relevant information, as the undertaking uses a different definition for (i) its processes of identification and management of material ~~adverse impacts and~~ ~~risks and opportunities~~ or (ii) the definition of its actions 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 the undertaking's industry for decision-making. In these circumstances, the undertaking may adopt a different definition of medium- and/or long-term time horizons (see ~~{draft} ESRS Section 2 BP-2~~).

## **67 Preparation and presentation of sustainability information**

401-83. This ~~paragraph~~~~chapter~~ provides general requirements to be applied when preparing and presenting sustainability information.

### **67.1 Presenting comparative information**

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402-84. The undertaking shall disclose one year of comparative information in respect of 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 sustainability disclosures.

403-85. In its sustainability statements the undertaking shall disclose comparative information that reflects updated estimates. When the undertaking reports comparative information that differs from the information reported in the previous period it shall disclose:

- (a) the difference between the amount reported in the previous period and the revised comparative amount; and
- (b) the reasons for the revision of the amounts.

404-86. Sometimes, it is impracticable to adjust comparative information for one or more prior periods to achieve comparability with the current period. For example, data might not have been collected in the prior period(s) in a way that allows either retrospective application of a new definition of a metric or target, or retrospective restatement to correct a prior period error, and it may be impracticable to recreate the information (see ~~Section [draft] ESRS-2 BP-2~~). When it is impracticable to adjust comparative information for one or more prior periods, the undertaking shall disclose this fact.

405-87. When a ~~topical Section of this~~ ~~[draft] ESRS Standard~~ requires the undertaking to present more than one comparative period for a metric or datapoint, the requirements of that ~~{draft} ESRS Standard~~ shall prevail.

### **67.2 Sources of estimation and outcome uncertainty**

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406-88. When metrics, including value chain information (see chapter 54 of this ~~{draft} Standard~~~~Section~~), cannot be measured directly and can only be estimated, measurement uncertainty may arise.



~~407.89.~~ The use of reasonable assumptions and estimates, including scenario or sensitivity analysis, is an essential part of preparing sustainability-related metrics and does not undermine the usefulness of the information, provided that 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 of this [draft] Standard).

~~408.90.~~ When sustainability statements include or are related to financial data and assumptions, 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.

~~409.91.~~ Some topical Section of this [draft] Standard [draft] 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 of this [draft] StandardSection and consider:

- (a) the potential effects of the events on the value, timing and certainty of the undertaking's future cash flows, development, performance and position including in the long term (the possible outcome);
- (b) the potential effects of the events on the determinants of severity and on the likelihood of material impacts on people or the environment; and
- (c) the full range of possible outcomes and the likelihood of the possible outcomes within that range.

~~440.92.~~ When assessing the possible outcomes, the 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, the undertaking might be exposed to several adverse 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 (see [draft] ESRS 2Section BP-2).

### **67.3 Updating disclosures about events after the end of the reporting period**

~~441.93.~~ In some cases, the undertaking may receive information after the reporting period but before the management report is approved for issuance. If such information provides evidence or insights about conditions existing at period end, the undertaking shall consider it and, where appropriate, update estimates and sustainability disclosures, in the light of the new information.

~~442.94.~~ When such information provides evidence or insights about conditions that arise after the end of the reporting period, the undertaking shall provide narrative information indicating the existence, nature and potential consequences of these post-year end events.

### **67.4 Changes in preparation or presentation of sustainability information**

~~443.95.~~ 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, the undertaking shall provide restated comparative figures, unless it is impracticable to do so (see [draft] ESRSSection 2 BP-2).

### **67.5 Reporting errors in prior periods**

~~444.96.~~ The 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.



445-97. 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.

446-98. Such errors include: the effects of mathematical mistakes, mistakes in applying the definitions for metrics and targets, oversights or misinterpretations of facts, and fraud.

447-99. Potential errors in the current period discovered in that period are corrected before the management report is authorised for issuance. However, material errors are sometimes only discovered in a subsequent period.

448-100. 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. When correcting disclosures for a prior period, the undertaking shall not use hindsight either in making assumptions about what the management's intentions would have been in a prior period or in estimating the amounts disclosed in a prior period. This requirement applies to correction of both backward-looking and forward-looking disclosures.

449-101. Corrections of errors are distinguished from changes in estimates. Estimates are to be revised as soon as additional information becomes available (see [\[draft\] ESR Section 2 BP-2](#)).

### **67.6 Consolidated reporting and subsidiary exemption**

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420-102. When the undertaking is reporting at a consolidated level, the undertaking shall perform its assessment of material [adverse](#) impacts ~~and~~, risks ~~and opportunities~~ for the entire consolidated group, regardless of its group legal structure. It shall ensure that all subsidiaries are covered in a way that allows for the unbiased identification of material [adverse](#) impacts, ~~and~~ risks ~~and opportunities~~. Criteria and thresholds for assessing an [adverse](#) impact ~~and~~, risk ~~or opportunity~~ as material shall be determined based on chapter 3 of this [\[draft\] Standard Section](#).

424-103. Where the undertaking identifies significant differences between material [adverse](#) impacts, ~~and~~ risks ~~or opportunities~~ at group level and material [adverse](#) impacts, ~~and~~ risks ~~or opportunities~~ of one or more of its subsidiaries, the undertaking shall provide an adequate description of the [adverse](#) impacts ~~and~~, risks ~~and opportunities~~, as appropriate, of the subsidiary or subsidiaries concerned.

422-104. When assessing whether the differences between material [adverse](#) impacts ~~and~~, risks ~~or opportunities~~ at group level and material [adverse](#) impacts, ~~and~~ 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 the circumstances reflected in section 3.7 *Level of disaggregation*.

### **67.7 Information on intellectual property, know-how or results of innovation**

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423-105. When disclosing information about its strategy, plans and actions, where a specific piece of information corresponding to intellectual property, know-how or the results of innovation is relevant to meet the objective of a Disclosure Requirement, the undertaking may nevertheless omit that specific piece of information if:

- (a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to

persons within the circles that normally deal with the kind of information in question;

- (b) has commercial value because it is secret; and
- (c) has been subject to reasonable steps by the undertaking to keep it secret.

424.106. If a specific piece of information corresponding to intellectual property, know-how or the results of innovation is omitted because it meets these criteria, the undertaking shall comply with the disclosure requirement in question by disclosing all required information with the exception of that specific piece of information.

425.107. The undertaking shall make every reasonable effort to ensure that beyond the omission of the specific information, the overall relevance of the disclosure is not impaired.

## **78. Structure of sustainability statements**

426.108. This chapter provides the basis for the presentation of the information about sustainability matters prepared in compliance with the CSRD and ~~this~~ [draft] **ESRS Standard** (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 G *Example of structure of ESRS sustainability statements* of this [draft] Standard provides an illustrative example of sustainability report structured according to the requirements of this chapter.

### **78.1 General presentation requirement**

427.109. Sustainability information shall be presented:

- (a) in a way that allows a distinction between information required by disclosures in [draft] 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.

### **78.2 Content and structure of the sustainability statements**

428.110. Except for the possibility to incorporate information by reference in section 89.1 Incorporation by reference of this **Section of this** [draft] Standard, the undertaking shall report all the applicable disclosures (sector-agnostic, ~~sector-specific~~ and entity-specific) required by ~~this~~ [draft] **ESRS Standard** as per chapter 1 of this ~~[draft] Standard~~ **Section**, within a single section of the management report.

429.111. The undertaking shall report, in its sustainability statements, the disclosures pursuant to Article 8 of Regulation 2020/852 (EU Taxonomy) on the establishment of a framework to facilitate sustainable investment and identify such disclosures.

430.112. Subject to the provisions of chapter 2 of this ~~[draft] Standard~~ **Section**, the undertaking may include in its sustainability statements additional disclosures stemming from (i) local legislations, and (ii) generally accepted sustainability reporting pronouncements of other standard setting bodies and non-mandatory guidance including sector-specific guidance (such as technical material issued by the International Sustainability Standards Board or the Global Reporting Initiative). Such disclosures shall be clearly identified with an appropriate reference to the related legislation, pronouncement or guidance and shall complement ~~this~~ [draft] **ESRS Standard** Disclosure Requirements (see ~~ESRS Section 2 BP-2~~).

431.113. 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 *Structure of ESRS sustainability statements* of this [draft] Standard. Respecting the provision in section 3.6 *Material ~~adverse~~ impacts or risks arising from actions to address sustainability matters* of this ~~[draft] Standard~~ **Section**, when

information provided in one part is also covering information to be reported in another part, the undertaking may refer in one part to information presented in another part, avoiding duplications. The undertaking may apply the detailed structure illustrated in Appendix G of this [draft] Standard.

~~132. The disclosures required by sector-specific ESRS shall be grouped by cross-cutting reporting area and, where applicable, by sustainability topic. They shall be presented alongside the disclosures required by the corresponding sector-agnostic ESRS.~~

~~133-114. Where the undertaking develops material entity-specific disclosures in accordance with section-paragraph 1.4 Entity-specific disclosures of this Section, it shall report those disclosures alongside the most relevant sector-agnostic disclosure in this [draft] Standard and sector-specific disclosures.~~

### **89. Linkages with other parts of corporate reporting and connected information**

~~134-115. The undertaking shall provide information that enables users of its sustainability statements to assess the connections between various information about adverse impacts, and risks and opportunities in these statements and related information in other parts of its corporate reporting.~~

#### **89.1 Incorporation by reference**

~~135-116. Provided that the conditions in paragraph 120~~1124~~ are met, information prescribed by a Disclosure Requirement of an-this [draft] ESRS Standard (including a specific datapoint prescribed by a Disclosure Requirement) may be incorporated in the sustainability statements by reference to:~~

- (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 under the regulation implementing Directive 2009/138/EC (Solvency II)].

~~136-117. The undertaking may incorporate information by reference to the documents (or part of the documents) listed in paragraph 119~~120~~, 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 119~~20120~~ (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; and
- (d) are available with the same technical digitalisation requirements as the sustainability statements.

~~137-118. Provided that these conditions are met, information prescribed by a Disclosure Requirement of this an [draft] ESRS Standard (including a specific datapoint prescribed by a Disclosure Requirement) may be incorporated in the sustainability statements by reference to the undertaking's report prepared according to EU Eco-Management and Audit Scheme (EMAS) Regulation (EU) No. 1221/2009. In this case, the undertaking shall ensure that the information incorporated by reference is produced using the same basis~~

for preparation of ESRS information, including scope of consolidation and treatment of value chain information.

~~438.119.~~ In the preparation of its sustainability statements using incorporation by reference, the undertaking shall consider the overall cohesiveness of the reported information and ensure that the incorporation by reference does not impair the readability of the sustainability statements. Appendix H *Example of incorporation by reference* of this [draft] Standard is an illustrative example of incorporation by reference (See ~~ESRS-Section 2 BP-2~~).

## **89.2 Connected information and connectivity with financial statements**

~~439.120.~~ 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 material impacts, 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 or 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.

~~440.121.~~ When the sustainability statements include monetary amounts or other quantitative data points that are above a threshold for material information and 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.

~~441.122.~~ In some cases, sustainability statements may include monetary amounts or other quantitative datapoints above a threshold for material 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 material amounts, a reconciliation shall be provided, and it may be presented in a tabular form.

~~442.123.~~ When there is no direct or indirect link, the undertaking shall state (based on a threshold for material 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 on qualitative information presented in financial statements.

~~443.124.~~ Consistency as required by paragraph ~~126.7.127~~ shall be at the level of a single datapoint 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.

~~444.125.~~ Examples of items for which the statement in paragraph ~~126.4.27, 127~~ subject to the threshold for material information, is required, are:

- (a) when the same metric 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 metrics 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.

~~445.126.~~ ~~Topical Sections of this [Draft] Standard~~ ~~topical and sector-specific ESRS~~ may include requirements to include reconciliations or to illustrate consistency of data and assumptions for specific Disclosure Requirements. In such cases, the requirements in these [draft] ESRS shall prevail.

## **910. Transitional provisions**

### **9.1. Transitional provision related to chapter 6 Preparation and presentation of sustainability information**

~~127.~~ ~~For the first 2 years small and medium-sized undertaking which are public-interest entities may decide to not include in their management report the sustainability information. In such cases, the undertaking shall state in its management report why the sustainability reporting was not provided.~~

### **910.21. Transitional provision related to section 1.4 Entity-specific disclosures**

~~146.~~ ~~The extent to which sustainability matters are covered by this [draft] ESRS Standard 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.~~

~~147.~~ ~~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 qualitative characteristics of information referred to under chapter 2 of this [draft] Standard~~ ~~Section~~; and

~~(b)(a)~~ ~~complement its disclosures, prepared on the basis of the topical Sections of this [draft] topical ESRS Standard, 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 available frameworks or reporting standards [such as Appendix B for IFRS S2 (industry-specific climate standard) and GRI Sector Standards].~~

### **10.2 Transitional provision related to chapter 5 Value chain**

~~148.128.~~ For the first three years of the undertaking's sustainability reporting under the [draft] ESRS, if some of the necessary information regarding the value chain is not available, the undertaking shall explain the efforts made to obtain the value chain information, the reasons why this information could not be obtained, and the plans of the undertaking to obtain such information in the future. Regardless of these limitations, the undertaking is expected to use in-house available value chain information (such as data already available to the undertaking and publicly available information) when applying chapter 5 of this [draft] Standard in the first three years.

~~149.129.~~ For the first three years of its sustainability reporting under the [draft] ESRS, in order to limit the burden for SMEs that are a part of the value chain:

~~(a)~~ the undertaking is not required to include information on impacts, risks and opportunities connected with its upstream and/or downstream value chain (as



required by paragraph 64), except for the datapoints listed in [draft] ESRS 2 Appendix C; and

- (b) the undertaking may limit to value chain information available in-house the information included on impacts, risks and opportunities connected with its upstream and/or downstream value chain (as required by paragraph 66), when applying the [draft] ESRS 2 and the Disclosure Requirements on policies, actions and targets in all the [draft] topical ESRS.

~~450.130.~~ Starting from the fourth year of its reporting under the [draft] ESRS, the undertaking shall include value chain information according to paragraph 64.64. In this context, the information required by [draft] ESRS to be obtained from SME undertakings in the undertaking's value chain will not exceed the content of the future ESRS standard on listed SMEs.

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**910.3 Transitional provision related to section 67.1 Presenting comparative information**

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~~451.131.~~ To ease the first-time application of this [draft] Standard, the undertaking may defer the presentation of comparative information, as required by ~~section-paragraph 67.1~~ *Presenting comparative information*, by one year.

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**910.4 Transitional provision: List of Disclosure Requirements that are phased-in for [draft] LSME ESRS to year 2 or subsequent years**

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~~452.132.~~ Appendix D *List of phased-in Disclosure Requirements* in this [draft] Standard sets phase-in provisions for the Disclosure Requirements or datapoints of Disclosure Requirements in topical [draft] ESRS that may be omitted or that are not applicable in the first year(s) of preparation of the sustainability statements under ~~this~~ [draft] ESRS Standard.



## Appendix A: Defined terms

This appendix is an integral part of [this \[draft\] ESRS-4 Standard](#) and has the same authority as the other parts of the [draft] Standard.

<b>Actions</b>	Actions refer to (i) actions 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.
<b>Actors in the value chain</b>	Actors in the value chain are individuals or entities in the upstream or downstream value chain. The 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.
<b>Business relationships</b>	The relationships the undertaking has with business partners, entities in its value chain, and any other non-State or State entity directly linked to its business operations, products or services. Business relationships are not limited to direct contractual relationships. They include indirect business relationships in the undertaking's value chain beyond the first tier, and shareholding positions in joint ventures or investments.
<b>Disclosure Content</b>	A Disclosure Content sets the required content of the information that the undertaking includes when it reports on policies, actions or targets, either pursuant to a Disclosure Requirement in an [draft] ESRS or on an entity-specific basis.
<b>Double materiality</b>	Double materiality has two dimensions: impact materiality and financial materiality. A sustainability matter meets the criterion of double materiality if it is material from the impact perspective or the financial perspective or both.
<b>Financial materiality</b>	A sustainability matter is material from a financial perspective if it triggers or may trigger material financial effects on the undertaking.
<b>Financial effects</b>	A sustainability matter triggers financial effects on the undertaking when it generates risks or opportunities that have an influence (or are likely to have an influence) on the undertaking's cash flows, performance, position, development, cost of capital or access to finance in the short, medium- and long-term time horizons.
<b>Impact materiality</b>	A sustainability matter is material from an impact perspective when it pertains to the undertaking's material actual or potential, <del>positive or</del> negative impacts on people or the environment over the short-, medium- and long-term time horizons. A material sustainability matter from an impact perspective includes impacts caused or contributed to by the undertaking and impacts which are directly linked to the undertaking's operations, products, and services through its business relationships.
<b>Metrics</b>	Qualitative and quantitative indicators that the undertaking uses to measure and report on the effectiveness of the delivery of its sustainability-related policies and against its targets over time. Metrics also support the measurement of the undertaking's results in respect of affected people, the environment and the undertaking.
<b>Policy</b>	A policy is a set or framework of general objectives and management principles that the undertaking uses for decision-making. A policy implements the undertaking's strategy or management decisions related to a material sustainability matter. Each policy is under the responsibility of defined person(s), specifies its perimeter of application, and includes one or more objectives (linked when applicable to measurable targets). A policy is validated and reviewed following the undertaking's applicable governance rules. A policy is implemented through actions or action plans.

<b>Severity of a negative impact</b>	The severity of a negative impact is determined by its (i) scale: how grave the impact is, (ii) scope: how widespread the impact is, and (iii) its irremediable character: whether and to what extent the negative impacts could be remediated, i.e., restoring the environmental or affected people to their prior state.
<b>Stakeholder(s)</b>	<p>Stakeholders are those who can affect or be affected by the undertaking.</p> <p>There are two main groups of stakeholders:</p> <p>(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</p> <p>(b) users of sustainability statements: primary users of general-purpose financial reporting (existing and potential investors, lenders and other creditors including asset managers, credit institutions, insurance undertakings), as well as other users, including the undertaking’s business partners, trade unions and social partners, civil society and non-governmental organisations, governments, analysts and academics.</p> <p>Some, but not all, stakeholders may belong to the two groups.</p>
<b>Supply chain</b>	The full range of activities or processes carried out by entities upstream from the undertaking, which provide products or services that are used in the development of the undertaking’s own products or services. This includes upstream entities with which the undertaking has a direct relationship (often referred to as a first-tier supplier) or an indirect business relationship.
<b>Sustainability matters</b>	Sustainability matters’ means environmental, social and human rights, and governance factors, including sustainability factors defined in point (24) of Article 2 of Regulation (EU) 2019/2088.
<b>Sustainability statements</b>	The dedicated section of the undertaking’s management report where the information about sustainability matters prepared in compliance with the CSRD and the [draft] ESRS is presented.
<b>Targets</b>	Targets are measurable, outcome-oriented goals that the undertaking aims to achieve in relation to material impacts, risks or opportunities.
<b>Transition plan</b>	<p>A transition plan is a specific type of action plan that is adopted by the undertaking in relation to a strategic decision and that addresses:</p> <p>a) a public policy objective; and/or</p> <p>b) an entity-specific action plan organised as a structured set of targets and actions, associated with a key strategic decision, a major change in business model, and/or particularly important actions and allocated resources.</p>
<b>Value chain</b>	<p>Value chain is the full range of activities, resources and relationships related to the undertaking’s business model(s) and the external environment in which it operates. A value chain encompasses the activities, resources and relationships the 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:</p> <p>a) those in the undertaking’s operations, such as human resource;</p> <p>b) those along its supply, marketing and distribution channels, such as materials and service sourcing and product and service sale and delivery; and</p> <p>c) the financing, geographical, geopolitical and regulatory environments in which the undertaking operates.</p> <p>Value chain includes entities (or actors) upstream and downstream from the undertaking. Entities upstream from the undertaking (e.g., suppliers) provide products or services that are used in the development of the undertaking’s products</p>

	or services. Entities downstream from the undertaking (e.g., distributors, customers) receive products or services from the undertaking.
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## **Appendix B: Application Requirements**

This appendix is an integral part of [this](#) [draft] [ESRS 4 Standard](#) and has the same authority as the other parts of [this](#) [draft] Standard.

### ***3.3 Application requirements – Double materiality***

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#### ***Stakeholders and their relevance to the materiality assessment process***

- AR 1. In addition to the categories of stakeholder listed in paragraph 26, common categories of stakeholders are: employees and other workers, suppliers, consumers, customers, end-users, local communities and vulnerable groups, authorities (including regulators, supervisors and central banks).
- AR 2. Nature may be considered 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. Materiality assessment is informed by the dialogue with affected stakeholders. The undertaking may engage with 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 4. 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 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; and
  - (d) determination of the material matters. In this step, the undertaking shall adopt thresholds to determine which of the impacts will be covered in its sustainability statements.

#### **Characteristics of severity**

- AR 5. The severity is determined by the following factors:
  - (a) scale: how grave the negative impact is or how beneficial the positive impact is for people or the environment;
  - (b) scope: how widespread the negative or positive impacts are. In the case of environmental impacts, the scope may be understood as the extent of environmental damage or a geographical perimeter. In the case of impacts on people, the scope may be understood as the number of people [adversely](#) [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 6. Any of the three characteristics (scale, scope, and irremediable character) can make a negative 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 7. 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 value chain. These relationships include the smelter and minerals trader and the mining enterprise that uses child labour, even though the undertaking has not caused or contributed to the negative impact itself; and
- (b) if the undertaking provides financial loans to an enterprise for business activities that, in breach of agreed standards, result in the contamination of water and land surrounding the operations, this negative impact is directly linked to the undertaking through its relationship with the enterprise it provides the loans to.

**Assessment of financial materiality**

AR 8. The following are examples of how impacts and dependencies are sources of risks ~~or opportunities~~:

- (a) when the undertaking's business model depends, on a natural resource – for example water – it is likely to be affected by changes in the quality, availability and pricing of that resource;
- (b) when the undertaking's activities result in negative impacts, e.g., on local communities, the activities could become subject to stricter government regulation and/or the impact could trigger consequences of a reputational nature. These have negative effects on the undertaking's brand and higher recruitment costs might arise; and
- (c) when the undertaking's business partners face material sustainability-related risks, the undertaking could be exposed to related consequences as well.

AR 9. The identification of 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 dependencies from natural and social resources as sources of financial effects (see paragraph)54;
- (b) the materiality of these dependencies;
- (c) their classification as sources of:
  - i. risks (contributing to negative deviation in future expected cash inflows or increase in deviation in future expected cash outflows and/or negative deviation from an expected change in capitals not recognised in the financial statements); or

~~ii. opportunities (contributing to positive deviation in future expected cash inflows or decrease in deviation in future cash outflows and/or positive deviation from expected change in capitals not recognised in financial statements).~~

AR 10. Once the undertaking has identified its risks ~~and opportunities~~, it shall determine which of them are material for reporting. This shall be based on a combination of (i) the likelihood of occurrence and (ii) the potential size of financial effects determined on the basis of appropriate thresholds. In this step it shall consider the contribution of those risks ~~and opportunities~~ to financial effects in the short-, medium- and long-term time horizons based on:

- (a) scenarios/forecasts that are deemed likely to materialise; and
- (b) potential material 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 included in the materiality assessment**

- AR 11. When performing its materiality assessment, the undertaking shall consider the following list of sustainability matters covered in the topical Sections of this [draft] ~~topical ESRStandard~~. When, as a result of the undertaking's materiality assessment (see [draft] ESRS-Section 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 ESRSSections of this [Draft] Standard.
- AR 12. Using this list is not a substitute for the process of determining material matters. This list is 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 adverse impacts and ~~risks and opportunities~~ not covered by this [draft] StandardESRS as described in section-paragraph 1.4 of this [draft] StandardSection.



[Draft] topical ESRS	Sustainability matters covered in [draft] topical ESRS		
	Topic	Sub-topic	Sub-sub-topics
[draft] ESRS E1	Climate change <sup>7</sup>	<ul style="list-style-type: none"> <li>• Climate change adaptation</li> <li>• Climate change mitigation</li> <li>• Energy</li> </ul>	
[draft] ESRS E2	Pollution	<ul style="list-style-type: none"> <li>• Pollution of air</li> <li>• Pollution of water</li> <li>• Pollution of soil</li> <li>• Pollution of living organisms and food resources</li> <li>• Substances of concern</li> <li>• Substances of very high concern</li> </ul>	
[draft] ESRS E3	Water and marine resources	<ul style="list-style-type: none"> <li>• Water withdrawals</li> <li>• Water consumption</li> <li>• Water use</li> <li>• Water discharges in water bodies and in the oceans</li> <li>• Habitat degradation and intensity of pressure on marine resources</li> </ul>	
[draft] ESRS E4	Biodiversity and ecosystems	<ul style="list-style-type: none"> <li>• Direct impact drivers of biodiversity loss</li> </ul>	<ul style="list-style-type: none"> <li>• Climate Change</li> <li>• Land-use change</li> <li>• Direct exploitation</li> <li>• Invasive alien species</li> <li>• Pollution</li> <li>• Others</li> </ul>
		<ul style="list-style-type: none"> <li>• Impacts on the state of species</li> </ul>	Examples: <ul style="list-style-type: none"> <li>• Species population size</li> <li>• Species global extinction risk</li> </ul>
		<ul style="list-style-type: none"> <li>• Impacts on the extent and condition of ecosystems</li> </ul>	Examples: <ul style="list-style-type: none"> <li>• Land degradation</li> <li>• Desertification</li> <li>• Soil sealing</li> </ul>
		<ul style="list-style-type: none"> <li>• Impacts and dependencies on ecosystem services</li> </ul>	
[draft] ESRS E5	Circular economy	<ul style="list-style-type: none"> <li>• Resources inflows, including resource use</li> <li>• Resource outflows related to products and services</li> <li>• Waste</li> </ul>	
[draft] ESRS S1	Own workforce	<ul style="list-style-type: none"> <li>• Working conditions</li> </ul>	<ul style="list-style-type: none"> <li>• Secure employment</li> <li>• Working time</li> <li>• Adequate wages</li> <li>• Social dialogue</li> </ul>

[Draft] topical ESRS	Sustainability matters covered in [draft] topical ESRS		
	Topic	Sub-topic	Sub-sub-topics
			<ul style="list-style-type: none"> <li>• Freedom of association, the existence of works councils and the information, consultation and participation rights of workers</li> <li>• Collective bargaining, including rate of workers covered by collective agreements</li> <li>• Work-life balance</li> <li>• Health and safety</li> </ul>
		<ul style="list-style-type: none"> <li>• Equal treatment and opportunities for all</li> </ul>	<ul style="list-style-type: none"> <li>• Gender equality and equal pay for work of equal value</li> <li>• Training and skills development</li> <li>• Employment and inclusion of persons with disabilities</li> <li>• Measures against violence and harassment in the workplace</li> <li>• Diversity</li> </ul>
		<ul style="list-style-type: none"> <li>• Other work-related rights</li> </ul>	<ul style="list-style-type: none"> <li>• Child labour</li> <li>• Forced labour</li> <li>• Adequate housing</li> <li>• Privacy</li> </ul>
[draft] ESRS S2	Workers in the value chain	<ul style="list-style-type: none"> <li>• Working conditions</li> </ul>	<ul style="list-style-type: none"> <li>• Secure employment</li> <li>• Working time</li> <li>• Adequate wages</li> <li>• Social dialogue</li> <li>• Freedom of association, including the existence of work councils</li> <li>• Collective bargaining</li> <li>• Work-life balance</li> <li>• Health and safety</li> </ul>
		<ul style="list-style-type: none"> <li>• Equal treatment and opportunities for all</li> </ul>	<ul style="list-style-type: none"> <li>• Gender equality and equal pay for work of equal value</li> <li>• Training and skills development</li> <li>• The employment and inclusion of persons with disabilities</li> <li>• Measures against violence and harassment in the workplace</li> <li>• Diversity</li> </ul>
		<ul style="list-style-type: none"> <li>• Other work-related rights</li> </ul>	<ul style="list-style-type: none"> <li>• Child labour</li> <li>• Forced labour</li> <li>• Adequate housing</li> </ul>

<sup>7</sup> The undertaking shall include all the information prescribed in ESRS E1 irrespective of the outcome of the materiality assessment.

[Draft] topical ESRS	Sustainability matters covered in [draft] topical ESRS		
	Topic	Sub-topic	Sub-sub-topics
			<ul style="list-style-type: none"> <li>Water and sanitation</li> <li>Privacy</li> </ul>
[draft] ESRS S3	Affected communities	<ul style="list-style-type: none"> <li>Communities' economic, social and cultural rights</li> </ul>	<ul style="list-style-type: none"> <li>Adequate housing</li> <li>Adequate food</li> <li>Water and sanitation</li> <li>Land-related impacts</li> <li>Security-related impacts</li> </ul>
		<ul style="list-style-type: none"> <li>Communities' civil and political rights</li> </ul>	<ul style="list-style-type: none"> <li>Freedom of expression</li> <li>Freedom of assembly</li> <li>Impacts on human rights defenders</li> </ul>
		<ul style="list-style-type: none"> <li>Particular rights of indigenous communities</li> </ul>	<ul style="list-style-type: none"> <li>Free, prior and informed consent</li> <li>Self-determination</li> <li>Cultural rights</li> </ul>
[draft] ESRS S4	Consumers and end-users	<ul style="list-style-type: none"> <li>Information-related impacts for consumers and/or end-users</li> </ul>	<ul style="list-style-type: none"> <li>Privacy</li> <li>Freedom of expression</li> <li>Access to (quality) information</li> </ul>
		<ul style="list-style-type: none"> <li>Personal safety of consumers and/or end-users</li> </ul>	<ul style="list-style-type: none"> <li>Health and safety</li> <li>Security of a person</li> <li>Protection of children</li> </ul>
		<ul style="list-style-type: none"> <li>Social inclusion of consumers and/or end-users</li> </ul>	<ul style="list-style-type: none"> <li>Non-discrimination</li> <li>Access to products and services</li> <li>Responsible marketing practices</li> </ul>
[draft] ESRS G1	Business conduct	<ul style="list-style-type: none"> <li>Corporate culture</li> <li>Protection of whistle-blowers</li> <li>Animal welfare</li> <li>Political engagement and lobbying activities</li> <li>Management of relationships with suppliers including payment practices</li> </ul>	
		<ul style="list-style-type: none"> <li>Corruption and bribery</li> </ul>	<ul style="list-style-type: none"> <li>Prevention and detection including training</li> <li>Incidents</li> </ul>

## **5.2 Application requirements – Estimation using sector averages and proxies**

AR 13. When collecting value chain information as required by paragraph 67~~67~~ is impracticable, the undertaking shall estimate the information to be reported using all reasonable and supportable information. This includes, but is not limited to, 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.

- AR 14. When extending the information about the reporting undertaking to include value chain information in accordance with paragraph 64, only the elements of the value chain with material impacts, risks or opportunities are reported on. For instance, the undertaking may - based on the materiality assessment - consider the matters working conditions and affected communities to be material for a group of farmers, while the CO<sub>2</sub>-emissions are material in other parts of the value chain.

## ***8.2 Application requirements - Content and structure of the sustainability statements***

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- AR 15. As an illustration for paragraph 113 section 8.2 *Content and structure of the sustainability statements* of this [draft] Standard, the undertaking that covers environmental and social matters in the same policy may cross-refer. That means that the undertaking may report on the policy in its environmental disclosures and cross-refer to it from the relevant social disclosures or vice versa. Consolidated presentation of policies across topics is allowed.

## **Appendix C: Qualitative characteristics of information**

This appendix is an integral part of [draft] ESRS 1 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 [draft] ESRS shall meet.

### **Relevance**

- QC 1. Sustainability information is relevant when it may make a difference in the decisions of users under a double materiality approach (see chapter 3 of this [draft] Standard).
- QC 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 information does not need to be a prediction or forecast to have predictive value, but rather has predictive value if employed by users in making their own predictions.
- QC 3. Information has confirmatory value if it provides feedback about (confirms or changes) previous evaluations.
- QC 4. Materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates, as assessed in the context of the undertaking's sustainability reporting (see chapter 3 of this [draft] Standard).

### **Faithful representation**

- QC 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.
- QC 6. A complete depiction of an impact, a risk or an opportunity 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.
- QC 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 shall 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 shall cover both aspirations and factors that could prevent the undertaking from achieving these aspirations in order to have a neutral depiction.
- QC 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, if its 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.
- QC 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

shall be presented with a clear emphasis on their possible limitations and associated uncertainty (see section 7.2 of this [draft] Standard). 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**

- QC 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.
- QC 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.
- QC 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**

- QC 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.
- QC 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 administrative, management and supervisory bodies or their committees.
- QC 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, the 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

- QC 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.
- QC 17. For sustainability disclosures to be concise, they need to (a) avoid generic “boilerplate” information, which 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 shall only include material information. Complementary information presented pursuant to paragraph shall<sup>112</sup> be provided in a way that avoids obscuring material information.
- QC 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 the undertaking’s sustainability-related governance and risk management processes that have changed since the previous reporting period compared to those that remain unchanged.
- QC 19. 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 the 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.
- QC 20. 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 9 of this [draft] Standard). The level of information, granularity and technicality shall be aligned with the needs and expectations of users. Abbreviations shall be avoided and the units of measure shall be defined and disclosed.

## **Appendix D: List of phased-in Disclosure Requirements**

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

<b>[draft] ESRS</b>	<b>Disclosure Requirement</b>	<b>Full name of the Disclosure Requirement</b>	<b>Phase-in or effective date (including the first year)</b>
[draft] ESRS 2	SBM-1	Market position, strategy, business model(s) and value chain	The undertaking shall report the information prescribed by ESRS 2 SBM-1 paragraph 38 (b) breakdown of total revenue by significant ESRS sector and 38(c) for sustainability statements with a reporting period beginning January 1, 2025 or later.
[draft] ESRS E1	E1-9	Potential financial effects from material physical and transition risks and potential climate-related opportunities	<p>The undertaking may omit the information prescribed by ESRS E1-9 for the first year of preparation of its sustainability statements.</p> <p>The undertaking may comply with ESRS E1-9 reporting only qualitative disclosures, for the first three years of preparation of its sustainability statements, if it is impracticable to prepare quantitative disclosures.</p>
[draft] ESRS E2	E2-6	Potential financial effects from pollution-related impacts, risks and opportunities	Except for the information prescribed by paragraph 38(b) on the operating and capital expenditures occurred in the reporting period in conjunction with major incidents and deposits, the undertaking may comply with ESRS E2-6 reporting only qualitative disclosures, for the first three years of preparation of its sustainability statements.
[draft] ESRS E3	E3-5	Potential financial effects from water and marine resources-related impacts, risks and opportunities	The undertaking may comply with ESRS E3-5 reporting only qualitative disclosures, for the first three years of preparation of its sustainability statements.
[draft] ESRS E4	E4-6	Potential financial effects from biodiversity and ecosystem-related impacts, risks and opportunities	The undertaking may comply with ESRS E4-6 reporting only qualitative disclosures, for the first three years of preparation of its sustainability statements.
[draft] ESRS E5	E5-6	Potential financial effects from resource use and circular economy-related impacts, risks and opportunities	The undertaking may comply with ESRS E5-6 reporting only qualitative disclosures, for the first three years of preparation of its sustainability statements.
[draft] ESRS S1	S1-6	Characteristics of the Undertaking's employees	The undertaking may omit the gender breakdowns required in paragraph 51 (b) for the first year of preparation of its sustainability statements.
[draft] ESRS S1	S1-7	Characteristics of non-employee workers in the undertaking's own workforce	The undertaking may omit reporting for all datapoints in this Disclosure Requirement for the first year of preparation of its sustainability statements.
[draft] ESRS S1	S1-8	Collective bargaining coverage and social dialogue	The undertaking may omit this Disclosure Requirement on non-employee workers in own workforce and non-EEA countries for the first year of preparation of its sustainability statements.
[draft] ESRS S1	S1-10	Adequate wages	The undertaking may omit reporting on adequate wages for non-employee workers in own workforce for the first year of preparation of its sustainability statements.

<b>[draft] ESRS</b>	<b>Disclosure Requirement</b>	<b>Full name of the Disclosure Requirement</b>	<b>Phase-in or effective date (including the first year)</b>
<b>[draft] ESRS S1</b>	<b>S1-11</b>	<b>Social protection</b>	The undertaking may omit reporting on non-employee workers for the first year of preparation of its sustainability statements.
<b>[draft] ESRS S1</b>	<b>S1-13</b>	<b>Training and skills development indicators</b>	The undertaking may omit the breakdowns by employee category defined in paragraphs 80 (a) and (b) for the first year of preparation of its sustainability statements.

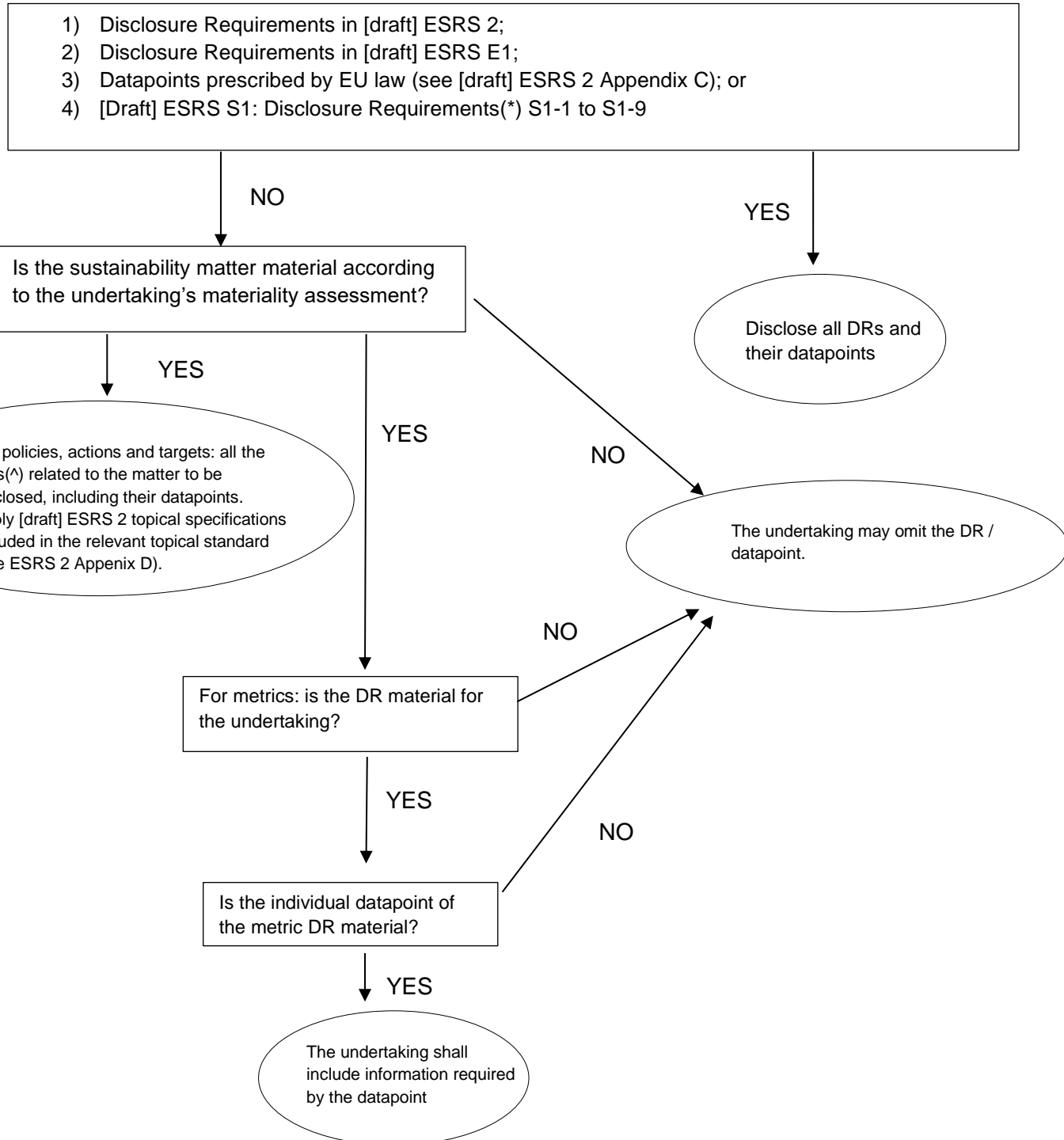
## **Appendix E: Structure of ESRS sustainability statements**

This appendix is an integral part of [draft] ESRS 1 and has the same authority as the other parts of the [draft] Standard with respect to reporting in four parts as outlined in paragraph.113

<b>Part of the management report</b>	<b>[draft] ESRS codification</b>	<b>Title of [draft] ESRS</b>
1. General information	[draft] ESRS 2	<i>General disclosures</i> , including information provided under the Application Requirements of [draft] topical ESRS listed in [draft] ESRS 2 Appendix D.
2. Environmental information	[draft] ESRS E1	<i>Climate change</i>
	[draft] ESRS E2	<i>Pollution</i>
	[draft] ESRS E3	<i>Water and marine resources</i>
	[draft] ESRS E4	<i>Biodiversity and ecosystems</i>
	[draft] ESRS E5	<i>Resource use and circular economy</i>
3. Social information	[draft] ESRS S1	<i>Own workforce</i>
	[draft] ESRS S2	<i>Workers in the value chain</i>
	[draft] ESRS S3	<i>Affected communities</i>
	[draft] ESRS S4	<i>Consumers and end-users</i>
4. Governance information	[draft] ESRS G1	<i>Business conduct</i>

## **Appendix F: Flowchart for determining disclosures to be included**

This appendix complements [draft] ESRS 1. It provides a non-binding illustration of the materiality assessment outlined in section 3.2 *Material matters and materiality of information* that leads to the identification of the information to be included in the sustainability statements.



(\*) only for undertakings with 250 or more employees

(^) Disclosure Requirements

## Appendix G: Example of structure of ESRS sustainability statements

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

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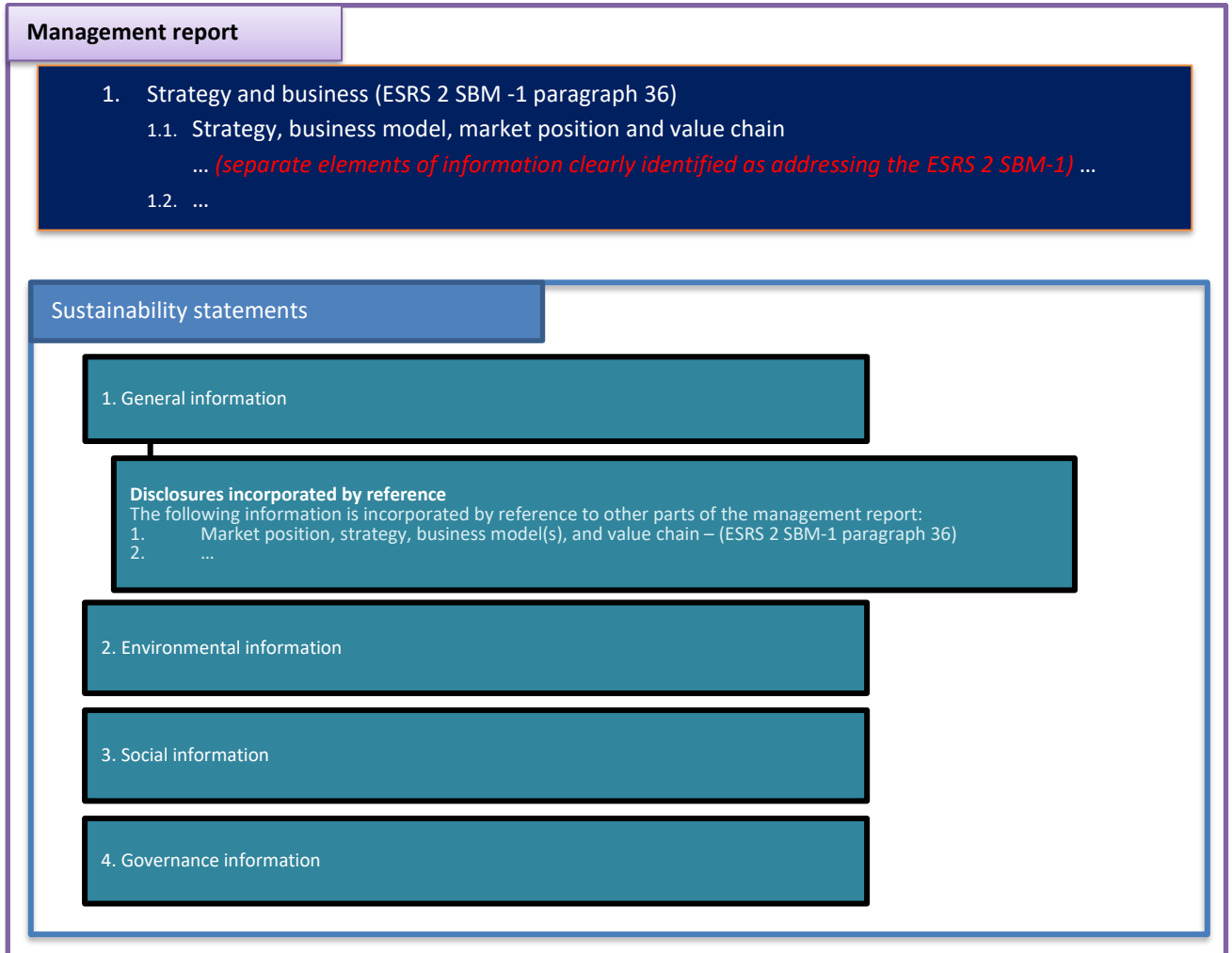




## Appendix I

## Reference

This appendix complements [draft] ESRS 1. It provides non-binding illustrations of incorporation by reference of another section of the management report into the sustainability statements as outlined in section 9.1 of this [draft] Standard.





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