EFRAG
sustainability reporting

ESRS IMPLEMENTATION Q&A PLATFORM

Compilation of Explanations

JANUARY–MAY 2024

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This Compilation of Explanations relates to the sector agnostic ESRS as adopted by the European Commission on 31 July 2023. Sector-specific standards may add sector specifications to be followed by specific sectors.

The content of each Explanation has been drafted to provide an answer to a specific technical question and cannot be directly extended by analogy to a different fact pattern.

About EFRAG

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The Questions in this document are identified by the progressive number (ID) that they receive at the beginning of the submission to the Q&A Platform. The system attributes identification numbers also to partial submissions. For this reason, the ID number is not indicative of how many questions EFRAG has finally received.

Introduction

EFRAG has started the collection of questions related to ESRS through the EFRAG ESRS Q&A Platform on 24 October 2023. It has since then released in February and March 2024 two batches of 12 answers to questions each that were categorized by the Sustainability Reporting Board as Explanations (Explanation Batch 1/2024 and Explanation Batch 2/2024). Explanations are non-authoritative in nature, answer technical questions on ESRS by showing where in the standards the content is provided and how to navigate them accordingly.

Since March 2024 the Sustainability Reporting Board has approved further 44 explanations. This document now contains the first two batches from February and March plus the further explanations approved up to May 2024 on a consolidated basis, to facilitate the access to the overall implementation material that is made available by EFRAG on a systematic basis. Explanations approved by the SRB subsequently will also be consolidated as an update to this document. To inform when an explanation has been included in this document a release date is provided for each explanation. Furthermore, a Table of ID release date is added as an appendix to this document, showing when an explanation has been released.

Explanations are grouped by topical area:

(a) ESRS general requirements and general disclosures ;

(b) environmental ESRS;

(c) social ESRS; or

(d) governance ESRS.

In addition to order the explanations in a systematic manner and to increase usability for those looking for an explanation, they were allocated to ESRS Disclosure Requirements respectively in the case of ESRS 1 to its chapters.

A key word index at the end of the documents supports the search of questions.

The questions are identified by a progressive identification number (ID) that they received when submitted to the Q&A Platform.

Questions related to ESRS General requirements and general disclosures

ESRS 1 General requirements

ESRS 1 chapter 1 Categories of ESRS standards, reporting areas, and drafting conventions

Question ID 106 - Entity-specific guidance and examples

Release date

February 2024

Question asked

What are concrete examples of potential entity-specific sustainability matters and any guidance related to finding and dealing with such?

ESRS references

ESRS 1 chapter 10.1 and paragraphs 10, AR 4 and AR 5

Key terms

Entity-specific disclosures

Background

ESRS 1 chapter 10.1 'Transitional provision related to entity-specific disclosures' states in its paragraphs the following:

'130. The extent to which sustainability matters are covered by ESRS is expected to evolve as further Disclosure Requirements are developed. Therefore, the need for entity-specific disclosures is likely to decrease over time, in particular as a result of the future adoption of sector specific standards.

131. 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 may 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 Standard; and

(b) complement its disclosures prepared on the basis of the topical ESRS with an appropriate set of additional disclosures to cover sustainability matters that are material for the undertaking in its sector(s), using available best practice and/or available frameworks or reporting standards, such as IFRS industry-based guidance and GRI Sector Standards.'

ESRS 1 paragraph AR 4 and 5 state:

'AR 4. When developing its entity-specific disclosures, the undertaking shall carefully consider: 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.

AR 5. Further guidance for developing entity-specific disclosures can be found by considering the information required under topical ESRS that addresses similar sustainability matters.'

Answer

At this stage, it is not possible to provide concrete examples as this will depends on facts and circumstances of the reporting undertaking, including the sector(s) it is operating in. Sector-specific sustainability matters will be addressed in the future sector standards still to be finalized.

When developing entity-specific disclosures (ESRS 1, paragraph 11), ESRS 1 points to 'available and relevant frameworks, initiatives, standards, benchmarks'. Two examples are provided as possible sources of relevant entity-specific disclosures (see ESRS 1 paragraph 131(b)): the IFRS industry-based guidance and the GRI Sector Standards.

The IFRS industry-based guidance is the former SASB standards; they can be found here: https://sasb.org/standards/download/ and GRI Sector Standards can be downloaded from https://www.globalreporting.org/standards/sector-program/

These two sources offer examples of sector-specific information that could complement on an entity-specific basis the information required in sector-agnostic ESRS depending on the relevant sector.

In general, there are two types of instances that will give rise to entity-specific information:

(a) when the undertaking identifies a material matter that is not covered by Disclosure Requirements in ESRS; and

(b) when, for a matter that is covered by Disclosure Requirements in ESRS, the undertaking concludes that in order to provide information that meets the qualitative characteristics of the information (Appendix B of ESRS 1) additional disclosures need to be included. This may be the case for a specific aspect of a sub-subtopic (see AR 16 of ESRS 1) when such a sub-subtopic is covered in ESRS but the specific aspects (i.e., an additional level of granularity) is not covered. This may also be the case for a specific metric that is not included in ESRS, but considering the specific facts and circumstances of the undertaking, this metric is necessary in order to provide the appropriate quality of information.

The entity-specific information may relate to the description of a material impact, risk or opportunity (along the lines of ESRS 2 SBM 3), it may relate to policies, actions and targets that the undertaking has set, or it may relate to metrics.

Question ID 109 - Bold text and ESRS E1 Disclosure Requirement E1-6

Release date

February 2024

Question asked

Is the 'bolded paragraph' following each ESRS Disclosure Requirement a disclosure that the undertaking has to respond to? Or is it simply a 'headline' that prescribes what the paragraph will contain once all the individual datapoints are completed? Reference is made to ESRS E1 Disclosure Requirement E1-6.

ESRS references

ESRS 1 and all topical ESRS, especially ESRS E1 Disclosure Requirement E1-6

Key terms

'Bolded paragraph'; ESRS E1 Disclosure Requirement E1-6

Background

In ESRS 2 and in the topical ESRS, Disclosure Requirements are generally followed by a 'bold paragraph' stating 'The undertaking shall disclose . . .' with a general statement of the information that needs to be disclosed under the respective Disclosure Requirement.

The 'bold paragraph' is followed by an objective paragraph, which is followed by more detailed paragraphs containing the datapoints that must be disclosed under the respective Disclosure Requirement and further specifications of the information being requested.

In the case of ESRS E1 Disclosure Requirement E1-6, this is as follows:

ESRS E1 paragraph 44 provides a 'bold paragraph' with the general statement of the requirement that needs to be satisfied under ESRS E1 Disclosure Requirement E1-6.;

ESRS E1 paragraph 45 outlines the objective of the disclosure requirement; and

ESRS E1 paragraphs 46-52 further specify information to be included when disclosing on ESRS E1 paragraph 44.

This is illustrated as follows:

Disclosure Requirement E1-6 – Gross Scopes 1, 2, 3 and Total GHG emissions → **Headline**

44. **The undertaking shall disclose in metric tonnes of CO2eq its[45]:** → **General statement of the requirement(s)**
    (a) **gross Scope 1 GHG emissions;**
    (b) **gross Scope 2 GHG emissions;**
    (c) **gross Scope 3 GHG emissions; and**
    (d) **total GHG emissions.**

45. The objective of the Disclosure Requirement in paragraph 44 in respect of: → **Objective of the requirement(s)**
    (a) gross ***Scope 1 GHG emissions*** as required by paragraph 44 (a) is to provide an understanding of the direct impacts of the undertaking on climate change and the proportion of its total GHG emissions that are regulated under emission trading schemes.

(...)

46. When disclosing the information on ***GHG emissions*** required under paragraph 44, the undertaking shall refer to ESRS 1 paragraphs from 62 to 67. In principle, the data on GHG emissions of its associates or joint ventures that are part of the undertaking's upstream and downstream value chain (ESRS 1 Paragraph 67) are not limited to the share of equity held. For its associates, joint ventures, unconsolidated subsidiaries (investment entities) and contractual arrangements that are joint arrangements not structured through an entity (i.e., jointly controlled operations and assets), the undertaking shall include the GHG emissions in accordance with the extent of the undertaking's ***operational control*** over them. → **Further specification of the information requested**

47. In case of significant changes in the definition of what constitutes the reporting undertaking and its upstream and downstream ***value chain***, the undertaking shall disclose these changes and explain their effect on the year-to-year comparability of its reported GHG ***emissions*** (i.e., the effect on the comparability of current versus previous reporting period GHG emissions).

(...)

Disclosure Requirement E1-6 – Gross Scopes 1, 2, 3 and Total GHG emissions → **Headline**

44. **The undertaking shall disclose in metric tonnes of CO2eq its[45]:** → **General statement of the requirement(s)**
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(...)

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    (c) **gross Scope 3 GHG emissions; and**
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Disclosure Requirement E1-6 – Gross Scopes 1, 2, 3 and Total GHG emissions → **Headline**

44. **The undertaking shall disclose in metric tonnes of CO2eq its[45]:** → **General statement of the requirement(s)**
    (a) **gross Scope 1 GHG emissions;**
    (b) **gross Scope 2 GHG emissions;**
    (c) **gross Scope 3 GHG emissions; and**
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47. In case of significant changes in the definition of what constitutes the reporting undertaking and its upstream and downstream ***value chain***, the undertaking shall disclose these changes and explain their effect on the year-to-year comparability of its reported GHG ***emissions*** (i.e., the effect on the comparability of current versus previous reporting period GHG emissions).

(...)

Answer

The 'bold paragraph' that introduces each Disclosure Requirement is not simply a headline. It is a general statement of what needs to be disclosed under the respective Disclosure Requirement.

The information provided under a Disclosure Requirement should satisfy the overall objective of it, as stated in the paragraph following the bold paragraph ('the objective of this Disclosure Requirement is . . .').

The subsequent paragraphs include a list of datapoints ('the disclosure provided under paragraph XXX shall include . . .'). This list is generally sufficient to meet the disclosure requirements; however, such a list cannot be assumed to be exhaustive, as meeting the disclosure requirement takes precedent over the list of datapoints.

In providing the disclosure that corresponds to the list of individual datapoints (if applicable per the related Application Requirements), it is assumed that both the following are met:

(a) requirements of the 'bold paragraph'; and

(b) objective as stated in the subsequent paragraph.

The 'bold paragraph' of ESRS E1 Disclosure Requirement E1-6 (i.e., ESRS E1 paragraph 44) covers Scope 1, 2 and 3 and total GHG emissions. The objective of the Disclosure Requirements also covers Scope 1, 2 and 3 and total GHG emissions. ESRS E1 paragraph 52 mentions the total GHG emissions. The total GHG emissions shall be reported as it is included in both the bold paragraph and the objective.

Question ID 157 - ESRS 2 Disclosure Requirement GOV, and specification in the topical ESRS

Release date

February 2024

Question asked

When a topical standard does not include Disclosure Requirements that are applicable jointly with ESRS 2 (ref. to Appendix C of ESRS 2), are ESRS 2 requirements applicable in relation to that topic?

ESRS references

ESRS 1 paragraphs 9 and 29; ESRS 2 GOV 1 to 5; ESRS E1 paragraph 13

Key terms

ESRS 2 related disclosures in topical standards

Background

[The original question received was reworded to the above; the original question was: 'If there is no additional guidance, then do the other disclosure requirements do not apply to the topical standard (meaning GOV 1 and GOV 2 do not apply)? Or do they all still apply, but there is just more guidance to follow (such that there is more specific guidance for GOV 3 specifically when reporting on E1)?']

In the architecture of the ESRS, the two cross-cutting standards ESRS 1 General Requirements and ESRS 2 General Disclosures are complemented by ten topical standards (E, S and G). ESRS 1 paragraph 9 states: 'Topical ESRS can include specific requirements that complement the general level Disclosure Requirements of ESRS 2. ESRS 2 Appendix C *Disclosure/Application Requirements in topical ESRS that are applicable jointly with ESRS 2 General Disclosures* provides a list of the additional requirements in topical ESRS that the undertaking shall apply in conjunction with the general level disclosure requirements of ESRS 2.'

ESRS 2 disclosure requirements are 'cross-cutting in nature', so they do not refer to a specific topic, but some of them also have topical specifications in the topical standards as explained in ESRS 2 Appendix C. An example is ESRS 2 GOV-3 'Integration of sustainability-related performance in incentive schemes': this disclosure requirement (paragraphs 27-29) has a specification in the climate topical standard ESRS E1 paragraph 13.

ESRS E1 paragraph 13: 'The undertaking shall disclose whether and how climate-related considerations are factored into the remuneration of members of the ***administrative,***

management and supervisory bodies , including if their performance has been assessed against the ***GHG emission reduction targets*** reported under Disclosure Requirement E1-4 and the percentage of the remuneration recognised in the current period that is linked to climate related considerations, with an explanation of what the climate considerations are.'

A basic principle is that the requirements in the topical standards should be read and applied in conjunction with the cross-cutting standards.

Furthermore, all topical standards are subject to materiality assessment.

Answer

Disclosure Requirements (DRs), including their datapoints, in the cross-cutting standard ESRS 2 General Disclosures are to be reported irrespective of the outcome of the materiality assessment (for example, GOV-1, GOV-2, GOV-3, GOV-4, and GOV-5), see ESRS 1 paragraph 29. The content of ESRS 2 (with the exception of MDR – P, A, T) is not intended to provide a content to be followed in each and every topic, but it provides content that is to be provided at corporate/general level (across all the topics).

All topical standards should be read in conjunction with the cross-cutting standards ESRS 1 and ESRS 2, as these apply to the sustainability statement as a whole.

There are datapoints related to the ESRS 2 DRs in some of the topical standards. These are outlined in the table in ESRS 2 Appendix C, Disclosure and Application Requirements in topical ESRS that are applicable in conjunction with ESRS 2 General disclosures. They include GOV-1 in ESRS G1 'Business conduct', paragraph 5, and GOV-3 in ESRS E1 'Climate change', paragraph 13.

The topical specifications of ESRS 2 DRs listed in Appendix C of ESRS 2 provide additional datapoints that shall be included and/or additional considerations that the undertaking has to take into account when preparing the respective ESRS 2 Disclosure Requirements.

In terms of the scope of the materiality assessment:

(c) ESRS 1 paragraph 29 specifies the Disclosure Requirements always to be included irrespective of the outcome of materiality. These include the ESRS 2 IRO-1 requirements (listed in Appendix C of ESRS 2) that are located in the topical standards, which are to be applied also if the respective topic is not material.

(d) Other ESRS 2 specifications (listed in Appendix C of ESRS 2) and the other disclosure requirements located in topical standards are subject to materiality assessment. This implies that the undertaking only has to report on them when the respective topic is considered material. This avoids having to report, for example, on GOV-1 'Business conduct' (topical standard) if the topic 'Business conduct' has been determined not to be material to the undertaking.

(e) All narrative disclosures including those in ESRS 2 should be applied with consideration to paragraph 31 of ESRS 1, which sets the criteria for assessing the materiality of information to be provided and ultimately affect the granularity of the reported information.

When a Disclosure Requirement in ESRS 2 does not have topical specifications, ESRS 2 has to be applied as specified in ESRS 2 Disclosure Requirement. No additional datapoints to those in ESRS 2 or considerations at topical level apply in these cases. If ESRS 2 does not set topical specifications for a given topic, ESRS SBM-3 requires nevertheless to disclose material impacts, risks and opportunities for that material topic.

Question ID 442 – Entity-specific metrics

Release date

May 2024

Question asked

Do entity-specific metrics need to be developed for a topic that is covered in the standards but is only for a specific part of the value chain?

ESRS Reference

ESRS 1 paragraphs 11, 30, AR 1-5 and AR 16; ESRS 2 paragraphs 48(h) and 51; and ESRS 2 MDR

Key terms

Entity-specific disclosure on matters not covered by ESRS Disclosure Requirements

Background

The submitter provided the following background for the question: '... for example, a company has identified a matter as material for which the topic of water is relevant in the value chain. In the ESRS E3 standard, the topic of water in the value chain is covered by datapoints in the areas of Policies, Targets and Actions. However, the associated metric relates exclusively to the company's own business activities (ESRS E3 paragraph 28-29). Can it now be deduced from paragraph 30(b) in ESRS 1 that the company must develop an entity-specific metric for this matter because there is insufficient "granularity" here, or has the EU deliberately limited the metric to its own business activities so that no metric for water use in the value chain has to be explicitly developed?'

ESRS 1 paragraph 11 states: 'In addition to the disclosure requirements laid down in the three categories of ESRS, when an undertaking concludes that an impact, risk or opportunity is not covered or not covered with sufficient granularity by an ESRS but is material due to its specific facts and circumstances, it shall provide additional entity-specific disclosures to enable users to understand the undertaking's sustainability-related impacts, risks or opportunities. Application requirements AR 1 to AR 5 provide further guidance regarding entity-specific disclosures.'

ESRS 1 paragraphs AR 1 and AR 2 state: 'AR 1. The entity-specific disclosures shall enable users to understand the undertaking's impacts, risks and opportunities in relation to environmental, social or governance matters.

AR 2. When 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; impact, risk and opportunity management; and metrics and targets (see ESRS 2 chapters 2 to 5).'

ESRS 1 paragraph 65 states: '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 impacts, risks and opportunities; and/or

(b) produce a set of information that meets the qualitative characteristics of information (see Appendix B of this Standard).'

Answer

Entity-specific disclosure shall be provided in addition to the Disclosure Requirements laid down in the three categories of ESRS (i.e., cross-cutting, topical and sector-specific standards) when an undertaking concludes that an impact, risk or opportunity is not covered or not covered with sufficient granularity by an ESRS but is material due to its specific facts and circumstances (ESRS 1 paragraph 11).

If an undertaking has concluded that a topic is material in its value chain, but the relevant topical standard only requires to disclose metrics related to own operations, the provision of metrics that cover specifically the value chain shall be considered and provided if such metrics are necessary according to paragraph 11 of ESRS 1. Sector ESRS may introduce additional metrics, including on the value chain.

ESRS 1 chapter 2 Qualitative characteristics of information

Question ID 337 – Metrics calculation – same level of precision

Release date

May 2024

Question asked

When calculating metrics for sustainability matters that are material for a group, do the data of all subsidiaries have to be considered with the same level of accuracy even if the matter is not material for some subsidiaries of the group?

ESRS reference

ESRS 1 chapter 2 Qualitative characteristics of information

Key terms

Metrics calculation – same level of accuracy

Background

The submitter provided the following background for his question: 'The following example refers to metrics in the context of water and marine resources. However, it should be noted that the question raised similarly applies to all sustainability matters and metrics and that the subtopic "water" was chosen for illustration purposes only.

Example: The main business of a group is manufacturing and selling a specific product, which is produced in a water-intensive production process in various own facilities. The group further owns and operates several sales corporations abroad, with a limited number of employees working in offices not being involved in production-related activities. The group determines that all topics and subtopics mentioned in ESRS E3 on water and marine resources are material and concludes that all metrics governed by ESRS E3 need to be disclosed.

Furthermore, based on a preliminary estimate, the group notes that its production facilities will bear the vast majority of the amounts of all metric data on this topic, whereas the sales corporations would account for a marginal portion of those metrics, which consequently the group considers not to be material. However, the group is aware of the requirement to calculate the metrics based on own operations, i.e., including the parent company and all the subsidiaries of the group. Therefore, it has established processes and procedures to measure directly and with precision the part of the metrics attributable to the group's production facilities, whereas it continues to determine the part of the metrics attributable to its sales corporations based on estimations such as average per capita figures. The total metrics disclosed is therefore the total of the portion directly measured and a respective estimate.'

ESRS 1 paragraph 87 states: 'When quantitative metrics and monetary amounts including upstream and downstream value chain information (see chapter 5 of this Standard) cannot be measured directly and can only be estimated, measurement uncertainty may arise.'

ESRS 1 paragraph 89 states: 'The use of reasonable assumptions and estimates including scenario or sensitivity analysis is an essential part of preparing sustainability-related information and does not undermine the usefulness of that 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 B of this Standard).'

Answer

When providing metrics data, the undertaking is expected to comply with the text of ESRS by providing the metric as defined in the Disclosure Requirement:

(a) data from all subsidiaries need to be included (unless the Disclosure Requirement of the metric provides otherwise; see 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?*); and

(b) the use of estimates is subject to conditions (see ESRS 1 paragraphs 87 and 89), including the need to consider the qualitative characteristics (ESRS 1 chapter 2).

In the example mentioned by the submitter, the undertaking will have to consider whether precisely measuring the portion of the metrics attributable to the production facility – and using

an estimate for the portion attributable to the sales corporation – will result in a degree of accuracy for the entire metric that is consistent with the characteristics of information quality.

Reference is made to IG 1 *Materiality assessment* – FAQ 18: *Does the undertaking use the same criteria when defining the level of disaggregation across all IROs?* which deals with related issues.

ESRS 1 chapter 3 Double materiality as the basis for sustainability disclosures

Question ID 37 - Positive impact only

Release date

March 2024

Question asked

Can a sustainability matter be material from a positive impact perspective only?

ESRS reference

ESRS 1 chapter 3.4; ESRS 1 paragraph 43 and 46

Key terms

Materiality, positive impact only material

Background

[The question received by the submitter: 'Can an impact be material if it is material from a positive impact perspective only?' was reworded to the above to be clearer.]

Background as provided by the submitter:

'It is essential that when I have evaluated and qualitatively assessed the actual/potential negative and positive effects on human beings and the environment, I have concluded that the topic is irrelevant in terms of actual negative impacts and also irrelevant in terms of actual positive impacts. However, it is critical from the perspective of potential positive impacts. Is my topic then considered significant?'

ESRS 1 paragraph 43 states: 'A sustainability matter is material from an impact perspective when it pertains to the undertaking's material actual or potential, positive or negative impacts on people or the environment over the short-, medium- or long-term.'

ESRS 1 paragraph 46 states the criteria on which positive impacts materiality are based:

'For positive impacts, ***materiality*** is based on:

(a) the scale and scope of the impact for actual impacts; and

(b) the scale, scope and likelihood of the impact for potential impacts.'

Answer

Yes, a sustainability matter can be material from a positive impact perspective only.

Based on the definition in ESRS 1 paragraph 43, a sustainability matter is material when it pertains:

(a) to material actual or potential impacts or

(b) to material positive or negative impacts.

Positive impacts can be either actual or potential.

ESRS 1 chapter 3.4 defines the criteria used to assess materiality. For actual positive impacts, the criteria are scale and scope. In addition, for potential positive impacts likelihood is considered.

ESRS 1 paragraph 45 describes the relationship between negative impacts and the due diligence process defined in international instruments (i.e., the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises). In particular, due diligence focuses on negative or adverse impacts on people and the environment, but this does not mean that impact materiality is limited to negative impacts under ESRS reporting.

Question ID 162 - Minimum number of material matters

Release date

February 2024

Question asked

Is there a minimum number of material sustainability matters to be disclosed in the sustainability statement of the undertaking?

ESRS references

ESRS 1 chapter 3

Key terms

Minimum number of material sustainability matters

Background

ESRS 1 paragraph 28 states: 'A sustainability matter is "material" when it meets the criteria defined for impact materiality . . . or financial materiality . . . or both.'

IG 1 *Materiality assessment* paragraph 1 states: 'The ESRS sustainability statement shall include relevant and faithful information about all impacts, risks and opportunities (also referred to as IROs) across environmental, social and governance matters determined to be material from the impact materiality perspective, the financial materiality perspective or both. The materiality assessment is the process by which the undertaking determines material information on sustainability IROs. This is achieved by the determination of material matters and material information to be reported. The performance of a materiality assessment based on objective

criteria is pivotal to sustainability reporting. The undertaking will use judgement when applying the criteria, and the related explanations are expected to provide transparency from the undertaking to the users of the sustainability statement.'

The Application Requirements in Appendix A of ESRS include a list of sustainability matters covered in ESRS.

Answer

There is no minimum (or maximum) number of material sustainability matters required by ESRS, as materiality is based on the undertaking's specific facts and circumstances.

Materiality is a principles-based concept. IG 1 *Materiality assessment* provides non-authoritative guidance on how to conduct the materiality assessment. Materiality of a sustainability matter for an undertaking depends on the specific facts and circumstances related to its strategy, business model, own operations and value chain. Based on those specific facts and circumstances, a number of material impacts, risks and opportunities will be identified as a result of the materiality assessment.

Question ID 172 – Materiality assessment – private equity structures

Release date

May 2024

Question asked

Which material sustainability matters must be identified and assessed in private equity structures having general and limited partners?

ESRS Reference

ESRS 1 chapters 5.1 *Reporting undertaking and value chain* and 7.6 *Consolidated reporting and subsidiary exemption*

Key terms

Materiality assessment; private equity structures; general and limited partner

Background

Private equity (PE) structures usually have a general partner (GP) and limited partners (LPs). GP refers to the PE firm that manages a private equity fund. These funds are usually set up as general partnerships with the third-party investors being the limited partners and the PE firm acting as the GP. In addition to raising the funds and administering the daily operations of the fund, the GP is responsible for identifying and closing on investments in portfolio companies of the private equity fund, assisting the portfolio company management teams in maximising value and liquidating investments so distributions can be made from the partnership to the LPs. LPs are the ones who have arranged and invested the capital for the private equity fund but who are not really concerned about the daily maintenance of the fund, whereas GPs are investment

professionals who are vested with the responsibility of making decisions with respect to the investments.

To answer the question above, it is assumed that neither the GP nor the LPs consolidate the portfolio company in their respective financial statements as neither of them financially control the portfolio company.

ESRS 1 paragraph 62: 'The sustainability statement shall be for the same reporting undertaking as the financial statements.'

ESRS 1 paragraph 63: 'The information about the reporting undertaking provided in the sustainability statement shall be extended to include information on the material impacts, risks and opportunities connected with the undertaking through its direct and indirect business relationships in the upstream and/or downstream value chain ("value chain information"). …'

Answer

General and limited partners of private equity structures must identify and assess material sustainability matters in their own operations and in their value chain.

If neither the general partner nor the limited partner/s consolidate the portfolio company/ies in their respective financial statements because neither of them exercises financial control over the portfolio company/ies, then impacts, risks and opportunities of the portfolio company/ies are not part of the own operations of the general partner nor of the limited partner/s for the purposes of the sustainability statement (Reference is made to IG 2 *Value chain* chapter 2.3 *From own operations to value chain*).

The general partner typically provides management services to the portfolio company/ies through the private equity fund. Therefore, in the absence also of financial control, the portfolio company/ies are considered business relationships in the general partner's value chain. Accordingly, the general partner shall identify and assess material impacts, risks and opportunities connected to the portfolio company in its downstream value chain.

The limited partner typically provides funds for its investments in portfolio companies. Please refer to IG 2 *Value Chain*: FAQ 2: *Are financial assets (loans, equity, and debt instruments) considered business relationships that trigger value chain information?*

To note: More detailed guidance is expected in future sector standards. ID 285 *Asset managers, investment entities, scope of sustainability statement* deals with a question about the scope of the sustainability statement assuming that the portfolio company is controlled by the asset manager / the holding company.

Question ID 185 – Objective evidence and stakeholders' opinion

Release date

May 2024

Question asked

When assessing the materiality of a sustainability matter, is the focus on stakeholder opinions or on objective evidence?

ESRS reference

IG 1 *Materiality assessment* chapter 3.5 *Role and approach to stakeholders in the materiality assessment process*; FAQ 10 *Should the assessment of IROs rely on quantitative information?*; FAQ 15 *Do the ESRS mandate to actively engage in dialogue with affected stakeholders for the materiality assessment process?*; and FAQ 16 *Can the undertaking prioritise some categories of stakeholders for the materiality assessment process? How?*

Key terms

Materiality assessment; stakeholder opinion; objective evidence

Background

[To note: To better address the issue mentioned by the submitter, it was agreed to change the question that was received from 'When evaluating sustainability matters, is the focus on stakeholder opinions or on objective evidence?' to the question above.]

ESRS 1 paragraph 24 states: 'Engagement with affected stakeholders is central to the undertaking's ongoing due diligence process … and sustainability materiality assessment.'

IG 1 *Materiality assessment* - FAQ 10 *Should the assessment of IROs rely on quantitative information?* (paragraphs 180 to 183) states:

'180. Where possible, yes, as quantitative measures of IROs are objective evidence of their materiality. The emphasis on objective and quantitative information does not mean to imply that the information from affected stakeholders should be disregarded.

181. The level of comfort sought by the undertaking from quantitative information depends on whether there is scientific validated data and on consensus reached on the given impact. For example, global reports or industry information on a given topic, such as negative impacts on biodiversity loss, could provide the quantitative information needed without the need for the undertaking to incur in additional research or data collection costs.

182. Quantitative information is not always available or may result in additional costs. Whenever a qualitative analysis is sufficient for the undertaking to reasonably conclude that a matter is "not material" or is "material", additional quantitative information would not add value to the materiality assessment. As the materiality assessment process evolves over time, the undertaking may redefine the balance between qualitative or quantitative information.

183. Quantitative information would, however, be of interest where a topic is on the edge of being material/non-material based on qualitative information and/or where there are diverse views. In that case, quantification could corroborate the conclusion.'

IG 1 *Materiality assessment* FAQ 15 *Do the ESRS mandate to actively engage in dialogue with affected stakeholders for the materiality assessment process?* states: 'The ESRS require disclosure on the materiality assessment and its outcomes but do not mandate specific behaviour on stakeholder engagement or the due diligence process.'

IG 1 *Materiality assessment* FAQ 16 *Can the undertaking prioritise some categories of stakeholders for the materiality assessment process? How?* states: 'Engagement with affected stakeholders helps the undertaking to understand which sustainability matters are sources of

concern for the respective stakeholders and how they are affected. This information may be useful input for the assessment.'

Answer

When assessing the materiality of a sustainability matter, there is no conflict between consideration of views of affected stakeholders and objective evidence. The purpose of both is to get an understanding of the severity (and likelihood) of impacts to present them faithfully in the sustainability statement. Depending on the circumstances, this may or may not require engagement with affected stakeholders.

The materiality analysis should be driven as much as possible by objective data and evidence. Scientific evidence is the focus in some cases depending on the type of topic and availability of such evidence. Quantitative/scientific data on the impact may or may not also be available. Widespread/systemic impacts often tend to be well documented, and there is often a consensus on their severity.

In other cases, depending on the topic the views of affected stakeholders are a source of supporting evidence for impact materiality. However, not all stakeholder opinions are equally relevant for the materiality analysis. Relevance depends on how much the stakeholders are affected (severity – and likelihood – of impacts). Understanding entity-specific impacts and/or the manifestation of widespread/systemic impacts in particular contexts and situations requires more careful consideration of specific circumstances, including whether and how people or the environment are affected.

Elements useful to address this question can be found in IG 1 *Materiality assessment* chapters 3.5 *Role and approach to stakeholders in the materiality assessment process* and 5.4 *FAQ on stakeholder engagement – impact materiality.*

Question ID 461 - Sustainability statement – ESRS 1 flowchart E and disclosure of transition plans

Release date

May 2024

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, ESRS 1 Appendix E

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 Annex II Acronyms and 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 Annex II Acronyms and 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:

(a) a public policy objective; and/or

(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.'

Answer

The flowchart in Appendix 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.

ESRS 1 chapter 5 Value chain

Question ID 41 - Financial institutions – scope of reporting boundary

Release date

May 2024

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 companies, financial Institutions, own operations, investment activities, 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.'

ESRS paragraph 62 states that: '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. This requirement does not apply where the reporting undertaking is not required to draw-up financial statements or where the reporting undertaking is preparing consolidated sustainability reporting pursuant to Article 48i of Directive 2013/34/EU.'

ESRS paragraph 63 states that: 'The information about the reporting undertaking provided in the ***sustainability statement*** shall be extended to include information on the material ***impacts, risks*** and ***opportunities*** connected with 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 impacts, risks and opportunities connected with its upstream and downstream value chain:

(a) following the outcome of its due diligence process and of its ***materiality*** assessment; and

(b) in accordance with any specific requirements related to the value chain in other ESRS.'

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 the financial reporting requirements, which reflect the business model, and is not necessarily the same as under Solvency II. Reference is made also to IG 2 *Value chain* chapter 2.3).

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 IG 2 *Value chain* FAQ 2. 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, if 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.

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

Release date

May 2024

Question asked

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

(a) are located outside of the EU; and/or

(b) if some are not consolidated for financial statements purposes?

ESRS reference

ESRS 1 paragraph 62

Key terms

Non-EU subsidiaries, non-consolidated subsidiaries

Background

[The following question was received: 'Does the (consolidated) sustainability statement of a parent company have to include all its subsidiaries even if some of them are located outside of the EU and/or if some are not (financially/legally) consolidated?' and changed it to the above for clarity.]

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 states: '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 of financial statements 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 in the financial statements are provided under Article 23(9) and (10) of the Accounting Directive.

In addition to these provisions in practise subsidiaries sometimes may not be included in the financial consolidation, based on materiality considerations, even though the legal 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.

The undertaking performs its assessment of material impacts, risks and opportunities based on the business model for the entire consolidated group. Subsidiaries that are immaterial for financial statements and therefore are excluded from the consolidated perimeter when preparing financial statements on an exceptional basis for practical considerations, or in line with national accounting law from, may still be material from a double materiality point of view. When this happens, they shall be included in the reporting boundaries of the consolidated sustainability statement, despite them being deemed immaterial for 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?*

Question ID 217 - Prudential consolidation

Release date

March 2024

Question asked

Should an undertaking prepare its ESRS consolidated sustainability statement following the requirements relating to prudential consolidation laid down in Part One, Title II, chapter 2 of the Capital Requirements Regulation (EU) 575/2013?

ESRS reference

ESRS 1 paragraph 62

Key Terms

Prudential consolidation

Background

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.'

In its answer to ID 2013-310 for Regulation (EU) No 575/2013 (CRR), the European Banking Authority states the following:

'Article 18(1) of Regulation (EU) No. 575/2013 (CRR) requires institutions to carry out a full consolidation of all institutions and financial institutions which are its subsidiaries for the application of prudential requirements on a consolidated basis.

Undertakings, other than institutions and financial institutions which neither acquire holdings nor pursue any of the activities listed in points 2 to 12 and point 15 of Annex I to Directive 2013/36/EU (CRD), are excluded from the scope of prudential consolidation irrespective of whether or not these undertakings are directly or indirectly held by the parent entity. As a result:

(a) Non-financial subsidiaries are excluded from the scope of prudential consolidation regardless of whether these subsidiaries are fully held by a holding company. On the other hand, the holding company is included for prudential consolidation purposes;

(b) Conversely, any holding company needs consolidating even when it holds no participation in a financial subsidiary. However, all its participations are excluded for prudential consolidation purposes.'

Answer

In accordance with ESRS 1 paragraph 62, sustainability statements shall be prepared for the consolidated group; therefore, they shall not be grounded in a consolidation based on prudential requirements. The reported information shall meet the qualitative characteristics of information and the requirements in ESRS 1 paragraphs 54, 57 on level of disaggregation: on this basis, if applicable and helpful to produce more understandable and relevant reporting, the undertaking could disaggregate the reported disclosures between those related to the scope of financial consolidation and those related to the scope of prudential consolidation. This is particularly relevant if the undertaking uses the option to incorporate by reference information presented in its Pillar 3 reports (ESRS 1 paragraphs 119/122).

ESRS 1 chapter 6 Time horizons

Question ID 180 - Time horizon: impact versus financial materiality

Release date

February 2024

Question asked

Is there a difference between the time horizon as defined in ESRS 1 for impact materiality and for financial materiality?

ESRS references

ESRS 1 chapter 6.4 *Definition of short-, medium- and long-term for reporting purposes*

Key terms

Financial materiality; impact materiality; time horizon

Background

ESRS 1 paragraph 77 states: 'When preparing its sustainability statement, 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 defined in (a) up to five years; and

(c) for the long-term time horizon: more than five years.'

ESRS 1 paragraph 80 states: 'There may be circumstances where the use of the medium- or long-term time horizons defined in paragraph 77 results in non-relevant information, as the undertaking uses a different definition for *(i)* its processes of identification and management of material impacts, risks and opportunities or *(ii)* the definition of its 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 or 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 ESRS 2 BP-2, paragraph 9).'

ESRS 1 Basis of Conclusions paragraph 124 states: 'The SRB discussed whether to prescribe mandatory time horizons for short-, medium- and long-term for reporting purposes or whether they should be entity-specific based on its business model, industry-characteristics, and its planning horizon. Feedback from public consultation in that respect was ambiguous. Preparers generally preferred an entity-specific approach to be able to use already existing data consistent with their managerial processes, whereas users a more standardized approach for better

comparability across undertakings. Noticing that many of the forthcoming first-time sustainability reporters need guidance, to increase comparability the SRB decided to prescribe conventional time periods but to allow deviations from the medium- and long- term time horizons based on entity-specific circumstances, acknowledging also that – depending on the sustainability matter and sector concerned – other time horizons within the long-term horizon might be useful and therefore prevail at topical level.'

Answer

Time horizons are defined in ESRS 1 chapter 6.4, setting fixed time horizons for the short-, medium- and long-term with no distinction being made between impact and financial materiality.

However, ESRS 1 paragraph 80 acknowledges that there may be circumstances in which the undertaking uses a different definition of its time horizons compared to the fixed time horizons set in ESRS 1 paragraph 77. This exception to the general rule has been granted to take into account entity-specific circumstances to manage sustainability-related impacts, risks and opportunities.

When applying either the predefined time horizons or when the exception is used and as a result another entity-specific time horizon is used instead of the predefined time horizon, potential or actual impacts may have a different time horizon than risks or opportunities arising from the same sustainability matter (and their related financial effects). Similarly, actions put in place to address impacts may have a different time horizon than actions put in place to address risks or opportunities. Transparency about time horizons is required in connection with impacts and anticipated financial effects, as stated in ESRS 2 SBM-3 paragraph 48 (c) and (e).

Question ID 286 - Financial year different from calendar year

Release date

May 2024

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 reporting of the energy consumption in metrics be based on the energy bill on a calendar year basis (i.e. from 1 January to 31 December) rather than the financial year?

ESRS reference

ESRS 1 chapters 2; 1 chapter 6.1; and 7.2; ESRS 2 BP-2 – *Disclosures in relation to specific circumstances* (paragraphs 6 and 8)

Key terms

Financial year, calendar year, metrics

Background

ESRS 1 paragraph 73 states: 'The reporting period for the undertaking's sustainability statement shall be consistent with that of its financial statements.'

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.'

When making estimates, the qualitative characteristics of information shall be considered (see ESRS 1 chapter 2 and Appendix B). 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.

ESRS 1 paragraph 88 states: '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 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 to the data 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.

ESRS 1 chapter 7 preparation and presentation of sustainability information

Question ID 552 – Comparative information

Release date

May 2024

Question asked

Does the company need to report data from previous years?

Reference

ESRS 1 chapters 7.1, 10.3 and 6.3

Key terms

Comparative information; base year

Background

ESRS 1 paragraph 83 states: 'The undertaking shall disclose comparative information in respect of the previous period for all quantitative **metrics** and monetary amounts disclosed in the current period. When relevant to an understanding of the current period's sustainability statement, the undertaking shall also disclose comparative information for narrative disclosures.'

ESRS 1 paragraph 85 states: '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 for 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 ESRS 2 BP-2). When it is impracticable to adjust comparative information for one or more prior periods, the undertaking shall disclose this fact.'

ESRS 1 paragraph 86 states: 'When an ESRS requires the undertaking to present more than one comparative period for a metric or datapoint, the requirements of that ESRS shall prevail.'

Some requirements (i.e., targets) provide the disclosure of the **base year** (see chapter 6.3 of ESRS 1), defined as the historical reference date or period for which information is available and against which subsequent information can be compared over time. In this context, comparative information is required 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 on progress.

ESRS 1 paragraph 136 states: 'To ease the first-time application of this Standard, the undertaking is not required to disclose the comparative information required by section 7.1 Presenting comparative information in the first year of preparation of the sustainability statement under the ESRS.'

Answer

Yes, the undertaking shall always report comparative information in respect of the previous period for all quantitative metrics and monetary amounts disclosed in the current period. Narrative disclosures shall only be disclosed for previous periods when relevant to an understanding of the current period's sustainability statement.

Special provisions apply when it is impracticable to disclose comparative information (ESRS 1 paragraph 85).

Some requirements (e.g., targets) request the disclosure of the base year when reporting on progress towards a target. Comparative information is required in respect of the base year for amounts reported in the current period when reporting the developments and progress towards a target (ESRS 1 chapter 6.3).

A phase-in provision exists exempting undertakings for the first year of preparation of the sustainability statement to provide comparative information (ESRS 1 paragraph 136).

ESRS 1 chapter 8 Structure of sustainability statement

Question ID 38 - Structure of the sustainability statement

Release date

March 2024

Question asked

Separating HR policies (ESRS S1-1), action plans (ESRS S1-4), targets (ESRS S1-5) and metrics (ESRS S1-9 to S1-17) is not efficient for the understanding of users. Can we put into one chapter, for each material issue (e.g., health and safety), the policy with the targets, the action plan, and the metrics?

ESRS reference

ESRS S1 paragraph 11, ESRS 1 chapter 8, ESRS 1 Appendix F

Key Terms

Structure of the sustainability statement

Background

ESRS 1 chapter 8 provides the basis for the presentation of information about sustainability matters prepared in compliance with Articles 19a and 29a of Directive 2013/34/EU (i.e., the sustainability statement) within the undertaking's management report.

ESRS 2 paragraph 49 states that 'The undertaking may disclose the descriptive information required in paragraph 46 – ESRS 2 SBM-3 – alongside the disclosures provided under the corresponding topical ESRS, in which case it shall still present a statement of its material impacts, risks and opportunities alongside its disclosures prepared under this chapter of ESRS 2.'

ESRS S1 paragraph 11 specifies that the ESRS 2 General disclosures in topical standards shall be presented alongside the disclosures required by ESRS 2 except for ESRS 2 SBM-3 *Material impacts, risks and opportunities and their interaction with strategy and business model*, for which the undertaking has an option to present the disclosures alongside the topical disclosures.

Answer

In relation to the presentation of information required by a topical standard, flexibility is provided to the undertaking as there are no specific requirements defining how an undertaking shall present the reported information related to a specific topic required by a given topical standard.

Therefore, for a given material matter (for example, health and safety) the undertaking may present the applicable disclosures on policies, actions, targets and metrics all together and does not have to follow the structure of the disclosure requirements within the topical standard, such as ESRS S1 Own workforce.

Regarding the overall sustainability reporting, ESRS 1 paragraph 115 clarifies that the sustainability statement must be structured in four parts: 'general information, environmental information, social information and governance information'. A particular treatment is anticipated for ESRS 2 General disclosures required by topical standards, which can be either presented alongside the other ESRS 2 General disclosures or alongside the respective topical disclosures (environmental, social and governance). In case the ESRS 2 General disclosures required by topical standards are presented alongside other topical disclosures, the undertaking still has to present a statement of its material impacts, risks and opportunities alongside its disclosures prepared under ESRS 2 SBM-3. Appendix F of ESRS 1 provides a non-binding structure for a sustainability statement.

Question ID 296 – Location of ESRS 2-related Disclosure Requirements in topical standards

Release date

May 2024

Question asked

Do the ESRS 2-related Disclosure Requirements in topical standards have to be reported in the general section of the sustainability statement or in the respective topical section?

ESRS Reference

All topical ESRS

Key terms

ESRS 2-related Disclosure Requirements in topical standards

Background

ESRS 1 paragraph 115 states: 'The undertaking shall structure its sustainability statement in four parts in the following order: general information, environmental information (including disclosures pursuant to Article 8 of Regulation (EU) 2020/852), social information and governance information. Respecting the provision in section 3.6 Material impacts or risks arising from actions to address sustainability matters of this Standard, 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.'

ESRS 2 paragraph 49 states: 'The undertaking may disclose the descriptive information required in paragraph 46 (reference to ESRS 2 SBM-3 Disclosure Requirement) alongside the disclosures provided under the corresponding topical ESRS, in which case it shall still present a statement of its material impacts, risks and opportunities alongside its disclosures prepared under this chapter of ESRS 2.'

ESRS 2-related disclosures in topical standards are identified by reference to ESRS 2 Disclosure Requirements as follows: 'Disclosure Requirement related to ESRS 2 GOV-1 … ESRS 2 GOV-3 … ESRS 2 SBM-2 … ESRS 2 SBM-3 … and … ESRS 2 IRO-1'.

Answer

ESRS 2-related Disclosure Requirements in topical standards must be reported in the general section of the sustainability statement as they are part of the general disclosures of ESRS 2. They are presented alongside the relevant ESRS 2 disclosure (e.g., ESRS 2 Disclosure Requirement IRO-1-related).

For the descriptive information required in ESRS 2 paragraph 46 (ESRS 2 Disclosure Requirement SBM-3-related disclosures), there is an option to present them alongside the relevant topical disclosure if the undertaking elects to follow the option in ESRS 2 paragraph 49.

Question ID 401 - Include quantitative information in qualitative information

Release date

May 2024

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 E5 Disclosure Requirement E5-5

Key terms

Quantitative metrics, resource outflows, ESRS E5 Disclosure Requirement E5-5

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: 'When preparing its ***sustainability statement***, 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.'

ESRS 1 paragraph 11 states: 'In addition to the disclosure requirements laid down in the three categories of ESRS, when an undertaking concludes that an impact, risk or opportunity is not covered or not covered with sufficient granularity by an ESRS but is material due to its specific facts and circumstances, it shall provide additional entity-specific disclosures to enable users to understand the undertaking's sustainability-related ***impacts, risks*** or ***opportunities*** . Application requirements AR 1 to AR 5 provide further guidance regarding entity-specific disclosures.'

ESRS 2 paragraph 73 states: '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 states 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 material 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.

Question ID 426 – Structure of the sustainability statement

Release date

May 2024

Question asked

I wish to know the structure of the sustainability statement that needs to be published in the management report. While you have provided a structure in ESRS 1 Appendix F, it seems to not be detailed. Are we meant to follow the exact format as given under each ESRS? Is there a template that can be provided to effectively disclose information?

ESRS Reference

ESRS 1 chapter 8, ESRS 1 Appendix F

Key terms

Structure of ESRS the sustainability statement

Background

ESRS 1 paragraph 111 states: 'Sustainability information shall be presented:

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

(b) under a structure that facilitates access to and understanding of the sustainability statement in a format that is both human-readable and machine-readable.'

ESRS 1 paragraph 115 states: 'The undertaking shall structure its sustainability statement in four parts in the following order: general information, environmental information (including disclosures pursuant to Article 8 of Regulation (EU) 2020/852), social information and governance information. Respecting the provision in section 3.6 Material impacts or risks arising from actions to address sustainability matters of this Standard, 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 this Standard.'

Answer

No, there is no requirement in ESRS to follow the exact format as given under each ESRS.

The only ESRS requirement is the following: 'The undertaking shall structure its sustainability statement in four parts in the following order: general information, environmental information (including disclosures pursuant to Article 8 of Regulation (EU) 2020/852), social information and governance information.' In addition, the undertaking may consider incorporation by reference subject to the requirements in ESRS 1 chapter 9.1 *Incorporation by reference*.

ESRS 1 Appendix F provides an example on how to structure the sustainability statement aligned with the general requirements under chapter 8 of ESRS 1 without further limiting the flexibility of the preparers when presenting the related disclosures.

To note:

The structure of the sustainability statement shall meet the qualitative characteristics of information (see ESRS 1 Appendix B).

The digital ESRS XBRL Taxonomy may help to prepare the sustainability statement in a structured way. Starting to prepare the mapping of the information to be reported with the digital ESRS XBRL Taxonomy will facilitate the subsequent tagging of the ESG information required by the machine-readable format. Therefore, EFRAG encourages to take inspiration from the digital ESRS XBRL Taxonomy to structure the sustainability disclosures. IG 3 *List of ESRS Data Points* offers a useful tool to perform this exercise.

Currently, there is no detailed template for the sustainability statement. EFRAG might consider providing a template in the future.

ESRS 1 chapter 9 Linkages with other parts of corporate reporting and connected information

Question ID 243 - Reference to financial statements

Release date

March 2024

Question asked

Can you explain and give more context to the datapoint in ESRS S1 paragraph 50(f)?

ESRS reference

ESRS 1 chapter 9; ESRS S1 paragraph 50(f)

Key Terms

Cross-reference to financial statements, ESRS S1 Disclosure Requirement S1-6

Background

ESRS S1-6 paragraph 50(f) requires undertakings to disclose: 'a cross-reference of the information reported under (a) above to the most representative number in the financial statements.'

ESRS S1-6 paragraph 50(a) requests 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 1 paragraph 124 addresses the matter of connectivity with financial statements and states: 'when the sustainability statement includes monetary amounts or other quantitative datapoints that exceed a threshold of materiality and that are presented in the financial statements (direct connectivity between information disclosed in sustainability statements and information disclosed in financial statements), the undertaking shall include a reference to the relevant paragraph of its financial statements where the corresponding information can be found.'

Directive 2013/34/EU, Article 16 describes the 'Content of the notes to the financial statements relating to all undertakings' and requires the disclosure of (1)(h) 'the average number of employees during the financial year.'

Answer

This datapoint requirement is based on the principle of connectivity between the sustainability statement and the financial statement, which is described in ESRS 1 chapter 9.2. In paragraphs 124 and 125 of this chapter, a distinction is made between direct connectivity (paragraph 124) and indirect connectivity (paragraph 125). In both cases, the principle is that monetary or quantitative amounts that exceed the threshold of materiality shall be cross-referenced from the sustainability statement to the financial statements; for indirect connectivity, this means explaining how these amounts relate to the most relevant amounts presented in the financial statements. Where appropriate, a reconciliation may be provided, and it may be presented in tabular form.

On this basis, the objective of ESRS 1 S1-6 paragraph 50(f) is to cross-check the number of employees required by paragraph 50(a) against the most appropriate amount disclosed in the financial statements. This includes the average number of employees during the year, disclosed according to Article 16 of the Directive 2013/34/EU as transposed into the laws of each EU Member State, and other relevant data if they are disclosed in the financial statements.

Given that ESRS S1-6 provides some flexibility in terms of methodology for calculating the head count number of employees (i.e., average or at the end of the year), the undertaking is required to disclose the methodology used as per paragraph 50(d)(ii). If an undertaking uses a different methodology for calculating the head count between the note to the financial statements and this datapoint in ESRS S1-6 (e.g., average for the former, end of the year for the latter), it shall explain the difference in the basis for calculation following the principle of connectivity defined in ESRS 1.

ESRS 1 chapter 10 Transitional provisions

Question ID 204 - Phase-in for first-time large undertakings

Release date

March 2024

Question asked

Companies that become 'large undertakings' for the first time: do they benefit from the Phase-In Requirements?

[Note by the EFRAG Secretariat: the only question by the submitter marked as '1: explanation' is answered here. The submitter also had a second question: 'Are the ESRS requirements applicable from the year they exceed the thresholds?' which is considered to fall outside the scope of the Q&A platform and will be forwarded to the European Commission.]

ESRS reference

ESRS 1 paragraph 137 and Appendix C: List of phased-in Disclosures Requirements

Key terms

Phase-in requirements, first-time large undertaking

Background

ESRS 1 section 10.4 paragraph 137 states: 'Appendix C List of phased-in Disclosure Requirements in this Standard sets phase-in provisions for the Disclosure Requirements or datapoints of Disclosure Requirements in ESRS that may be omitted or that are not applicable in the first year(s) of preparation of the sustainability statement under the ESRS.'

In setting phase-ins, ESRS 1 Appendix C uses the wording '. . . for the first year (for the first two years/for the first three years) of preparation of its sustainability statement . . .'

Answer

As stated in ESRS 1 Appendix C, the phase-in requirements apply to the first year, to the first two years or to the first three years 'of preparation of its sustainability report'. All undertakings meeting the criteria of the Accounting Directive (Directive 2013/34/EU) Article 3 of large undertakings (groups) may benefit from the phase-in requirements listed in ESRS 1 Appendix 1, including undertakings that become 'large undertakings' for the first time.

Question ID 291 - Phase-in 750 employees and topical standards

Release date

May 2024

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 less than 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 ESRS 1 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.

ESRS 2 General disclosures

ESRS 2 BP-2 Disclosure in relation to specific circumstances

Question ID 58 - Transitional provisions 750 employees

Release date

February 2024

Question asked

If Appendix C of ESRS 1 allows companies under 750 employees to omit E4 and S1-4 for the first three years, why does ESRS 2 paragraph 17 then say that the information still needs to be disclosed if considered material? Is there a difference in granularity of information disclosed?

ESRS references

ESRS 1 Appendix C; ESRS 2 paragraph 17

Key terms

Phase-in 750 employees

Background

ESRS 2 paragraph 17 states the following: '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, sub-topic or sub-sub-topic) in AR 16 ESRS 1 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, sub-topic or sub-sub-topic;

(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.'

ESRS 1 paragraph 137 states: 'Appendix C List of phase-in Disclosure Requirements in this Standard sets phase-in provisions for the Disclosure Requirements or datapoints of Disclosure Requirements in ESRS that may be omitted or that are not applicable in the first year(s) of preparation of the sustainability statement under the ESRS.'

Appendix C of ESRS 1 'List of phase-in Disclosure Requirements' has the following table:

ESRS	Disclosure Requirement	Full name of the Disclosure Requirement	Phase-in or effective date (including the first year)
ESRS E4	All disclosure requirements	All disclosure requirements	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 E4 for the first 2 years of preparation of their sustainability statement.
ESRS S1	All disclosure requirements	All disclosure requirements	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 S1 for the first year of preparation of their sustainability statement.
ESRS S2	All disclosure requirements	All disclosure requirements	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 S2 for the first 2 years of preparation of their sustainability statement.
ESRS S3	All disclosure requirements	All disclosure requirements	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 S3 for the first 2 years of preparation of their sustainability statement.
ESRS S4	All disclosure requirements	All disclosure requirements	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 S4 for the first 2 years of preparation of their sustainability statement.

Answer

The transitional provisions apply to 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). The option is to omit the information required by all the disclosure requirements in the following topical standards: ESRS E4, ESRS S1, ESRS S2, ESRS S3 and ESRS S4.

The regime of these provisions varies depending on the topical standard. The transitional provisions on ESRS S1 only apply to the first year of preparation of the undertaking's sustainability statement. For ESRS E4, ESRS S2, ESRS S3 and ESRS S4, the provisions apply to the first two years of preparation of the sustainability statement.

When information about a topic is omitted, the undertaking is nevertheless required to include the topic in the scope of the materiality assessment. When information required by one of these topical standards is omitted but the topic is assessed to be material, 'de minimis' disclosures shall be reported covering the material topic in question (ESRS 2 paragraph 17).

The materiality assessment covers the environmental, social and governance matters connected to the undertaking as established by the CSRD (i.e., a climate-first approach or an environmental only approach was not the intention of the co-legislators); the sustainability statement is to include a holistic view of sustainability matters regardless of whether social standards are subject to transitional provisions. Hence, the ESRS 2 paragraph 17 provision aims at ensuring that there is a certain level of 'minimal disclosures' that are required regardless of whether the undertaking chooses to apply the transitional provisions.

The transitional provisions allow undertakings to provide less granular information than what is required after the transition period. The information to be provided for the matters are more summarised (i.e., as briefly as referred to in the text) than the requirements set out in the five topical standards mentioned above. The main simplifications in paragraph 17 compared to paragraph 48 of ESRS 2 are the following:

(a) Paragraph 48(a): Under ESRS 2 paragraph 17, the undertaking may choose to disclose at topic, subtopic or sub-subtopic level, and separate disclosure of material impacts, risks and opportunities is not required. The undertaking is not required to disclose where in its business model, its own operations and its upstream and downstream value chain material IROs are concentrated.

(b) Paragraph 48(b) relates to how the undertaking takes into account material impacts on its strategy and business model. This information related to impacts can be disclosed at a summarised level without all the granularity required by the datapoints therein.

(c) Paragraph 48(c) to (h) sets requirements to disclose more detailed information about material IROs. As these are not required to be identified in the transition period, these datapoints do not form part of the 'de minimis' disclosures. While this is not a requirement, in the transitional period it may be helpful to briefly disclose the information on paragraph 48(c) to contextualise the material impacts identified.

ESRS 2 paragraph 17(b) to (e) provides de minimis information corresponding to disclosure requirements in topical standards in case an undertaking elects not to disclose topical information in the transition period. The transitional provision requires a summarised description of the policies, actions and targets and does not require to fulfil the detailed datapoints in MDR (P, T, A) in ESRS 2 and/or topical standards.

Finally, for metrics, the undertaking is to apply judgement to fulfil the requirements of metrics in topical standards. Such judgement relates to the number and nature of metrics disclosed (i.e., the

undertaking may disclose a reduced number of metrics and not all the metrics that are material) and the level of granularity of the metric (for example, the metric may be presented at a global level without breakdowns).

Question ID 504 – Disclosure Requirements on material metrics when information is not available

Release date

May 2024

Question asked

If the undertaking cannot disclose information regarding policies, actions or targets, it shall then disclose this to be the case and may report on a timeframe to have these in place. Is this also the case for metrics?

ESRS Reference

ESRS 2 Disclosure Requirement BP-2 – *Disclosures in relation to specific circumstances*, paragraph 11 *Sources of estimation and outcome uncertainty*

Key terms

Unavailability of information on material metrics

Background

According to ESRS 1 paragraph 33, if the undertaking has not established policies, taken actions or set targets for the topic, then it shall disclose this to be the case and may report a timeframe in which it aims to have these in place (see also ESRS 1 Appendix E: Flowchart for determining disclosures under ESRS).

According to ESRS 1 paragraph 34, the undertaking shall disclose information on metrics if the Disclosure Requirement or the individual datapoints are assessed to be material.

Clarification is needed in the case where the information of a Disclosure Requirement or datapoint on metrics is assessed as material but the undertaking does not have the information available.

ESRS 2 paragraph 11 requires disclosures on sources of estimation and outcome uncertainty.

Answer

No, this is not the case for metrics. The treatment of paragraph 33 of ESRS 1 is limited to policies, actions and targets and cannot be applied by analogy to metrics – to which paragraph 34 applies instead. Material metrics are to be reported. If the metric cannot be determined through direct data collection, it shall be estimated.

The level of measurement uncertainty of metrics is not a reason for omitting them. According to ESRS 2 BP-2, if a metric is subject to a high level of measurement uncertainty, the undertaking shall disclose information about the sources of measurement uncertainty (for example, availability and quality of data) and disclose the assumptions, approximations and judgments that the entity has made in measuring it.

ESRS 2 GOV-1 The role of administrative, management and supervisory bodies

Question ID 171 and ID 358 – Administrative, management and supervisory bodies

Release date

March 2024

Question asked

Please clarify with examples what is meant by 'administrative, management and supervisory bodies' as a collective versus 'management' and 'management-level position' versus 'senior executive management'.

[This explanation also answers question ID 358:] Could you please specify clearly what is to be included in the administrative, management and supervisory bodies? By this, I mean, it refers to only a highest body (Board of Directors) or it refers to another body or other bodies?

ESRS Reference

ESRS 2 paragraph 22(a) and (d)

Key terms

Administrative, management, and supervisory bodies

Background

The Annex II Acronyms and Glossary of Terms defines 'administrative, management and supervisory bodies' as follows:

'The governance bodies with the highest decision-making authority in the undertaking include its committees. If in the governance structure there are no members of the administrative, management or supervisory bodies of the undertaking, the CEO and, if such function exists, the deputy CEO should be included. In some jurisdictions, governance systems consist of two tiers, where supervision and management are separated. In such cases, both tiers are included under the definition of administrative, management and supervisory bodies.'

GRI is also a useful source of complementary guidance: GRI uses 'highest governance body' as well in reference to the 'administrative, management and supervisory bodies'. GRI 102 requires jurisdictions with two tiers of governance bodies to consider both as 'highest governance bodies'.

ESRS do not define the term 'senior executive management'. However, GRI explicitly defines 'senior executive management' in GRI 102 as top-ranking members of the management of an organisation including a Chief Executive Officer (CEO) and individuals reporting directly to the CEO or to the highest governance body. Each organisation defines which members of its management teams are senior executives.

Undertakings might report the identity of their 'management body' and 'governance body' as part of the corporate governance statement as they are key actors in the national corporate governance codes. ESRS 1 paragraph 119 allows an undertaking to incorporate in the sustainability statement information prescribed by a Disclosure Requirement of ESRS, including a specific datapoint prescribed by a Disclosure Requirement by reference to the corporate governance statement (if not part of the management report), provided that the conditions in paragraph 120 are met.

Answer

As defined in Annex II of ESRS, administrative, management and supervisory bodies as a collective have the highest decision-making authority. The governance bodies which are covered under this definition can vary from one jurisdiction to another. This is because some jurisdictions have different bodies for management and supervision, respectively, whereas others have one unique body carrying out both roles.

'Senior executive management' must be understood as a higher position than a 'management-level position'.

In the description of their governance bodies and management, undertakings need to ensure consistency between the sustainability statement and the corporate governance statement as well as other corporate communications in general.

ESRS 2 SBM-1 Strategy, business model and value chain

Question ID 39 – SBM-1 sector breakdown and phase-in

Release date

February 2024

Question asked

What are the 'ESRS sectors' mentioned under the ESRS 2 Disclosure Requirement SBM-1 in paragraph 40 (b)?

ESRS references

ESRS 2 paragraph 40; ESRS 1 paragraph 137 and Appendix C: *List of phased-in Disclosure Requirements*

Key terms

Sector-breakdown

Background

ESRS 2 paragraph 40 states: 'The undertaking shall disclose the following information about the key elements of its general strategy that relate to or affect sustainability matters: . . . (b) a breakdown of total revenue, as included in its financial statements, by significant ESRS sectors.'

ESRS 1 paragraph 137 states: 'Appendix C List of phased-in Disclosure Requirements in this Standard sets phase-in provisions for the Disclosure Requirements or datapoints of Disclosure Requirements in ESRS that may be omitted or that are not applicable in the first year(s) of preparation of the sustainability statement under the ESRS.'

ESRS 1 Appendix C states: 'The undertaking shall report the information prescribed by ESRS 2 SBM-1 paragraph 40(b) (breakdown of total revenue by significant ESRS sector) and 40(c) (list of additional significant ESRS sectors) starting from the application date specified in a Commission Delegated Act to be adopted pursuant to article 29b(1) third subparagraph point (ii), of Directive 2013/34/EU.'

The Accounting Directive Article 29b(1) third subparagraph point (ii) of Directive 2013/34/EU states: 'In the delegated acts referred to in the first subparagraph the Commission shall, by 30 June 2024, specify: . . . (ii) information that undertakings are to report that is specific to the sector in which they operate.'

Answer

The ESRS Sectors will be defined in a future delegated act, following the issuance of a draft ESRS to be prepared by EFRAG.

As the European Commission has not adopted a delegated act specifying the list of ESRS sectors, undertakings are not required to disclose the information referred to in ESRS 2 paragraph 40(b).

Question ID 293 - Relationship of strategy and policy

Release date

May 2024

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; Annex II Acronyms and Glossary of Terms definition of policies

Key terms

Strategy, policy

Background

ESRS 2 paragraph 38 states: '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 states: '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 Annex II Acronyms and Glossary of 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.

Question ID 482 – Breakdown of total revenue – financial institutions

Release date

May 2024

Question asked

1. How is the total revenue of a credit institution defined?
2. How is it divided into ESRS sectors? Is it the sector 'credit institution' or the sectors for the business portfolio, i.e., the sectors of the financed portfolio?

ESRS Reference

ESRS 2 paragraph 40

Key terms

Breakdown of total revenue; financial institutions

Background

[To note: The submitter asked the following question, which was amended as stated above to align it with the wording of ESRS 2 paragraph 40: 'How is total income of a credit institution defined and how is it divided into ESRS sectors? Is it the sector 'credit institution' or the sectors for the business portfolio, i.e., the sectors of the financed portfolio?']

ESRS 2 paragraph 40 states: 'The undertaking shall disclose the following information about the key elements of its general strategy that relate to or affect sustainability matters … (b) a **breakdown of total revenue**, as included in its financial statements, by significant ESRS sectors.'

ESRS 2 paragraph AR 12 states: 'To provide the information on sectors required by paragraph 40, the undertaking shall map its significant activities in accordance with ESRS sectors. If a code for a subsector does not exist, the caption "others" shall be used.'

ESRS do not use the term 'net turnover' as used by the Accounting Directive (Directive 2013/34/EU Article 2 (5)). The Accounting Directive defines 'net turnover' (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; …'

Council Directive 86/635/EEC of December 1991 on the annual accounts and consolidated accounts of banks and other financial institutions, Article 43(2) point (c), states: 'The information referred to in the first two indents of Article 9(2) of Directive 83/349/EEC, namely … [that] the net turnover shall be replaced by … the sum of items … B 1, B 2, B 3, B 4 and B 7 in Article 28 of this Directive.'

Council Directive 86/635/EEC Article 28 states:

'B. *Income*

1. Interest receivable and similar income, showing separately that arising from fixed-income securities

2. Income from securities:

   (a) Income from shares and other variable-yield securities

   (b) Income from participating interests

   (c) Income from shares in affiliated undertakings

3. Commissions receivable

4. Net profit on financial operations

(…)

7. Other operating income …'

Answer

1. ***How is total revenue of a credit institution defined?***

Total revenue of a credit institution, according to ESRS 2 paragraph 40, is a proxy for 'net turnover' as defined in the Accounting Directive (Directive 2013/34/EU) Article 2(5).

ESRS use the terms 'revenue', 'total revenue' and 'net revenue' as synonyms. ESRS 2 refers to 'revenue' or 'total revenue' (see ESRS 2 Disclosure Requirement SBM-1 – *Strategy, business model and value chain*) whereas ESRS E1 and the other environmental ESRS refer mostly to 'net revenue'. The three terms are referred to in ESRS in a more generic way as a proxy for 'net turnover' as defined by the Accounting Directive by considering the revenue as defined by the financial reporting framework applicable to the financial statements of the undertaking, acknowledging in whatever way possible revenues that are defined under the applicable GAAP.

2. ***How is it divided into ESRS sectors? Is it the sector 'credit institution' or the sectors for the business portfolio, i.e., the sectors of the financed portfolio?***

Credit institutions should not refer to the sectors of the financed portfolio for the purposes of ESRS 2 paragraph 40. For presenting the revenue breakdown by ESRS sector, they should refer to the sectors in which they directly operate, not the sectors in which their clients operate.

Reference is made to ID 395 *Revenue / net revenue* and ID 39 SBM-*1 Sector breakdown and phase-in.*

ESRS 2 SBM 3 Material impacts, risks and opportunities and their interaction with strategy and business model

Question ID 67 - ESRS 2 Disclosure Requirement SBM-3 vocabulary/grammar used

Release date

March 2024

Question asked

Can you provide a more detailed explanation on how the expression 'as opposed to' is to be interpreted in the context of the Disclosure Requirement SBM-3 of ESRS 2?

ESRS Reference

ESRS 2 paragraph 48(h)

Key terms

n/a

Background

According to ESRS 2 paragraph 48(h), the undertaking shall disclose a specification of those impacts, risks and opportunities that are covered by ESRS Disclosure Requirements as opposed to those covered by the undertaking using additional entity-specific disclosures.

Answer

ESRS 1 chapter 1.1 describes the three categories of ESRS standards (i.e., cross-cutting, topical and sector-specific). ESRS 1 paragraph 11 explains the entity-specific disclosures that complement the disclosures laid out in these three categories of ESRS standards.

In addition, ESRS 1 paragraphs AR1 to AR5 provide further guidance on the requirements that entity-specific disclosures shall fulfil.

ESRS 2 paragraph 48(h) requires undertakings to separately distinguish those material impacts, risks and opportunities whose disclosures follow the ESRS standards (i.e., standardised disclosures) from those that have been specifically designed by the undertaking according to the provision in ESRS 1 paragraph 11 and its related Application Requirements (i.e., entity-specific disclosures).

ESRS 2 IRO-1 Description of the processes to identify and assess material impacts, risks and opportunities

Question ID 517 – Disclosure of thresholds

Release date

May 2024

Question asked

1. How is threshold-setting to be documented?
2. How is one to disclose on threshold-setting? Is it enough to just generally explain how the thresholds for the materiality assessment are set, or is it necessary to explain each threshold separately?

ESRS Reference

ESRS 2 paragraph 59 (IRO-2) and 53 (c) ii (IRO-1)

Key terms

Disclosure of thresholds

Background

[The question received, 'How to document on setting thresholds? Is it enough to just generally explain how the thresholds for the materiality assessment are set or is it necessary to explain each threshold separately?' was reworded for the sake of clarity into the question above.]

ESRS 2 paragraph 53(b) and (c) states: 'The undertaking shall disclose:

(…)

(b) an **overview of the process** to identify, assess, prioritise and monitor the undertaking's potential and actual impacts on people and the environment, informed by the undertaking's due diligence process, including an explanation of whether and how the process:

(…)

(iv) prioritises negative impacts based on their relative severity and likelihood (see ESRS 1 section 3.4 Impact materiality) and, if applicable, positive impacts on their relative scale, scope and likelihood, and determines which sustainability matters are material for reporting purposes, including <u>the qualitative or quantitative **thresholds**</u> and other criteria used as prescribed by ESRS 1 section 3.4 Impact materiality;

(c) **an overview of the process** used to identify, assess, prioritise and monitor risks and opportunities that have or may have financial effects. The disclosure shall include:

(…)

(ii) how the undertaking assesses the likelihood, magnitude and nature of effects of the identified risks and opportunities (such as the <u>qualitative or quantitative **thresholds**</u> and other criteria used as prescribed by ESRS 1 section 3.3 Financial materiality) …'

ESRS 2 paragraph 59 states: 'The undertaking shall provide an explanation of how it has determined the material information to be disclosed in relation to the impacts, risks and opportunities that it has assessed to be material, <u>including the use of thresholds</u> and/or how it has implemented the criteria in ESRS 1 section 3.2 Material matters and materiality of information.'

Answer

1. ***How is threshold-setting to be documented?***

ESRS do not set behavioural requirements. As explained in IG 1 *Materiality Assessment* FAQ 12 *Should the materiality assessment be documented/evidenced?* the ESRS do not prescribe specific documentation. However, it is reasonable to expect that a certain level of documentation will need to be produced. This will probably be used for internal control purposes and requested by the assurance providers of the undertaking's sustainability statement.

2. ***How is one to disclose on threshold-setting? Is it enough to just generally explain how the thresholds for the materiality assessment are set, or is it necessary to explain each threshold separately?***

Disclosing or explaining each threshold separately is not required in all circumstances. ESRS 2 requires disclosing an overview of the process to identify, assess, prioritise and monitor:

(a) impacts … including an explanation of whether and how the process … determines which sustainability matters are material … including the qualitative or quantitative thresholds and other criteria … and

(b) risks and opportunities … including how the undertaking assesses … risks and opportunities such as the qualitative or quantitative thresholds and other criteria …'

Depending on its specific facts and circumstances, the description and disclosure of thresholds may be more or less granular. Information about thresholds, as well as information about the materiality process in general and its components, may be aggregated when this is compatible with paragraphs 54 to 57 of ESRS 1.

ESRS 2 IRO-2 Disclosure Requirements in ESRS covered by the undertaking's sustainability statement

Question ID 335 - Applicability of EU data points – Appendix B

Release date

May 2024

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

ESRS 2 Appendix B (other EU legislation); EU data-points

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?' 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.]

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 B 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 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.'

Answer

Yes, ESRS 2 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 Disclosure Requirement 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 Disclosure Requirement IRO-2.

Question ID 628 – Content index

Release date

May 2024

Question asked

'Content index': How are companies to format this disclosure? Are companies expected to use reference codes to the DR codes? Is it to be published as a Reference Table/Index or can it be formatted more narratively in the management reports such as in the TCFD's?

ESRS Reference

ESRS 1 chapter 8; ESRS 2 IRO-2

Key terms

Content index

Background

ESRS 2 paragraph 56 states: 'The undertaking shall include a list of the Disclosure Requirements complied with in preparing the sustainability statement following the outcome of the materiality assessment (see ESRS 1 chapter 3), including the page numbers and/or paragraphs where the related disclosures are located in the sustainability statement. This may be presented as a **content index**. 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.'

Answer

The undertaking shall include:

(a) a list of the Disclosure Requirements complied with, including the page numbers and/or paragraphs where the related disclosures are in the sustainability statement (ESRS 2 paragraph 56). This may be presented as a **content index**;

(b) a table of all the datapoints that derive from other EU legislation as listed in ESRS 2 Appendix B, indicating where they can be found in the sustainability statement and 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.

There is no predefined format for this disclosure or for the content index. To structure the sustainability statement, inspiration can be drawn from the digital ESRS XBRL Taxonomy.

ESRS 2 Minimum disclosure requirement on policies and actions

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

Release date

May 2024

Question asked

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

ESRS reference

ESRS 1 paragraph 115; ESRS 2 Minimum Disclosure Requirements paragraphs 61 and 71

Key words

Minimum disclosure requirements; phase-in less than 750 employees; transitional provisions

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 115).

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 115, 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.

Questions related to Environment

ESRS E1 Climate change

ESRS E1 Disclosure Requirement related to ESRS 2 IRO-1

Question ID 350 - Gross risk

Release date

May 2024

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)

Key Terms

Gross risk; physical risk; transition risk

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: …

> (a) 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 materiality assessment of 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 IG 1 *Materiality assessment* – FAQ 23: *Are remediation and mitigation actions considered in the materiality assessment of environmental impacts?* for further explanation.

ESRS E1-4 Targets related to climate change mitigation and adaptation

Question ID 206 - Climate-related targets

Release date

March 2024

Question asked

Is it an absolute requirement in paragraph 30 that 90-95% of GHG emission reduction needs to be performed before giving the option to work with GHG Removals?

Key Terms

GHG removal, GHG emission reduction

ESRS reference

ESRS E1 paragraphs 30, 34 and 60; Annex II Acronyms and Glossary of Terms: GHG removal and storage, and Carbon credit

Background

ESRS E1 Disclosure Requirement E1-4 refers to 'Targets related to climate change mitigation and adaptation'.

ESRS E1 paragraph 34 (b) states: 'GHG emission reduction targets shall be disclosed for ***Scope 1, 2,*** and ***3 GHG emissions,*** either separately or combined. The undertaking shall specify, in case of combined ***GHG emission reduction targets,*** which GHG emission Scopes (1, 2 and/or 3) are covered by the target, the share related to each respective GHG emission Scope and which GHGs are covered. The undertaking shall explain how the consistency of these targets with its GHG inventory boundaries is ensured (as required by Disclosure Requirement E1-6). The GHG emission reduction targets shall be gross targets, meaning that the undertaking shall not include GHG removals, ***carbon credits*** or avoided emissions as a means of achieving the GHG emission reduction targets;'

ESRS E1 paragraph 60 states: 'In the case where the undertaking discloses a ***net-zero target*** in addition to the gross ***GHG emission reduction targets*** in accordance with Disclosure Requirement E1-4, paragraph 30, it shall explain the scope, methodologies and frameworks applied and how the residual GHG ***emissions*** (after approximately 90-95% of GHG emission reduction with the possibility for justified sectoral variations in line with a recognised sectoral decarbonisation pathway) are intended to be neutralised by, for example, GHG removals in its own operations and upstream and downstream value chain.'

Annex II Acronyms and Glossary of Terms: 'GHG removal and storage – (anthropogenic) removals refer to the withdrawal of GHGs from the atmosphere as a result of deliberate human activities. These include enhancing biological anthropogenic sinks of CO2 and using chemical engineering to achieve long-term removal and storage. Carbon capture and storage (CCS) from industrial and energy-related sources, which alone does not remove CO2 from the atmosphere, can remove atmospheric CO2 if combined with bioenergy production (Bioenergy with Carbon Capture & Storage – BECCS). Removals can be subject to reversals, which are movements of stored GHG out of the intended storage that re-enter the atmosphere. For example, if a forest that was grown to remove a specific amount of CO2 is subject to a wildfire, the emissions captured in the trees are reversed.'

Annex II Acronyms and Glossary of Terms: 'Carbon credit – A transferable or tradable instrument that represents one metric tonne of CO2eq emission reduction or removal issued and verified according to recognised quality standards.'

Answer

ESRS E1 does not mandate undertakings to work, or prevent them from working, with GHG removals. While the (extent of) use of carbon removals remains the undertaking's decision, ESRS E1 aims at ensuring transparency. It requires to differentiate between:

(a) the established GHG emissions reduction targets (that shall not include carbon removals per ESRS E1 Disclosure Requirement E1-4);

(b) targets related to net-zero (ESRS E1 Disclosure Requirement E1-7 paragraph 60, which requires GHG emission reductions of approximately 90-95%); and

(c) the climate neutrality claims involving carbon credits (ESRS E1 Disclosure Requirement E1-7 paragraph 61).

Undertakings can work with GHG removals before achieving 90-95% GHG emission reductions near the point of net-zero. If they claim to have set a net-zero target, however, they need to explain how they expect to neutralise the outstanding residual emissions after a 90-95% of GHG emissions reduction has been achieved.

ESRS E1-5 Energy consumption and mix

Question ID 36 - Energy mix

Release date

February 2024

Question asked

Does disclosure E1-37(b) refer to all forms of energy generated from nuclear sources, such as electricity? Does ESRS E1 paragraph 37(b) also encompass electricity mixes that include fractions of nuclear-generated electricity?

ESRS references

ESRS E1 Disclosure Requirement E1-5, ESRS E1 paragraphs AR 34 - 35

Key terms

Energy consumption; nuclear sources

Background

ESRS E1 paragraphs 35 to 37 state:

'35. The undertaking shall provide information on its energy consumption and mix.

36. The objective of this Disclosure Requirement is to provide an understanding of the undertaking's total energy consumption in absolute value, improvement in energy efficiency, exposure to coal, oil and gas-related activities, and the share of renewable energy in its overall energy mix.

37. The disclosure required by ESRS E1 paragraph 35 shall include the total energy consumption in MWh related to own operations disaggregated by

(a) total energy consumption from fossil sources;

(b) total energy consumption from nuclear sources; and

(c) total energy consumption from renewable sources disaggregated by

i. fuel consumption for renewable sources, including biomass (also comprising industrial and municipal waste of biologic origin), biofuels, biogas, hydrogen from renewable sources, etc. …'

ESRS 2 MDR-M paragraph 77 requires the undertakings to disclose the significant assumptions behind the metric, including the limitations of the methodologies used.

Answer

ESRS E1 paragraph 37 (b) requires the disclosure of total energy consumption from nuclear sources.

ESRS E1 paragraph AR32 (d) clarifies that the energy to be reported should refer to 'final energy consumption', which includes energy carriers such as electricity, heat and steam that can be and are frequently derived from nuclear sources.

An undertaking disclosing on the basis of ESRS 1 paragraph 35 should thus report the final energy consumption taking into account its energy mix, which may involve proportions of nuclear-generated electricity, heat, steam, and cooling; fossil-fuel generated electricity, heat, steam, cooling and fuels; or renewable electricity, heat, steam, cooling and fuels.

This disclosure requires the undertaking to understand from its consumption of electricity which portions originate from nuclear, fossil or renewables sources. When electricity, heat and steam are purchased and the mix includes fractions of nuclear-generated electricity, heat, and steam, these fractions are to be included in the disclosures under ESRS E1 paragraph 37(b) on total energy consumption from nuclear sources. The undertaking should use the information available on the electricity, heat and steam mix to reflect its energy consumption breakdown according to ESRS E1 paragraph 35 accurately.

ESRS E1-6 Gross scopes 1, 2, 3 and total GHG emissions

Question ID 81 - Subsidiaries and holding company – alignment for GHG protocol

Release date

February 2024

Question asked

Should all the subsidiaries and the parent company in a consolidated sustainability statement use the same criteria and methodology for GHG emissions?

ESRS references

ESRS 1 Appendix B *Qualitative characteristics of information*; ESRS 2 paragraph 77(a); ESRS E1 paragraphs 50, AR 39(b), AR 42, and AR 46(h).

Key terms

GHG protocol; holding companies; alignment in methodology

Background

[The original question submitted: 'Should the companies of a holding company use the same criteria and methodology for GHG emissions?' has been reworded to the above to be clearer.]

ESRS 1 Appendix B, qualitative characteristics of information shall be applied in the preparation of the ESRS sustainability statement.

ESRS 2 paragraph 77(a) states: 'disclose the methodologies and significant assumptions behind the metric, including the limitations of the methodologies used;'. ESRS E1 paragraph AR 39(b) requires the undertaking to: '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.' Moreover, ESRS E1 paragraph AR46 (h), on Scope 3 emissions, requires clarity on the boundaries considered and the methods used for estimating emissions: 'for each significant Scope 3 GHG category, disclose the reporting boundaries considered, the calculation methods for estimating the GHG emissions as well as if and which calculation tools were applied. The Scope 3 categories should be consistent with the GHGP and include:

(a) indirect Scope 3 GHG emissions from the consolidated accounting group (the parent and its subsidiaries),

(b) indirect Scope 3 GHG emissions from associates, joint ventures, and unconsolidated subsidiaries for which the undertaking has the ability to control the operational activities and relationships (i.e., operational control),

(c) Scope 1, 2 and 3 GHG emissions from associates, joint ventures, unconsolidated subsidiaries (investment entities) and joint arrangements for which the undertaking does not have ***operational control*** and when these entities are part of the undertaking's upstream and downstream value chain.'

All these requirements point to the advantages of using a uniform approach for ease of understanding and transparency.

Answer

All subsidiaries and their parent undertaking shall apply the requirements of ESRS, including the qualitative characteristics of information in ESRS 1 Appendix B. The GHG Protocol is the reference for the calculation of GHG emissions following ESRS E1. The sustainability statement shall include the methodology and the significant assumptions made by the parent and subsidiaries regarding GHG emissions, as stated in ESRS E1 paragraph AR 39.

ESRS does not exclude flexibility in the methodologies used by different undertakings in the same group, provided that the qualitative characteristics of information are met.

A standardised approach from the onset is advantageous for its consistency, comparability, transparency and the overall integrity of reported GHG emissions.

Deviations from a common methodology can be accepted but should be disclosed, along with the rationale for their use, to meet the transparency requirements set forth by the ESRS.

Using diverging methodologies for similar or comparable fact patterns can result in information that may not comply with the qualitative characteristics of information required by the ESRS (ESRS 1, Appendix B).

Question ID 43 - Scope 3 GHG emissions for insurance companies

Release date

February 2024

Question asked

What is the scope of reporting scope 3 greenhouse gas emissions for insurance companies?

ESRS references

ESRS 1 chapter 3.2 *Material matters and material information*; ESRS E1 Disclosure Requirement E1-6 – *Gross Scopes 1, 2, 3 and Total GHG emissions* and related AR;

Key terms

Materiality assessment, materiality, relevance; scope 3 GHG emissions, insurance companies, financial investment

Background

The determination of which categories of Scope 3 greenhouse gas emissions to include in the sustainability statement is driven by the materiality assessment of the company, namely in the scope of the analysis of ESRS 1 paragraph 31, which states that 'The applicable information prescribed within a Disclosure Requirement, including its datapoints, or an entity-specific disclosure, shall be disclosed when the undertaking assesses, as part of its assessment of material information, that the information is relevant from one or more of the following perspectives: (a) the significance of the information in relation to the matter it purports to depict or explain; or (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 48 and/or the needs of users whose principal interest is in information about the undertaking's impacts.'

If climate change is considered a material topic by the undertaking, insurance companies are required by ESRS E1 paragraphs 44 and 51 to disclose their gross Scope 3 greenhouse gas (GHG) emissions for each of the Scope 3 categories that they assess to be 'significant', encompassing emissions within their upstream and downstream value chain. This includes emissions over which the company does not have direct control but that may have a significant impact on its overall carbon footprint and transition risks, as outlined in ESRS E1 paragraph 45.

In making its evaluation of the 'significant Scope 3 categories', the company shall consider, in accordance with ESRS E1 AR39(a), the principles, requirements and guidance of the GHG Protocol Corporate Standard. The GHG Protocol also includes a supplement 'GHG protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard' (also referred to in this document as 'GHGP Scope 3 standard'), which makes reference as well to the GHG Protocol 'Technical Guidance for calculating Scope 3 Emissions' (v1.0), a supplement to the GHGP Scope 3 standard.

To be considered: Principle of relevance, as defined in the "GHG Protocol Corporate Accounting and Reporting Standard" and further articulated in "relevance criteria" by the "GHG protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard", as well as the "Technical Guidance for calculating Scope 3 Emissions".

The GHG Protocol Scope 3 Category 15 is specifically tailored to financial institutions – which includes insurance undertakings – and the following financial investments and services are required to be reported (under the GHG Scope 3 standard, Table 5.9, pp.52): equity investments, debt investments and project finance.

ESRS E1 paragraph AR 46 states that the financial institution shall consider the GHG Accounting and Reporting Standard for the Financial Industry from the Partnership for Carbon Accounting Financial (PCAF), specifically part A 'Financed Emissions' (version December 2022).

Answer

When reporting on their gross Scope 3 greenhouse gas (GHG) emissions, the undertaking discloses the amounts corresponding to the Scope 3 categories that it considers significant. For investments, this will factor in the scale of the investments and the associated indirect GHG emissions. The company should follow the principles, requirements and guidance laid out in the GHG Protocol Corporate Standard, the GHGP Scope 3 standard as well as the associated Scope 3 calculation guidance. Moreover, as stated in ESRS E1 paragraph AR 46(b), financial institutions shall consider the GHG Accounting and Reporting Standard for the Financial Industry from the Partnership for Carbon Accounting Financial (PCAF), specifically part A 'Financed Emissions' (version December 2022).

Supporting material

https://ghgprotocol.org/sites/default/files/2022-12/Chapter15.pdf

https://ghgprotocol.org/scope-3-calculation-guidance-2

Question ID 167 - GHG protocol scope 3; sector

Release date

February 2024

Question asked

Is there a requirement for, or guidance around, the methods allowed to calculate Scope 3 emissions from shipping?

Key Terms

Scope 3, value vhain

ESRS references

ESRS 1 Annex B: qualitative characteristics of information; ESRS E1 paragraphs 44 and AR39, AR46

Background

ESRS 1 Annex B, on qualitative characteristics of information, provides important principles and criteria to apply in the assessment of which calculation methodologies and which input data to use in the preparation of ESRS disclosures.

ESRS E1 paragraph 44 requires the disclosure of gross Scope 3 GHG emissions, as well as the other two Scopes regarding GHG emissions, and ESRS E1 AR39(a) states that 'the undertaking shall consider the principles, requirements and guidance provided by the GHG Protocol Corporate Standard (version 2004) … ', which in this case also includes the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (Version 2011 mentioned in ESRS E1 AR 46(a)) as well as the 'Technical guidance for calculating Scope 3 emissions' (version 1.0).

ESRS E1 paragraph AR 46 details other requirements related to the reporting of Scope 3 GHG emissions. In particular, ESRS E1 paragraph AR 46(g) highlights the need to disclose the percentage of emissions calculated using primary data obtained from suppliers or other value chain partners by stating that: 'disclose the extent to which the undertaking's Scope 3 GHG emissions are measured using inputs from specific activities within the entity's upstream and downstream value chain, and disclose the percentage of emissions calculated using primary data obtained from ***suppliers*** or other ***value chain*** partners.'

Other methodological details that go beyond the provisions included in the 'Technical guidance for calculating Scope 3 emissions' (version 1.0) are not provided within the ESRS. Additional provisions may be envisaged as part of future ESRS sector standards.

Answer

The ESRS set reporting standards but do not prescribe detailed calculation methodologies. However, when determining the methodology and input to be used, the undertaking shall apply the criteria defined under ESRS 1 Annex B, qualitative characteristics of information, as well as requirements to consider the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (Version 2011 mentioned in ESRS E1 paragraph AR 46(a)) and the 'Technical guidance for calculating Scope 3 emissions' (version 1.0). Additional provisions may be envisaged as part of future ESRS sector standards.

Question ID 208 - GHG emission calculation

Release date

May 2024

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 AR 39

Key Terms

GHG emission calculation; ISO; IPCC

Background

ESRS E1 paragraph 44 states: 'The undertaking shall disclose in metric tonnes of CO2eq its:

(a) gross Scope 1 GHG emission,

(b) gross Scope 2 GHG emission,

(c) gross Scope 3 GHG emission; and

(d) total GHG emission'.

ESRS E1 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

1) 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).

2) What exactly are the CO2 equivalents used for the calculation?

When expressing its GHG emissions, the preparer 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.

Question ID 251 - Emission factors disclosure

Release date

May 2024

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 AR 39 (b)

Key Terms

GHG emission factors

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 determined. 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.

ESRS E2 Pollution

ESRS E2-1 Policies related to pollution

Question ID 186 – Substances of very high concern

Release date

May 2024

Question asked

One of the requirements in the ESRS E2 Pollution Standard is to describe the phase-out of substances of very high concern (SVHCs). How can undertakings identify SVHCs that are to be phased out?

ESRS reference

ESRS E2 paragraph 6; Disclosure Requirement E2-1 paragraph 15(b)

Key terms

Substances of very high concern; SVHCs

Background

Disclosure Requirement E2-1 mandates that the undertaking disclose how its policies address the substitution and minimisation of substances of concern (SoC) as well as the phase-out of substances of very high concern (SVHCs) within its own operations and throughout its supply chain.

The main goal of the EU policies regarding SVHCs is to ensure a high level of protection for human health and the environment by phasing them out where possible.

As explained in Annex II to Commission Delegated Regulation (EU) 2023/2772, Substances of Very High Concern (SVHCs) are those that meet the criteria laid down in Article 57 of Regulation (EC) No 1907/2006 (REACH) and that were identified in accordance with Article 59(1) of that Regulation.

The European Chemical Agency (ECHA) website includes a public registry for intentions, which lists the intentions and Annex XV restriction proposals received by the ECHA. Once an Annex XV SVHC dossier has been prepared and the scientific evidence for identifying a substance as a SVHC has been outlined, a consultation of the Member States and interested parties is required, as specified in Article 59 of REACH. Further details on this consultation process are available on the ECHA website at http://echa.europa.eu/proposals-to-identify-substances-of-very-high-concern.

At the end of the process laid down in Article 59 of REACH, the substance may be included in the Candidate List – which is the list relevant for the identification of SVHCs (please see ID 301).

As the inclusion of substances in the Candidate List results in a number of immediate legal obligations on listing substances on their own, in mixtures and in articles, it is an indication that these substances are of concern to authorities and that they might be prioritised for further regulation.

Answer

The requirement in ESRS E2 paragraph 15(b) is to indicate whether and how the undertaking's policy aligns with the public policy objectives of phasing out SVHCs as outlined in REACH and in line with the ambitions of the Chemicals Strategy for Sustainability.

To identify SVHCs, undertakings consult the Candidate List of Substances of Very High Concern managed by the European Chemicals Agency pursuant to Article 59(10) of Regulation (EC) No 1907/2006 (REACH). The Candidate List is provided by the ECHA on its official website and can be directly consulted by undertakings for information purposes.

Please refer also to explanations ID 226 and ID 301 for further information on Substances of (Very High) Concern.

ESRS E2-4 Pollution of air, water and soil

Question ID 201 – Oil spills – Chemical spills

Release date

May 2024

Question asked

Are oil/chemical spills to be reported under DR E2-4 paragraph 28 or elsewhere?

ESRS reference

ESRS E2 Disclosure Requirement E2-4 paragraph 28; ESRS E4 Disclosure requirements IRO-1 paragraph AR 9(b)(i); ESRS S1 Disclosure Requirement SBM-3 paragraph 14(b); ESRS S2 Disclosure Requirement SBM-3 paragraph 11(c); ESRS S3 Disclosure Requirement SBM-3 paragraph 9(b)

Key terms

Oil spill; chemical spill; pollution of air, water and soil; incident

Background

ESRS E2 Disclosure Requirement IRO-1 requires undertakings to explain how they determined the materiality of pollution-related impacts, risks and opportunities.

ESRS 1 paragraph 33 states: 'When disclosing information on policies, actions and targets in relation to a sustainability matter that has been assessed to be material, the undertaking shall include the information prescribed by all the Disclosure Requirements and datapoints in the topical and sector-specific ESRS related to that matter.'

ESRS E2 Disclosure Requirement E2-4 paragraph 28 requires undertakings to disclose pollutants emitted to air, water and soil.

ESRS E2 paragraph 41 states: 'The undertaking shall disclose any relevant contextual information including a description of material incidents and deposits whereby pollution had negative impacts on the environment and/or is expected to have negative effects on the undertaking's financial cash flows, financial position and financial performance with short-, medium- and long-term time horizons.'

ESRS E2 paragraph 28(a) further addresses disclosures on pollutants by referencing relevant regulation: 'disclose the amounts of ... each pollutant listed in Annex II of **Regulation (EC) No 166/2006** ... emitted to air, water and soil.' To this end, the European Pollutant Release and Transfer Register (E-PRTR) Regulation mentions 'spilling' as a particular type of pollutant 'release' (Article 2 (10)). Article 5(2) of E-PRTR Regulation specifies that operators have to 'include information on releases and transfers resulting as totals of all deliberate, accidental, routine and non-routine activities.'

Spills are not, however, an issue addressed by ESRS E2 disclosure only. Under the section 'Interaction with other ESRS', ESRS E2 paragraph 7 and 8 make clear its interaction with other environmental and social topics. As an example, ESRS E2 paragraph 7(c) indicates 'Pollution as a direct impact driver of biodiversity loss' (ESRS E4) when considering other environmental impacts, and ESRS E4 (biodiversity and ecosystem) refers to '***Spills of polluting effluents***' as an example of policy transition risk (E4-IRO-1 paragraph AR9(b)(i)).

Oil spills also have social implications, and 'incidents' and 'spills' are referred to in ESRS S1-SBM-3 paragraph 14(b), ESRS S2-SBM-3 paragraph 11(c), and ESRS S3-SBM-3 paragraph 9(b). These paragraphs indicate the requirements to disclose on the social implications of spillages, in addition to the environmental ones in E2, in alignment with the principle that ESRS mutually interact with one another.

ESRS 2 paragraph 61 states: 'The corresponding disclosures shall be located alongside disclosures prescribed by the relevant ESRS. When a single policy or the 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.'

Answer

Where spills can result in material pollution-related impacts, undertakings shall provide disclosure in accordance with the provisions of ESRS E2 Disclosure Requirement related to ESRS 2 IRO-1 (materiality assessment) and ESRS E2 Disclosure Requirement E2-1 (policies), E2-2 (actions) and E2-3 (targets).

Concerning quantitative information on oil and chemical spills, undertakings shall also disclose metrics by reporting on chemical releases to air, water and soil as prescribed by ESRS E2 Disclosure Requirement E2-4, referring to the E-PRTR (European Pollutant Release and Transfer Register) Regulation, which mentions 'spilling' as a particular type of pollutant 'release' in Art. 2(10). In this regard, undertakings are also to provide complementary contextual information on incidents if these had negative environmental impacts and whenever they resulted in, or are expected to have, (material) financial effects (ESRS Disclosure Requirement E2-6 paragraph 41). If applicable, undertakings shall develop entity-specific metrics, too, in accordance with ESRS 1 paragraph 11 and ESRS 2 Metrics MDR-M.

Furthermore, spills can have material adverse impacts on water availability, ecosystems and human health. Therefore, undertakings shall report those impacts in accordance with the relevant disclosures under ESRS E3, ESRS E4, ESRS S1, ESRS S2, and ESRS S3 if material.

Reporting the impacts of spills under the several aforementioned ESRS topics may result in undertakings needing to work with different metrics; for example: for pollution, amounts of pollutants; for biodiversity, metrics that measure changes in the number of individuals of a

species; for own workforce, the number of fatalities or number of days lost to work-related injuries or ill health; etc. Currently, there are no specific metrics concerning spills in the sector-agnostic ESRS, nor are there requirements related to the spillage of complex substances that may trigger pollution through different types of pollutants. The forthcoming sector standards may develop sector-specific disclosures related to spills.

In terms of the presentation of disclosures, the undertaking can first provide specific information within the scope of one topical standard (e.g., pollution), then cross-reference this information to other interconnected topical standards (e.g., ESRS E4, S1) when addressing sustainability matters that are interconnected (ESRS 2 paragraph 61).

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.

Question ID 440 - Pollutants emissions – disaggregation

Release date

May 2024

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

Key terms

Pollutant 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

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:

Pollutant	Releases to air (kg/a)	Releases to water (kg/a)	Releases to soil/land* (kg/a)
…			
Nitrogen oxides (NOx/NO2) (threshold value 100.000 kg/a)	xxx	-	-
…			
Chlorides (as total Cl) (threshold value 2 million kg/a)	-	yyy	zzz
…			

*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.

Question ID 441 - Microplastics

Release date

May 2024

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

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 inventory 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.

ESRS E2-5 Substances of concern and substances of very high concern

Question ID 226 and 301– Substances of (very high) concern and hazard classes

Release date

May 2024

Question asked

1. What is the difference between 'substances of concern' (SoCs) and 'substances of very high concern' (SVHCs) in ESRS E2 Disclosure Requirement E2-5?
2. What are the lists of substances of concern (SoC) and substances of very high concern (SVHCs) to be considered?
3. What are their respective main hazard classes?

ESRS Reference

ESRS E2 Disclosure Requirement E2-5 paragraph 34; Annex II Acronyms and Glossary of Terms: 'Substances of Concern (SoC)' and 'Substances of Very High Concern (SVHCs)'

Key terms

Substances of concern; SoC; substances of very high concern; SVHC

Background

[ID 226 and 301 were both on Substances of (Very High) Concern. As they have related answers, they were combined in the questions above. To better answer the questions addressed by the submitters, it was agreed to change the questions received from ID 226 'What is the difference between 'substances of concern' and 'substances of very high concern' in ESRS E2 Disclosure Requirement E2-5?' and ID 301 'What is the list of substances of high concern to be considered? Is the list of substances of Very High Concern the one in Annex XIV of REACH? What are the main hazard classes of substances of concern and very high concern that must be considered for reporting under paragraph 34?' to the questions above.]

As per the definition in ESRS Glossary in Annex II of the Commission Delegated Regulation (EU) 2023/2772, a substance of concern (SoC) is a 'substance that meets at least one of three criteria:'

1) 'meets the criteria laid down in Article 57 and is identified in accordance with Article 59(1) of Regulation (EC) No 1907/2006 of the European Parliament and of the Council (REACH) – this group of substances corresponds to Substances of Very High Concern;

2) is classified in Part 3 (which lists hazardous substances for which harmonised classification and labelling have been established at Community level) of Annex VI (Harmonised classification and labelling for certain hazardous substances) to Regulation (EC) No 1272/2008 of the European Parliament and of the Council (Regulation on classification, labelling and packaging (CLP) of substances) in one of the following hazard classes or hazard categories:
    (a) carcinogenicity categories 1 and 2;
    (b) germ cell mutagenicity categories 1 and 2;
    (c) reproductive toxicity categories 1 and 2;
    (d) endocrine disruption for human health;
    (e) endocrine disruption for the environment;
    (f) Persistent, Mobile and Toxic or Very Persistent, Very Mobile properties;
    (g) Persistent, Bioaccumulative and Toxic or Very Persistent, Very Bioaccumulative properties;
    (h) respiratory sensitisation category 1;
    (i) skin sensitisation category 1;
    (j) chronic hazard to the aquatic environment categories 1 to 4;
    (k) hazardous to the ozone layer;
    (l) specific target organ toxicity, repeated exposure categories 1 and 2;
    (m) specific target organ toxicity, single exposure categories 1 and 2;
3) or negatively affects the re-use and recycling of materials in the product in which it is present, as defined in relevant Union product-specific ecodesign requirements.'

The ESRS Glossary defines substances of very high concern (SVHCs) as substances 'that meet the criteria laid down in Article 57 of Regulation (EC) No 1907/2006 (REACH)' and that are 'identified in accordance with Article 59(1) of that Regulation'.

Following Article 57 of REACH, the substances described below may be identified as SVHC:

(a) under the Regulation (EC) No 1272/2008 (CLP) as: (a) carcinogenic of category 1A and 1B; (b) mutagenic category 1A and 1B; (c) toxic for reproduction category 1A and 1B;

(b) under Annex XIII of REACH as: d) persistent, bioaccumulative and toxic; e) very persistent and very bioaccumulative;

(c) other substances for which there is scientific evidence of probable serious effects to human health or the environment, which give rise to an equivalent level of concern to those other substances listed above, and which are identified on a case-by-case basis, such as those having endocrine disrupting properties.

The list that is relevant for the identification of SVHCs is the 'Candidate List of substances of very high concern for Authorisation', which compiles the list of substances that are potential candidates for inclusion in Annex XIV (Authorisation list).

Concerning SoCs, these will include the SVHCs in the lists above (criterion 1) as well as all substances corresponding to criterion 2 – but for which, at this stage, a comprehensive list cannot be presented. Nevertheless, substances regulated under CLP would have information that could allow their assessment as being SoCs. Furthermore, ECHA provides a database to filter Annex VI by specific hazard classes: the C&L Inventory. As to criterion 3, it is still not yet fully regulated and, hence, there is currently no specific list of chemicals for these criteria. However, ESRS 1 paragraph 11 states that '… when an undertaking concludes that an impact, risk or opportunity is not covered or not covered with sufficient granularity by an ESRS but is material due to its specific facts and circumstances, it shall provide additional entity-specific disclosures to enable users to understand the undertaking's sustainability-related impacts, risks or opportunities.' Additionally, existing standard product specification from CEN/CENELEC, academic literature or other sources could provide valuable guidance to assess the risks of use of certain substances in products that may potentially fall within criterion 3; nonetheless, no list can be provided at this stage.

Answer

1. What is the difference between 'substances of concern' (SoCs) and 'substances of very high concern' (SVHCs) in ESRS E2 Disclosure Requirement E2-5?

As per the ESRS Glossary in Annex II of the Commission Delegated Regulation (EU) 2023/2772, Substances of Concern constitute a broader group of substances, including:

(a) the Substances of Very High Concern meeting the criteria laid down in Art. 57 and 59 of the REACH regulation;

(b) the substances classified in one of the hazard classes or hazard categories, as per point (ii) of the definition of SoC in the ESRS Glossary (see 'Background' information), and as listed in Part 3 (Table 3.1) of Annex VI of CLP;

(c) and substances that negatively affect the reuse and recycling of materials in the products in which they are present, as defined in the relevant EU product-specific ecodesign requirements (forthcoming).

2. What are the lists of substances of concern (SoC) and substances of very high concern (SVHC) to be considered?

The list of substances covered by point (a) is available by consulting the 'Candidate List of substances of very high concern for Authorisation' managed by the European Chemicals Agency (ECHA), pursuant to Article 59(10) of the REACH Regulation.

The list of substances covered by point (b) is available by consulting the table of harmonised entries in Annex VI to CLP, containing all updates[1] to the harmonised classification and labelling of hazardous substances, which are available in Table 3 of Annex VI to the CLP Regulation, managed by the ECHA. The ECHA also provides a database (C&L Inventory) to filter Annex VI by specific hazard classes.

As for point (c), currently there are no Union product-specific ecodesign requirements available; hence, there are no published lists for these substances. Nonetheless, undertakings are to follow

[1] Please note that the most recent updates made to Table 3 of Annex VI to CLP are not necessarily already included in the most recent consolidated version of CLP but can be found in the respective Commission Delegated Regulations amending that Table.

ESRS 1 indications on entity-specific disclosures should they conclude that a related impact, risk or opportunity is material although not explicitly covered by the ESRS.

3. What are their respective main hazard classes?

Undertakings may refer to the regulatory sources – the REACH and CLP regulations – to identify information on the definitions and lists of substances as well as for further indications on hazard classes. Please also see background information.

Please also refer to explanations ID 186 and ID 226 for further information on Substances of (Very High) Concern.

Lastly, please also refer to ID 186 for further information on Substances of (Very High) Concern.

Supporting material

Regulation (EC) No 1907/2006 of the European Parliament and of the Council of 18 December 2006 concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH).

Regulation (EC) No 1272/2008 of the European Parliament and of the Council of 16 December 2008 on classification, labelling and packaging of substances and mixtures (CLP).

Questions related to Social

ESRS S1 Own workforce

ESRS S1-4 Taking action on material impacts and approaches to mitigating material risks and pursuing material opportunities related to own workforce, and effectiveness of those actions and approaches

Question ID 214 - Resources to manage material impacts

Release date

March 2024

Question asked

In paragraph 43 of ESRS S1 ('the undertaking shall disclose what resources are allocated to the management of its material impacts, with information that allows users to gain an understanding of how the material impacts are managed'), it is unclear whether 'material impacts' is meant to cover all material impacts or only 'own workforce' material impacts.

ESRS reference

ESRS S1-4 paragraph 43; ESRS S1 paragraph AR48; ESRS S1 paragraph 1.

Key Terms

Resources to manage material impacts

Background

[The original question received has been reworded to the above to be clearer. The original question was: 'When mentioning 'material impacts' in paragraph 43 of ESRS S1-4, it is unclear if you mean 'all' material impacts or 'own workforce' material impacts.']

ESRS S1 paragraph 1 clarifies the objective of ESRS S1, specifying that Disclosure Requirements in this topical standard will 'enable users of the sustainability statement to understand the undertaking's material impacts on its own workforce.'

ESRS S1-4 paragraph 43 states: 'The undertaking shall disclose what resources are allocated to the management of its material impacts, with information that allows users to gain an understanding of how the material impacts are managed.'

ESRS S1 paragraph AR 48 further explains: 'When disclosing the resources allocated to the management of material impacts, the undertaking may explain which internal functions are involved in managing the impacts and what types of action they take to address negative, and advance positive, impacts.'

Answer

'Resources allocated to the management of material impacts' refers only to the disclosure of resources allocated to the management of material matters pertaining to the 'own workforce' topic.

As paragraph 43 of ESRS S1-4 is part of the topical standard on 'own workforce', 'material impacts' in that paragraph is intended to refer specifically to material impacts on own workforce.

ESRS S1-6 Characteristics of the undertaking's employees

Question ID 31 - Breakdown of temporary, permanent, and non-guaranteed hours employees

Release date

March 2024

Question asked

Is this a three-way split or are non-guaranteed hours employees part of temporary/permanent employees?

ESRS Reference

ESRS S1 paragraphs 50 (b), AR 55, and AR56

Key Terms

Employees permanent; employees temporary; employees non-guaranteed hours

Background

ESRS S1 paragraph 50 (b) requires the disclosure of: 'the total number by head count or full-time equivalent (FTE) of:

(d) permanent employees, and breakdown by gender;

(e) temporary employees, and breakdown by gender; and

(f) non-guaranteed hours employees, and breakdown by gender.'

Further information on how to present this information can be found in Table 3 and Table 4 in ESRS S1 paragraph AR 55, while ESRS S1 paragraph AR 56 also provides a definition of non-guaranteed hours employees as following: 'Non-guaranteed hours employees are employed by the undertaking without a guarantee of a minimum or fixed number of working hours. The employee may need to make themselves available for work as required, but the undertaking is not contractually obliged to offer the employee a minimum or fixed number of working hours per day, week, or month. Casual employees, employees with zero-hour contracts, and on-call employees are examples that fall under this category.'

Answer

ESRS S1 paragraph 50 (b) requires a three-way split of employees as the text distinguishes between three datapoints, (i) permanent, (ii) temporary and (iii) non-guaranteed hours employees, and it specifies that a breakdown by gender is required for the three datapoints. In addition, ESRS S1 paragraph AR 55, Table 3 and Table 4 offer further guidance by providing the template for presenting information on employees by contract type.

ESRS S1 paragraph AR 56 specifies that 'the definitions of permanent, temporary, non-guaranteed hours . . . employees differ between countries . . .' and it also provides a definition of non-guaranteed hours employees. While permanent and temporary employment relationships define the duration of a contract, a non-guaranteed hours contract refers mainly to the expected working time. The defining characteristic of non-guaranteed hours contracts is that they do not guarantee a minimum or fixed number of working hours.

In some countries, non-guaranteed hours contracts may be further classified as either permanent or temporary according to national legislation. Hence, in these countries the undertaking reports those non-guaranteed hours employees under paragraph 50 (b)(iii) and also under paragraph 50 (b)(i) or (ii). The provision of contextual information in ESRS S1 paragraph 50 (e) requires explaining how the information is reported; for example, the undertaking would describe if non-guaranteed hours employees are also included within the permanent and temporary datapoints.

Question ID 32 – Methodology for presenting information on employees

Release date

May 2024

Question asked

The question above has been reworded as follows to be clearer:

1. Are both FTE and head count figures to be reported?
2. Can FTE be used as a proxy for head counts if 99% of the workforce is full-time?

ESRS reference

ESRS S1 paragraphs 50(a), (b) and (d); 52(a) and (b); 55(b)(i); AR 55; and 34

Key terms

Methodology to compile data; FTE

Background

[The question received: 'Is there a materiality approach for the people reporting in place (for example, if 99% of the workforce are full-time employees, the difference between our existing FTE reporting and head count is negligible)? Does an additional head count reporting have to be

set up or can we keep FTE reporting and provide background information to users?' has been reworded to the above to be clearer.]

ESRS S1 Disclosure Requirement S1-6 on the characteristics of the undertaking's employees requires information on the number of employees and the number of breakdowns. The objective of S1-6 is for the undertaking to provide insight into its approach to employment, to provide contextual information that facilitates an understanding of the information reported in other disclosures and to serve as the basis for calculating quantitative metrics to be disclosed under other disclosure requirements in this Standard.

ESRS S1 paragraph 50 (a) requires the disclosure of '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'. This requirement on the number of employees is consistent with ESRS 2 SBM-1 paragraph 40(a)(iii) whereby head count data is also required.

ESRS S1 Disclosure Requirement S1-6 (paragraph 50 (b)) allows the undertaking to choose between two methodologies to calculate the number of employees, which are either by head count or full-time equivalent (FTE) of:

'(i) permanent employees and breakdown by gender;

(ii) temporary employees and breakdown by gender; and

(iii) non-guaranteed hours employees and breakdown by gender.'

The voluntary disclosures in ESRS S1 paragraph 52(a) (b) follow the same approach as detailed above whereby there is the option of disclosing information on full-time and part-time employees by either head count or FTE.

ESRS S1 paragraph 50 (d) requires 'a description of the methodologies and assumptions used to compile the data, including whether the numbers are reported:

(i) in head count or full-time equivalent (FTE) (including an explanation of how FTE is defined) …'.

Furthermore, ESRS S1 paragraph AR 55, Table 3 and Table 4 provide the relevant tables to present this information in (Table 3: 'Template for presenting information on employees by contract type, broken down by gender (head count or FTE)'; and Table 4: 'Template for presenting information on employees by contract type, broken down by region (head count or FTE)').

ESRS S1 paragraph AR 60 states: 'Where data is not available for detailed information, the undertaking shall use an estimation of the employee number or ratios, in accordance with ESRS 1, and clearly identify where the use of estimates has taken place.'

Answer

1. ***Are both FTE and head count figures to be reported?***

The datapoint on the total number of employees (ESRS 1 paragraph 50(a)) shall be reported in terms of head count, since head count is the relevant metric for labour law and social policy (as head count triggers many rights in social and labour law), and this is also consistent with the requirements in ESRS 2 SBM-1 paragraph 40(a)(iii).

Recognizing that it is common in some countries to report detailed employee information in full-time equivalent (FTE) terms, S1-6 allows undertakings the option to report other datapoints (permanent, temporary and non-guaranteed hours contract types as well as full- and part-time contract types) in either head count or full-time equivalent (FTE) terms.

According to ESRS S1 paragraph 50(b) and paragraph 52(a)(b), the undertaking has two options to report information on employees by contract type: head count or full-time equivalent. (ESRS S1 paragraph AR 55, tables 3 and 4 contain the templates that undertakings shall use to disclose this information.)

The option to report employee numbers with either head count or FTE metrics is explicitly allowed only in S1-6 and in S1-7 when reporting on non-employees within own workforce. For the other metrics in ESRS S1 (i.e., from ESRS S1-8 to ESRS S1-17), the disclosure requirements and their related application requirements define the methodology to be followed for calculating quantitative information on employees (for example, ESRS S1-14 AR80 on health and safety).

2. ***Can FTE be used as a proxy for head counts if 99% of the workforce is full-time?***

For ESRS S1 paragraph 50(a), there is no option with respect to the unit of account. The undertaking is expected to comply with the text of ESRS by providing a figure according to the unit of account as defined in the Disclosure Requirement. Still, an undertaking may refer to ESRS S1 paragraph AR60 on the use of estimates and ratios.

Question ID 365 - Significant employment

Release date

May 2024

Question asked

Please confirm that ESRS S1-6 paragraph 50 (a) 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

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 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.

ESRS S1-7 Characteristics of non-employee workers in the undertakings' own workforce

Question ID 33 - Definition of non-employees

Release date

February 2024

Question asked

Which groups can be considered as employees or non-employee workers in line with the German HGB respectively other national laws?

ESRS references

ESRS S1 paragraphs 50(a), 55(a), 4, and AR 3

Key terms

Non-employees; employees

Background

ESRS S1 paragraph 4 describes the scope of ESRS S1 and states: 'this Standard covers an undertaking's own workforce, which is understood to include both people who are in an

employment relationship with the undertaking ("employees") and non-employees who are either people with contracts with the undertaking to supply labour ("self-employed people") or people provided by undertakings primarily engaged in "employment activities" (NACE Code N78). See Application Requirement 3 for examples of who falls under own workforce. The information required to be disclosed with regard to non-employees shall not affect their status pursuant to applicable labour law.'

In addition, ESRS S1 paragraph AR3 gives a number of examples of people who fall within the category of non-employees and are included within 'own workforce'; these are (a) contractors (self-employed persons) and '(b) people employed by a third party engaged in "employment activities" which include people who perform the same work that employees carry out.'

Answer

Since there is no definition of 'employee' provided under EU law, the status as an employee is determined at the national level according to national laws and practice (employees are individuals who are 'in an employment relationship with the undertaking according to national law and practice').

The national labour law or practice of each country defines what type of contracts constitute an employment relationship (i.e., an employee) and those that relate to non-employees.

ESRS S1-8 Collective bargaining coverage and social dialogue

Question ID 215 - Social dialogue global percentage

Release date

March 2024

Question asked

Can you clarify the 'global percentage reported at the country level' in ESRS S1 paragraph 63?

ESRS reference

ESRS S1 paragraphs 63; AR 69; and AR 70

Key Terms

Social dialogue; employees - global percentage; significant employment

Background

ESRS S1 paragraph 63 states: 'The undertaking shall disclose the following information in relation to social dialogue: *(a)* the global percentage of employees covered by workers' representatives, reported at the country level for each EEA country in which the undertaking has significant employment . . .'

ESRS S1 paragraph AR 69 specifies that, 'for calculating the information required by paragraph 63(a), the undertaking shall identify in which EEA countries it has significant employment (i.e., at least 50 employees representing at least 10% of its total employees). For these countries it shall report the percentage of employees in that country which are employed in establishments in which employees are represented by workers' representatives.'

ESRS S1 paragraph AR 70 provides a template for reporting on collective bargaining coverage and social dialogue, specifying that it applies to 'EEA countries only.'

Answer

The term 'global' refers to the total or overall percentage of employees in a specific EEA country working in establishments (e.g., factories, branches) with workplace representation, based on the International Labour Organisation's (ILO) definition of workers' representatives. Workplace representation enables social dialogue at the establishment level, which is different from social dialogue at the group, sectoral, national or EU level. As an undertaking may have several establishments in one country, the aim of this metric is to obtain the overall percentage of employees with workplace representation for each EEA country where the undertaking has significant employment (i.e., at least 50 employees representing at least 10% of its total employees).

ESRS S1 paragraph AR 70 provides a template to present this information in. The column under the heading 'Social dialogue' provides an example of how an undertaking with significant employment in two EEA countries (country A and country B) can report this data point.

Question ID 376 - Definition of collective bargaining

Release date

May 2024

Question asked

Please provide a definition of collective bargaining agreement.

ESRS Reference

Disclosure Requirement S1-8

Key terms

Collective bargaining agreement; working conditions

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 Acronyms and Glossary of Terms provides a definition of collective bargaining (see above) based on ILO Convention 154 on Collective Bargaining:

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

ESRS S1-14 Health and safety metrics

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

Release date

May 2024

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; work-related; fatalities

Background

ESRS S1 paragraph 86 condenses the idea that: '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.

ESRS S1-15 Work-life balance

Question ID 340 – Entitlement to family-related leave

Release date

May 2024

Question asked

Does the metric 'family-related leave' presume that an employee is entitled to every concept of family-related leave?

ESRS Reference

ESRS S1-15 paragraphs 93, AR96, and AR97

Key terms

Work-life balance; entitlement to take family-related leave

Background

Family-related leave is addressed in ESRS S1 Disclosure Requirement S1-15; specifically, ESRS S1 paragraph 93 requires a disclosure of '(a) the percentage of employees entitled to take family-related leave ...'

The relevant definitions can be found in ESRS S1 paragraph AR96, explaining that 'family-related leave includes maternity leave, paternity leave, parental leave and carer's 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 insofar 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) carer's 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.'

Furthermore, ESRS S1 paragraph AR97 clarifies: '... 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.'

Answer

Yes, family-related leave is defined as including maternity leave, paternity leave, parental leave and carer's leave (ESRS S1 paragraph AR 96). The focus of the Disclosure Requirement is family-related leave covered by regulations (for example, government's social protection), organisational policies, agreements, contracts or collective agreements (ESRS S1 paragraph AR97) that contain family-related leave entitlements. Such entitlements may differ at a country level.

Being entitled to take family-related leave would thus mean, based on national law or collective agreements, for female employees to be entitled to take maternity, parental and carer's leave and for male employees to be entitled to paternity, parental and carer's leave. The scope of family leave may vary across countries, and such contextual information may be relevant to users (for example, that employees are entitled to maternity leave but not to paternity leave in a given country). If based on national law or collective agreements female/male employees are not entitled to all the respective female/male types of family-related leave, then they would not qualify to be considered in the nominator of the metric.

Question ID 341 - Conditions for paternity, maternity, parental leave

Release date

May 2024

Question asked

What conditions must be met 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 AR 97

Key terms

Work-life balance; family-related leave

Background

The objective of Disclosure Requirement S1-15 is two-fold. Firstly, it aims 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 AR 97 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 AR 96, 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 otherwise only pregnant employees would be 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 employment time periods may exist to become entitled.

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 entitlement may vary across countries, and such contextual information may be relevant to disclose to users.

ESRS S1-16 Remuneration metrics (pay gap and total remuneration)

Question ID 132 - Gender pay gap

Release date

March 2024

Question asked

Can you please specify if for the below indicators: the gender pay gap, defined as the difference of average pay levels between female and male employees, expressed as percentage of the average pay level of male employees; should we include variable components of salary or only gross wage?

ESRS reference

ESRS S1-16 paragraphs 95, 97, and 98

Key Terms

Gender pay gap; gross wage; salary - variable components

Background

Annex II Acronyms and Glossary of Terms states the following:

'PAY: the ordinary basic or minimum wage or salary and any other remuneration, whether in cash or in kind, which the worker receives directly or indirectly ("complementary or variable components") in respect of his/her employment from his/her employer. "Pay level" means gross annual pay and the corresponding gross hourly pay. "Median pay level" means the pay of the employee that would have half of the employees earn more and half less than they do'.

Disclosure Requirement S1-16 includes the following paragraphs on remuneration metrics (pay gap and total remuneration):

'95. 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.'

'97. The disclosure required by paragraph 95 shall include: (a) the gender pay gap, defined as the difference of average pay levels between female and male employees, expressed as a percentage of the average pay level of male employees . . .'

'98. The undertaking may disclose a breakdown of the gender pay gap as defined in paragraph

97(a) by employee category and/or by country/segment. The undertaking may also disclose the gender pay gap between employees by categories of employees broken down by ordinary basic salary and complementary or variable components'.

ESRS S1 paragraph 97 includes additional information in a footnote as follows: 'The gender pay gap information supports the information needs of: financial market participants subject to

Regulation (EU) 2019/2088 because it is derived from a mandatory indicator related to principal adverse impacts as set out by indicator #12 in Table I of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments ("Unadjusted gender pay gap"); and benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816 as set out by indicator "Weighted average gender pay gap" in Section 1 and 2 of Annex II.'

Answer

Complementary and variable components of the employee's remuneration package form part of the calculation. Annex II Acronyms and Glossary of Terms defines 'pay' as the salary and other remuneration in cash or in kind that the employee directly or indirectly receives in respect of his/her employment.

ESRS S1-16 AR 98 describes the methodology to follow when calculating the gender pay gap required by ESRS S1-16 paragraph 97(a). The value to be used in the ratio is the gross hourly pay level.

Question ID 387 - Scope of ESRS S1-16

Release date

May 2024

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

Employees; gender pay gap; significant 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.

ESRS S2 Policies related to value chain workers

Question ID 356 – Sub-contractors Scope S1, S2

Release date

May 2024

Question asked

Are subcontractors included in own workforce, or are they to be included within the S2-disclosures?

ESRS Reference

ESRS S1 paragraph 4; ESRS S1 paragraph 5

Key terms

Own workforce; workers in the value chain

Background

[The question received, 'Are sub-consultants included in own workforce, or are they to be included within the ESRS S2-disclosures?' has been reworded into the above question to be clearer.]

ESRS S1 paragraph 4 states: 'This Standard covers an undertaking's own workforce, which is understood to include both people who are in an employment relationship with the undertaking ("employees") and non-employees who are either people with contracts with the undertaking to supply labour ("self-employed people") or people provided by undertakings primarily engaged in "employment activities" (NACE Code N78). See Application Requirement 3 for examples of who falls under own workforce. The information required to be disclosed with regard to non-employees shall not affect their status pursuant to applicable labour law.'

ESRS S1 paragraph 5 states: 'This Standard does not cover workers in the undertaking's upstream or downstream value chain; these categories of workers are covered in ESRS S2 Workers in the value chain.'

Answer

The definition of 'non-employees' only includes individual contractors supplying labour to the undertaking (self-employed people) and people provided by undertakings primarily engaged in employment activities (NACE Code N78). If they are not included in this definition, they shall be considered workers in the value chain (ESRS S2).

Questions related to Governance

ESRS G1 Business conduct

Question ID 479 – Minimum disclosure requirements and ESRS G1

Release date

May 2024

Question asked

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

ESRS Reference

ESRS G1; ESRS 2 Section 4.2 paragraphs 63 to 81

Key terms

Minimum disclosure requirements

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.

ESRS G1-4 Incidents of corruption or bribery

Question ID 417 - Convictions

Release date

May 2024

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 G1-4 paragraph 24(a)

Key terms

Convictions

Background

ESRS G1 paragraph 24 states that: 'The undertaking shall disclose:

(a) the number of convictions and the amount of fines for violation of anti-corruption and anti- bribery laws; and

(b) any actions taken to address breaches in procedures and standards of anti-corruption and anti-bribery.'

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.

ESRS G1-5 Political influence and lobbying activities

Question ID 510 - Indirect political contributions and lobbying activities

Release date

May 2024

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 paragraphs 29(b), AR 10, and AR 12

Key terms

Political contributions, lobbying activities

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

Question ID 560 – Beneficiary of political contributions

Release date

May 2024

Question asked

Undertakings are required, for financial or in-kind political contributions, to report the total monetary value of financial and in-kind political contributions made directly and indirectly by the undertaking, aggregated by country or geographical area where relevant, as well as the type of recipient/beneficiary. Does that include a requirement to disclose the exact name of the beneficiary or simply its type?

ESRS Reference

ESRS G1-5 paragraph 29 (b)

Key terms

Political contributions, beneficiary

Background

ESRS G1-5 paragraph 29 states the following: 'The disclosure required by paragraph 27 shall include … (b) for financial or in-kind political contributions: (i) the total monetary value of financial and in-kind political contributions made directly and indirectly by the undertaking, aggregated by country or geographical area where relevant, as well as type of recipient/beneficiary ...'

Answer

The Disclosure Requirement refers to the type of recipient/beneficiary and does not extend to the name of the beneficiary.

ESRS G1-6 Payment practices

Question ID 419 – Legal proceedings currently outstanding for late payments

Release date

May 2024

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

Late payments; legal proceedings

Background

ESRS G1 paragraph 33(c) refers to the 'number of legal proceedings currently outstanding for late payments' when stating what the disclosure under paragraph 31 shall include, under G1-6 Payment Practices.

Answer

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

Question ID 444 - Payment practices

Release date

May 2024

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; late payments

Background

ESRS G1 paragraph 2 presents the list of matters covered in the standard, which are collectively referred to as 'business conduct or business conduct matters'. 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'.

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.

Questions related to XBRL and datapoints

Question ID 326 – Implementation of datapoints

Release date

May 2024

Question asked

Why are some ESRS paragraphs and Application Requirements (AR) implemented as separate datapoints in IG 3 *List of ESRS Datapoints* and some are not?

ESRS Reference

IG 3 *List of ESRS Data Points*

Key terms

List of datapoints

Background

ESRS 1 paragraph 16 states: 'ESRS structure the information to be disclosed under Disclosure Requirements. Each Disclosure Requirement consists of one or more distinct datapoints. The term "datapoint" can also refer to a narrative sub-element of a Disclosure Requirement.'

ESRS 1 paragraph 18 states: 'ESRS use the following terms to distinguish between different degrees of obligation on the undertaking to disclose information:

(a) "shall disclose" – indicates that the provision is prescribed by a Disclosure Requirement or datapoint;

(b) "may disclose" – indicates voluntary disclosure to encourage good practice.

In addition, ESRS use the term "shall consider" when referring to issues resources or methodologies that the undertaking is expected to take into account or to use in the preparation of a given disclosure if applicable.'

IG 3 *List of ESRS Data Points – Explanatory note* and the ESRS XBRL Taxonomy provide non-authoritative implementation guidance on the datapoints required by ESRS. It supports the application of sector-agnostic ESRS adopted as delegated act on 31 July 2023 (see EFRAG IG 3 *List of ESRS data points – Explanatory note* chapter *Content and objective of this Implementation Guidance*).

ESRS E1 paragraph 36 states: 'The objective of this Disclosure Requirement is to provide an understanding of the undertaking's total energy consumption in absolute value, improvement in energy efficiency, exposure to coal, oil and gas-related activities, and the share of renewable energy in its overall energy mix.'

ESRS E1 paragraph AR36 states: 'When preparing the information on energy intensity required under paragraph 40, the undertaking shall:

(a) calculate the energy intensity ratio using the following formula: …'

ESRS E1 paragraph AR38 states: 'The reconciliation of net revenue from activities in high climate impact sectors to the relevant financial statements line item or disclosure (as required by paragraph 43) may be presented either:

(a) by a cross-reference to the related line item or disclosure in the financial statements; or

(b) if the net revenue cannot be directly cross-referenced to a line item or disclosure in the financial statements, by a quantitative reconciliation using the below tabular format. …'

Answer

IG 3 *List of Data Points – Explanatory note* (as well as the ESRS XBRL Taxonomy) have dedicated and separate items only for the individual datapoints of ESRS Disclosure Requirements. The datapoints are often indicated by terms equal or similar to 'shall disclose', 'shall describe' or 'may disclose'. All paragraphs of ESRS 1, and some paragraphs and Application Requirements of the other topical ESRS, provide objectives, methodological guidance or other guidance that are to be considered when preparing or disclosing sustainability statements according to ESRS. Those paragraphs are not implemented as separate datapoints.

The following examples illustrate when paragraphs in ESRS are considered separate datapoints or not:

(a) ESRS E1 paragraph 36: Not a datapoint because it describes the objective of the disclosure requirement E1-5 on Energy Consumption.
(b) ESRS E1 paragraph AR 36: Not a data point because it provides calculation guidance on the energy consumption.
(c) ESRS E1 paragraph AR 38, implemented as separate data point, due to the character of the Application Requirement which defines how the reconciliation of net revenue from activities in high climate impact sectors to the relevant financial statements line item or disclosure may be presented.
(d) Application Requirements that are part of the narrative disclosure of their associated Disclosure Requirements or datapoint are not designated as separate datapoints. An example would be ESRS E1 paragraph 20(a) and the related AR 9, detailing the information to be provided under ESRS E1 paragraph 20(a).
(e) Application Requirements marked with '*shall consider*' have not been included as separate datapoints, e.g., ESRS 2 paragraph AR 14 relating to ESRS 2 paragraph 42.

Table of ID release date

The date IDs were approved by the SRB is as follows:

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ID 033 – Definitions of non-employees

ID 036 – Energy mix

ID 039 – SBM-1 sector breakdown and phase-in

ID 043 - Scope 3 GHG emissions for insurance companies

ID 058 – Transitional provisions 750 employees

ID 081 – Subsidiaries, holding company – alignment for GHG protocol

ID 106 – Entity-specific guidance and examples

ID 109 – Disclosure Requirement E1-6

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ID 180 – Time horizon: impact versus financial materiality

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ID 031 – Breakdown of temporary, permanent, non-guaranteed hours employees

ID 037 – Positive impact only

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ID 067 – SBM-3 vocabulary / grammar used

ID 132 – Gender pay gap

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ID 426 – Structure of the sustainability statement

ID 440 – Pollutants emissions – disaggregation

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ID 479 – Minimum Disclosure Requirements in ESRS G1

ID 482 – Breakdown of total revenue - financial institutions

ID 504 – Disclosure Requirements on material metrics when information is not available

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

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ID 628 – Content Index

Key word index

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