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Log of explanations approved by SR TEG

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Cross-Cutting

ID 41 – Financial institutions – scope of reporting boundary

Question asked

What is the scope of own operations for an insurance company under ESRS? Is it the same as under Solvency II, i.e. do the ESRS standards relate only to insurers' non-life insurance activities (fire, health, damage to vehicles, third part liability, assistance, legal expenses etc.), or also to investment activities? How should the sustainability report address Insurance with profit participation?

ESRS reference

ESRS 1, Chapter 5.1, paragraphs 62 and 63

Key terms: Insurance, financial institutions, own operations, investment activities, investments, reporting boundary

Background

Articles 19(a)(3) and 29(a)(3) of the Accounting Directive (Directive 2013/34/EU) require that reported information relates to the undertaking's own operations and its upstream and downstream value chain.

ESRS do not define an undertaking's 'own operations'.

Answer

ESRS 1 paragraph 62 clarifies that the sustainability statement shall be prepared for the same reporting undertaking as the financial statements. Therefore, the scope of own operations for an insurance company is guided by financial reporting requirements and is not necessarily the same as under Solvency II. Refer also to Chapter 2.3 of the Value chain implementation guidance (IG 2).

Following the definition of business relationship in Annex 2 of the ESRS Delegated Act, the investments (including those related to insurances with profit participation) fall under the scope of an undertaking's business relationships. Therefore, investments are considered part of the value chain and are subject to consideration in the materiality assessment of impacts, risks and opportunities as established in ESRS 1 paragraph 63. Also refer to FAQ 2 in (Draft) IG 2 Value chain. When the undertaking has identified material impacts, risks or opportunities that are connected to an investment business relationship, it must disclose them (ESRS 1 Chapter 5 *Value chain*).

Regarding investment activities, the sector-agnostic ESRS do not provide Disclosure Requirements concerning specific metrics apart from GHG Scope 3. For GHG Scope 3, Category 15 (Investments) is to be provided, it is determined to be a significant category in accordance with ESRS E1 paragraphs 44(c), AR 39(a), AR 46 and AR 48.

EFRAG expects to add more guidance on these aspects in the forthcoming sector ESRS.

ID 148 – Scope of consolidation for non-EU and unconsolidated subsidiaries

Question asked

Shall the (consolidated) sustainability statement of a parent company include all its subsidiaries even if some of them:

- (a) are located out-side of the EU and/or
- (b) if some are not consolidated for financial statements purposes?

ESRS reference

ESRS 1 paragraph 62

Key terms

Subsidiaries outside the EU; non-consolidated subsidiaries

Background

[Note: The secretariat received the following question: ‘Does the (consolidated) sustainability statement of a parent company have to include all its subsidiaries even if some of them are located out-side of the EU and/or if some are not (financially/legally) consolidated?’ and changed it to the above.]

ESRS 1 paragraph 62 states: ‘The sustainability statement shall be for the same reporting undertaking as the financial statements. For example, if the reporting undertaking is a parent company required to prepare consolidated financial statements, the sustainability statement will be for the group.’

ESRS 1 paragraph 90 states: ‘Data and assumptions used in preparing the sustainability statement shall be consistent to the extent possible with the corresponding financial data and assumptions used in the undertaking’s financial statements.’

ESRS 1 paragraph 102: ‘When the undertaking is reporting at a consolidated level, it shall perform its assessment of material impacts, risks and opportunities for the entire consolidated group regardless of its group legal structure.’

The scope of consolidation for undertakings organised as a group is determined by either IFRS or national accounting laws, considering the requirements of the Accounting Directive (Directive 2013/34/EU, specifically Article 21). Exemptions from the consolidation of subsidiaries are provided under Article 23(9) and (10) of the Accounting Directive.

In addition to these provisions in some national laws subsidiaries are sometimes excluded from financial consolidation based on materiality considerations for practical reasons, even though an obligation to consolidate them exists.

Answer

The starting point of the sustainability statement is the perimeter used for financial reporting.

The consolidated sustainability statement of a parent company must include all its subsidiaries in line with the scope of consolidation in financial reporting, even if some of them are located outside of the EU for completeness.

The undertaking performs its assessment of material impacts, risks and opportunities for the entire consolidated group. Subsidiaries that are immaterial for financial statements and excluded

on an exceptional basis for practical considerations or in line with national accounting law from the scope of consolidation in the financial statements may still be material from a double materiality point of view. When this happens, they shall be included in the sustainability statement, despite them having been excluded from the consolidated financial statements.

See also IG 1 *Materiality assessment* FAQ 22: *Is a multi-sector group required to include metrics for the entire group or only data related to the material IRO?*

ID 286 – Financial year different from calendar year

Question asked

Is it possible to report some metrics on a (deviating) financial year and other metrics on a calendar year basis? For example, if the financial year is from 1 July to 30 June, can the energy consumption in metrics be based on the energy bill on a calendar year basis?

ESRS reference

ESRS 1 chapter 2 *Qualitative characteristics of information* (paragraphs QC5 and QC9); ESRS 1 chapter 6.1 *Reporting period*; ESRS 1 chapter 7.2 *Sources of estimation and outcome uncertainty* (paragraphs 88 and 90); ESRS 2 BP-2 – *Disclosures in relation to specific circumstances* (paragraphs 6 and 8)

Key words

Financial year different from calendar year, metrics

Background

The reporting period for the undertaking's sustainability statement shall be consistent with that of its financial statements (ESRS 1 paragraph 73). Data and assumptions used in preparing the sustainability statement shall be consistent to the extent possible with the corresponding financial data and assumptions used in the undertaking's financial statements (ESRS 1 paragraph 90).

When making estimates, the qualitative characteristics of information shall be considered (see ESRS 1 chapter 2). Faithful representation requires information to be (i) complete, (ii) neutral and (iii) accurate. 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.

An undertaking shall disclose information to enable users to understand the most significant uncertainties affecting the quantitative metrics and monetary amounts reported in its sustainability statement (ESRS 1 paragraph 88).

ESRS 1 paragraph 69 states: 'There are circumstances where the undertaking cannot collect the information about its upstream and downstream value chain as required by paragraph 63 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.'

ESRS E1 paragraph AR 42 states with respect to Disclosure Requirements E1-6 - *Gross Scopes 1, 2, 3, and Total GHG emissions*: 'An undertaking might have a different reporting period from some or all of the entities in its value chain. In such circumstances, the undertaking is permitted to measure its GHG emissions in accordance with paragraph 44 using information for reporting periods that are different from its own reporting period if that information is obtained from

entities in its value chain with reporting periods that are different from the undertaking's reporting period, on the condition that:

- (a) the undertaking uses the most recent data available from those entities in its value chain to measure and disclose its greenhouse gas emissions;
- (b) the length of the reporting periods is the same; and
- (c) the undertaking discloses the effects of significant events and changes in circumstances (relevant to its GHG emissions) that occur between the reporting dates of the entities in its value chain and the date of the undertaking's general purpose financial statements.'

Answer

No, it is not possible to report metrics for a period which deviates from the financial year.

The reporting period for the undertaking's sustainability statement shall be consistent with that of its financial statements. Accordingly, the undertaking shall use consistent assumptions adopted in the preparation of the financial statements for all metrics.

When reporting for a financial year from 1 July to 30 June, an undertaking starting for example from the calendar year energy bill as a basis to calculate the energy consumption, shall make appropriate adjustments when this is necessary to properly depict the effective usage during the period running from 1 July to 30 June.

There are special provisions for ESRS E1 Disclosure Requirement E1-6 dealing with situations where an undertaking has a different reporting period from some or all of the entities in its value chain.

ID 291 – Phase-in 750 employees and topical standards

Question asked

Are the ESRS 2 related Disclosure Requirements in topical standards also subject to the one- / two-year phase-in of ESRS 1 for 750 or less employee undertakings?

ESRS reference

ESRS 1 Appendix C: *List of phase-in Disclosure Requirements*;

Key terms; Phase-in 750 employees; ESRS 2 related disclosures in topical standards

Background

For the topical standards of ESRS E4, S1, S2, S3 and S4, ESRS 1 Appendix C has the following phase-in provision for **all disclosure requirements** of the respective ESRS:

'Undertakings or groups not exceeding on their balance sheet dates the average number of 750 employees during the financial year (on a consolidated basis where applicable) may omit the information specified in the disclosure requirements of ESRS (reference of the standard, see above) for the first two years (for ESRS S1, "first year") of preparation of their sustainability statement.'

ESRS 2 paragraph 2 states: 'In the preparation of disclosures under this Standard, the undertaking shall apply the Disclosure Requirements (including their datapoints) set in topical ESRS, as listed in Appendix C of this Standard Disclosure/Application Requirements in topical ESRS that are applicable jointly with ESRS 2 General Disclosures. The undertaking shall apply the requirements listed in Appendix C: (a) in all instances for the requirements in topical standards related to Disclosure Requirement IRO-1 Description of the processes to identify and assess material

impacts, risks and opportunities; and (b) for all other requirements listed in Appendix C only if the sustainability topic is material based on the undertaking's materiality assessment (see ESRS 1 Chapter 3 *Double materiality* as the basis for sustainability disclosures).'

ESRS 2 paragraph 17 states: 'If an undertaking or group not exceeding on its balance sheet date the average number of 750 employees during the financial year decides to omit the information required by ESRS E4, ESRS S1, ESRS S2, ESRS S3 or ESRS S4 in accordance with Appendix C of ESRS 1, it shall nevertheless disclose whether the sustainability topics covered respectively by ESRS E4, ESRS S1, ESRS S2, ESRS S3 and ESRS S4 have been assessed to be material as a result of the undertaking's materiality assessment. In addition, if one or more of these topics has been assessed to be material, the undertaking shall, for each material topic:

- (a) disclose the list of matters (i.e., topic, subtopic or sub-subtopic) in AR16 ESRS1 Appendix A that are assessed to be material and briefly describe how the undertaking's **business model** and strategy take account of the impacts of the undertaking related to those matters. The undertaking may identify the matter at the level of topic, subtopic or sub-subtopic;
- (b) briefly describe any time-bound **targets** it has set related to the matters in question, the progress it has made towards achieving those targets, and whether its targets related to **biodiversity** and **ecosystems** are based on conclusive scientific evidence;
- (c) briefly describe its **policies** in relation to the matters in question;
- (d) briefly describe **actions** it has taken to identify, monitor, prevent, mitigate, remediate or bring an end to actual or potential adverse impacts related to the matters in question, and the result of such actions; and;
- (e) disclose **metrics** relevant to the matters in question.'

Answer

Yes.

ESRS 1 Appendix C states that the phase-in provisions relate to all disclosure requirements of the topical standards. The term 'all disclosure requirements' also includes Disclosure Requirements in the respective chapters in 'ESRS 2 *General Disclosures*' of the topical standards ESRS E4, S1, S2, S3 and S4.

However, the provisions of ESRS 1 Appendix C in relation to phase-in are to be read in conjunction with ESRS 2 paragraph 17, which establishes minimum disclosures for the topics that have been phased in and that are material to the undertaking. To comply with these minimum disclosures, a materiality analysis at the topical level is therefore needed to identify the material topics of ESRS E4, S1, S2, S3 or S4. Reference is made to ID 58 – *Transitional provisions 750 employees* explaining the requirements of ESRS 2 paragraph 17.

ID 293 – Relationship of strategy and policy

Question asked

What is developed first: the strategy or the policy related to sustainability matters?

ESRS reference

ESRS 2 Disclosure Requirement SBM-1 and MDR-P of ESRS 2; definition of policies in the Defined terms

Key terms

Setting strategy and defining policies

Background

ESRS 2 paragraph 38: 'The undertaking shall disclose the elements of its strategy that relate to or impact sustainability matters, its business model and its value chain.'

ESRS 2 paragraph 63: 'The undertaking shall apply the minimum disclosure requirements defined in this provision when it discloses the policies it has in place with regard to each sustainability matter identified as material.'

A policy according to the Defined Terms 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.'

Answer

While ESRS set disclosure requirements, they do not prescribe behavioural obligations in respect to strategy and policies.

The development of a strategy or policy related to sustainability matters is determined by the undertaking's governance bodies.

ID 306 – Location of MDR in the report during phase-in 750 employees

Question asked

In the first years of the phase-in 750 employees, where should the disclosures required by Disclosure Requirement BP-2 of ESRS 2 (paragraph 17) be reported?

ESRS reference

ESRS 1 paragraph 115 ; ESRS 2 MDR paragraph 61 and 71

Key words

Structure of the ESRS sustainability statement during phase in 750 employees

Background

ESRS 1 paragraph 115 states: 'The undertaking shall structure its sustainability statement in four parts, in the following order: general information, environmental information, social information and governance information . . . When information provided in one part contains 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 F . . .' of ESRS 1.

ESRS 2 paragraph 61 states in respect of policies and targets: 'The minimum disclosure requirements on policies and actions shall be located alongside disclosures prescribed by the relevant ESRS. When a single policy or same actions address several interconnected sustainability matters, the undertaking may disclose the required information in its reporting under one topical ESRS and cross-reference to it in its reporting under other topical ESRS.'

ESRS 2 paragraph 71 states in respect of metrics and targets: 'The corresponding disclosures shall be located alongside disclosures prescribed by the topical ESRS.'

Answer

The undertaking shall structure its sustainability statement in four parts (ESRS 1 paragraph 114).

ESRS 2 Disclosure Requirement BP-2 (including its paragraph 17) is part of the general information required by ESRS 2 and as such, on a literal reading of ESRS 1 paragraph 114, could be disclosed as part of the general information, for example, together with the Disclosure Requirement SBM-3 *Material impacts, risks and opportunities and their interaction with strategy and business model*.

However, based on ESRS 1 paragraph 115, environmental, social and governance related information can – appropriately cross-referenced - also be disclosed with the respective environmental, social and governance related parts of the sustainability statement. This is in line with ESRS 2 paragraph 61 on the minimum disclosure requirement for policies and actions and with ESRS 2 paragraph 71 on metrics and targets, both allowing information to be located alongside disclosures prescribed by the relevant topical ESRS.

ID 335 – Applicability of EU datapoints – Appendix B

Question asked

Are ESRS 2 Appendix B datapoints (other EU legislation) applicable for all undertakings or for financial institutions only?

ESRS reference

ESRS 2 Appendix B; ESRS 1 chapter 10.2, paragraphs 35 and 133

Key terms

Appendix B (other EU legislation) datapoints; non-financial undertakings

Background

The question initially received by EFRAG from the submitter was referring to ESRS 1 chapter 10.2 paragraph 133 and read as follows: ‘What is the rationale for making the exception to the transitional provision for datapoints that have their origin in certain EU legislation (Appendix B of ESRS 2) applying to a very specific set of companies (e.g., financial institutions)? Why not make a separate list of datapoint exceptions with an explanation of why these datapoints are an exception?’

ESRS 1 paragraph 133 states: ‘For the first 3 years of its sustainability reporting under the ESRS, in order to take account of the difficulties that undertakings may encounter in gathering information from actors throughout their value chain and in order to limit the burden for SMEs in the value chain: . . .

(b) when disclosing metrics, the undertaking is not required to include upstream and downstream value chain information, except for datapoints derived from other EU legislation, as listed in ESRS 2 Appendix B.’

ESRS 2 Appendix 2 includes the list of datapoints in cross-cutting and topical standards that derive from other EU legislation. These datapoints provide information from all undertakings subject to ESRS for financial institutions to support them in financing the transition according to the ‘green deal.’

ESRS 1 paragraph 35 states: ‘If the undertaking omits the information prescribed by a datapoint that derives from other EU legislation listed in Appendix B of ESRS 2, it shall explicitly state that the information in question is “not material”.’

ESRS 2 IRO2 paragraph 56 states: ‘The undertaking shall also include a table of all the datapoints that derive from other EU legislation as listed in Appendix B of this standard, indicating where they can be found in the sustainability statement and including those that the undertaking has

assessed as not material, in which case the undertaking shall indicate “Not material” in the table in accordance with ESRS 1 paragraph 35.’

As similar questions related to ‘other EU legislation datapoints’ have been received by EFRAG, the question answered in this explanation was modified to be more generally applicable as stated above.

Answer

Yes, appendix B datapoints (other EU legislation) are applicable for all undertakings in the scope of the CSRD/ESRS.

ESRS do not specify that datapoints listed in Appendix B of ESRS 2 are exclusively applicable to undertakings in specific sectors, such as financial institutions. This is because these datapoints provide information from all ESRS-reporters enabling financial institutions to meet their obligations under the SFDR, thereby assisting them in financing the transition in alignment with the EU Green Deal, as they are designed to support the availability of information regarding their investees and clients.

Datapoints that derive from other EU legislation listed in Appendix B of ESRS 2 must be provided irrespective of the materiality assessment if the corresponding requirement is in ESRS 2 (e.g., ESRS 2 GOV-1, Board gender diversity). If the corresponding requirement is in the topical standards, they are subject to the materiality assessment.

In all cases, the undertaking should publish a table containing all the information required by other EU legislations, specifying the page of the sustainability statement where this information is located or indicating ‘not material’ if the company has deemed it as such, as required by ESRS 2 IRO-2.

ID 395 – Net Revenue

Question asked

What does net revenue mean? How is it calculated?

ESRS Reference

All Disclosure Requirements requiring a breakdown of revenue, or an intensity metric based on net revenue. For example: ESRS 2 Disclosure requirement SBM-1 *Strategy, business model and value chain*, paragraph 40 (b); ESRS E1 Disclosure Requirement E1-5 *Energy consumption and mix* paragraph 40; ESRS E1 Disclosure Requirement E1-6 *Gross scopes 1,2,3 and Total GHG emissions* paragraph 53; ESRS Disclosure requirement E3-4 *Water consumption* paragraph 29.

Key terms: Net revenue, Net turnover

Background

ESRS E1 paragraph AR36(e) states: ‘When preparing the information on energy intensity required under paragraph 40, the undertaking shall calculate the net revenue in line with the accounting standards requirements applicable for the financial statements, i.e., IFRS 15 Revenue from Contracts with Customers or local GAAP requirements’.

The delegated act specifying Article 8 of the Taxonomy Directive related to taxonomy disclosures uses ‘net turnover’ and ‘net revenue’ as synonyms.

‘Net turnover’ (which is a synonym of ‘net revenue’) is defined in the Accounting Directive (Directive 2013/34/EU Article 2 (5)): ‘net turnover’ means the amounts derived from the sale of products and the provision of services after deducting sales rebates and value added tax and

other taxes directly linked to turnover; however, for **insurance undertakings** referred to in point (a) of the first subparagraph of Article 1(3) of this Directive, 'net turnover' shall be defined in accordance with Article 35 and point 2 of Article 66 of Council Directive 91/674/EEC; for **credit institutions** referred to in point (b) of the first subparagraph of Article 1(3) of this Directive, 'net turnover' shall be defined in accordance with point (c) of Article 43(2) of Council Directive 86/635/EEC; and for undertakings falling under the scope of Article 40a(1) of this Directive, 'net turnover' means the revenue as defined by or within the meaning of the financial reporting framework on the basis of which the financial statements of the undertaking are prepared

Answer

The undertaking shall report net revenue in line with the amount presented in the income statement of its financial statements calculated in accordance with the applicable accounting standards, i.e., IFRS 15 *Revenue from Contracts with Customers* and other applicable IFRS or national generally accepted accounting principles (national GAAP) in line with the Accounting Directive (Directive 2013/34/EU).

Reference is made to ID 482 *Breakdown of total revenue – financial institutions*.

Supporting material

Delegated act (EU) 2021/2178 supplementing Regulation (EU) 2020/852 specifying the content and presentation to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities and specifying the methodology to comply with that disclosure obligation, Annex I paragraph 1.1.1 (Delegated act specifying article 8 of the Taxonomy Directive) states: '...net turnover (denominator) as defined in Article 2, point (5), of Directive 2013/34/EU. The turnover shall cover the revenue recognised pursuant to International Accounting Standard (IAS) 1, paragraph 82(a), as adopted by Commission Regulation (EC) 1126/20081.'

ID 401 – Include quantitative information in qualitative information

Question asked

When completing the narrative response for the 'Description of the key products and materials that come out of the undertaking's production process', can the quantitative metrics that are also required to be disclosed be included (i.e., the total waste generated in mass)? Additionally, can derivative metrics that are not required but that provide additional detail such as total waste to revenue or total waste to enterprise value be included in the narrative response?

ESRS Reference

ESRS Disclosure Requirement E5-5

Key terms

Quantitative metrics

Background

ESRS E5-5 states that an undertaking shall disclose information on its resource inflows, including waste, related to its material impacts, risks and opportunities.

ESRS 1 paragraph 19 states that the undertaking shall apply the qualitative characteristics of information (Appendix B of ESRS 1).

ESRS 1 paragraph 11 requires additional entity-specific disclosures when needed to enable users to understand the undertaking's sustainability-related impacts, risks or opportunities.

ESRS 2 paragraph 73 notes that the undertaking shall apply the requirements for the content of disclosures in this provision when it discloses on the metrics it has in place with regard to each material sustainability matter.

ESRS 2 paragraph 75 notes that the undertaking shall disclose any metrics that it uses to evaluate performance and effectiveness in relation to a material impact, risk or opportunity.

Answer

Yes, it is allowed, or even required, on an entity-specific basis following ESRS 1 paragraph 11 to include quantitative data in the description of resource inflows and to disclose additional non-standardised metrics when such quantitative data are needed to enable users to understand the undertaking's sustainability-related impacts, risks or opportunities. This approach is not only valid for the disclosures in E5-5 but in general for all the qualitative disclosures in ESRS.

ID 461 – Sustainability statement – ESRS 1 Flowchart E and Disclosure of transition plans and processes

Question asked

Why in the Flowchart in Appendix E of ESRS 1 are transition plans mentioned together with policies, actions and targets?

ESRS Reference

ESRS 2 paragraphs 62 and 72; and Appendix E: Flowchart for determining disclosures under ESRS; ESRS E1 Disclosure Requirement E1-1: *Disclosure Requirements related to climate change transition plan*

(Note: the disclosure of the transition plan related to biodiversity is voluntary (ESRS E4 Disclosure Requirement E4-1); as such it is not in the scope of this explanation).

Key terms

Disclosure of transition plans, minimum disclosure requirements

Background

[The question received: 'What is the logic according to Flowchart E of ESRS 1 for determining Disclosure Requirements for transition plans and processes?' has been reworded to the above to be clearer.]

ESRS 1 Appendix E – *Flowchart for determining disclosures under ESRS* presents the reasoning to determine disclosures when a topic covered by a topical standard is material. In such case, the related policies, actions and targets shall be disclosed, or it shall be stated that the undertaking does not have policies, actions and/or targets related to the material sustainability matter. The undertaking may report a timeframe in which it aims to have these in place (ESRS 1 paragraph 33).

ESRS 1 Appendix E – *Flowchart for determining disclosures under ESRS* states: ‘... Disclosure Requirements in relation to action plans, targets, policies, scenario analysis and transition plans are proportionate because they are contingent on the undertaking having these, ...’

ESRS 1 Appendix E – *Flowchart for determining disclosures under ESRS* does not include information on the Disclosure Requirements related to transitions plans (E1-1 and E4-1). It does not include, either, information on the Disclosure Requirements related to the processes in the ESRS S1 to S4: Processes for engaging with stakeholders about impacts (S1-2, S2-2, S3-2 and S4-2) and processes to remediate negative impacts and channels for stakeholders to raise concerns (S1-3, S2-3, S3-3 and S4-3).

ESRS E1-1 paragraph 17 states: ‘In case the undertaking does not have a transition plan in place, it shall indicate whether and, if so, when it will adopt a transition plan.’

The Glossary of Terms defines ‘Actions’ as: ‘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.’

The Glossary of Terms defines ‘**Transition plan**’ as: ‘A specific type of action plan that is adopted by the undertaking in relation to a strategic decision and that addresses:

- (1) a public policy objective; and/or
- (2) 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.’

Answer

The Flowchart E of ESRS 1 provides an illustration of the provisions in ESRS on materiality.

The Flowchart refers to actions (as well as policies and targets) which by definition also comprises transition plans.

Transition plans are an area of disclosure that have characteristics in common with policies, targets, and actions. Climate transition plans for example are effectively action plans to achieve the targets for carbon emissions.

Environmental

ID 208 – GHG emission calculation

Question asked

The undertaking shall disclose in metric tonnes of CO₂eq its (a) gross Scope 1 GHG emissions, (b) gross Scope 2 GHG emissions, (c) gross Scope 3 GHG emissions and (d) total GHG emissions. The question is, how could this be done? What methodologies should be used and where can they be found? What exactly are the equivalents for the calculation? Offer interesting, concrete examples.

ESRS reference

ESRS E1 paragraphs 44, and AR39

GHG protocol

Background

ESRS E1 paragraph 44 states that ‘the undertaking shall disclose in metric tonnes of CO₂eq its gross Scope 1 GHG emission, gross Scope 2 GHG emission, gross Scope 3 GHG emission and total GHG emission’.

The Disclosure Requirements E1-6 – Gross Scopes 1,2,3 and Total GHG emission give some details on the calculation guidance for GHG emission. ESRS E1 paragraph AR39 states that the undertaking shall consider the principles, requirements and guidance provided by the GHG Protocol Corporate Standard (version 2004). The undertaking may consider the Commission Recommendation (EU) 2021/2279 or the requirements stipulated by EN ISO 14064-1:2018.

CO₂e is a unit used in GHG accounting that reflects the amount of carbon dioxide (CO₂) emission that would cause the same integrated radiative forcing or temperature change over a given time horizon as an emitted amount of a greenhouse gas (GHG) or a mixture of GHGs. To calculate emissions in CO₂e, the different Global Warming Potential (GWP) of GHGs should be used. GWPs are used to evaluate releasing (or avoid releasing) different greenhouse gases on a common basis – commonly, one tonne of CO₂. As per ESRS E1 paragraph AR39, when reporting emissions the undertaking shall ‘use the most recent Global Warming Potential (GWP) values published by the [IPCC](#) based on a 100-year time horizon to calculate CO₂eq emissions of non-CO₂ gases’.

Answer

How can GHG emissions be calculated and what methodologies can be used?

The undertaking shall consider the principles, requirements and guidance provided by the GHG Protocol Corporate Standard (version 2004). The undertaking may consider Commission Recommendation (EU) 2021/2279 or the requirements stipulated by EN ISO 14064-1:2018. This gives further details on GHG emission calculation guidance.

If further support is needed, the [GHG Protocol website](#) also provides further guidance, calculation tools and online training on GHG accounting.

It is to be noted that ESRS are specifying some of the applications of the GHG protocol in particular in respect of operational control (see ESRS E1 paragraphs 46 and 50).

What exactly are the CO₂ equivalents used for the calculation?

When expressing its GHG emissions, the user shall make it in units of tCO₂e, using the latest Global Warming Potential (GWP) values published by the IPCC based on a 100-year time horizon. CO₂eq is the universal unit of measurement to indicate the global warming potential (GWP) of each greenhouse gas, expressed in terms of the GWP of one unit of carbon dioxide. It is used to evaluate releasing different greenhouse gases on a common basis. GWP is a factor describing the radiative forcing impact (degree of harm to the atmosphere) of one unit of a given GHG relative to one unit of CO₂. The current list is the one in the IPCC’s 6th Assessment Report, [Chapter 7SM3](#).

ID 251 – Emission factors disclosure

Question asked

Does the disclosure of emission factors include the values in, for example, 500 gCO₂e/kWh, or is the description of the emission factor related to the source of the emission factor sufficient? Is the reporting organisation obliged to make the calculation tools publicly accessible or is only the access for auditors and EU/national authorities mandatory?

ESRS reference

ESRS E1 paragraph 39(b)

Background

ESRS E1 paragraph AR 39(b) states: 'The undertaking shall disclose the methodologies, significant assumptions and emissions factors used to calculate or measure GHG emissions accompanied by the reasons why they were chosen and provide a reference or link to any calculation tools used'.

Answer

Users of information should be able to understand how the GHG inventory figures have been compiled. For these purposes, it may be sufficient to refer to the sources of emission factors (EF) without providing the actual figures – which could result in too detailed a reporting and potentially obscure the relevant information. Alternatively, where the EF is a key determinant of a significant reported figure, it may be useful to disclose the actual values of an emission factor. It is up to the preparer to make the determination of when it is most appropriate to disclose just the source of EFs or to disclose the EF value.

ID 350 – Gross risk

Question asked

ESRS E1 paragraph 20 b(ii) and 20 c(ii) make reference to 'Gross' risk, yet 'Gross Risk' (or comparable terms) is not included in the ESRS Glossary (i.e., is not clearly defined). Is it correct to say that climate risk and scenario analysis/assessments processes should be done on an inherent/gross (i.e., pre-control/mitigation strategy) risk (not a residual/net risk post-control/mitigation) basis?

ESRS reference

ESRS E1 paragraphs 20 b(ii), and 20 c(ii)

Background

ESRS E1 paragraph 20 b(ii) states: 'The undertaking shall describe the process to identify and assess climate-related impacts, risks and opportunities. This description shall include its process in relation to: ...

(b) climate-related physical risks in own operations and along the upstream and downstream value chain, in particular: ...

ii. the assessment of how its assets and business activities may be exposed and are sensitive to these climate-related hazards, creating **gross physical risks** for the undertaking;

(c) climate-related transition risks and opportunities in own operations and along the upstream and downstream value chain, in particular: ...

ii. the assessment of how its assets and business activities may be exposed to these climate-related transition events, creating **gross transition risks** or opportunities for the undertaking.'

ESRS 2 Disclosure Requirement IRO-1 details the processes to identify and assess climate-related impacts, risks and opportunities. It requires the assessment of gross material risks. This process

allows to respond to ESRS 2 Disclosure Requirement SBM-3, which introduces the description of business resilience in relation to climate change. The actions and resources to mitigate material risks will lead to residual net risks. The climate risk and scenario analysis/assessments processes should be done on a gross basis.

Answer

As stated in ESRS E1 paragraph 20, the undertaking shall describe the process to identify and assess climate-related impacts, risks and opportunities. This assessment refers to gross physical and transition risks. Gross risks means that the undertaking should not consider the effects of the actions and resources to mitigate the material risk when assessing it.

When disclosing the information required under ESRS E1 paragraphs 20(b) and 20(c), the undertaking shall explain how it has used climate-related scenario analysis, including a range of climate scenarios, to inform the identification and assessment of physical risks and transition risks and opportunities over the short-, medium- and long-term.

The assessment of material climate-related impacts, risks and opportunities is performed looking at the gross risk, i.e., before any mitigating actions. The same applies to scenario analysis when it is used to support the identification and assessment of material impacts, risks and opportunities.

When disclosing according to ESRS E1 paragraphs 20 b(ii) and c(ii) consideration should be given to ESRS 1 paragraph 31 that relevant information is disclosed only on the material risks.

Reference is made to (Draft) IG 1 – FAQ 23: *When an undertaking has actions in place to avoid, minimise, restore or compensate environmental impacts, shall it report on the impacts before those actions?* for further explanation.

ID 440 – Pollutants emissions – disaggregation

Question asked

The amount of each pollutant to air, water and soil shall be consolidated over the facilities. Does this mean one single/consolidated value for each pollutant into all categories? Or does this mean one value for emissions into air, one value for emissions into water and one for emissions into soil?

ESRS reference

ESRS Disclosure Requirement E2-4 paragraphs 28 (a), 29, and AR 22

Key terms

Pollution of air, water and soil; consolidation; disaggregation

Background

ESRS E2-4 paragraph 28(a) states: ‘The undertaking shall disclose the **amounts** of . . . **each pollutant listed in Annex II** of Regulation (EC) No 166/2006 of the European Parliament and of the Council (European Pollutant Release and Transfer Register “**E-PRTR Regulation**”) emitted to air, water and soil, with the exception of emissions of GHGs which are disclosed in accordance with ESRS E1 Climate Change’.

ESRS E2-4 paragraph 29 states: ‘The amounts referred in paragraph 28 shall be **consolidated amounts** including the **emissions from** those **facilities** over which the undertaking has **financial control** and those over which it has **operational control**. The consolidation shall include only the

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emissions from facilities for which the applicable threshold value specified in Annex II of Regulation (EC) No 166/2006 is exceeded’.

ESRS E2-4 paragraph AR 22 states: ‘The information required under this Disclosure Requirement shall be **provided at the level of the reporting undertaking**. However, the undertaking **may disclose additional breakdown** including information at site level or a breakdown of its emissions by **type of source**, by sector or by geographical area’.

Regulation (EC) No 166/2006, Article 5(1)(a) on ‘**Reporting by operators**’: ‘The operator of each facility that undertakes one or more of the activities specified in Annex I above the applicable capacity thresholds specified therein shall report the amounts annually to its competent authority, along with an indication of whether the information is based on measurement, calculation or estimation, of . . . **releases to air, water and land of any pollutant** specified in Annex II for which the **applicable threshold value specified in Annex II** is exceeded’.

Answer

In line with the reporting requirements according to the E-PRTR Regulation, undertakings are to disclose the emissions of each pollutant as separate annual amounts for each environmental medium, i.e. released to air, released to water and released to soil. Consolidation refers to the aggregation of pollutant emissions across the different facilities that the undertaking financially or operationally controls (ESRS E2 paragraph 29). The consolidation shall include only the emissions from facilities for which the applicable threshold value specified in Annex II of Regulation (EC) No 166/2006 is exceeded.

The following example illustrates an undertaking that operates two industrial facilities in which the threshold values specified in Annex II of Regulation (EC) No 166/2006 are exceeded:

<u>Pollutant</u>	<u>Releases to air (kg/a)</u>	<u>Releases to water (kg/a)</u>	<u>Releases to soil/land* (kg/a)</u>
...			
<u>Nitrogen oxides (NO_x/NO₂) (threshold value 100.000 kg/a)</u>	<u>xxx</u>	=	=
...			
<u>Chlorides (as total Cl) (threshold value 2 million kg/a)</u>	=	<u>yyy</u>	<u>zzz</u>
...			

*Please note that ESRS E2 uses the terms “emissions” and “soil” whereas the E-PRTR-Regulation uses the terms “releases” and “land”. The terms can be understood interchangeably as regards the disclosures required by ESRS E2 paragraph 28 (a).

In the example, the nitrogen oxide and chlorides represent the consolidated amount from the two facilities.

An undertaking may also disclose additional breakdowns of its emissions by type of source, by sector or by geographical area (ESRS E2 paragraph AR22 and ESRS 1 chapter 3.7 *Level of disaggregation*).

Supporting material

[Regulation \(EC\) No 166/2006 of the European Parliament and of the Council of 18 January 2006 concerning the establishment of a European Pollutant Release and Transfer Register.](#)

ID 441 – Microplastics

Question asked

Is the undertaking required to report on microplastics within the facility ('generated or used')?

ESRS reference

ESRS Disclosure Requirement E2-4 paragraphs 28 (b), and AR 20

Key terms

Microplastics; scope

Background

ESRS E2-4 paragraph 28(b) states: 'The undertaking shall disclose the amounts of . . . microplastics generated or used by the undertaking'.

ESRS E2-4 paragraph AR 20 states: 'The information to be provided on microplastics under paragraph 28(b) shall include microplastics that have been generated or used during production processes or that are procured, and that leave the undertaking's facilities as emissions, as products, or as part of products or services. Microplastics may be unintentionally produced when larger pieces of plastics like car tires or synthetic textiles wear and tear or may be deliberately manufactured and added to products for specific purposes (e.g., exfoliating beads in facial or body scrubs).'

Answer

If material, an undertaking is to provide, as a minimum, information on the microplastics amounts that it generates or uses. These refer to intentional or unintentional generation or use, both through production processes and procurement. For reporting purposes, microplastics leaving the facilities of the undertaking in the form of products, parts of products or services, or emissions are to be considered. Microplastics that stay within the facilities, that are used in production processes and that represent stocks of material used for business processes need not be reported, as they do not leave the facilities.

Legislation on the matter of microplastics is currently evolving; hence, more defined requirements may be expected in the future.

Social

ID 341 – Conditions for Paternity, Maternity, Parental Leave

Question asked

What conditions must be met in order to consider an employee as being entitled to maternity or paternity or parental leave in the meaning of ESRS S1?

ESRS Reference

ESRS S1-15 paragraphs 92, 93, and AR97

Key terms

Work-life balance; family-related leave; maternity leave; paternity leave; carers' leave

Background

The objective of Disclosure Requirement S1-15 is two-fold: 'to provide an understanding of the entitlement and actual practices amongst the employees to take family-related leave.' (ESRS S1 paragraph 92). ESRS S1 paragraph 93(a) requires a disclosure of '(a) the percentage of employees entitled to take family-related leave.' ESRS S1 paragraph 94 adds: 'If all of the undertaking's employees are entitled to family-related leave through social policy and/or collective bargaining agreements, it is sufficient to disclose this in order to meet the requirements of paragraph 93(a).'

ESRS S1 paragraph AR97 explains where the entitlement to family-related leave may derive from: '. . . employees entitled to family-related leave are those who are covered by regulations, organisational policies, agreements, contracts or collective bargaining agreements that contain family-related leave entitlements and have reported their entitlement to the undertaking or the undertaking is aware of the entitlement.'

The relevant definitions, in line with EU legislation on work-life balance, can be found in ESRS S1 paragraph AR96, explaining: 'Family-related leave include maternity leave, paternity leave, parental leave, and carers' leave that is available under national law or collective agreements. For the purposes of this Standard, these concepts are defined as:

- (a) maternity leave (also called pregnancy leave): employment-protected leave of absence for employed women directly around the time of childbirth (or, in some countries, adoption);
- (b) paternity leave: leave from work for fathers or, where and in so far as recognised by national law, for equivalent second parents, on the occasion of the birth or adoption of a child for the purposes of providing care;
- (c) parental leave: leave from work for parents on the grounds of the birth or adoption of a child to take care of that child, as defined by each Member State;
- (d) carers' leave from work: leave for workers to provide personal care or support to a relative, or a person who lives in the same household, in need of significant care or support for a serious medical reason, as defined by each Member State.'

Answer

The entitlement to family-related leave does not depend on any triggering conditions (i.e., as only pregnant employees being entitled). Whether an employee is entitled to family-related leave depends on family-related leave provisions under national law or collective agreements (ESRS S1

paragraph AR96) where specific thresholds of minimum time periods for the employees being employed may exist.

Employees entitled to family-related leave are those who are covered by regulations, organisational policies, agreements, contracts or collective bargaining agreements that contain family-related leave entitlements. The scope of family leave may vary across countries, and such contextual information may be relevant to users.

ID 352 – Work-related ill health and fatalities from ill health

Question asked

With regard to the undertaking's employees, the number of days lost to work-related injuries and fatalities from work-related accidents, work-related ill health and fatalities from ill health': Why is 'work-related' not mentioned in the last part of the data point (fatalities from ill health) but is attached to every other breakdown of this data point?

ESRS Reference

ESRS S1 paragraphs 86, and 88(e)

Key terms

Days lost; fatalities from work-related accidents; fatalities from ill health

Background

ESRS S1 paragraph 86 summarises: 'The undertaking shall disclose information on . . . the number of incidents associated with work-related injuries, ill health and fatalities of its own workforce.'

ESRS S1 paragraph 88 states: 'The disclosure required by paragraph 86 shall include the following information, where applicable broken down between employees and non-employees in the undertaking's own workforce: ... (e) with regard to the undertaking's employees, the number of days lost to work-related injuries and fatalities from work-related accidents, work-related ill health and fatalities from ill health.'

The definition for recordable work-related injury or ill health as provided in Annex II of the Delegated Regulation also does not repeatedly refer to 'work-related' ill health: 'work-related injury or ill health that results in any of the following: i. death, days away from work, restricted work or transfer to another job, medical treatment beyond first aid, or loss of consciousness; or ii. significant injury or ill health diagnosed by a physician or other licensed healthcare professional, even if it does not result in death, days away from work, restricted work or job transfer, medical treatment beyond first aid, or loss of consciousness.'

Answer

The objective of this Disclosure Requirement defines the information to be disclosed under ESRS S1 Disclosure Requirement S1-14 and it describes fatalities to be disclosed that are the result of work-related injuries and work-related ill health. Hence, ESRS S1 paragraph 88(e) refers to work-related ill health.

ID 365 – Significant employment

Question asked

Please confirm that this should be read as disclosing on countries with at least 10% of employees, not EITHER 50 OR 10%: ‘the total number of employees by head count, and breakdowns by gender and by country for countries in which the undertaking has 50 or more employees representing at least 10% of its total number of employees.’

ESRS Reference

ESRS S1 paragraph 50(a), and AR54

Key terms

Significant employment; key characteristics of employees

Background

ESRS S1-6 paragraph 50(a) requires the disclosure of the following information: ‘the total number of employees by head count, and breakdowns by gender and by country for countries in which the undertaking has 50 or more employees representing at least 10% of its total number of employees.’ ESRS S1 paragraph AR54 explains that the ‘number of employees in each country is also a key trigger for many information, consultation and participation rights for workers and workers’ representatives, both in the Union labour acquis and in national law.’ This concept of significant employment is furthermore clarified in Disclosure Requirement S1-8. ESRS S1 paragraph 60(b) defines significant employment as ‘at least 50 employees by head count representing at least 10% of its total number of employees.’

Answer

The breakdown by country must be disclosed for countries where both at least 10% of the undertaking’s employees are employed and the number of employees is at least 50, i.e. both threshold conditions need to be met.

ESRS 1 paragraph 50(a) requires different types of employee information: (a) the total number of employees by head count and (b) breakdowns by gender and by country for countries in which the undertaking has 50 or more employees representing at least 10% of its total number of employees. As illustrated by Table 1 in ESRS S1 paragraph AR 55, the gender breakdown applies to **all** employees, i.e., the minimum employment threshold at the country level for reporting does not apply to this. As illustrated in Table 2 in ESRS S1 paragraph AR 55, the number of employees at the country level is to be reported; however, this reporting is mandatory only for countries in which both threshold conditions apply.

ID 376 – Definition of collective bargaining

Question asked

Please provide a definition of collective bargaining agreement.

ESRS Reference

Disclosure Requirement S1-8

Key terms

Collective Bargaining Agreement

Background

Annex II of the Delegated Regulation defines collective bargaining as follows: 'All negotiations which take place between an employer, a group of employers or one or more employers' organisations, on the one hand, and one or more trade unions or, in their absence, the representatives of the workers duly elected and authorised by them in accordance with national laws and regulations, on the other, for: i. determining working conditions and terms of employment; and/or ii. regulating relations between employers and workers; and/or regulating relations between employers or their organisations and a worker's organisation or workers' organisations.'

Answer

Annex II of the Delegated Regulation provides a definition of collective bargaining based on ILO Convention 154 on Collective Bargaining:

'All negotiations which take place between an employer, a group of employers or one or more employers' organisations, on the one hand, and one or more trade unions or, in their absence, the representatives of the workers duly elected and authorised by them in accordance with national laws and regulations, on the other, for:

- i. determining working conditions and terms of employment; and/or
- ii. regulating relations between employers and workers; and/or regulating relations between employers or their organisations and a worker's organisation or workers' organisations.'

Collective bargaining agreements are understood as written agreements resulting from collective bargaining, as defined above (in line with ILO Collective Agreements Recommendation No. 91.)

ID 387 – Scope of ESRS S1-16

Question asked

ESRS S1-16 talks about employees but does not specify if it is only those that meet the inclusion criteria (at least 50 employees and 10% of total employment).

ESRS Reference

ESRS S1-6 paragraph 50(a); Disclosure Requirement S1-16

Key terms

Number of employees

Background

ESRS S1 Disclosure Requirement S1-16 paragraph 95 states: 'The undertaking shall disclose the percentage gap in pay between its female and male employees and the ratio between the remuneration of its highest paid individual and the median remuneration for its employees.'

The key characteristics of the undertaking's employees are to be reported on in ESRS S1 Disclosure Requirement S1-6, which serves as a basis for information required by other disclosure requirements. ESRS S1 paragraph 50(a) requires the disclosure of 'the total number of employees by head count' as well as 'breakdowns by gender and by country for countries in which the undertaking has 50 or more employees representing at least 10% of its total number of employees;'.

Answer

ESRS S1 Disclosure Requirement S1-16 and AR 98-102 specifically refer to including **all** employees by head count in the calculation. Undertakings **may** report additional information based on differentiating the pay gap by specific employee groups or country/segment, as specified in paragraph 98; however, there is no employment threshold specified for the voluntary reporting of this additional information.

Governance

ID 417 – Convictions

Question asked

What is the definition to be used for '**convictions**'? It could be different things: Number of convictions of proceeding that are still open? Or started in the reporting year? Closed in the reporting year? Appeal concluded? Not subject to appeal anymore?

ESRS Reference

ESRS G1 paragraph 24a

Key terms

Convictions

Background

Based on EU Law and on the European Criminal Records Information System (ECRIS), the term 'conviction' is defined as 'any final decision of a criminal court against a natural person in respect of a criminal offence, to the extent that the decision is entered in the criminal records of the convicting Member State'.

Answer

ESRS G1 uses the definition of 'convictions' derived from European Law. Based on EU Law and on the European Criminal Records Information System (ECRIS), the term conviction is defined as 'any final decision of a criminal court against a natural person in respect of a criminal offence, to the extent that the decision is entered in the criminal records of the convicting Member State'.

Therefore, the disclosure requirement applies to the number of convictions that fulfil the definition of a final decision of a criminal court. This is understood in the general sense of the term, i.e., that of the court of the first instance. This approach has the advantage of including all the convictions in the reporting while awaiting the outcome of a possible appeal. The reporting undertaking may provide additional information if an appeal is considered, has been lodged or was successful as this would be relevant information to users.

ID 419 – Legal proceedings currently outstanding for late payments

Question asked

Regarding the number of currently outstanding legal proceedings for late payments, are you referring to ‘currently outstanding’ that remained opened in the reporting year or also closed in the reporting year?

ESRS Reference

ESRS G1 paragraph 33(c)

Key terms

Legal proceedings; late payments.

Background

ESRS G1 paragraph 33(c) refers to the ‘number of legal proceedings currently outstanding for late payments’.

Answer

The Disclosure Requirement refers specifically to those legal proceedings that have not been legally resolved. Further information or additional remarks regarding closed legal proceedings related to late payments may be disclosed under ESRS G1 paragraph 33(d), which states that the undertaking shall disclose ‘complementary information necessary to provide sufficient context’.

ID 444 – Payment practices

Question asked

Regarding the DR on payment practices in G1-6, is the information on payment practices only expected regarding SMEs or a wider range of suppliers?

ESRS reference

ESRS G1-6

Key terms

Payment practices; SMEs

Background

ESRS G1 paragraph 2 presents the list of matters covered in the standard. Paragraph 2(b) clarifies that ‘the management of relationships with suppliers, including payment practices, especially with regard to late payments to small- and medium-sized undertakings’, is covered.

Disclosure Requirement G1-6 paragraph 31 states that ‘the undertaking shall provide information on its payment practices’.

ESRS G1 paragraph 32 states that ‘The objective of this Disclosure Requirement (G1-6) is to provide insights on the contractual payment terms and on its performance with regard to

payment, especially as to how these impact SMEs and specifically with respect to late payments to SMEs.'

Answer

The information on payment practices is not limited to SMEs but regarding all suppliers.

However, the list of 'shall' data points in ESRS G1 paragraph 33 has to be read in the context of the disclosure objective, which refers 'especially' to SMEs. Undertakings are expected, as part of ESRS G1 paragraph 33(d), to provide complementary information, if material, to provide sufficient context, including information on payment practices specific to SMEs; for example because there are significant differences in payment practices vis-a-vis large and SME business partners.

ID 479 – Minimum Disclosure Requirements in ESRS G1

Question asked

Do MDRs have to be applied for matters that are to be reported following the ESRS G1?

ESRS Reference

ESRS G1

Key terms

Minimum Disclosure Requirements, policies, actions and targets

Background

ESRS 2 Section 4.2, paragraph 60 states that Minimum Disclosure Requirements (MDR) should '... be included when the undertaking discloses information on its policies and actions to prevent, mitigate and remediate actual and potential material impacts, to address material risks and/or to pursue material opportunities (collectively, to "manage material sustainability matters"). They shall be applied together with the Disclosure Requirements, including Application Requirements, provided in the relevant topical and sector-specific ESRS.'

ESRS 2 Section 4.2, paragraph 70 establishes that Minimum Disclosure Requirements 'shall be included when the undertaking discloses information on its metrics and targets related to each material sustainability matter. They shall be applied together with the Disclosure Requirements, including Application Requirements, provided in the relevant topical ESRS.'

All the MDRs that shall be read in conjunction with the relevant topical ESRS, including those affecting Policies, Actions, Targets and Metrics, are established in paragraphs 63 to 81 of ESRS 2.

Answer

The MDRs from paragraphs 63 to 81 in ESRS 2 shall be applied with respect to Policies, Actions, Targets and Metrics in G1 irrespective of the fact that there is no cross-reference in the topical standard.

ID 510 – ESRS G1-5 – Political influence and lobbying activities

Question asked

In ESRS G1-5, what is the dividing line between ‘indirect political contributions’, whose financial or in-kind amounts must be disclosed according to paragraph 29(b)(i) and AR 10, and ‘lobbying activities’, whose financial or in-kind amounts may be disclosed as per AR 12?

Reference

ESRS G1-5 paragraph 29(b), ESRS G1 paragraph AR 10, ESRS G1 paragraph AR 12

Key terms

Political contributions, lobbying activities, financial contributions, in-kind contributions

Background

The concept of ‘political contributions’ is defined in AR 9 of ESRS G1-Business Conduct. This paragraph states that political contributions refer to support provided directly to political parties, their elected representatives or persons seeking political office.

The concept ‘indirect political contributions’ is defined in AR 10 of ESRS G1-Business Conduct. This paragraph states that these refer to ‘those political contributions made through an intermediary organisation such as a lobbyist or charity, or support given to an organisation such as a think tank or trade association linked to or supporting particular political parties or causes.’

GRI, in its standard 415: Public Policy defines ‘indirect political contributions’ as ‘financial or in-kind support to political parties, their representatives, or candidates for office made through an intermediary organization such as a lobbyist or charity, or support given to an organization such as a think tank or trade association linked to or supporting particular political parties or causes.’

The ESRS and GRI refer to ‘indirect political contributions’ as contributions linked to political parties and political causes.

On the other hand, ‘lobbying activities’ as defined in Annex II of ESRS refer to ‘activities carried out with the objective of influencing the formulation or implementation of policy or legislation, or the decision-making processes of governments, governmental institutions, regulators, European Union institutions, bodies, offices and agencies or standard setters.’

Answer

Political contributions support political parties and/or election campaigns in their respective political causes, and they can be direct or indirect. Indirect political contributions are made on behalf of a company by an intermediary organisation, such as a think tank, a business association or a charity. While political contributions are most commonly financial, e.g., donations, event sponsorships or purchases of tickets at campaign or fundraising events, they can also be non-financial (‘in kind’), e.g., providing certain services like printing of posters, website design or permission to use facilities.

Lobbying, on the other hand, is about influencing policies, political decisions, laws and other regulations, usually when they are being drafted or prepared but also in the implementation stage. The typical targets of lobbying activities are therefore decision-makers in governments and ministries, supervisory authorities and other government agencies as well as members of parliaments and/or their assistants. Lobbying, too, can take direct or indirect forms. In the latter

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case, the company entrusts the lobbying to a specialised service provider or to a not-for-profit intermediary such as a business association.