ESRS Foundations

Insights into sustainability reporting

October 2024

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Contents

Setting the foundations

Sustainability reporting is more than a compliance exercise: it is how your stakeholders – including regulators and policy makers – will assess your company's progress towards sustainability targets and their connection to your overall business model and strategy.

When the European Union (EU) announced its Green Deal in 2020, it recognised it would need reliable, comparable information from companies to chart progress towards the 2050 goal of a climate-neutral EU. This information – required by the EU's Corporate Sustainability Reporting Directive (CSRD) – is key to achieving that goal, bringing more transparency and accountability to companies' sustainability efforts through the European Sustainability Reporting Standards (ESRS). Today, the first wave of companies is preparing to report under ESRS. They are the largest companies, but ultimately 50,000 companies will be required to report specific information under these new standards.

The standards – which will also impact many non-EU companies – have been developed and implemented at speed, with a commitment to maximising interoperability with the IFRS® Sustainability Disclosure Standards. You will find elements of the Global Reporting Initiative (GRI) Standards and Task Force on Climate-related Financial Disclosures (TCFD) recommendations but the ESRS requirements are much more detailed than existing standards. The first wave of companies have had to learn and adapt quickly to get ready for their first reports. For many there are new complex concepts to understand such as double materiality and disclosing information related to a company's value chain.

ESRS Foundations provides the framework for our guidance. It explains these new concepts and helps you to understand how your company might apply the standards. It navigates the complexity of ESRS, pulling the detailed requirements together in one place, and articulating them in plain English. It also includes insights and illustrative examples to help you to anticipate some of the key impacts.

Going forward we will expand the guidance, drawing from how companies are adapting to the new reporting environment and providing further insight and guidance on emerging issues as well as illustrative examples. Whether you are well advanced on your implementation journey, or taking the first steps, we hope this publication will help you to meet the challenges – and realise the opportunities enhanced reporting can bring.

Mark Vaessen

Julie Santoro

Tomokazu Sekiguchi

KPMG global corporate and sustainability reporting leadership team

KPMG International Standards Group

About this publication

This publication has been produced by the KPMG International Standards Group (part of KPMG IFRG Limited).

This edition considers the requirements of the first set of ESRS as adopted by the European Commission in July 2023. It also considers the related implementation guidance and Q&A technical explanations published by the European Financial Reporting Advisory Group (EFRAG) and the draft frequently asked questions (FAQs) on the implementation of the EU corporate sustainability reporting rules published by the European Commission as of 7 August 2024.

Further analysis and interpretation will be needed for a company to consider the impact of ESRS in light of its own facts and circumstances. The information contained in this publication is based on initial observations developed by the KPMG International Standards Group and these observations may change. Accordingly, neither this publication nor any of our other publications should be used as a substitute for referring to the standards and related implementation guidance themselves.

The examples included within this publication are for illustrative purposes only. They are intended to help companies to prepare and present sustainability statements under ESRS by illustrating one possible format or approach. The information contained within the examples is of a general nature and not intended to address the circumstances of any particular company.

This publication does not cover interoperability of ESRS with other standards.

References

References are included in the left-hand margin of this publication.

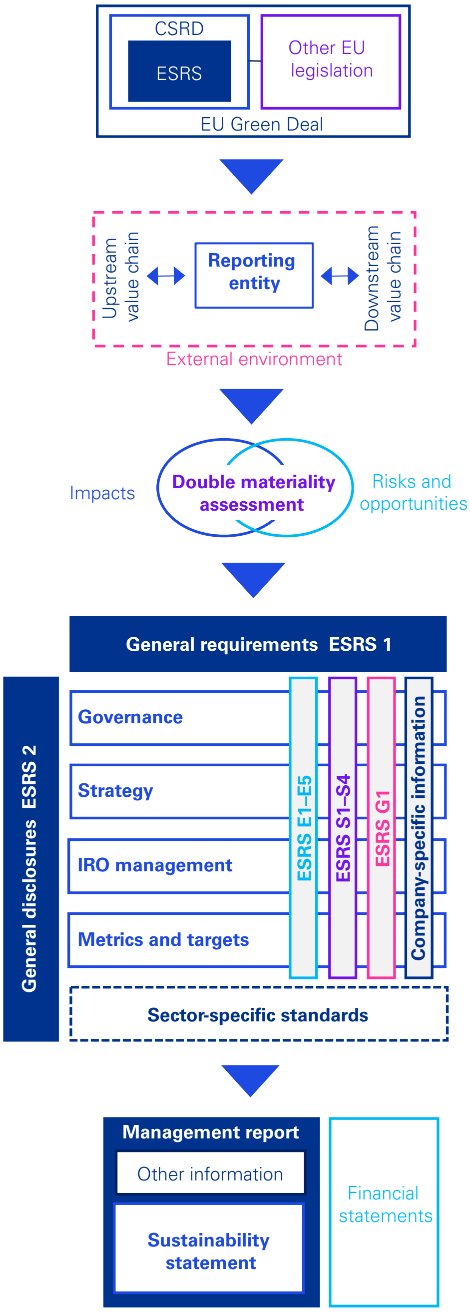
ESRS 1.62	Paragraph 62 of ESRS 1.
Annex II	ESRS Acronyms and Glossary of Terms.
IG 1.102	Paragraph 102 of EFRAG Implementation Guidance (IG) 1 *Materiality Assessment*.
EFRAG Q&A ID 162	Question ID 162 of the Q&A technical explanations published by EFRAG.
Draft EC FAQ 29	Question 29 from FAQs on the implementation of the EU corporate sustainability reporting rules published by the European Commission on 7 August 2024[1].

1. The FAQs are contained in a draft commission notice. Generally, a draft commission notice is formally adopted when published in the Official Journal of the EU. Publication in the Official Journal usually takes place once a version of the notice is available in all official EU languages.

1 At a glance

1.1 Understanding ESRS

Reporting under ESRS represents a step change in reporting for all companies in scope – whether they have previously reported sustainability-related information or not. The following diagram and explanations are a simplified representation, designed to provide a general understanding of reporting under ESRS in the context of familiar concepts. The elements of this diagram are explained throughout this publication, with definitions provided in the glossary.



ESRS are designed to meet EU policy objectives set out in the **CSRD** – one of a range of EU directives introduced to support the **EU's Green Deal**.

Companies in scope of the CSRD are required to produce a **sustainability statement** applying ESRS.

The **reporting entity** for the sustainability statement is generally the same as the financial statements. However, the sustainability statement provides information about the resources and relationships the reporting entity relies on or impacts across its **value chain**.

Understanding these resources, relationships, impacts and dependencies enables a company to identify and report on its **sustainability-related impacts, risks and opportunities (IROs)**.

Material IROs are identified using a **double materiality assessment (DMA)**. This means consideration of both **impact materiality** and **financial materiality**.

ESRS 2 requires a company to report information about material sustainability matters (represented by IROs) across the areas of **governance, strategy, IRO management,** and **metrics and targets**.

Additional topic-specific standards include disclosure requirements for **environmental, social** and **governance** matters across the same four reporting areas as ESRS 2. In future, **sector-specific** standards will provide further guidance.

Companies also disclose **company-specific information** when an IRO is not covered, or is not covered with sufficient granularity, by ESRS.

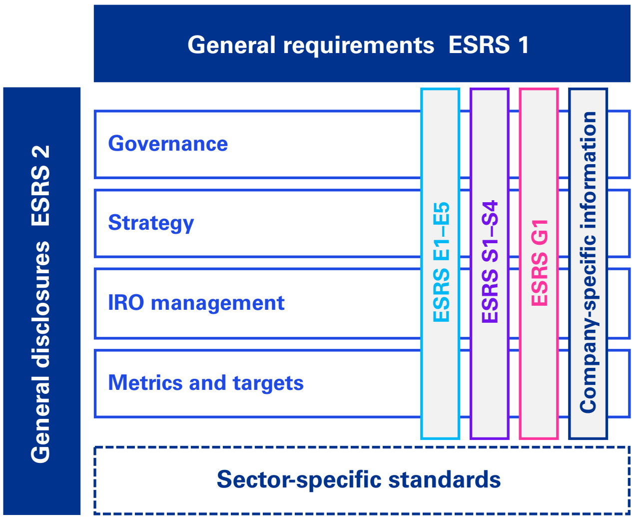
The resulting **sustainability statement** is connected to and complements the financial statements. The sustainability statement forms part of the **management report** – supporting broader stakeholders to understand the impact and value of the company.

1.2 Key facts

Key facts	
Effective date	The CSRD specifies the effective date of ESRS. They first apply for years beginning on or after **1 January 2024** (i.e. reporting in 2025) for certain large companies, with a **phased introduction** for other companies in subsequent years.
Reporting at the same time	Reporting is required **at the same time** and for the same period as the financial statements.
Reporting entity	The reporting entity is generally the same as the financial statements, but a company provides broader information related to its **value chain**.
Multi-stakeholder focused	Stakeholders are those who can affect or be affected by the company, including **users** of a company's sustainability statement and **affected stakeholders** such as employees and communities. This focus of the sustainability statement is **broader than the financial statements** and the other parts of the management report which focus on the information needs of investors.
Double materiality lens	A double materiality principle applies, which considers two dimensions of materiality – **impact** and **financial**.
Location and structure	Information is included in a **sustainability statement** with the option of incorporating information in the sustainability statement by reference, subject to certain conditions. The sustainability statement has a defined structure and is included in the management report.
Connected information	Reporting will explain how information connects in the sustainability statement and with other corporate reporting – including the financial statements.
Assurance	**Limited assurance** is required from the date of initial reporting with plans to move to reasonable assurance at a future date.

1.3 Navigating ESRS and how they apply

ESRS are designed to be applied together and there are important connections between them.



ESRS 1 and ESRS 2 are **cross-cutting standards**.

- ESRS 1 provides the fundamental concepts and principles for preparing and presenting a sustainability statement.
- ESRS 2 includes overarching disclosure requirements covering the four reporting areas of governance, strategy, IRO management, and metrics and targets.

Ten **topic-specific standards** supplement the cross-cutting standards, and include disclosure requirements across all four reporting areas. They are relevant to all sectors.

- Environmental standards (ESRS E1–E5) – cover matters related to the impact on the planet.
- Social standards (ESRS S1–S4) – cover matters related to the impact on employees, workers in the value chain, consumers and communities.
- Governance standard (ESRS G1) – covers matters related to business conduct.

Sector-specific standards will supplement the cross-cutting and topic-specific standards. While sector-specific standards are being developed, a company needs to provide **company-specific disclosures** about sustainability matters that are material for companies in its sector(s).

Company-specific disclosures are required to be disclosed when an IRO is not covered, or is not covered with sufficient granularity, by ESRS.

ESRS 1.16

ESRS structure the information to be disclosed under **disclosure requirements**. Each disclosure requirement consists of one or more distinct **datapoints**.

ESRS 1.18

ESRS use the following terminology to distinguish between information that is required or optional.

Terminology	Degree of obligation to disclose
'shall disclose'	Information prescribed by a disclosure requirement or datapoint.
'may disclose'	Optional disclosure to encourage good practice (i.e. not mandatory)[2].
'shall consider'	Refers to issues, resources or methodologies a company is expected to take into account or use in preparing a given disclosure, if applicable.

EFRAG Q&A ID 29, ID 261

The distinctions above are applied in conjunction with the mandatory disclosure requirements (e.g. ESRS 2) and the guidance on materiality (see Section 2.6). For example, this means that:

- 'shall disclose' datapoints in ESRS 2 are always disclosed because they are mandatory and not subject to materiality;[3] and
- if a disclosure requirement or datapoint is not material to the company, both 'shall disclose' and 'may disclose' datapoints in the corresponding topic-specific standard are not disclosed because they are subject to materiality.

Section 2.8 discusses the information to be disclosed in further detail.

Does a company need to disclose a 'may disclose' datapoint if the datapoint is material?

EFRAG Q&A ID 29, ID 261

No. Voluntary disclosures are optional, even if the topic is assessed as material or the individual datapoint is considered material. However, companies are encouraged to make these disclosures as good practice.

'May disclose' datapoints are often one possible way to disclose information to comply with a disclosure requirement.

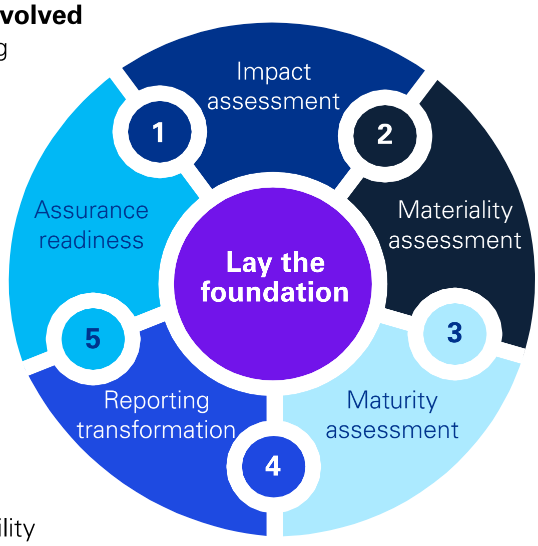
2. This publication does not attempt to cover all of the voluntary disclosures contained in ESRS and instead focuses on required disclosures.
3. This includes the 'shall disclose' datapoints in topic-specific standards that supplement ESRS 2 IRO-1 disclosures (see 2.8.1).

1.4 Key actions

Companies need to lay the right foundation to adapt to reporting under ESRS.

Key to a strong foundation is:

- **educating the board, management and those involved in reporting** about the company's IROs, and ensuring that the company's strategy for managing them is clear and understood across the organisation;
- **preparing for more scrutiny** over the sustainability statement, in particular whether disclosures about the company's IROs meet stakeholder needs and regulator expectations; and
- **establishing a clear governance structure** that is supported by effective cross-functional collaboration between departments and:
  - ensures that any commitments and decisions on sustainability-related issues are appropriately considered and approved; and
  - oversees the quality of both financial and sustainability reporting, and the effect of new reporting requirements.



1

Impact assessment	
Understand what applies to you	**Understand if and when** ESRS apply to you or whether you will choose to apply them voluntarily. Determine if you will also need to apply other **regulatory frameworks.**
Identify the differences	**Identify the differences** between ESRS and the content you currently report. **Keep abreast of key developments** in sector-specific standards that are being developed by EFRAG, along with a standard for non-EU groups with a significant presence in the EU. It will be important to be prepared for what comes next.

2

Materiality assessment	
Understand your value chain	Understand the breadth and composition of your value chain to support identifying your IROs and understanding where you will **source your data**.
Identify material information	Perform a **DMA** to identify IROs that are relevant to report on. Understand what information you will need to report. You will need significant **volumes of data** across all identified IROs, including data related to relationships outside the reporting entity – e.g. suppliers.

3	**Maturity assessment**	
	Assess your reporting maturity	**Assess the maturity** of your sustainability reporting processes, controls, data models, policies and knowledge. Engage with current process owners to understand how information is being defined, captured and reported, and where there are control gaps or potential process improvements. You will need a fit-for-purpose internal control structure around sustainability-related information to ensure **data integrity**. Determine your **target operating model** and develop a **roadmap** that addresses identified reporting gaps and embeds required governance, data, processes, people and change management.
4	**Reporting transformation**	
	Design your future reports	Consider **where and how** you present information in the sustainability statement, including how you will explain connections between information. You will need a **coherent management report** and communications strategy that avoids unnecessary duplication between different types of reporting.
	Understand your resource needs	Understand and address your **resource needs** early in your implementation process. You may need **subject-matter specialists** to help you understand and report on the IROs that affect your company, including forward-looking technical analysis.
	Expand your systems, processes and controls	Explore your options to **create efficiencies** and move certain aspects of the data collection and calculation process into existing systems, processes and controls that already relate to financial or sustainability reporting. You will need **efficient and effective processes and controls** that allow you to report reliable and timely information.
5	**Assurance readiness**	
	Engage with internal audit	**Engage with internal audit** teams to design procedures that support those responsible for the sustainability statement to get comfortable with the information being produced and published.
	Get ready for assurance	Assess whether your reporting processes are **ready for assurance** – requiring adequate documentation and audit trails.

1.5 Navigating this publication

The following diagram illustrates how key elements of ESRS are explained throughout this publication. The corresponding section numbers are in brackets.

The following symbols are used to indicate content relating to:

Transition reliefs

ESRS 2 — Disclosure requirements related to ESRS 2 in topic-specific standards

Understand the key concepts in ESRS

- **Reporting entity and value chain** (2.1)
- **Assessing the value chain** (2.2)
- **Sustainability matters, topics and IROs** (2.3)
- **Stakeholders and users** (2.4)
- **Sustainability due diligence** (2.5)
- **Double materiality** (2.6)
- **DMA process** (2.7)
- **Reporting under ESRS** (2.8)

Identify disclosure requirements

General disclosures (3)

- **Basis of preparation** (3.2)
- **Governance** (3.3)
- **Strategy** (3.4)
- **IRO management** (3.5)
- **Metrics and targets** (3.6)

Climate change (4)

Other environmental standards (6.1–6.4)

Own workforce (5)

Other social standards (6.5–6.7)

Business conduct (6.8)

Consider how to present the information

- **Qualitative characteristics of information** (7.1)
- **Connected information** (7.2)
- **Location and structure of the sustainability statement** (7.3)
- **Incorporation by reference** (7.4)

Understand the practicalities of reporting

- **Reporting period** (8.1)
- **Time horizons** (8.2)
- **Use of judgement** (8.3)
- **Use of estimates** (8.4)
- **Confidential information** (8.5)
- **Comparative information** (8.6)
- **Errors** (8.7)
- **Reporting on opportunities** (8.8)

Plan for adoption

- **Effective date** (9.1)
- **Transition reliefs** (9.2)

Understand reporting under the EU Taxonomy

- **EU Taxonomy** (10)

2 Applying key concepts in ESRS

A company discloses information about its IROs in relation to sustainability matters.

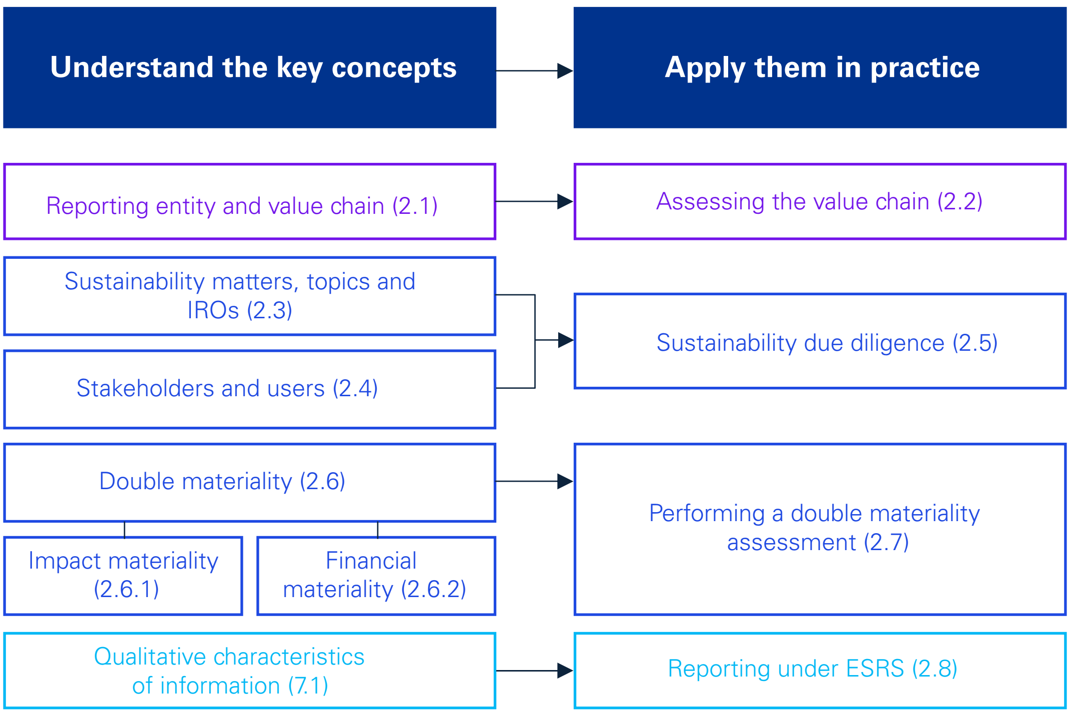
ESRS 1 sets out the key concepts and principles for reporting information under ESRS.

A reporting entity (see Section 2.1):

- identifies material **IROs** related to **sustainability matters** (see Section 2.3) applying a **double materiality** approach (see Section 2.6); and
- discloses information about its sustainability matters across four reporting areas: governance, strategy, IRO management, and metrics and targets. The information disclosed includes both **material information** and **information that is required to be disclosed regardless of materiality** (see Section 2.8).

ESRS 1.2 The information disclosed needs to enable users to understand the company's impacts on people and the environment, and the financial effect of sustainability matters on the company's development, performance and position.

This chapter provides an understanding of the key concepts in ESRS and how to apply them in practice.



2.1 Reporting entity and value chain

ESRS 1.62–63

A company generally prepares the sustainability statement for the same **reporting entity** as the financial statements. This means that both the management report (which includes the sustainability statement) and the financial statements provide information about the same consolidated group or reporting entity.

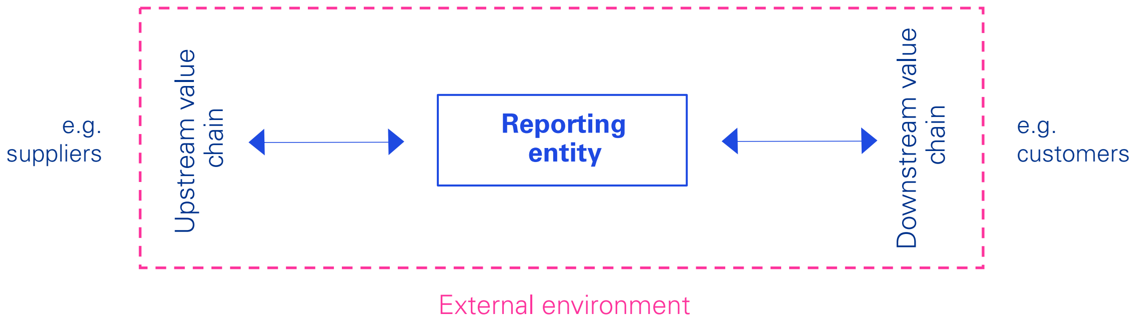
However, the sustainability statement provides broader information than the financial statements. When relevant, it includes information about IROs arising up and down the reporting entity's value chain – e.g. from its direct and indirect **business relationships** in the **value chain**.

EFRAG Q&A ID 148, IG 2.35

A reporting entity might exclude a subsidiary from the consolidated financial statements because it is not material for financial reporting purposes. However, that subsidiary may still give rise to a material IRO. If this is the case, then the reporting entity includes information on this IRO in the information on own operations and not as part of the value chain.

Annex II

The concept of the value chain used in ESRS includes the full range of interactions, resources and relationships related to a reporting entity's business model and the external environment in which it operates. It encompasses everything that the reporting entity uses and relies on to create, consume and dispose of its products or services.



Annex II

This may include the following activities, resources and relationships.

- **Own operations** (i.e. within the reporting entity's control) – e.g. production activities or relationships with the workforce.
- **Upstream** – e.g. raw material manufacturers, service providers or suppliers.
- **Downstream** – e.g. distributors or customers.
- **External environment** – e.g. financing, geographical, geopolitical or regulatory environments.

This means that a reporting entity's sustainability statement typically includes narrative and metrics (which may need to be obtained from external sources) relating to both its own activities and to activities across its value chain.

IG 2.21

The value chain includes the supply chain that provides products, including raw materials, components or services that a company uses in developing its products or services.

ESRS 1.63, IG 2.2

A company is not required to include value chain information in all of its disclosures. It does so only when there are material IROs connected with the value chain. Assessing which IROs are material involves judgement and includes deciding which are the key actors in the value chain.

ESRS 1.132–135

If information about the value chain is not available, then a company need not provide it in its first three years of reporting, subject to certain conditions (see Section 9.2).

What does 'own operations' mean when disclosing information under ESRS?

It depends. Generally, own operations refers to the reporting entity. However, in some cases, the topic-specific standards extend the scope of own operations to specify that a company considers additional information within its own-operations disclosures. For example, ESRS E1 *Climate Change* requires other assets that are under operational control to be included in own operations when reporting GHG emissions (so-called Scope 1 and Scope 2 emissions).

Does the reporting entity's consolidated sustainability statement include non-EU subsidiaries?

ESRS 1.62, EFRAG Q&A ID 148

Yes. The sustainability statement needs to be for the same reporting entity as the financial statements. Therefore, the consolidated sustainability statement of a parent company (i.e. the reporting entity) is required to include all of its subsidiaries in line with the scope of consolidation in financial reporting, even if some of them are located outside the EU.

However, there is an ultimate non-EU parent exemption available for EU subsidiaries with an ultimate non-EU parent that are subject to either standalone or consolidated sustainability reporting requirements under the CSRD. This exemption is available for reporting periods ending before 6 January 2030: groups with an ultimate parent based outside the EU may exclude companies from the consolidated sustainability statement that are not subject to the CSRD.

2.2 Assessing the value chain

Many companies are likely to face challenges in obtaining information about activities outside their control, including:

- understanding the quality and availability of data;
- obtaining information in a timely manner;
- using measurement techniques that are aligned with other parties; and
- identifying appropriate estimates and approximations when data is unavailable.

It will take time to implement systems, processes and controls that will allow timely reporting.

ESRS 1.69

Under certain circumstances, a company may use estimates when providing information about the value chain (see 8.4.1).

EFRAG's IG 2 *Value Chain Implementation Guidance* provides guidance on how to implement the value chain requirements in ESRS.

Do companies need to report supply and/or distribution chain information?

ESRS 1.65

Yes, to the extent that the information being reported is needed or required to:

- meet the qualitative characteristics of information (see Section 7.1); and/or
- understand the company's material IROs – e.g. a company reports Scope 3 emissions so that users can understand a company's impact on climate change.

What is an 'actor' in the value chain and does a company need to report on all actors in the value chain?

ESRS 1.64, IG 2.28

An actor in the value chain is an individual or a company in the upstream or downstream value chain. For example, in the downstream value chain an actor might be a distributor or customer; in the upstream value chain, an actor might be a supplier. Assessing which IROs are material includes deciding which are the key actors in the value chain. This requires judgement to reflect the specific circumstances of the company's value chain.

A company is not required to report on each and every actor in the value chain; instead, it is required to provide material information about the value chain. Different sustainability matters could be material to different parts of the company's value chain. Information disclosed by a company is only extended to include parts of the value chain when a matter is material to that part of the value chain.

In assessing the key actors for which information might be material, a company focuses on areas where IROs are likely to arise, based on the nature of the activities, business relationships, geographies or other factors. For example:

- for clothing companies, working conditions of textile workers; and
- for food retailers, working conditions of workers on the farms that grow the vegetables they sell.

Do the standards provide guidance on how to report information about associates or joint ventures?

ESRS 1.67

Yes. ESRS 1 explains that associates and joint ventures may form part of a company's value chain (e.g. as suppliers or customers). When this is the case, a company provides information related to those associates or joint ventures, under the same approach as for other business relationships in the value chain. A company provides information on the impacts connected with its products and services through its business relationships; information about the associate or joint venture is not limited to the share of equity held. ESRS E1 also provides specific guidance about associates and joint ventures when disclosing information on GHG emissions (see 4.4.3).

2.3 Sustainability matters, topics and IROs

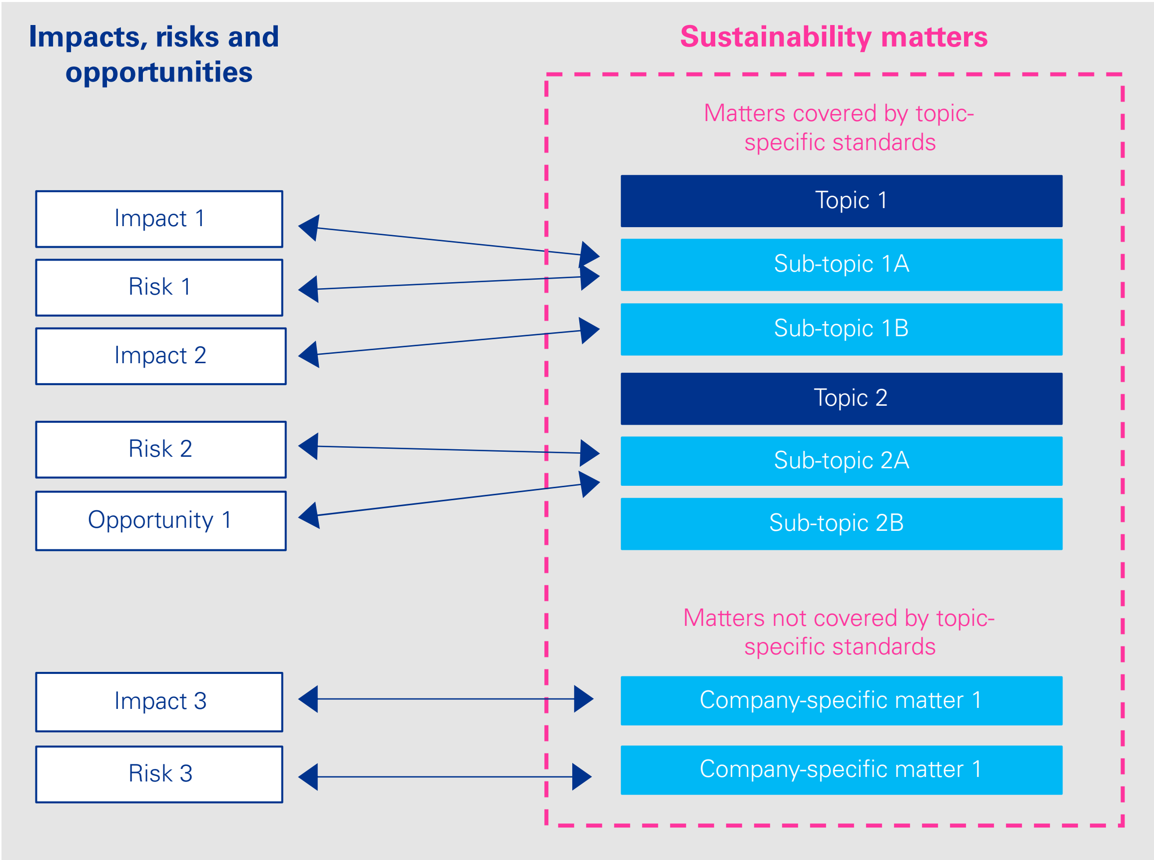
ESRS 1.AR16, Annex II

Sustainability matters refer to environmental, social and human rights, and governance factors, which a company needs to provide material information about in the sustainability statement. The topic-specific standards (currently ESRS E1–E5, ESRS S1–S4 and ESRS G1) each cover different sustainability matters and are structured into topics and subtopics and, when necessary, sub-subtopics.

ESRS 1.11

If a company identifies additional company-specific IROs that are not covered by the topic-specific standards, then it is required to provide material company-specific information about those IROs (see 2.8.4).

IROs relate (i.e. map) to sustainability matters. Multiple IROs can relate to one matter. Conversely, one IRO can relate to multiple matters.



Annex II

A company discloses information about the IROs related to the sustainability matters it identifies as material. These terms are defined as follows.

Impacts

The effect a company's products, services and business relationships have, or could have, on the environment and people, including human rights, connected with the company's own operations and its value chain.

Sustainability-related impacts can be actual or potential, negative or positive, intended or unintended, reversible or irreversible, and can arise over the short, medium or long term.

Sustainability-related impacts indicate the company's contribution, negative or positive, to sustainable development.

Risks

Sustainability-related risks arise from environmental, social or governance sustainability matters that may negatively affect the company's financial position, performance, cash flows, access to finance or cost of capital in the short, medium or long term.

Opportunities

Sustainability-related opportunities arise from environmental, social or governance sustainability matters that may positively affect the company's financial position, performance and cash flows over the short, medium or long term.

Does ESRS 1 provide an exhaustive list of sustainability matters?

ESRS 1.AR16

No. The table in Application Requirement 16 of ESRS 1 includes a list of the sustainability matters covered in each topic-specific standard structured into topics, subtopics and in some cases sub-subtopics. For example, ESRS E1 covers the subtopics of:

- climate change adaptation;
- climate change mitigation; and
- energy.

A company uses this list as an input to its DMA; however, it also needs to consider its own specific facts and circumstances when determining its material matters because there may be aspects of particular IROs that are not covered by the disclosure requirements in the topic-specific standards. When necessary, a company is required to develop company-specific disclosures on IROs not covered by ESRS (see 2.8.4).

Is there a minimum number of matters that is required in a sustainability statement?

EFRAG Q&A ID 162

No. There is no minimum or maximum number of material sustainability matters required by ESRS. This is because the DMA is always based on the company's specific facts and circumstances.

2.4 Stakeholders and users

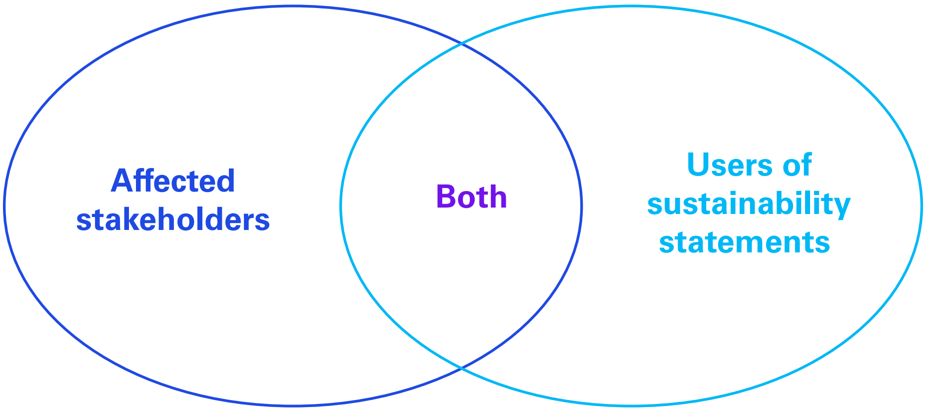
ESRS 1.22

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

- ***Affected stakeholders:*** Individuals or groups whose interests are (or could be) affected by the company's activities. This includes both positive and negative effects as well as effects from direct and indirect business relationships across a company's value chain.
- ***Users of sustainability statements:*** These include:
  - primary users of general purpose financial reports (e.g. investors, lenders and other creditors, including asset managers, credit institutions and insurance companies); and
  - other users of a sustainability statement (e.g. business partners, trade unions and social partners, civil society and non-governmental organisations (NGO), governments, analysts and academics).

ESRS 1.23, IG1.101

Some, but not all stakeholders may belong to both groups of stakeholders.



ESRS 1.AR6–AR7

Common categories of stakeholders include employees and other workers, suppliers, consumers, customers, end-users, local communities and persons in vulnerable situations, and public authorities (e.g. regulators, supervisors and central banks). Nature may also be considered a silent stakeholder.

ESRS 1.24, AR8

Engaging with stakeholders to understand their interests and views will typically be a key part of making materiality judgements and the company's due diligence processes; however, ESRS do not require stakeholder engagement or due diligence.

Is a company required to actively engage with affected stakeholders as part of the DMA process?

ESRS 1.58, AR8, IG 1.102, 105–109, 197–199, ESRS 2.53(b)(iii)

No. ESRS do not mandate specific conduct relating to stakeholder engagement. However, stakeholder engagement is a tool that can inform the DMA. For example, a company may engage with affected stakeholders (e.g. employees or trade unions), along with users of a sustainability statement to get input or feedback on its conclusions regarding its IROs.

A company may also engage with affected stakeholders as part of its business processes (e.g. due diligence) and management of sustainability matters. When this is the case, it may leverage this engagement in its DMA.

Although a company is not required to engage with stakeholders as part of its DMA, ESRS 2 requires transparency on the company's consultation with affected stakeholders. A company is required to disclose whether and how the DMA process identifies and assesses impacts, including whether it consults with stakeholders (see 3.5.1).

There may be cases when engaging with affected stakeholders is not possible – e.g. because such engagement would put the stakeholders at risk. In these cases, a company could consider appropriate alternatives, which might include consulting credible independent experts, an NGO representing the affected stakeholder(s) or, for environmental matters, scientific articles and reports.

IG 1.200–203, EFRAG Q&A ID 185

When assessing whether a sustainability matter is material, is the focus on subjective stakeholder opinions or objective evidence?

Both. When assessing the materiality of a sustainability matter, both the views of affected stakeholders and objective evidence are relevant. This is because the purpose of both is to obtain an understanding of the severity (and likelihood) of impacts.

It may not always be possible to obtain both the views of affected stakeholders and objective evidence – e.g. quantitative or scientific data may not be readily available.

In many cases, the views of affected stakeholders could be a source of supporting evidence for impact materiality. However, not all stakeholder opinions are equally relevant for the DMA. Relevance depends on the extent to which stakeholders are affected by the impact. Understanding company-specific impacts and/or impacts in particular contexts and situations requires more careful consideration of specific circumstances, including whether and how people or the environment are affected.

ESRS 1.AR7, IG 1.204

How is nature as a silent stakeholder considered in the DMA?

Research – such as reviewing scientific studies, journal articles and environmental impact assessments – is one way that nature could be considered as part of the DMA. The research might take place at a global level (e.g. planetary boundaries for biodiversity) or at a local level (e.g. via impact on stressed water bodies or by identifying the type of species impacted by the company).

It may also be useful to use proxies such as organisations that represent the views of the silent stakeholder.

2.5 Sustainability due diligence

ESRS 1.59

Due diligence is the process by which companies identify, prevent, mitigate and account for how they address the actual and potential negative impacts on the environment and people connected with their business. It is an ongoing process that responds to, and may trigger, changes in the company's strategy, business model, activities, business relationships, operations, sourcing and selling.

ESRS 1.60–61, IG 1.104

The due diligence process is described in the United Nations (UN) *Guiding Principles of Business and Human Rights* and the Organisation for Economic Co-operation and Development (OECD) *Guidelines for Multinational Enterprises*, the core elements of which are reflected in disclosure requirements in ESRS 2 and in the topic-specific standards – e.g. ESRS 2 SBM-2 *Interests and views of stakeholders* (see 3.4.2).

ESRS 1.58, IG 1.103, 116, 145–148, 197

ESRS do not mandate specific conduct with regards to due diligence. However, a company's due diligence process informs its DMA by helping it identify and assess actual and potential negative impacts connected with its own operations and value chain, and in identifying affected stakeholders. Additionally, the due diligence instruments provide criteria for management to prioritise actions based on the severity and likelihood of the impacts previously identified (see 2.6.1).

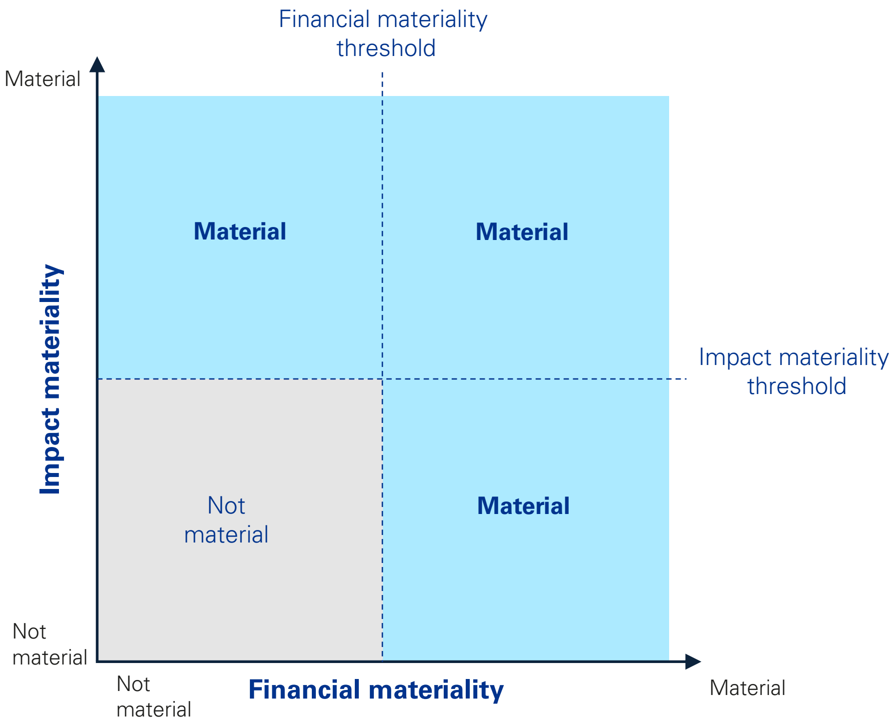
2.6 Double materiality

The concept of materiality drives the content of a sustainability statement. Companies make materiality judgements to focus their reporting on information that is relevant to their specific facts and circumstances, rather than simply providing a prescribed list of disclosures.

The process a company undertakes to identify its material IROs is referred to as the **DMA**.

ESRS 1.37, IG 1.33–35

Double materiality refers to the **two-dimensional** approach under which a sustainability matter is material if it is material from either an **impact and/or a financial** materiality perspective.



ESRS 1.37, IG 1.24

Under ESRS, the terms 'material' or 'materiality' generally refer to double materiality (unless specified otherwise).

ESRS 1.42

Appropriate thresholds are necessary to determine which IROs a company identifies and assesses as material (see 2.6.1 and 2.6.2).

Example 1 – Double materiality

Beverage Company B categorises its material sustainability matters to report on as follows.

- ***Matters that are material from an impact materiality perspective***: A site operated by B damaged the local environment following pollution discharges from the factory, even though they were within permissible levels.
- ***Matters that are material from a financial materiality perspective***: B may lose access to a key raw material due to proposed environmental regulations.
- ***Matters that are material from both perspectives***: B operates a site in a water-stressed area that is affecting the availability of water for other users. The site may be required to close if it continues to draw water at an unsustainable level.

2.6.1 Impact materiality

ESRS 1.43

A sustainability matter is material from an **impact perspective** when it could have an actual or potential impact (positive or negative) on people or the environment over the short, medium or long term (Section 5.2). This includes impacts not only from the company's own operations, but also connected with its value chain and business relationships (see Section 2.1).

ESRS 1.44

Relevant impacts are those on people or the environment in relation to environmental, social and governance matters.

ESRS 1.AR9

When assessing impact materiality, ESRS 1 requires companies to consider a **three-step process**.

Impact materiality assessment

Step 1
Understand the context in relation to impacts, including the company's activities, business relationships and stakeholders

→

Step 2
Identify actual and potential impacts (both positive and negative), including through engagement with stakeholders and experts

→

Step 3
Assess the materiality of impacts by adopting thresholds to determine which of the impacts will be covered in the sustainability statement

This process for assessing impact materiality is part of the overall DMA process (see Section 2.7).

ESRS 1.42, AR10, IG 1.113

ESRS require a company to adopt thresholds. They do not specify how these thresholds are set, but do describe the characteristics of an impact that a company considers. Assessing impact materiality depends on the **severity** of the impact and, for potential impacts, the **likelihood** of occurrence. **Severity** is determined based on the following characteristics.

ESRS 1.AR10, IG 1.115

Characteristic	Definition
Scale	How grave the **negative** impact is or how beneficial the **positive** impact is for people or the environment.
Scope	How widespread the **negative or positive** impacts are. For example, for negative impacts: • ***on the environment:*** the extent of environmental damage or a geographical perimeter; and • ***on people:*** the number of people adversely affected.
Irremediable character (negative impacts only)	If and to what extent the **negative** impacts could be remediated (i.e. restoring the environment or affected people to their prior state).

ESRS 1.AR11, IG 1.115, 118

Any of the three characteristics (scale, scope and irremediable character) can make a negative impact **severe.** However, the characteristics are often interdependent – e.g. irremediable character could impact severity by increasing its scale. Often, the greater the scale or wider the scope of an impact, the harder it is to remediate.

ESRS 1.45, AR11, IG 1.120, 122

In assessing **potential** impacts, a company also considers the likelihood of occurrence – i.e. the probability of the impact happening. This can be determined qualitatively or quantitatively – e.g. using general terms such as unlikely or likely, or using statistical terms such as 10 percent or once every 10 years.

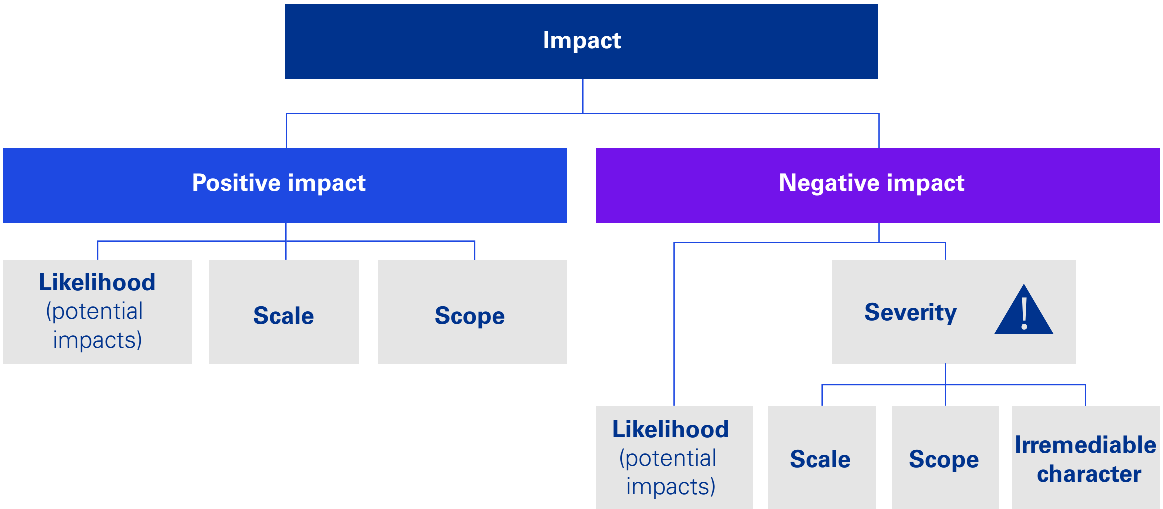
ESRS 1.45, AR 11, IG 1.120

When there is a **potential negative impact on human rights**, the severity of the impact takes precedence over its likelihood.

IG 1.117

Further, when determining thresholds, a company needs to prioritise any supportable evidence that provides as much objectivity as possible to the DMA.

The diagram below illustrates the characteristics a company considers when assessing negative and positive impacts.



IG 1.116

A company may use its ongoing due diligence processes or other risk management processes to inform its threshold setting and determine whether impacts are material as part of its DMA.

Is impact materiality assessed based on whether the impact is material for the company?

IG 1.151–154

No. It is assessed based on the impact's severity on people or the environment, which are affected stakeholders of the company.

This is in contrast to financial materiality, which focuses on whether the impact is material for the company – i.e. the effects of sustainability matters on the company's cash flows, financial performance and financial position, access to finance or cost of capital over the short, medium or long term.

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

EFRAG Q&A ID 37

Yes. Certain processes (e.g. due diligence) focus on negative or adverse effects on people and the environment. However, this does not mean that impact materiality is limited to negative impacts.

Can positive and negative impacts be offset such that they are reported on a net basis?

ESRS 1.56, IG 1.162

No. Impacts are assessed on their own, meaning that positive impacts on the environment and people and negative impacts cannot be offset and reported on a net basis.

The aggregation principles in ESRS 1 provide the rationale – i.e. a company does not aggregate items that are different in nature, such as positive and negative impacts. Additionally, the concept of neutrality, a qualitative characteristic of information, requires that information is not netted.

What does it mean for an impact to be 'connected to' a company?

IG 1.155–160

Impacts may be connected to a company in several ways.

- **Impacts directly caused by the company's operations, products or services** – e.g. exposure of the company's own workers to hazardous working conditions without adequate safety equipment.
- **Impacts to which the company has contributed** – i.e. in conjunction with a third party. For example, several factories locally release harmful pollutants that are individually below harmful limits; however, together they affect the air quality in the local community.
- **Directly linked impacts** – i.e. directly linked to the company's operations, products and services caused by a business relationship. An example of this is a supplier subcontracting clothing manufacturing to child labourers, contrary to their contractual obligations.

2.6.2 Financial materiality

ESRS 1.49

A sustainability matter is **financially material** when it triggers (or could reasonably be expected to trigger) material financial effects on the company – i.e. when it generates **risks or opportunities** that may have a material influence on the company's development, financial position or performance, cash flows, access to finance or cost of capital in the short, medium or long term. This assessment is not limited to sustainability matters within the company's control.

ESRS 1.48

Financial materiality is assessed based on whether the information is considered useful for the primary users of general purpose financial reports (e.g. investors, lenders) in making decisions about providing resources to the company – i.e. information is considered material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that users make on the basis of a company's sustainability statement (see Section 2.4).

ESRS 1.50, AR13

Financially material information may relate to sustainability-related risks or opportunities arising from the company's:

- **dependence** on a natural or social resource (e.g. a raw material or labour) that its prospects depend on;
- **negative impacts on stakeholders**, which in turn affect the company's prospects (e.g. by becoming subject to stricter regulation or by harming its reputation); or
- **business relationships** (e.g. consequences when business partners face material sustainability-related risks).

ESRS 1.51 Companies assess materiality of risks and opportunities based on a combination of the **likelihood of occurrence** and **potential magnitude** of the financial effects.

What time horizons are used to assess financial materiality?

A company's financial materiality assessment is not bound by a specific timeframe, because sustainability-related risks and opportunities can arise over a wide range of time horizons (see Section 8.2). Information about these risks or opportunities could be material to investors and other primary users of general purpose financial reports, even though there may be no current-period financial statement impact.

For example, information about an activity that may be affected by future regulation could be financially material even though that regulation is not yet effective.

If a sustainability matter triggers exposure to both risks and opportunities, does a company assess materiality on each individually or together?

EFRAG Q&A ID 821 In many cases, it would be expected that a company assesses the risk and the opportunity separately. This is because it is likely that the nature of the risk and opportunity differ, resulting in a different likelihood of occurrence and/or potential magnitude.

As an example, a company may identify energy consumption as a source of financial risk due to the possibility of significant fluctuation in the cost of energy. At the same time, the company has identified an investment opportunity relating to energy use if it invests in energy-efficient facilities or renewable energy. In this case, the company has little to no control over the likelihood of the risk, but a reasonably high level of control over the likelihood of the opportunity (because it is up to the company to choose whether to make the investment).

2.6.3 Interaction between impact materiality and financial materiality

IG 1.36–37 Assessing impact materiality and financial materiality is inter-related. Impacts and related changes to strategy to address them often give rise to risks and opportunities. Risks and opportunities also usually emerge over time in relation to material impacts the company has on the environment or people.

IG 1.38 However, risks and opportunities can also arise in the absence of material impacts – e.g. when they arise from dependencies on natural and human resources.

ESRS 1.52 A company's **actions** to address impacts or risks, or benefit from opportunities, may have material negative impacts or cause material risks. For example, a company's action plan to decarbonise production by abandoning certain product lines might have negative impacts on its own workforce and result in risks due to redundancy payments. In these situations, a company is required to disclose the information below.

ESRS 1.53

Information	What to disclose
Impacts or risks arising from actions to address sustainability matters	• The existence of material negative impacts or risks together with the actions that generate them, including a cross-reference to the topic (e.g. climate change) to which the impacts or risks relate. • How the material negative impacts or risks are addressed under the topic to which they relate.

Example 2 – Impact that leads to a risk

IG 1.37

Company O is an oil and gas company. It identifies a material negative impact from failing to reach an agreement with indigenous people about its land use for extraction and about relocation of the community. At the reporting date, the company does not expect protests from the indigenous community. However, the community may later protest and halt use of the site, causing O to incur material costs from losing production days or abandoning the project. In this case, the material impact may lead to a material risk.

Example 3 – Risk that arises in the absence of material impacts

IG 1.38

Company F owns a factory that runs on renewable energy and generates low GHG emissions. F is located in a coastal erosion area that is exposed to climate-related physical risks (e.g. flooding and extreme weather). Although F does not identify any material impacts, it may identify a material risk due to its location.

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

EFRAG Q&A ID 180

No. A company sets short-, medium- and long-term time horizons under ESRS 1 with no distinction between impact materiality and financial materiality (see Section 8.2).

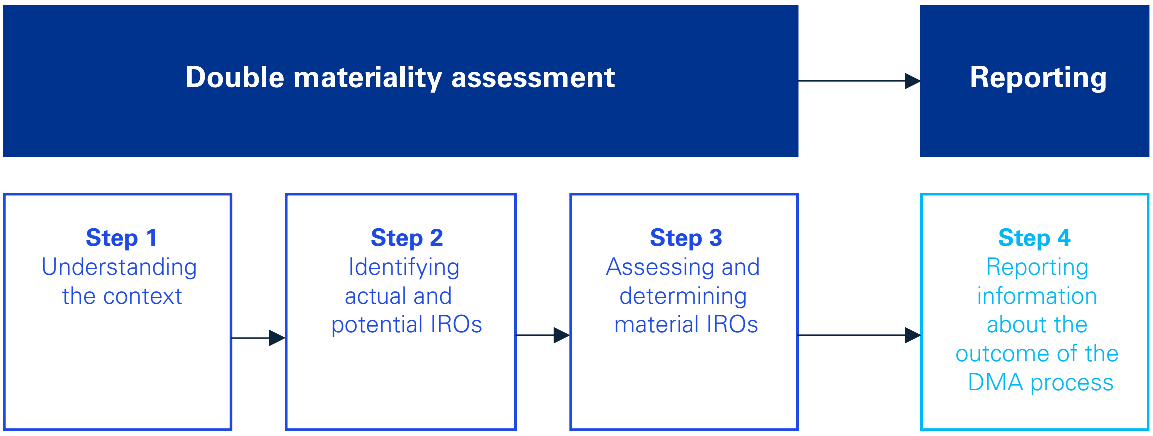
However, the time horizon for potential or actual impacts may differ from that for risks or opportunities arising from the same sustainability matter.

2.7 DMA process

IG 1.5–6

In performing the DMA, a company is required to consider both financial and impact materiality, as well as the interconnections between the two. However, it is not required to design two separate processes.

ESRS do not prescribe a method for performing a DMA. Companies are required to design a process for their specific circumstances. EFRAG's IG 1 *Materiality Assessment Implementation Guidance* illustrates the steps a company might take.



Step 1 – Understanding the context

IG 1.68–71

The first step involves a company examining and developing an overview of its activities and business relationships. This step involves understanding the upstream and downstream value chain, the actors in the value chain and the context of those activities and business relationships within it (see Sections 2.1 and 2.2). It also needs to understand who its key affected stakeholders are (see Section 2.4).

Step 2 – Identifying actual and potential IROs

ESRS 1.AR16, IG 1.73–80

A company identifies all actual and potential IROs across its own operations and in its value chain. It will need to assess these IROs further in subsequent steps of the DMA process. Paragraph AR16 of ESRS 1 provides a list of sustainability matters to support the DMA. These are categorised by topics, subtopics and sub-subtopics that may be material. However, this list is not a substitute for a company's process of determining material sustainability matters. A company also needs to consider company-specific matters not covered in the list in paragraph AR16 – i.e. its own specific facts and circumstances – when determining material sustainability matters (see 2.8.4).

Step 3 – Assessing and determining material IROs

IG 1.82–98

A company then applies criteria for assessing impact and financial materiality to its list of identified IROs. It consolidates the outcomes of each impact and financial materiality assessment to determine the **material** actual and potential impacts and the **material** risks and opportunities.

Determining material IROs under these three steps may not be linear. For example, the process of assessing these IROs may trigger the company to update its understanding of who its affected stakeholders are.

Step 4 – Reporting information about the outcome of the DMA process

IG 1.99–100

A company reports on its DMA process and its outcome. Specific disclosure requirements exist in relation to the DMA process (see 3.5.1), the interaction between material IROs and the business strategy (see 3.4.1) and about how the company has determined material information to be disclosed, including the thresholds used and the criteria applied (see 3.5.1).

At what level is the DMA performed?

IG 1.189–193

The reporting entity makes materiality judgements and therefore undertakes the DMA process. Judgement is required to conclude whether an IRO is material for the reporting entity or only in a single subsidiary, site or activity. To identify material IROs, a company may conduct the DMA at group level (top-down), at subsidiary level (bottom-up) or as a combination.

In cases when information is material only for a single subsidiary, site or country, companies need to disaggregate information – e.g. by country, site or asset when it is needed for a proper understanding of a company's material IROs (see 2.8.3).

Does the DMA process need to be documented?

ESRS 2.53(b)–(c), 54–59, EFRAG Q&A ID 517

Yes. Although ESRS do not specify how to document the DMA, it is expected that a company maintains a certain level of documentation to support the disclosures required by ESRS as part of its own internal processes.

ESRS 2 requires the disclosure of an overview of the process to determine material IROs, including explanations of any qualitative and quantitative thresholds and other criteria applied (see 3.5.1). The level of granularity of the information disclosed may vary depending on the specific topic and threshold applied, and the needs of the users of the company's sustainability statement (see 3.5.2).

2.8 Reporting under ESRS

The information a company discloses includes both:

- **mandatory** information regardless of materiality (see 2.8.1); and
- information **subject to materiality** – i.e. **material information** (see 2.8.2).

2.8.1 Mandatory information

ESRS 1.29, EFRAG Q&A ID 261

A company is required to provide information to satisfy all the disclosures requirements in ESRS 2 (see Chapter 3), irrespective of whether it assesses these datapoints to be material. This includes information about its process to identify and assess material IROs as required under certain topic-specific standards (see 4.3.1 for climate). However, a company has discretion to determine the granularity of information to provide to satisfy the disclosure requirements.

ESRS 1.35, ESRS 2.B, 15, 56

Appendix B of ESRS 2 contains a list of datapoints that have been derived from EU laws. If a company omits the information prescribed by these datapoints, then it needs to explicitly state that the information is 'not material' and provide certain information (see 3.5.2).

ESRS 1.32, ESRS 2.57

If a company concludes that climate change is not a material topic and does not report under ESRS E1, then it is required to provide specific disclosures as follows.

Outcome	What to disclose
Climate change is assessed as not material	• A detailed explanation of the conclusions from the company's DMA on climate change, including a forward-looking assessment of the conditions that may lead to the company concluding that climate change is material in the future.

2.8.2 Material information

A company performs a DMA to identify its material IROs. A sustainability matter is material when material impacts and/or risks or opportunities arise from it.

ESRS 1.E

A company determines the information to be reported about material sustainability matters using the topic-specific standards (and, in the future, sector-specific standards). It assesses materiality at the topic level, the disclosure requirement level and datapoint level.

ESRS 1.11

It also considers its own specific circumstances and whether it needs to provide additional company-specific disclosures – i.e. when it determines that it needs to report other material information not specified in ESRS (see 2.8.4).

ESRS 1.33

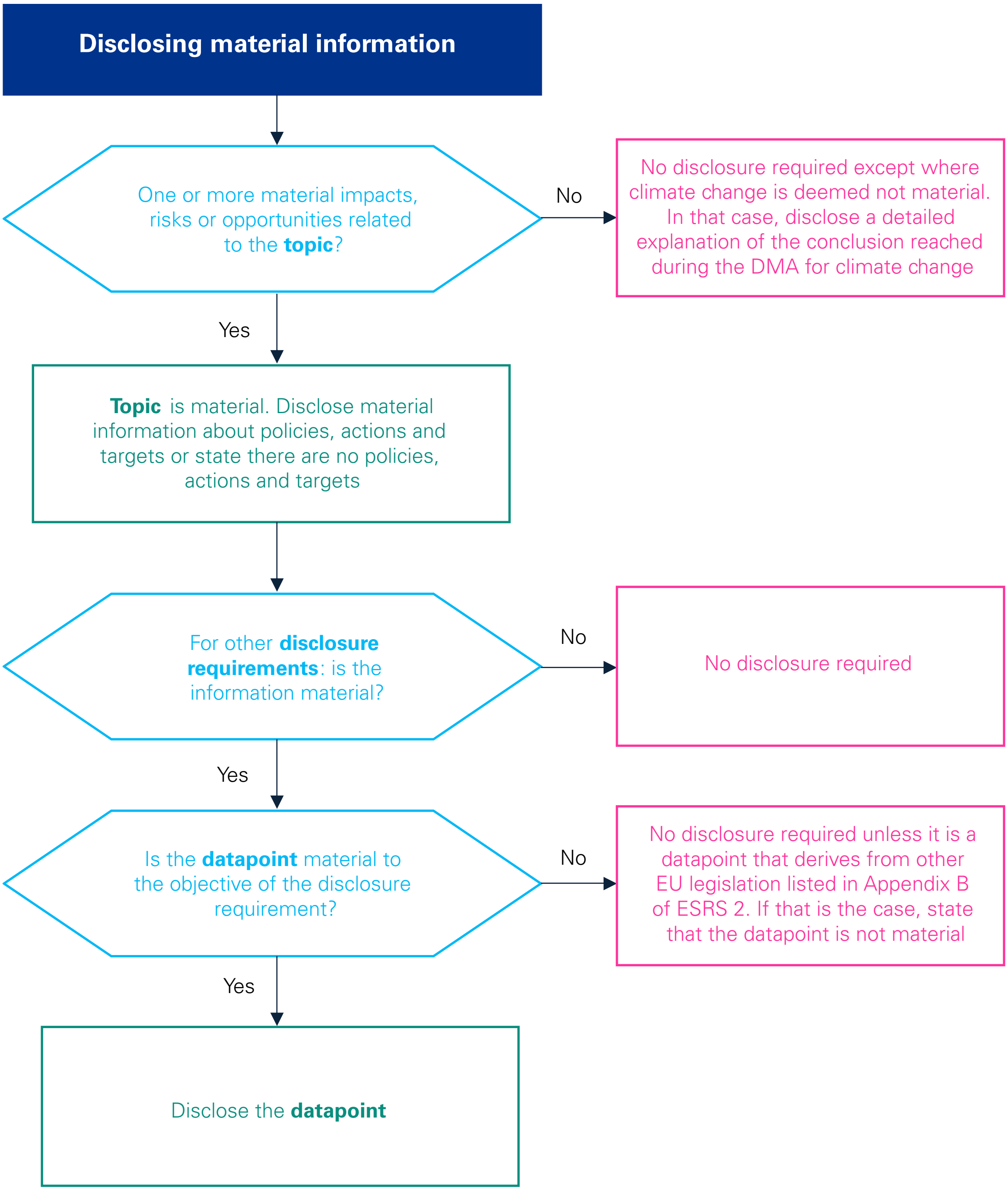
If a company determines that a sustainability matter related to a **topic-specific standard** is material, then it discloses relevant information for **policies, actions and targets** as set out in the disclosure requirements of that topic-specific standard. If a company has no policies, actions or targets related to the material sustainability matter, then it states that fact.

ESRS 1.31

For other **disclosure requirements** and **datapoints**, such as metrics, a company makes a **judgement** about which information is material and therefore disclosed.

Companies make judgements about individual pieces of information that relate to a sustainability matter. The criteria to determine the materiality of information are based on **relevance** considering:

- the **significance** of the information in relation to the sustainability matter it depicts; and/or
- the **decision-usefulness** of the information – i.e. the capacity of the information to meet users' needs (see Section 2.4).



ESRS 1.132–135

There are various transition reliefs available to companies when applying ESRS for the first time, including a relief from providing value chain information in the first three years of reporting when the information is not available (see Section 9.2).

ESRS 2.46, 51, 54, 59, IG 1.99

Do materiality judgements need to be disclosed?

It depends. When a company deems climate change (and therefore ESRS E1) to be immaterial, it discloses the outcome of the materiality process that led to this conclusion.

For all other topic-specific standards, a company is not required to explain the DMA conclusions for each topic, subtopic or sub-subtopic, but it is required to report information about its DMA process and the outcome of that process based on the following disclosure requirements in ESRS 2.

- ESRS 2 IRO-1 – identifying and assessing sustainability-related impacts, risks and opportunities (see 3.5.1).
- ESRS 2 SBM-3 – sustainability-related impacts, risks and opportunities and their interaction with strategy and business model (see 3.4.3).
- ESRS 2 IRO-2 – disclosure requirements in ESRS contained in the sustainability statement (see 3.5.2).

A company is also required to disclose how it has determined the material information to be disclosed, including the thresholds and criteria used to assess this information.

Does a company need to state that immaterial information has been omitted?

ESRS 1.35

Generally, no. However, certain datapoints in ESRS are sourced from other EU laws, such as the Sustainable Finance Disclosure Regulation (SFDR). These datapoints are listed in Appendix B of ESRS 2. If a company considers any of these datapoints to be immaterial, then it explicitly states that the datapoint in question is 'not material' (see 3.5.2).

2.8.3 Level of disaggregation of information

ESRS 1.54–55

A company may need to disaggregate information to provide users with a proper understanding of its IROs.

Information	What to disclose
Disaggregated information	• Information disaggregated by: – country, when there are significant variations of IROs across countries and when presenting the information at a higher level of aggregation would obscure material information about IROs; or – significant site or significant asset, when IROs are highly dependent on a specific location or asset. • Information disaggregated by subsidiary in certain circumstances.

IG 1.209

For example, when assessing the materiality of information relating to the impact of water usage, a company might consider disaggregating information based on the vulnerability to water stress by geographical area or, if appropriate, by site. Alternatively, information on child labour-related impacts whose severity depends on country-specific laws and regulations and labour market practices might be disaggregated by country or region.

ESRS 1.55, IG 1.209

A company needs to consider the appropriate level of disaggregation. In doing so, the company focuses on its specific facts and circumstances. Depending on its specific circumstances, a company could adopt a different level of disaggregation for two separate IROs within the same topic – e.g. adequate wages and training – both of which relate to the topic of own workforce. Conversely, a company could adopt the same level of disaggregation for two separate topics related to the same IRO.

ESRS 1.56, IG 1.210

A company is not permitted to aggregate material items that differ in nature. It is also not permitted to obscure useful information or the context needed for users to interpret the information. For sustainability-related risks and opportunities, a company considers whether aggregation could obscure information that could influence an investor's decisions.

ESRS 1.57

When a company presents information disaggregated by sectors, it is required to use the ESRS sector classification standard, which will be specified in a delegated act adopted by the European Commission. The European Commission has not yet adopted the delegated act (see 3.4.1).

ESRS 1.57

When a topic- or sector-specific standard requires that companies use a specific level of disaggregation in preparing a specific item of information, the requirements in that standard prevail.

Example 4 – Disaggregation criteria for impacts

IG 1.209

Company B operates in the garment manufacturing industry and has subsidiaries in different countries. B does not consider adequate wages and collective bargaining to be material sustainability-related impacts at an aggregated level. However, one country in which B operates has a heightened risk of negative impacts due to current working conditions, which are well documented in UN human rights reports.

B has subsidiaries that pay below-adequate wages with no collective bargaining agreements. These subsidiaries employ 20 percent of the group's workforce. The company's DMA needs to consider disaggregation at a country level to identify material negative impacts.

Similarly, a company that has production sites in different countries or regions might consider disaggregation for impacts related to pollution or doing business in countries with higher risks of corruption and bribery.

Example 5 – Disaggregating information about a location-specific risk

Drinks manufacturer D operates factories in multiple locations. It identifies water scarcity as a risk as part of its DMA process and isolates the exposure to a single location due to this location's lower-than-average rainfall. Therefore, D needs to include information about the effect of this risk and disaggregate the information for this specific location.

Can a company use segments identified under IFRS® Accounting Standards or other GAAP as the level of disaggregation for its sustainability statement?

ESRS 1.126, IG 1.212–215

Generally, no. Segment information reported under IFRS 8 *Operating Segments* is based on a management approach. Other GAAP may be based on the same or a different approach for segment reporting. The core principle of IFRS 8 is to require disclosures to enable users of the financial statements to evaluate the nature and financial effects of the business activities of the company as well as the economic environments in which it operates.

The disaggregation for financial reporting segments is designed for a different purpose and, in general, is not expected to be the starting point to reflect IROs across the components of the company's operations.

Disaggregation at the segment level used for financial reporting may not be granular enough or relevant enough for sustainability reporting purposes.

It is important to note that a company is required to explain the consistency of significant data, assumptions and qualitative information included in its sustainability statement with the corresponding data, assumptions and qualitative information included in the financial statements (see Section 7.2).

2.8.4 Company-specific disclosures

ESRS 1.11

Under ESRS, companies need to provide company-specific disclosures when a material IRO is not covered or is not covered with sufficient granularity by the topic-specific standards. This might be necessary when, for example:

- a topic is covered by ESRS but specific aspects of that topic are not covered;
- an IRO identified by the company is not covered in any of the topic-specific standards; or
- a company needs to disclose a specific metric based on its facts and circumstances.

In these cases, a company is required to provide additional information to enable users to understand its IROs.

ESRS 1.AR2

Company-specific disclosures are required to meet the qualitative characteristics (see Section 7.1) and include material information on the four reporting areas under ESRS 2 (see Chapter 3).

ESRS 1.AR3

When providing company-specific disclosures about metrics, a company needs to consider whether:

- the chosen metrics provide insight into:
  - how effective the company is in reducing negative outcomes and/or increasing positive outcomes for people and for impacts on the environment; and/or
  - the likelihood that the company's performance is materially affected (risks and opportunities);
- the measured outcomes are sufficiently reliable – i.e. they do not involve an excessive number of assumptions and unknowns, and provide a faithful representation; and
- it has provided enough information to enable users to interpret the metrics appropriately and whether changes in that information may impact users' ability to compare the metrics over time.

ESRS 1.130–131

While sector-specific standards are being developed, a company needs to provide company-specific disclosures about sustainability matters that are material for companies in its sector(s).

After the sector-specific standards become available, company-specific disclosures will continue to apply when an IRO is not covered, or is not covered with sufficient granularity, by ESRS.

ESRS 1.131

ESRS include transition relief for company-specific information, allowing a company to use existing best practice or other available frameworks to develop relevant company-specific disclosures in advance of sector-specific ESRS being adopted (see Section 9.2).

Do company-specific disclosures need to be comparable?

ESRS 1.AR4

Yes, to the extent that the information provided remains relevant. Companies are required to consider both:

- comparability with other companies' disclosures – e.g. by considering other frameworks and standards (e.g. ISSB™ Standards or GRI Standards) as a source of guidance when developing company-specific disclosures; and
- comparability over time – e.g. by using consistent methodologies and disclosures from period to period.

The information provided in company-specific disclosures needs to be relevant to the company's facts and circumstances. Therefore, it may not always be possible to achieve comparability with other companies when disclosing company-specific information.

Can ESRS that cover similar sustainability matters be used as sources of guidance?

ESRS 1.AR5

Yes. If a sustainability matter is addressed by a standard, then a company applies that standard to that matter. If the standard does not cover a particular sustainability matter, then a company considers the guidance and requirements in the standards dealing with similar and related sustainability matters.

Are company-specific disclosures required when a standard requires only metrics to be disclosed for own operations but the topic is material in the company's value chain?

ESRS 1.11, 30, AR1–AR5, AR16, EFRAG Q&A ID 442

Yes. A company needs to disclose material value chain information when it is necessary to:

- allow users to understand the company's material IROs; and/or
- provide useful information that meets the qualitative characteristics of information.

A company may determine that a topic is material in its value chain but the relevant standard requires companies to disclose only metrics related to its own operations. In this case, the company needs to provide company-specific metrics to enable users to understand how it tracks the effectiveness of its actions to manage the material IRO in its value chain.

2.8.5 Consolidated reporting

ESRS 1.102

When a company prepares a consolidated sustainability statement, it is required to perform its DMA for the consolidated group. The company is required to ensure that all subsidiaries are considered as part of the DMA.

ESRS 1.103, 104, IG 1.128

If a company identifies significant differences between material IROs at the group level and those that are material for one or more of its subsidiaries, then it is required to provide an adequate description of the subsidiary's IROs. In assessing these differences, a company may consider different circumstances – e.g. whether the subsidiaries operate in a different sector from the rest of the group or whether the circumstances for disaggregation apply (see 2.8.3).

3 General disclosures

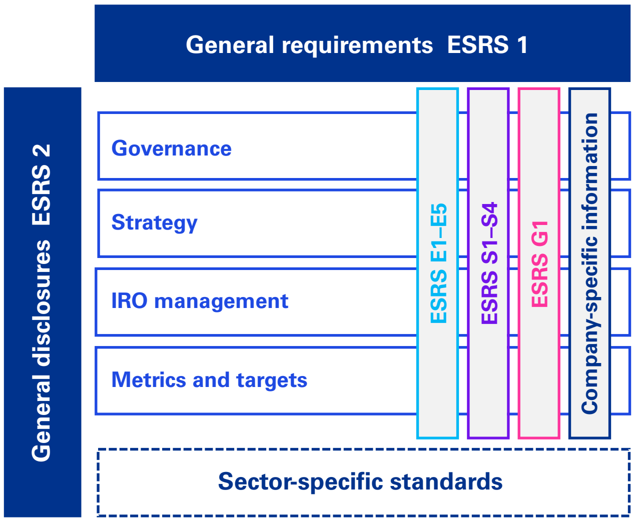
The disclosure requirements of ESRS 2 are structured around governance, strategy, IRO management, and metrics and targets.

3.1 A consistent structure

Both ESRS 2 and the 10 topic-specific standards follow a structure comprising disclosure requirements across the areas of governance, strategy, IRO management, and metrics and targets. The disclosure requirements set out in ESRS 2 apply to all companies irrespective of their sector and across all sustainability matters.

The topic-specific standards apply across all sectors and are structured using the same four reporting areas as ESRS 2.

Additional sector-specific standards are being developed and will be released in the future.



ESRS 2 uses a specific labelling system for each disclosure requirement. This system helps users easily identify the type and location of each requirement. For example, 'SBM-3' refers to the third disclosure requirement relating to a company's strategy and business model (SBM) within ESRS 2. Similarly, in the topic-specific standards, each disclosure requirement is labelled with the standard it belongs to and a sequential number. For instance, 'S1-1' indicates the first disclosure requirement within ESRS S1 *Own workforce*.

A company needs to apply ESRS 1 and ESRS 2 together with the topic-specific standards. In some cases, the topic-specific standards build on the ESRS 2 disclosure requirements – e.g. ESRS S1 contains a disclosure requirement related to ESRS 2 SBM-2 – *Interests and views of stakeholders*. In other cases, the topic-specific standard does not have an ESRS 2-related requirement for a particular area – e.g. ESRS S1 does not have specific disclosure requirements for governance.

Note: The topic-specific standard on governance differs from the reporting area of governance. The reporting area relates to processes, controls and procedures used to monitor and manage IROs, whereas the topic-specific standard covers issues such as business ethics, corporate culture, relationships with suppliers and political activities.

ESRS 2.2

Except for the information required to satisfy IRO-1 – *Identifying and assessing sustainability-related impacts, risks and opportunities*, disclosure requirements in the topic-specific ESRS are required only if a company assesses the information provided by a disclosure requirement as material (see Section 2.8).

ESRS 2.60, 70

Disclosure requirements related to policies, actions, metrics and targets included in each topic-specific standard are applied in conjunction with minimum disclosure requirements (MDR) set out in ESRS 2. For further discussion on the MDR in ESRS 2, see 3.5.3 and Section 3.6.

For discussion of presentation requirements, including the structure of the sustainability statement, see Chapter 7.

3.2 Basis of preparation

ESRS 2.3–4

The objective of the basis of preparation (BP) disclosures is to provide users with an understanding of how the sustainability statement is prepared.

A company needs to provide information on:

- the general basis of preparation of the sustainability statement; and
- the effect of specific circumstances on how the sustainability statement is prepared.

3.2.1 BP-1 – General basis for preparation of the sustainability statement

ESRS 2.3, 5, AR1

A company is required to disclose the general basis of preparation of its sustainability statement, including the scope of consolidation (see Section 2.1), the inclusion of value chain information and whether the company has taken the option to omit certain information.

Information	What to disclose
Reporting entity	• Whether the sustainability statement is prepared on a consolidated or an individual basis. • If a consolidated sustainability statement is prepared: – confirmation that the scope of consolidation is the same as for the financial statements or, if applicable, a declaration that the reporting entity is not required to prepare financial statements or that the reporting entity is preparing consolidated sustainability reporting pursuant to Article 48i of the Accounting Directive (Directive 2013/34/EU); and – whether any of the group companies are exempt from preparing a sustainability statement on an individual or sub-consolidated basis.
Value chain	• The extent to which the sustainability statement covers the value chain (see Section 2.1). In doing so, the company may distinguish between the extent to which: – the company's materiality assessment of IROs extends to its value chain; – its policies, actions and targets extend to its value chain; and – the company includes value chain data when disclosing metrics.
Omission of material information	• Whether the company omits material information on the basis that it is confidential or commercially sensitive information (see Section 8.5).
Exemptions provided by other EU laws	• Whether the company takes the exemption to omit information relating to the disclosure of impending developments or negotiations as permitted by the Accounting Directive.

3.2.2 BP-2 – Disclosures in relation to specific circumstances

ESRS 2.6–7

A company is required to disclose information in relation to the specific circumstances set out below. This is to provide users with an understanding of the effects of these circumstances on the preparation of the company's sustainability statement.

ESRS 2.9–17

Information	What to disclose
Time horizons	• See Section 8.2
Value chain estimation	• See 8.4.1
Sources of estimation and outcome uncertainty	• See Section 8.4
Changes in the preparation or presentation of information	• See Section 8.6
Prior-period errors	• See Section 8.7
Disclosures based on other EU laws or reporting frameworks	• See 3.5.2
Incorporation by reference	• See Section 7.4
Phase-in transition relief	• See Section 9.2

ESRS 2.8

A company may report the specific information required under BP-2 alongside the disclosures to which they refer. For example, disclosure of information estimated using indirect data sources may be disclosed alongside the metrics included in the relevant section of the sustainability statement.

3.3 Governance

The governance (GOV) disclosure requirements in ESRS 2 cover the governance processes, controls and procedures in relation to the company's sustainability matters, whereas the topic-specific standard on governance addresses the governance matters (e.g. business conduct) that may be material to the company from an IRO perspective.

ESRS 2.18

The objective of the governance disclosures is to enable users to understand the governance processes, controls and procedures implemented by the company to monitor, manage and oversee sustainability matters.

ESRS do not seek to introduce requirements on how to manage or govern a company. For example, ESRS require a company to disclose how sustainability matters affect remuneration, but do not require it to introduce any direct link between sustainability-related performance and remuneration. However, the nature of disclosures and potential scale of the change to existing reporting practice for some companies may trigger additional scrutiny and cause management to reconsider the structures it has in place, as well as the company's processes and controls over its sustainability statement.

3.3.1 GOV-1 – The identity, composition and role of the governing bodies

ESRS 2.19–20

A company is required to disclose the identity, composition and role of the administrative, management and supervisory bodies (collectively referred to as 'governing bodies') responsible for IROs and their access to the relevant skills and expertise in relation to sustainability matters.

ESRS 2.21–23, ESRS G1.5, EFRAG Q&A ID 728

Information	What to disclose
Diversity and composition	• The number of executive and non-executive governing body members. • Whether employees and other workers are represented on the body. • The experience of members across the company's sectors, products and geographic locations. • The average of female to male governing body members expressed as a percentage and other aspects of diversity that the company considers. • The ratio of independent to non-independent board members expressed as a percentage.
Roles and responsibilities	• The identity of the bodies (i.e. committees) or individuals responsible for overseeing IROs. • How the company reflects those responsibilities in the governing body's terms of reference, mandates and other company policies. • Management's role in monitoring, managing and overseeing IROs, including: – whether specific roles are delegated to a management-level position or committee and, if so, how oversight is maintained; – the reporting lines to the governing bodies; and – whether management has implemented processes and controls to support oversight and how these controls are integrated with other functions. • How the governing bodies and management oversees how the company sets sustainability-related targets and monitors progress towards these. • ESRS G1 *Business conduct* requires further information to be disclosed on the role of the governing bodies in relation to business conduct matters (see Section 6.8).
Expertise and skills	• How the governing bodies determine whether the company has access to the appropriate skills and expertise to oversee the company's strategies around sustainability matters, or how they will be developed, including: – the expertise that the bodies either directly possess or can leverage – e.g. through access to training, subject-matter experts and other educational initiatives; and – how those skills and expertise relate to the company's IROs.

Annex II, EFRAG Q&A ID 171 and ID 358

What are the administrative, management and supervisory bodies?

Administrative, management and supervisory bodies are the governing bodies, along with their committees, which have the highest decision-making authority in a company.

Governance structures vary by company and jurisdiction. In some jurisdictions, governance structures consist of two tiers:

- a separate management body responsible for the day-to-day management of the company; and
- a separate supervisory body that supervises the management body.

In other cases, a company may have a one-tier governance structure in which one body performs both management and supervisory roles.

Companies need to ensure that there is consistency between how they describe their governing bodies in their sustainability statement and other corporate communications and reports – e.g. their corporate governance statement.

3.3.2 GOV-2 – How governing bodies are informed about, and respond to, sustainability matters

ESRS 2.24–25

A company is required to disclose information about how the governing bodies remain informed about sustainability matters, including how these are addressed during the reporting period. This enables users to understand whether those responsible were adequately informed about sustainability matters and whether they have fulfilled their roles and responsibilities.

ESRS 2.26

Information	What to disclose
How governing bodies are informed	• Whether, how frequently and by whom the governing bodies, including their relevant committees, are informed about: – IROs; – the implementation of due diligence; and – the effectiveness of policies, actions, metrics and targets adopted to address IROs.
Consideration of IROs	• How the governing bodies consider IROs when overseeing the company's strategy, decisions on major transactions and its risk management process. For example, whether the company has considered any trade-offs associated with IROs, such as exiting a particular market to manage a sustainability-related risk, but thereby abandoning a customer base and losing the opportunity to generate associated revenue and profit.
IROs addressed	• The list of IROs addressed by the governing bodies or their committees during the reporting period.

Can companies report if they do not have separate committees and processes devoted to sustainability matters?

Yes. ESRS require companies to disclose information about what they do in practice to help users understand the governance processes, controls and procedures for monitoring, managing and overseeing sustainability matters. For those companies that do not have separate committees and processes, they can state this fact and provide information on how they currently manage sustainability matters. However, these companies are not relieved of the requirement to disclose governance information.

3.3.3 GOV-3 – How incentive schemes are linked to sustainability matters

ESRS 2.27–28

A company is required to disclose whether sustainability-related metrics are included in its remuneration polices and incentive schemes to provide users with an understanding of the link between incentive schemes and sustainability-related performance.

Information	What to disclose
ESRS 2.29 **Sustainability-related performance linked incentive schemes**	• The key characteristics of the incentive schemes. • Whether performance is being linked to specific sustainability-related targets and/or impacts, including which ones. • Whether and how sustainability-related performance metrics are being considered in remuneration policies. • The proportion of variable remuneration based on sustainability-related targets and/or impacts. • The approval process of such schemes – e.g. the level in the company at which they are approved and updated.
ESRS E1.13 **Climate-related considerations**	• ESRS E1 requires additional information to be disclosed about whether and how climate-related considerations, including GHG emissions reduction targets, are factored into the remuneration of members of the company's governing bodies. This includes the percentage of remuneration recognised in the current reporting period financial statements that is linked to climate-related considerations (see 4.1.1).

Are companies required to include sustainability-related performance measures in incentive schemes?

ESRS 2.27

No. The disclosures about performance incentives require information about the link between sustainability-related performance and incentive schemes, but ESRS do not require a company to introduce performance incentives that link sustainability-related performance to remuneration. Instead, they require transparent disclosures about such incentives and whether they exist. A company that has not yet implemented such incentive schemes is required to disclose this fact.

Can a company incorporate disclosures on performance incentive schemes from outside of the sustainability statement?

ESRS 1.119, ESRS 2.AR7

Yes. A company is permitted to incorporate information found outside the sustainability statement if specific criteria are met (see Section 7.4). For example, a company could provide the required information in another section of the management report, the financial statements or another report – e.g. its remuneration report.

Listed companies are required to ensure that the information disclosed about performance incentive schemes linked to sustainability matters is consistent with the remuneration report required by EU[4] or local laws.

3.3.4 GOV-4 – Due diligence process for sustainability matters

ESRS 2.31

A company is required to provide information to help users understand the company's due diligence process with regards to sustainability matters.

ESRS 1.58

The outcome of a company's sustainability due diligence process informs the company's assessment of its IROs.

ESRS 1.58, ESRS 2.33

ESRS do not impose any conduct requirements in relation to due diligence; nor do they extend or modify the role of the governing bodies of the company with regard to the conduct of due diligence. The requirement to disclose information about the sustainability due diligence process is not intended to require a company to adopt specific conduct or practices with regards to due diligence and it does not change the role of the company's governing bodies (see Section 2.5).

ESRS 2.30, 32

Information	What to disclose
Sustainability due diligence process	• A mapping of the information provided about the sustainability due diligence process in the company's sustainability statement. • How and where the main aspects and steps of the company's sustainability due diligence process are reflected in its sustainability statement.

4. Shareholder Rights Directive (Directive 2007/36/EU).

How is due diligence process mapping presented?

ESRS 2.AR8–AR10, ESRS 1.61

ESRS do not require a company to present the mapping in a specific format. However, ESRS 2 provides an illustration of how the mapping may be disclosed. This is in the form of a table by cross-referencing the core elements of the due diligence process described in ESRS 1 to the specific paragraphs in the company's sustainability statement as shown below.

Due diligence process	Paragraphs in the sustainability statement
Embedding due diligence in governance, strategy and business model	*Company would input detail here*
Engaging with affected stakeholders	
Identifying and assessing adverse sustainability-related impacts	
Taking actions to address those adverse sustainability-related impacts	
Tracking the effectiveness of these efforts and communicating	

A company could include additional columns in the table to clearly identify those disclosures that relate to impacts on people and/or the environment.

How does the CSDDD interact with ESRS?

ESRS 1.61, ESRS 2.AR8–AR10

The Corporate Sustainability Due Diligence Directive (CSDDD) came into effect in the EU on 25 July 2024 with the primary aim of enforcing corporate due diligence obligations related to human rights and the environment. EU member states are required to transpose the directive into national law by 26 July 2026.

Although ESRS create the basis for transparent reporting, the CSDDD ensures that the reporting is supported by specific measures and due diligence obligations for companies. It is important to note that the scoping for the CSRD and CSDDD is not fully aligned and therefore companies need to take care to determine whether they are in scope of either, or both, directives.

3.3.5 GOV-5 – Risk management process and controls over sustainability reporting

ESRS 2.34–35

A company is required to disclose the main features of its risk management and internal control processes and systems in relation to the sustainability reporting process.

ESRS 2.36, AR10

Information	What to disclose
Processes and controls over sustainability reporting	• The scope, key features and components of the company's risk management and internal controls processes and systems for sustainability reporting. • The company's risk assessment approach and the methodology it uses, including its process for risk prioritisation. • The main risks identified, including the company's approach and related controls for mitigating risks. • How the output of its risk assessment is factored into internal functions and processes, including how these matters are reported to the governing bodies.

Do GOV-5 disclosures require information about the company's entire risk management processes and controls?

ESRS 2.AR11

No. A company is required to provide information about the processes and controls in place in relation to sustainability reporting, including the control processes related to obtaining information from the value chain, rather than the company's entire risk management processes. Relevant information may include how the company manages risks such as the completeness and integrity of data, the accuracy of its estimates and the availability of value chain data.

3.4 Strategy

ESRS 2.37

The objective of the strategy (SBM) disclosures is to enable an understanding of the following.

- The elements of the company's strategy that relate to, or affect, sustainability matters, its business model and its value chain.
- How the company considers its stakeholders in its strategy and business model.
- The IROs identified in the DMA process and how they interact with the company's strategy and business model.

3.4.1 SBM-1 – Disclosing effects on the strategy, business model and value chain

ESRS 2.38–39

A company is required to describe the key elements of its general strategy that relate to or affect sustainability matters, and the key elements of its business model and value chain, to provide an understanding of its exposure to IROs and where they originate.

ESRS 2.AR14

When preparing disclosures about its business model and value chain, a company needs to consider:

- its key activities, resources, distribution channels and customer segments;
- its key business relationships and their key characteristics, including relationships with customers and suppliers;
- the revenue and cost structure of its business segments in line with its IFRS 8 disclosures in the financial statements; and
- the potential IROs in its significant sector(s) and their possible relationship to its own business model or value chain.

ESRS 2.40–42, AR12–AR15

Information	What to disclose
Elements of general strategy	**Products and services:** • The significant groups of products and/or services offered by the company including any significant changes during the period. • Information about, and an assessment of, its sustainability-related goals in terms of significant groups of products and/or services. **Markets and customers:** • The significant markets and/or customer groups served by a company, including any significant changes during the period. • Information about, and an assessment of, its sustainability-related goals in terms of significant groups of customers and/or geographical areas. **Other information:** • The elements of the company's strategy that relate to, or affect, sustainability matters, including the main challenges ahead and critical solutions or projects to be put in place, when relevant for sustainability reporting. • Headcount of employees by geographical area. • Information about, and an assessment of, its sustainability-related goals in terms of relationships with key stakeholders. • If applicable and material, products and services that are banned in certain markets.
Revenue breakdown by ESRS sector (not required until delegated act specifying the list of ESRS sectors is adopted – see below)	• A breakdown by ESRS sector of total revenue included in the company's financial statements[5]. When a company provides segment disclosures under IFRS 8, the sector revenue information is reconciled, as far as possible, with the IFRS 8 information. • A list of additional significant ESRS sectors beyond those reflected in the company's disclosure of total revenue by ESRS sector described above – e.g. activities that give rise to intercompany revenues. If the company has identified additional sectors, those sectors need to be consistent with the way sectors have been considered in the company's DMA and the way it discloses sector-specific information.

5. If the company is based in an EU member state that provides an exemption from disclosing net turnover breakdown by categories of activity and geographical markets (Article 18, paragraph 1, sub-point (a) of the Accounting Directive), and if the company has applied that exemption, then it is not required to provide the breakdown of revenue by significant ESRS sector required by paragraph 40(b) of ESRS 2. Instead, the company discloses the list of its significant ESRS sectors.

Information	What to disclose
Revenues for specific sectors	• If applicable, a statement that the company is active in the following sectors, along with the related revenues: – the fossil fuel sector (including a disaggregation of revenues from coal, oil and gas, as well as revenues from EU Taxonomy-aligned economic activities related to fossil gas); – chemical production; – controversial weapons; and – the cultivation and production of tobacco.
Business model and value chain	• Describe the company's business model and value chain, including: – its inputs (e.g. materials and natural resources used) and its approach to gathering, developing and securing those inputs; – its outputs (e.g. products and services) and outcomes in terms of current and expected benefits for customers, investors and other stakeholders; and – the main features of the company's value chain and the company's position in its value chain, including the main business actors (such as key suppliers, customers, distribution channels and end-users) and their relationships to the company. When a company has multiple value chains, the disclosure needs to cover the key value chains.

ESRS 2.40(b)–(c), AR13, EFRAG Q&A ID 39, ID 482

What are the ESRS sectors and what information is required by ESRS sector?

The European Commission has not yet adopted a delegated act specifying the list of ESRS sectors that companies use when applying ESRS. Therefore, until the delegated act is adopted, companies are not required to disclose the information required by paragraphs 40(b)–(c) and AR14(d) of ESRS 2 (see 9.2.1).

Companies will be required to report the following information once the delegated act specifying the list of ESRS sectors is adopted by the European Commission:

- a breakdown of total revenue as included in their financial statements by significant sector; and
- a list of the additional significant ESRS sectors beyond the sectors reflected in the breakdown of total revenue by significant sector.

When providing the information on sectors, companies will be required to map their significant activities by ESRS sector.

Banks and other credit institutions need to refer to the sectors in which they directly operate when determining their ESRS sectors, and not to the sectors in which their clients operate.

When a company provides segment disclosures under IFRS 8, the sector revenue information is reconciled, as far as possible, with the IFRS 8 information.

How does a company determine what is significant in the context of groups of products and services, markets, customer groups and ESRS sectors?

ESRS 2.40(b)–(c), AR13

Products, services, markets, customer groups and ESRS sectors are significant for a company if they either:

- account for more than 10 percent of the company's revenue; or
- relate to the company's material actual or potential negative sustainability-related impacts.

How is revenue calculated?

ESRS 2.40(b)–(c), AR13, EFRAG Q&A ID 395, ID 482

ESRS do not use the term 'net turnover' as defined in Article 2 of the Accounting Directive. Instead, ESRS use the terms 'revenue', 'total revenue' and 'net revenue' as synonyms, meaning that they are intended to have the same meaning.

The terms 'revenue', 'total revenue' and 'net revenue' are to be understood as the amounts presented in the income statement of the company's financial statements in accordance with the applicable legislation and/or accounting standards – e.g. paragraph 82(a) of IAS 1 *Presentation of Financial Statements* (if IFRS Accounting Standards are applied).

3.4.2 SBM-2 – Considering stakeholders in the strategy and business model

ESRS 2.43–45

A company is required to disclose how the interests and views of its stakeholders are taken into account by the company's strategy and business model.

Information	What to disclose
Stakeholder engagement	• Key stakeholders. • Whether (and for which categories of stakeholders) engagement occurs. • How stakeholder engagement is organised and for what purpose. • How the outcome of the stakeholder engagement is taken into account in the company's strategy and business model.
Interests and views of stakeholders	• The interests and views of key stakeholders – to the extent that these were analysed during the company's due diligence process and/or DMA process. • If applicable, changes made to the company's strategy and/or business model, including: – how the company has made changes to reflect the interests or views of its stakeholders; – further steps planned and their timing; and – whether these steps are likely to modify the relationship with and views of stakeholders. • How the governing bodies are informed about affected stakeholders' views and interests about impacts.

3.4.3 SBM-3 – Sustainability-related impacts, risks and opportunities and their interaction with strategy and business model

ESRS 2.46–47

A company is required to disclose the IROs identified by its DMA process and how they originate from, and trigger changes in, the company's strategy and business model, including allocation of its resources.

ESRS 2.47

The information that needs to be disclosed about the management of the company's IROs is prescribed by topic- and sector-specific ESRS, which are applied together with MDR on policies, actions and targets in ESRS 2.

ESRS 2.AR18

The information can be provided for a single IRO or by aggregating information about groups of IROs when this provides more relevant information and does not obscure material information.

The topic-specific standards contain specific SBM-3 disclosure requirements in addition to those specified in ESRS 2.

	Information	What to disclose
ESRS 2.48(a) *ESRS 2.AR17*	**Material IROs**	• A brief description of the material IROs identified, including where these are concentrated in the business model, own operations and value chain. • When describing value chain impacts, consider geographical areas, facilities or types of assets, inputs, outputs and distribution channels.
ESRS 2.48(b)	**Current and anticipated effects**	• The current and anticipated effects of IROs on the business model, value chain, strategy and decision-making. • The response or plans to respond to these effects, including any changes the company has made or plans to make to its strategy or business model.
ESRS 2.48(c)	**Sustainability-related impacts**	• How the company's positive and negative sustainability-related impacts affect (or are likely to affect) people or the environment. • Whether and how the sustainability-related impacts originate from, or are connected to, the company's strategy and business model. • The expected timescale of the impacts, based on reasonable assumptions. • Whether the company is involved with the sustainability-related impacts through its activities or because of its business relationships – describing the nature of the activities or business relationships concerned.
ESRS 2.48(g)	**Changes from the previous period**	• Changes to IROs compared with the previous reporting period.
ESRS 2.48(h)	**Items covered by ESRS disclosure requirements**	• The IROs that are covered by specific disclosure requirements in ESRS and those covered by the company using additional company-specific disclosures.
ESRS 2.49, EFRAG Q&A ID 296	**Presentation of information required by ESRS 2 and topic-specific standards**	• A statement of the company's IROs alongside the information required by ESRS 2 if the company discloses its IROs alongside information required by the topic-specific ESRS.

3.4.3.1 Disclosing current and anticipated financial effects

ESRS 2.48(b), (d)–(e)

A company is required to provide information about how sustainability-related risks and opportunities impact financial position (e.g. assets and liabilities), financial performance (e.g. revenue and expenses) and cash flows. This information needs to cover the effects for the current reporting period and those anticipated over time.

The environmental standards[6] require companies to provide additional information about the anticipated financial effects of environmental-related risks and opportunities (see Sections 4.3 and 6.1–6.4).

ESRS 1.C

Phased-in transition relief is available for specific disclosures relating to anticipated financial effects (see 9.2.1).

Information	What to disclose
ESRS 2.48(d) **Linkage with the most recent financial statements – current financial effects**	• The effect of sustainability-related risks and opportunities on the company's financial position, financial performance and cash flows. • Information about the sustainability-related risks and opportunities that pose a significant risk of material adjustment to the carrying amounts of assets and liabilities reported in the financial statements in the next financial year.
ESRS 2.48(e) **Changes in financial position, financial performance and cash flows over time – anticipated financial effects**	• The effects of the company's sustainability-related risks and opportunities on its financial position, financial performance and cash flows over the short, medium and long term, including the reasonably expected time horizons for those effects. • How the company expects its financial position, financial performance and cash flows to change over time, in line with its strategy. To do this, a company considers: – investment and disposal plans (e.g. major acquisitions or divestments, business transformations or innovations, and joint ventures to support sustainability-related strategies), including plans that are not contractually committed; and – planned sources of funding to implement strategies that address the company's sustainability-related risks and opportunities – e.g. sustainability-linked financing arrangements.

6. ESRS E1-9, ESRS E2-6, ESRS E3-5, ESRS E4-6 and ESRS E5-6

Do ESRS provide specific guidance on how to measure anticipated financial effects?

No. However, ESRS 1 has guidance on connecting information in the sustainability statement with information in the related financial statements and using reasonable estimates (see 7.2.1 and Section 8.4).

This means that a company needs to:

- develop methodologies and processes to ensure that the information it communicates is relevant and faithfully represents what it is supposed to represent; and
- in some cases, source new data or connect different sources of existing data to identify how sustainability-related risks and opportunities affect its financial position, performance and cash flows.

Companies need to take particular care that the assumptions, methodology and judgements used are sufficiently clear to enable users to assess the effect of the sustainability-related risks and opportunities disclosed.

3.4.3.2 Describing a company's resilience

ESRS 2.48(f)

A company discloses information about the resilience of the strategy and business model to sustainability-related impacts and risks, and its ability to take advantage of sustainability-related opportunities. Disclosures include how the analysis was completed and the time horizons applied (see Section 8.2), as well as qualitative (and, if applicable, quantitative) information.

Disclosing an analysis of resilience helps users to understand the company's business model flexibility and its ability to respond to uncertain future events.

ESRS 2 does not specify the type of information that a company needs to provide in explaining its resilience to specific sustainability-related impacts and risks, except that when providing quantitative information, the company may disclose single amounts or ranges.

ESRS E1 and ESRS E4 *Biodiversity and ecosystems* require companies to disclose whether and how they use scenario analysis to assess resilience.

Does a company need to conduct scenario analysis?

ESRS 2.48(f), ESRS E1.20(b)(i), 20(c)(i)

Generally, no. However, when companies use scenario analysis to support their resilience analysis, they need to present information about that analysis.

ESRS E1 requires a company to explain whether its assessment of climate-related physical risks considers at least a high-emissions climate scenario and whether its assessment of transition risks considers at least a climate-related scenario in line with limiting global warming to 1.5°C with no or limited overshooting.

What is the difference between scenario analysis and resilience analysis?

A scenario analysis is a 'what-if' analysis of the potential impacts from sustainability-related impacts, risks and assumptions, whereas resilience analysis builds on this to explain the 'so what' – i.e. it considers the implications of the analysis for the company's strategy and its capacity to respond.

3.5 IRO management

ESRS 2.52

The objective of the disclosures on IRO management is to provide users with an understanding of how the company identifies IROs and how they assess which ones are material for the company.

Section 2.6 discusses how a company applies materiality under ESRS. This section discusses the information a company is required to disclose about the DMA process it followed for identifying material IROs.

ESRS 2.56–59

A company is required to disclose:

- its process for identifying IROs and assessing which are material;
- the list of disclosure requirements complied with in preparing the sustainability statement;
- an explanation of how it has determined the material information to be disclosed, including the use of thresholds; and
- if climate change is not considered material, then a detailed explanation of how it reached this conclusion.

In addition, Section 3.6 includes a discussion of MDR related to a company's policies and actions for IROs that are grouped into two areas (MDR-P and MDR-A). The MDR are applied together with the disclosure requirements specified in the relevant topic-specific and sector-specific ESRS. They are also required to be applied when a company prepares company-specific disclosures.

3.5.1 IRO-1 – Identifying and assessing sustainability-related impacts, risks and opportunities

ESRS 2.51–52

A company is required to disclose its process to identify its material IROs.

This section covers disclosures about the processes that a company uses. Guidance on identifying IROs is included in Section 2.6.

	Information	What to disclose
ESRS 2.53(a), (g)	**Overall process and methodology**	• The methodologies and assumptions applied in the process to identify, assess, prioritise and monitor IROs. This includes the inputs and parameters that the company used in its process – e.g. the data sources and scope of operations covered by the process disclosed.
ESRS 2.53(b)	**Process for identifying impacts**	• Overview of the process to identify potential and actual sustainability-related impacts on people and the environment – informed by the company's due diligence process. This includes whether and how the process: – focuses on specific activities, business relationships, geographies or other factors that give rise to an increased risk of adverse sustainability-related impacts; – considers the sustainability-related impacts that arise through the company's own operations or as a result of its business relationships;

Information	What to disclose
	– includes consultation with affected stakeholders, to understand how they may be impacted, and with external experts; and – prioritises negative sustainability-related impacts based on their relative severity and likelihood, and, if applicable, positive sustainability-related impacts based on their relative scale, scope and likelihood, and determines which sustainability matters are material for reporting purposes. This includes providing information about the qualitative or quantitative thresholds and other criteria used.
ESRS 2.53(c) **Process for identifying sustainability-related risks and opportunities**	• How the company identifies, assesses, prioritises and monitors sustainability-related risks and opportunities that have or may have financial effects, including: – how it considers the connections between its impacts and dependencies and the sustainability-related risks and opportunities that may arise from those impacts and dependencies; – how it assesses the likelihood, magnitude, and nature of effects of the identified sustainability-related risks and opportunities; and – how it prioritises sustainability-related risks relative to other types of risks, including its use of risk assessment tools.
ESRS 2.53(d)–(f) **Integration of processes**	• The decision-making process and related internal controls procedures. • The extent to which sustainability-related impacts and risks processes are integrated into and inform the company's overall risk profile and risk management processes. • The extent to which sustainability-related opportunity management processes are integrated into and inform the company's overall management processes.
ESRS 2.53(h) **Changes in the process**	• Whether and how the process has changed compared with the prior reporting period. • When the process was modified for the last time and future revision dates of the DMA.

3.5.2 IRO-2 – Disclosure requirements in ESRS contained in the sustainability statement

ESRS 2.54–55

A company is required to disclose which disclosure requirements it has included in its sustainability statement and the topics it has omitted as not material.

	Information	What to disclose
ESRS 2.56	**List of disclosure requirements**	• The list of disclosure requirements the company has complied with in its sustainability statement, following the outcome of its DMA. This needs to include the page numbers and/or paragraphs for the related disclosures in the sustainability statement and may be presented as a content index.
ESRS 2.15, 56	**Datapoints derived from other EU laws**	• A table of all the datapoints that are listed in Appendix B of ESRS 2, indicating where they can be found in the sustainability statement. • If there are datapoints that are not material, then indicate this in the table – i.e. that they are 'not material'. • If a company includes information from other EU laws or reporting frameworks in its sustainability statement, then disclose this fact and a reference to the paragraphs of the standard or framework applied.
ESRS 2.57	**Climate change**	• If a company concludes that climate change is not material and therefore omits all disclosure requirements in ESRS E1, then it discloses: – a detailed explanation of the conclusions of its DMA with regards to climate change; and – a forward-looking analysis of the conditions that could lead the company to conclude that climate change is material in the future.
ESRS 2.58	**Other topics**	• If a company concludes that a topic other than climate change is not material and therefore omits all the disclosure requirements in the corresponding topic-specific ESRS, then it may provide a brief explanation of the conclusions of its DMA for that topic.
ESRS 2.59, ESRS 1.25–36	**Disclosure of other materiality judgements**	• How the company has determined material information to be disclosed in relation to the IROs, including: – the use of thresholds; and/or – how it has implemented the criteria in ESRS 1 for determining material information.

Where does a company present the list of disclosure requirements that are reported in its sustainability statement?

ESRS 2.AR19, EFRAG Q&A ID 628, ID 906

A company may disclose this list in the general information section or in another section of the sustainability statement, if appropriate. A company may also incorporate the list of disclosure requirements by reference to another section of the management report and cross-refer to that specific section of the management report, subject to certain conditions (see Section 7.4).

A company can use a content index – i.e. a tabular list of the disclosure requirements included in the sustainability statement, along with the paragraph reference or page number where they are located. A company might find it useful to use a format and structure similar to the digital ESRS XBRL Taxonomy.

Do ESRS 2 Appendix B datapoints (from other EU laws) apply for all companies?

ESRS 2.56, B, EFRAG Q&A ID 335

Yes, the datapoints derived from other EU laws listed in Appendix B of ESRS 2 apply for all companies applying ESRS.

The datapoints provide information from all ESRS preparers, enabling financial market participants to meet their obligations under the SFDR. The SFDR sets requirements for asset managers and other financial market participants to provide increased transparency in relation to sustainability risks and aims to reduce the potential for greenwashing of investment products.

The datapoints that are derived from other EU laws need to be disclosed irrespective of a company's DMA if there is a related requirement in ESRS 2. If the corresponding requirement is in the topic-specific ESRS, then the datapoints are subject to the materiality assessment.

The disclosure of datapoints derived from EU laws need to be reported irrespective of any transition relief available, unless specifically stated in an ESRS.

Companies need to publish a table containing all of the information required by other EU laws, specifying the page of the sustainability statement where this information is located or indicating 'not material', if the company has deemed it as such.

3.5.3 Minimum disclosure requirements on policies and actions

ESRS 2.60

This section sets out MDR to be reported when a company discloses information on its policies and actions for managing material sustainability matters. They are applied together with the disclosure requirements provided in the relevant topic-specific and sector-specific ESRS. They are also required to be applied when a company prepares company-specific disclosures.

The disclosures are required to be located alongside disclosures prescribed by the relevant topic-specific ESRS.

Does a company need to repeat policy information if it relates to more than one sustainability matter?

ESRS 2.61, AR20

No. When a single policy or the same actions address several interconnected sustainability matters, a company may disclose the required information in its reporting under one topic-specific ESRS and cross-refer to it in its reporting under other topic-specific ESRS. For example, a policy related to climate change may also be relevant for another environmental topic-specific ESRS, such as ESRS E5 *Resource use and circular economy*, or for a social standard (e.g. ESRS S1). In this case, the description of the policy may be included in one section and cross-referenced from the others.

Is a company required to implement policies and actions for each sustainability matter identified?

ESRS 2.62, EFRAG Q&A ID 293

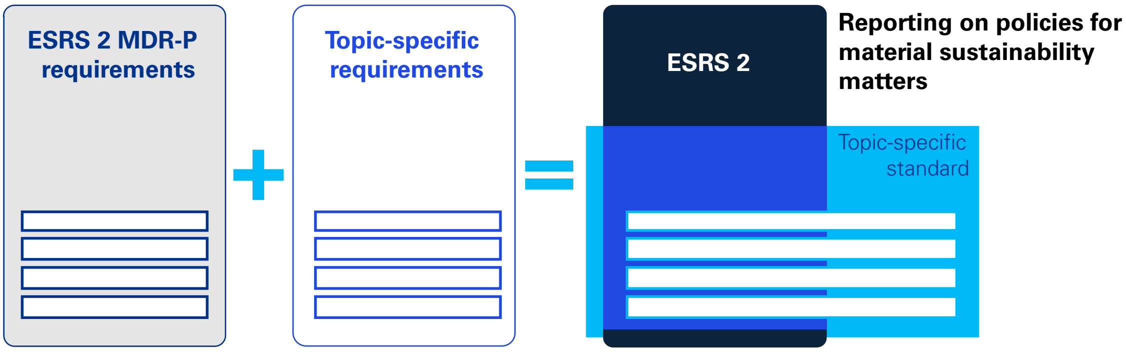
No. ESRS do not require a company to set policies or actions for sustainability matters. Developing a strategy or setting of policy is the responsibility of the company's governing bodies.

ESRS require a company to provide information on the policies and actions it has in place already. If a company cannot disclose the information on policies and actions required by the relevant ESRS because it has not adopted policies and/or actions for the specific sustainability matter, then it discloses this to be the case and provides the reasons for having no policies and actions in place. Companies may disclose a timeframe in which they plan to have such policies and actions in place.

3.5.3.1 MDR-P – Policies adopted to manage sustainability matters

ESRS 2.63–64

A company is required to provide an understanding of the policies that it has in place to prevent, mitigate and remediate actual and potential impacts, and to address risks and pursue opportunities. A company is required to apply the MDR set out in ESRS 2 when it discloses the policies it has in place for each sustainability matter identified as material.



For example, under Disclosure Requirement S2-1 – *Policies related to value chain workers*, if a company identifies that paying adequate wages contributes to a material impact when disclosing information about its policies for paying adequate wages, then it is required to comply with both the requirements of MDR-P in ESRS 2 and the specific requirements in ESRS S2 *Workers in the value chain*.

ESRS 2.65

Information	What to disclose
Policies adopted to manage sustainability matters	• The key contents of the policy, including its general objectives, which IROs the policy relates to and the process for monitoring them. • The scope of the policy, or of its exclusions, in terms of activities, the value chain, geographies and, if relevant, affected stakeholder groups. • The most senior level in the company's organisation that is accountable for implementing the policy. • A reference, if relevant, to the third-party standards or initiatives the company complies with through implementing the policy. • If relevant, describe the consideration given to the interests of key stakeholders in setting the policy. • If relevant, whether and how the company makes the policy available to potentially affected stakeholders, and stakeholders who need to help to implement it.

3.5.3.2 MDR-A – Actions and resources in relation to sustainability matters

ESRS 2.66–67

A company is required to provide an understanding of the key actions:

- taken or planned to prevent, mitigate and remediate actual and potential sustainability-related impacts;
- to address sustainability-related risks and opportunities; and
- if applicable, to achieve the objectives and targets of related policies.

A company is required to apply the MDR set out in MDR-A when it describes the actions through which it manages each sustainability matter, including action plans and resources allocated and/or planned.

ESRS 2.68–69

Information	What to disclose
Action plans	When the implementation of a policy requires actions (or a comprehensive action plan) to achieve its objectives, as well as when actions are implemented without a specific policy: • the list of current and future planned key actions, their expected outcomes and, when relevant, how implementing them contributes to achieving policy objectives and targets; • the scope of the key actions – i.e. coverage in terms of activities, the value chain, geographies and, if applicable, affected stakeholder groups; • the time horizons under which the company intends to complete each key action; • if applicable, key actions taken (along with results) to remediate actual sustainability-related impacts; and • if applicable, quantitative and qualitative information regarding the progress of actions or action plans disclosed in prior periods.
Resource allocation	In addition, when implementing an action plan requires significant operational expenditures (OpEx) and/or capital expenditures (CapEx): • describe the type of current and future financial and other resources allocated to the action plan, including (if applicable): – the relevant terms of sustainable finance instruments, such as green bonds, social bonds and green loans; – the environmental or social objectives; and – whether the ability to implement the actions or action plan depends on specific preconditions – e.g. granting of financial support or public policy and market developments. • provide the amount of current OpEx and CapEx incurred and explain how these amounts relate to the most relevant amounts presented in the related financial statements; and • provide the amount of future OpEx and CapEx needed to implement the action plan.

ESRS 2.AR23

Information about resource allocation may be presented in the form of a table and broken down between CapEx and OpEx, and between resources applied in the current reporting period and the planned allocation of resources over specific time horizons.

ESRS 2.48

The information provided about significant CapEx and OpEx needs to be consistent with information provided about the current and anticipated financial effects of the company's sustainability-related risks and opportunities (see 3.4.3.1).

What are key actions?

ESRS 2.68, AR22

Key actions are actions that materially contribute to achieving the company's objectives in addressing IROs. It may be necessary to aggregate information about key actions to provide useful information to users. Key actions are those taken during the reporting period or those planned for the future. A company is not required to report on every individual action.

What does a company disclose if it has not taken any actions to address a sustainability matter?

ESRS 2.62

If a company has not yet taken any actions to address a sustainability matter, then it explains that it cannot provide the disclosure and provides the reasons why it has not acted. The information provided may include a timeframe over which the company plans to implement such actions.

3.6 Metrics and targets

ESRS 2.74, 79, Annex II

Disclosures on metrics and targets need to help users understand the company's performance in managing its sustainability matters, including progress towards any targets it has set or is required to meet by law or regulation.

ESRS 2.70, 73, 78

MDR contained in ESRS 2 set out the baseline disclosure requirements on metrics and targets for sustainability matters. A company needs to apply the MDR alongside disclosure requirements in the topic-specific ESRS. The MDR are also required to be applied when company-specific metrics and targets are disclosed by a company.

The MDR for metrics and targets are split into two areas (MDR-M and MDR-T).

ESRS 2.75, 79

Broadly, MDR for metrics and targets require the company to:

- provide an understanding of the metrics a company uses to track the effectiveness of its actions to manage sustainability matters; and
- for each sustainability matter, provide an understanding of:
  - whether and how the company tracks the effectiveness of its actions to address IROs, including the metrics it uses to do so;
  - the measurable targets set by the company;
  - the overall progress towards the targets over time;
  - whether and how the company tracks the effectiveness of its actions to address each IRO and measures its progress, if it has not set measurable targets; and
  - whether and how stakeholders have been involved in setting targets.

Where do companies disclose information required by MDR for metrics and targets?

ESRS 1.13, ESRS 2.61, 71, AR25, EFRAG Q&A ID 762

The MDR for metrics and targets need to be presented alongside the information disclosed in applying the topic-specific ESRS.

The MDR for policies, actions and targets are flexible about how the information is presented. A company could present all policies together and do the same for actions and targets or it could present each policy together with the related action(s) and target(s), as long as the qualitative characteristics of information are met (see Section 7.1). A combination of both presented approaches is also possible.

Information on progress made towards achieving targets could be presented in a table that includes information on the baseline and target value, milestones and performance met over prior periods.

What if policies, actions or targets relate to more than one topic-specific standard?

ESRS 1.61, ESRS 2.71, EFRAG Q&A ID 762

When a single policy or the same actions address more than one IRO or topic, a company could disclose the required information under one standard and cross-refer to it in its reporting under other ESRS in its sustainability statement.

There is no specific guidance in ESRS on what to do when the same metric or the same target covers more than one sustainability topic. Under ESRS 2, information about metrics and targets is required to be located alongside the disclosures prescribed by the topic-specific ESRS.

3.6.1 MDR-M – Metrics in relation to sustainability matters

Annex II

Metrics are qualitative and quantitative indicators that a company uses to measure and report on the effectiveness of delivering its sustainability-related policies and performance against its targets.

ESRS 2.75–76

A company is required to report any metrics it uses to evaluate performance and effectiveness in relation to a material IRO. Metrics disclosed need to include those defined in ESRS, as well as metrics identified on a company-specific basis, whether taken from other sources or developed by the company.

ESRS 2.77

Information	What to disclose
Methodologies and measurement	• Methodologies and significant assumptions used, including the limitations of the methodologies used. • Whether the measurement of the metric is validated by an external body other than the assurance provider and, if so, which body.

ESRS 2.77

When disclosing information related to MDR-M, a company is required to:

- use meaningful, clear and precise names and descriptions when labelling and defining the metric; and
- use the presentation currency of the related financial statements when currency is specified as the unit of measure.

What do companies do if they cannot disclose the information required for metrics?

ESRS 1.34, ESRS 2.11, EFRAG Q&A ID 504

If a company has not established policies, taken actions or set targets for an IRO, then it discloses this to be the case and reports a timeframe in which it aims to have these in place (see 3.6.2).

This is not the case for metrics that are required to be disclosed if/when they are material.

If a company is unable to measure the metric directly with the data that it has, then it estimates the information, ensuring that the information meets the qualitative characteristics outlined in ESRS 1 (see Section 7.1). If a metric is subject to a high level of measurement uncertainty, then the company discloses information about the sources of measurement uncertainty – e.g. the availability and quality of data – and discloses the assumptions, approximations and judgements that the company has made in preparing the estimated metric (see Section 8.4).

3.6.2 MDR-T – Tracking effectiveness of policies and actions through targets

Annex II

Targets are measurable, outcome-oriented and time-bound goals that a company aims to achieve in relation to IROs.

ESRS 2.80

A company is required to disclose information about the targets it has set or is required to meet by law or regulation for each sustainability matter.

ESRS 2.AR24

When disclosing targets relating to preventing or mitigating environmental impacts, a company needs to prioritise targets related to reducing the impacts in absolute terms rather than in relative terms. When targets are disclosed that address the prevention or mitigation of social impacts, they can be specified in terms of the effects on human rights, welfare or positive outcomes for affected stakeholders.

	Information	What to disclose
ESRS 2.80(a)–(d)	**Description**	• The relationship of the target to the policy objectives. • The defined target level to be achieved including, if applicable, whether the target is absolute or relative and the unit of measurement. • The scope of the target, including the company's activities, its value chain (if applicable) and geographical boundaries. • The baseline value and base year from which progress is measured.
ESRS 2.80(e)	**Time period**	• The period to which the target applies and, if applicable, any milestones or interim targets.
ESRS 2.80(f)–(g)	**Measurement methodology**	• The methodology and significant assumptions used to define the target including the scenario, data sources and alignment with jurisdictional policy goals. • How the target considers the wider context of sustainability development and the local landscape in which impacts occur. • For targets related to environmental matters, whether the targets are based on conclusive scientific evidence.

ESRS 2.80(i), *ESRS 2.80(j)*, *ESRS 2.80(h)*

Information	What to disclose
Changes	• Any changes in targets and corresponding metrics or underlying measurement methodologies, significant assumptions, limitations, sources and processes to collect data adopted within the defined time horizon. • The rationale for the change and impact on comparability (see 3.2.2).
Performance and progress	• Progress towards the target over time, including how the target is monitored and reviewed. • Whether progress is in line with expectations. • Analysis of trends or significant changes in performance towards achieving the target.
Stakeholder involvement	• Whether and how stakeholders have been involved in setting the target.

Do ESRS require companies to set targets?

ESRS 1.33, ESRS 2.72, 81

No, ESRS require information about the targets the company has set.

If a company cannot provide this information because it has not set a target, then it discloses this fact and explains why this is the case. It may also disclose a timeframe for setting a target.

If a company has set targets but these are not measurable and outcome-oriented, then it needs to explain whether it will set such targets in future and the timeframe for setting them, or the reasons why it has no plan to set such targets.

It also needs to disclose whether it tracks the effectiveness of its policies and actions in relation to the IRO. As part of these disclosures, the company provides information about the processes in place to track progress and the indicators it uses to evaluate progress – e.g. the base year from which progress is measured.

3.6.3 Reporting against a base year

ESRS 1.75, 76

Some of the standards require the disclosure of a **base year** so that users can assess progress towards a target.

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

ESRS 1.76

Information	What to disclose
Base year comparative	• Comparative information for base year amounts presented in the current period, unless the relevant disclosure requirement already specifies how to report progress (see Section 8.6). • When relevant, a company may also include historical information about achieved milestones between the base year and the reporting period.

4 Climate change

ESRS E1 expands on the disclosure requirements in ESRS 2 with climate-specific reporting requirements – e.g. information on transition plans, climate-related scenario analysis, and climate-specific metrics and targets such as GHG emissions.

Disclosure requirements in ESRS E1 cover three subtopics.

Topic	Subtopic
Climate change	Climate change mitigation
	Climate change adaptation
	Energy

ESRS E1.1

The objective of ESRS E1 is to provide users with an understanding of:

- how the company affects climate change, in terms of its positive and negative actual and potential impacts;
- the company's past, current and future mitigation efforts to be compatible with limiting global warming to 1.5°C in line with the Paris Agreement (or an updated international agreement on climate change);
- how the company plans to adapt its strategy and business model to contribute to a sustainable economy;
- any other actions taken by the company, and the result of those actions, to prevent, mitigate or remediate actual or potential negative climate-related impacts and address climate-related risks and opportunities;
- the nature, type and extent of the climate-related risks and opportunities arising from the company's impacts and dependencies on climate change, and how the company manages them; and
- the financial effects of climate-related risks and opportunities on the company's development, financial performance, financial position and cash flows over time.

Interaction with other ESRS

In the topic-specific standards, each disclosure requirement is labelled with the standard it belongs to and a sequential number. For instance, 'E1-1' indicates the first disclosure requirement within ESRS E1. Similarly, ESRS 2 uses a specific labelling system for each disclosure requirement. This system helps users easily identify the type and location of each requirement. For example, 'SBM-3' refers to the third disclosure requirement relating to a company's strategy and business model (SBM) within ESRS 2.

A company needs to apply ESRS 1 and ESRS 2 together with the topic-specific standards. In some cases, the topic-specific standards build on the ESRS 2 disclosure requirements – e.g. ESRS E1 contains a disclosure requirement related to ESRS 2 GOV-3 *Integration of sustainability-related performance in incentive schemes.* In other cases, the topic-specific standard does not have an ESRS 2-related requirement for a particular area – e.g. ESRS S1 does not have specific disclosure requirements for governance.

ESRS 2.2

Except for the information required by IRO-1 *Identifying and assessing sustainability-related impacts, risks and opportunities* in the topic-specific standards, the disclosure requirements in the topic-specific ESRS are required only if a company assesses the information provided by a disclosure requirement as material.

ESRS 2.60, 70

Disclosure requirements related to policies, actions, metrics and targets included in each topic-specific standard are applied in conjunction with the MDR set out in ESRS 2 (see 3.5.3 and Section 3.6).

ESRS E1.8–11

ESRS E1 interacts with other topic-specific ESRS in the following ways.

- Ozone-depleting substances (ODS), nitrogen oxides (NO_X) and sulphur oxides (SO_X), among other air emissions, are connected to climate change but are covered by the disclosure requirements in ESRS E2 *Pollution*.
- Impacts on people that might arise from the transition to a climate-neutral economy are covered by ESRS S1, ESRS S2, ESRS S3 *Affected communities* and ESRS S4 *Consumers and end-users*.
- Climate change mitigation and adaptation are closely related to topics addressed in particular in ESRS E3 *Water and marine resources* and ESRS E4 *Biodiversity and ecosystems*.
- ESRS E1 needs to be applied alongside ESRS 2.

For discussion of presentation requirements, including the structure of the sustainability statement, see Chapter 7.

4.1 Governance

4.1.1 ESRS 2 GOV-3 – How incentive schemes are linked to sustainability matters

ESRS 2.27–28

ESRS 2 requires a company to disclose whether sustainability-related incentive schemes are offered to members of its governing bodies (see 3.3.3).

ESRS 1.29, ESRS E1.13

ESRS E1 contains disclosure requirements for governance that build on those in ESRS 2.

Information	What to disclose
Climate-related considerations in incentive schemes	• Whether and how: – climate-related considerations, including GHG emissions reduction targets (see 4.4.1), are factored into the remuneration of members of the company's governing bodies; and – the percentage of the remuneration recognised in the current reporting period financial statements that is linked to climate-related considerations, with an explanation of the climate-related considerations.

4.2 Strategy

4.2.1 ESRS 2 SBM-3 – Sustainability-related impacts, risks and opportunities and their interaction with strategy and business model

ESRS 2.46–47

ESRS 2 requires a company to disclose the IROs identified by its DMA process. A company also needs to disclose how those IROs originate from, and trigger changes in, the company's strategy and business model, including the allocation of its resources.

ESRS E1.18–19, AR6–AR8

Information	What to disclose
Categorisation of climate-related risks	• Whether each material climate-related risk is a physical risk or transition risk.
Climate-related resilience	• The resilience of the company's strategy and business model in relation to climate-related risks, including: – the scope of its resilience analysis, including if the following are excluded from the analysis: - part of the company's own operations and value chain; and - climate-related physical risks and transition risks; – how and when the resilience analysis, including the use of climate-related scenario analysis, has been conducted and explain: - the critical assumptions about how the transition to a lower-carbon economy will affect the company's macroeconomic trends, energy consumption and mix, and assumptions about technology deployment; - the time horizons applied, and their alignment with the climate-related and business scenarios considered for: - determining the company's climate-related physical and transition risks; and - setting GHG emissions reduction targets; and - how the anticipated financial effects of climate-related risks, as well as the mitigation actions and resources, were considered; and – the results of the resilience analysis, including the results of the climate-related scenario analysis, and explain: - uncertainties associated with the climate-related scenario analysis, and to what extent the assets and business activities at risk are considered within the company's strategy, investment decisions, and current and planned mitigation actions; and - the ability of the company to adjust or adapt its strategy and business model to climate change over time, including: - securing ongoing access to finance at an affordable cost of capital; - the ability to redeploy, upgrade or decommission existing assets; - shifting its products and services portfolio; and - reskilling its workforce.

4.2.2 E1-1 Transition plan

ESRS E1.14–15

ESRS E1 links disclosure about strategy and decision-making to a company's transition plan and climate-related targets. It requires a company to disclose information about its transition plan. This is to provide users with an understanding of how it is ensuring that its strategy and business model are compatible with:

- the transition to a sustainable economy;
- the limiting of global warming to 1.5°C in line with the Paris Agreement; and
- the objective of achieving climate neutrality by 2050.

The information provided needs to include, when relevant, the company's exposure to coal, oil and gas-related activities.

ESRS E1.16–17, AR1–AR2, AR4–AR5

Information	What to disclose
Transition plan objectives and levers	• How the company's targets are compatible with the limiting of global warming to 1.5°C in line with the Paris Agreement, referencing the company's GHG emissions reduction targets. • The decarbonisation levers identified and key actions planned, including changes in the company's product and service portfolio and the adoption of new technologies in own operations or the value chain. In doing so, the company references its GHG emissions reduction targets and climate change mitigation actions (see 4.3.3 and 4.4.1). • The company transition plan's compatibility with limiting global warming to 1.5°C needs to be benchmarked in relation to a pathway to 1.5°C. This benchmark is based on either a sectoral decarbonisation pathway (if available for the company's sector) or an economy-wide scenario (bearing in mind its limitations).
Strategy and governance	• How the transition plan is considered in and aligned with the company's overall business strategy and financial planning. • The company's progress in implementing the transition plan. • Whether the transition plan is approved by the company's governing bodies.
Funding	• The company's investments and funding that support implementing its transition plan – including quantitative information that references the key performance indicators (KPIs) of EU Taxonomy-aligned CapEx – and when relevant, CapEx plans that the company discloses under the Disclosures Delegated Act.

Information	What to disclose
Investment	• Significant CapEx investments during the reporting period that relate to coal, oil and gas-related economic activities (mapped to the specific NACE codes associated with those activities). • For companies with economic activities covered by the EU Taxonomy, explain any objective or plans (CapEx, CapEx plans, OpEx) that the company has for aligning its economic activities (revenues, CapEx, OpEx) with the criteria outlined in the Climate Delegated Act. • How the alignment of its economic activities with the Climate Delegated Act is expected to evolve over time to support its transition to a sustainable economy, taking account of the KPIs required to be disclosed under Article 8 of the Taxonomy Regulation (2020/852).
Alignment with EU Paris-aligned Benchmarks	• Whether the company is excluded from the EU Paris-aligned Benchmarks (aligned with the Climate Transition Benchmark Regulation).
Information about locked-in GHG emissions	• Qualitative information about potential locked-in GHG emissions from the company's key assets and products, including: – if and how these emissions could impact the company meeting its GHG emissions reduction targets and contribute to transition risk; and – if applicable, the company's plans to manage its GHG-intensive and energy-intensive assets and products.
If no transition plan in place	• If a company does not have a transition plan in place, then it is required to disclose whether, and if so when, it plans to adopt a transition plan.

What is the Paris Agreement?

The Paris Agreement is a legally binding international treaty on climate change. It was adopted by 196 signatories at COP 21 in Paris and came into force on 4 November 2016. It is the latest international agreement on climate change.

The Paris Agreement's central aim is to limit global warming to well below 2°C (above pre-industrial levels) and pursue efforts to limit it to 1.5°C.

Do ESRS require a company to align its strategy with the Paris Agreement?

No. ESRS E1 requires disclosures on the company's strategy. This includes whether and how the Paris Agreement informed its targets, but does not require companies to include alignment as part of their strategy. The standards do not require companies to adopt any particular strategies or targets.

However, Article 15 of the CSDDD requires in-scope companies to develop and execute transition plans for climate change mitigation. These transition plans need to aim to ensure, through best efforts, that a company's business model and strategy are in line with efforts to limit global warming to 1.5°C, as stipulated by the Paris Agreement.

4.3 IRO management

4.3.1 ESRS 2 IRO-1 – Identifying and assessing sustainability-related impacts, risks and opportunities

ESRS 2.51–52

ESRS 2 requires a company to provide information about its processes to identify, assess, prioritise and monitor IROs.

ESRS E1.20

ESRS E1 contains disclosure requirements for climate-related IRO management that build on those in ESRS 2.

ESRS E1.20, AR9–AR12

A company is required to describe the processes used to identify and assess its climate-related IROs.

Information	What to disclose
Processes to identify, assess, prioritise and monitor climate-related impacts	
Description of the process for climate-related impacts	• The company's process in relation to climate-related impacts, in particular the company's GHG emissions, including: – how it has screened its activities and plans in order to identify actual and potential future GHG emissions sources and, if applicable, drivers for other climate-related impacts – e.g. emissions of black carbon or tropospheric ozone or land use change – in its own operations and along the value chain; and – how it has assessed its actual and potential impacts on climate change – i.e. its total GHG emissions.
Processes to identify, assess, prioritise and monitor climate-related physical risks	
Description of the process for climate-related physical risks	• The company's process in relation to climate-related physical risks in its own operations and along the value chain, in particular: – the identification of climate-related hazards, considering at least high-emissions climate scenarios; and – 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 company.

<table>
<tr><th>Information</th><th>What to disclose</th></tr>
<tr><td>Contextual information</td><td>• When providing information about the processes to identify and assess physical risks, explain whether and how the company:
– has identified climate-related hazards over the short, medium and long term and screened whether its assets and business activities may be exposed to these hazards;
– has defined short-, medium- and long-term time horizons and how these definitions are linked to the expected lifetime of its assets, strategic planning horizons and capital allocation plans;
– has assessed the extent to which its assets and business activities may be exposed and are sensitive to the identified climate-related hazards, taking into consideration the likelihood, magnitude and duration of the hazards as well as the geospatial coordinates (such as Nomenclature of Territorial Units of Statistics (NUTS)[7] for the EU territory) specific to the company's locations and supply chains; and
– has used high-emissions climate scenarios to identify climate-related hazards and assess exposure and sensitivity, which may for example be based on IPCC SSP5-8.5[8], relevant regional climate projections based on these emissions scenarios, or NGFS (Network for Greening the Financial System) climate-related scenarios with high physical risk such as 'Hot house world' or 'Too little, too late'.</td></tr>
<tr><td colspan="2">Processes to identify, assess, prioritise and monitor climate-related transition risks and opportunities</td></tr>
<tr><td>Description of the process for climate-related transition risks and opportunities</td><td>• The company's process in relation to climate-related transition risks and opportunities in its own operations and along the value chain, in particular:
– the identification of climate-related transition events, considering at least a climate-related scenario in line with limiting global warming to 1.5°C (with no or limited overshoot); and
– the assessment of how its assets and business activities may be exposed to these climate-related transition events, creating gross transition risks or opportunities.</td></tr>
</table>

7. To reference countries' regions for statistical purposes, the EU has developed a classification known as NUTS. NUTS divides each EU country into three levels: NUTS 1 for major socioeconomic regions; NUTS 2 for basic regions (for regional policies;) and NUTS 3 for small regions. NUTS is used for collecting, developing and harmonising European regional statistics, carrying out socioeconomic analyses of the regions and framing of EU regional policies.
8. IPCC SSP5-8.5 refers to one of five illustrated scenarios in the Intergovernmental Panel on Climate Change (IPCC) Sixth Assessment Report. The scenarios are intended to capture socioeconomic changes in areas such as population, urban density, education, land use and wealth. Each scenario is labelled to identify both the emissions level and the Shared Socioeconomic Pathway (SSP) used in those calculations. SSP5-8.5 represents a very high GHG emissions scenario.

Information	What to disclose
Contextual information	• When providing information about the processes to identify and assess physical risks and opportunities, explain whether and how the company: – has identified transition events over the short, medium and long term and screened whether its assets and business activities may be exposed to these events. In the case of transition risks and opportunities, what is considered long-term may cover more than 10 years and may be aligned with climate-related public policy goals; – has assessed the extent to which its assets and business activities may be exposed and are sensitive to the identified transition events, taking into consideration the likelihood, magnitude and duration of the transition events; – has used climate-related scenario analysis to inform the identification of transition events and the assessment of exposure, considering at least one scenario consistent with the Paris Agreement and limiting climate change to 1.5°C, for example: - the International Energy Agency scenarios (Net Zero Emissions by 2050, Sustainable Development Scenario); or - NGFS climate scenarios; and – has identified assets and business activities that are incompatible with, or need significant efforts to be compatible with, a transition to a climate-neutral economy (e.g. due to significant locked-in GHG emissions or incompatibility with the requirements of the EU Taxonomy).

ESRS E1.AR11–AR12

ESRS E1 provides examples of the types of climate-related transition events and hazards a company might consider when identifying its climate-related IROs.

4.3.1.1 Climate-related scenario analysis

Climate-related scenarios allow a company to understand how climate-related events (and their associated risks and opportunities) may impact its business, strategy and financial performance over time. Other scenarios can be used to model the impact of non-climate related events.

Scenario analysis represents a process for management to identify and assess uncertain outcomes in a range of hypothetical situations, based on its view of the risks and opportunities affecting the business.

ESRS E1 contains disclosure requirements for strategy and IRO management that build on those in ESRS 2.

ESRS E1.21

When companies use climate-related scenario analysis to support their resilience analysis, they need to present specific information about that analysis.

ESRS E1.21, AR13–AR15

Information	What to disclose
Climate-related scenario analysis	• How the company uses climate-related scenario analysis to inform the identification and assessment of physical risks, transition risks and opportunities, over the short, medium and long term. • How the company has used climate-related scenario analysis that is commensurate with its circumstances, including: – which scenarios were used, their sources and alignment with state-of-the-art science; – narratives, time horizons and endpoints used, with a discussion of why it believes the range of scenarios used covers its plausible risks and uncertainties; – the key forces and drivers taken into consideration in each scenario and why these are relevant to the company – e.g. policy assumptions, macroeconomic trends, energy usage and mix, and technology assumptions; and – key inputs and constraints of the scenarios, including their level of detail (e.g. whether the analysis of physical climate-related risks is based on the company's specific location or national- or regional-level broad data). • How the climate-related scenarios used are compatible with the critical climate-related assumptions made in the company's financial statements.

If a company performs climate-related scenario analysis, is there an expectation that it is a sophisticated analysis?

No. The expected level of sophistication depends on the company's exposure to climate-related risks and the skills and resources it has available. This means that the scenario analysis could range from narrative descriptions to quantitative information.

For example, a company identifying lower exposure to climate-related risks could use a simpler method of analysis than a company facing climate-related risks that pose significant threats to the feasibility of its business model in the future.

Is a company required to present technical details about climate-related scenario models used?

It depends. For the assessment of resilience to be understandable, companies need to provide sufficient detail about how the supporting scenario analysis was performed, in addition to the results and conclusions reached during the resilience assessment.

Although referencing any external climate-related scenario models used may be useful information, it is also important for companies to explain how they applied a chosen scenario to their circumstances.

Disclosures could be misleading or interpreted as a prediction of future events that are inherently uncertain if they provide management's assessment alone – i.e. they do not explain how and why management performed the calculations and the significant uncertainty involved. This is particularly important given the level of uncertainty that generally exists in scenario modelling and the high number of potential pathways that could be included.

Do ESRS identify which scenarios a company considers?

ESRS E1.AR12–AR13

Yes. Paragraph AR12(c) of ESRS E1 requires disclosure of whether and how the assessment of transition risks and opportunities takes into consideration at least one scenario consistent with the Paris Agreement. ESRS do not prohibit the use and disclosure of other scenarios for transition risk assessment. ESRS E1 also requires a company to disclose whether and how:

- a diverse range of scenarios for transition and physical risk have been used; and
- high-emission scenarios are used for physical risk.

What guidance can a company refer to when performing climate-related scenario analysis?

ESRS E1.AR14

A company can consider the following guidance.

- TCFD Technical Supplement on *The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities* (2017).
- TCFD *Guidance on Scenario Analysis for Non-Financial Companies* (2020).
- ISO 14091:2021 *Adaptation to climate change – Guidelines on vulnerability, impacts and risk assessment*.
- Any other recognised industry standards – e.g. NGFS.
- EU, national, regional and local laws and regulations.

Do the assumptions used in the climate-related scenario analysis need to be consistent with those used in preparing the financial statements?

ESRS 1.90,
ESRS E1.AR15

No. However, a company is required to briefly explain how those scenarios used are compatible with the critical climate-related assumptions made in the financial statements.

Does a company need to perform climate-related scenario analysis at each reporting date under ESRS?

IG1.170–173

No. A company needs to disclose information about its climate-related resilience at each reporting date, but might perform scenario analysis in line with its strategic planning cycle. That cycle may be yearly, or may be a multi-year planning cycle (e.g. three to five years).

Therefore, disclosures on how a company performed its scenario analysis may stay the same from year to year. However, a company's disclosures about its resilience to climate-related risks need to be updated each reporting period to reflect updated insight into the implications of climate-related risks for the company's business model and strategy, and the conditions as at the period end – e.g. to reflect changes to legislation and/or changes to reporting perimeters or in the supply chain.

However, it is important to note that the CSDDD requires in-scope companies to update their transition plans every year.

4.3.2 E1-2 Climate-related mitigation and adaptation policies

ESRS E1.22–23

A company is required to disclose information about its climate-related mitigation and adaptation policies to enable users to understand the extent to which the company has policies to identify, assess, manage and/or remediate its climate-related IROs.

ESRS E1.24–25, AR16

ESRS 2

Information	What to disclose
Disclosures required under MDR-P	• The policies in place to manage its climate-related IROs relating to mitigation and adaptation under MDR-P in ESRS 2 (see 3.5.3). • Information about policies related to either climate change mitigation or climate adaptation could be disclosed separately if the objectives, resources involved and actions needed to implement them differ.
Areas covered by policies	• Whether and how the company's policies address: – climate change mitigation; – climate change adaptation; – energy efficiency; – renewable energy deployment; and – other areas not included in the list above.

ESRS E1.AR17

Policies related to climate change mitigation address the management of the company's GHG emissions, GHG removals and transition risks over different time horizons, in its own operations and/or in the value chain. Information provided might relate to standalone climate change mitigation policies as well as relevant policies on other matters that indirectly support climate change mitigation, including training policies, procurement or supply-chain policies, investment policies or product development policies.

ESRS E1.AR18

Policies related to climate change adaptation address the management of the company's physical climate-related risks and its transition risks related to climate change adaptation. Information provided might relate to standalone climate change adaptation policies as well as relevant policies on other matters that indirectly support climate change adaptation including training policies, and emergency or health and safety policies.

4.3.3 E1-3 Actions and resources in relation to climate change policies

ESRS E1.26–27

A company is required to disclose information that enables users to understand the key actions taken and planned to achieve climate-related policy objectives and targets, as well as the resources allocated to implement them.

ESRS E1.28–29, AR20–AR22

ESRS 2

Information	What to disclose
Disclosures required under MDR-A	• The description of the actions and resources related to climate change mitigation needs to follow the principles of MDR-A in ESRS 2 (see 3.5.3), including whether, and to what extent, the company's ability to implement the actions depends on the availability and allocation of resources.
In addition to information required by MDR-A	• When listing key actions taken during the reporting period and planned for the future, the climate change mitigation actions disaggregated by decarbonisation lever, including nature-based solutions. • Aggregated information about the types of mitigation actions (decarbonisation levers) such as: – energy efficiency; – electrification; – fuel switching; – use of renewable energy; – product changes; and – supply-chain decarbonisation.
GHG emissions reductions	• Achieved and expected GHG emissions reductions when describing the outcome of actions.
Significant CapEx and OpEx	• Significant amounts of CapEx and OpEx needed to implement action taken or planned actions, related to: – the relevant line items or notes in the financial statements; – the KPIs required under the Disclosures Delegated Act; and – if applicable, the CapEx plan required by the Disclosures Delegated Act. • Any potential differences between the significant OpEx and CapEx amounts disclosed under ESRS E1 and the KPIs disclosed under the Disclosures Delegated Act – e.g. due to the disclosure of non-eligible economic activities. • The amounts of CapEx and OpEx disclosed are the additions made to both tangible and intangible assets during the current reporting period as well as the planned additions for future periods, excluding any amounts that are not incremental financial investments directly contributing to achieving the company's targets.

4.4 Metrics and targets

Disclosures on metrics and targets need to help users understand the company's performance in managing its climate-related IROs, including progress towards any targets it has set or is required to meet by law or regulation.

4.4.1 E1-4 Climate-related targets

ESRS E1.30–31

A company is required to disclose information to provide users with an understanding of the targets the company has set to support its climate change mitigation and adaptation policies and address its climate-related IROs.

Reference	Information	What to disclose
ESRS E1.32 (ESRS 2)	**Disclosures required under MDR-T**	• Information required by MDR-T in ESRS 2 (see Section 3.6.2).
ESRS E1.33	**Whether targets are set**	• Whether and how the company has set GHG emissions reduction targets or any other targets to manage its climate-related IROs, for example: – renewable energy deployment; – energy efficiency; – climate change adaptation; and – physical or transition risk mitigation.
ESRS E1.34(a)	**Absolute terms**	• GHG emissions reduction targets in absolute terms (either in tonnes of CO_2 eq or as a percentage of emissions in a base year) and, when relevant, in intensity value.
ESRS E1.34(b), AR24	**GHG emissions reduction targets**	• GHG emissions reduction targets for Scope 1, Scope 2 and Scope 3 emissions, either separately or combined. • If combined, specify which GHG emissions scopes are covered by the target, the share related to each respective GHG emissions scope and which greenhouse gases are covered. • How the company maintains the consistency of the targets with its GHG reporting boundaries. If the boundary diverges from that of the GHG emissions reported under E1-6, then the company discloses: – which gases are covered; and – the respective percentage of Scope 1, 2, 3 and total GHG emissions covered by the target.
ESRS E1.34(c)–(d), AR25(a)	**Base year and target value**	• The current base year and baseline value. • A brief explanation of how the company has ensured that the baseline value against which progress towards the target is measured is representative in terms of the activities covered and the influences from external factors – e.g. temperature anomalies in a certain year influencing the amount of energy consumption and related GHG emissions.

	Information	What to disclose
		• Target values for the year 2030 and, if available, for the year 2050. From 2030, target values need to be set after every five-year period thereafter. • If the baseline value or base year is changed, an explanation of how the new baseline value affects the new target, its achievement and progress over time.
ESRS E1.34(e), AR26	**Compatibility**	• An indication of whether GHG emissions reduction targets are based on scientific data and are compatible with limiting global warming to 1.5°C. • Information on the target period with reference to a sector-specific emissions trajectory, if available, or a cross-sector emissions trajectory, in line with the 1.5°C global warming limit. A company is required to calculate a reference target value aligned with 1.5°C for Scope 1 and 2 (and, if applicable, a separate value for Scope 3) against which its own GHG emissions reduction targets or interim targets in the respective scopes can be compared.
ESRS E1.34(e), AR24	**Methodology**	• The framework and methodology used to determine the climate-related targets, including: – whether targets are derived using a sectoral decarbonisation pathway; – what the underlying climate and policy scenarios are; and – whether the targets have been externally assured. • How the company has considered future developments, for example: – changes in sales volumes; – shifts in customer preferences and demand; – regulatory factors; and – new technologies. • How such future developments will potentially impact both the company's GHG emissions and emissions reductions. • The method used to calculate Scope 2 GHG emissions included in the target – i.e. either location-based or market-based.
ESRS E1.34(f), AR30	**Decarbonisation levers**	• The planned decarbonisation levers and their estimated quantitative contribution to achieving GHG emissions reduction targets broken down by each Scope (1, 2 and 3). • Whether the company plans to adopt new technologies and the role of these to achieve its GHG emissions reduction targets. • Whether and how the company has considered a diverse range of climate-related scenarios – including at least a climate-related scenario compatible with limiting global warming to 1.5°C – to detect relevant environmental, societal, technology, market and policy-related developments and determine its decarbonisation levers.

ESRS E1.34(b)

The GHG emissions reduction targets disclosed need to be gross targets, meaning that a company cannot include GHG removals, carbon credits or avoided emissions as a means of achieving the GHG emissions reduction targets.

Is a company required to disclose GHG emissions reduction targets in intensity value?

ESRS E1.AR23

No, although a company is permitted to do so.

Intensity targets are ratios of GHG emissions relative to a unit of physical activity or economic output. The relevant units of activity or output will be referred to in the sector-specific ESRS.

If a company has set only a GHG intensity reduction target, then it still needs to disclose the relevant absolute values for the target year and interim target year(s).

Is a company permitted to change its baseline value or base year?

ESRS E1.AR25(b)

Only if significant changes occur in either the target or the reporting boundary.

When setting new targets, a company needs to select a recent base year that does not precede the first reporting year of the new target period by longer than three years – e.g. for 2030 as the target year and a target period between 2025 and 2030, a company needs to choose the base year from the period between 2022 and 2025.

4.4.2 E1-5 Energy consumption and mix

ESRS E1.35–36

A company is required to disclose information to provide users with an understanding of the company'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 E1.37–43, AR36–AR38

Information	What to disclose
Total energy consumption	• Information about the company's total energy consumption in its own operations, by source. Energy consumption from own operations is disclosed in MWh, disaggregated by total energy consumption from: – fossil sources; – nuclear sources; and – renewable sources, further disaggregated by: - fuel consumption for renewable sources including biomass, biofuels, biogas, hydrogen from renewable sources; - consumption of purchased or acquired electricity, heat, steam and cooling from renewable sources; and - consumption of self-generated non-fuel renewable energy.

<table>
<tr><th>Information</th><th>What to disclose</th></tr>
<tr><td>High-climate impact sectors[9]</td><td>
If the company has operations in high-climate impact sectors, it further disaggregates total energy consumption from fossil sources by:

fuel consumption from coal and coal products;
fuel consumption from crude oil and petroleum products;
fuel consumption from natural gas;
fuel consumption from other fossil sources; and
consumption of purchased or acquired electricity, heat, steam or cooling from fossil sources.

</td></tr>
<tr><td>Further disaggregation</td><td>
If applicable, disaggregate non-renewable energy production and renewable energy production in MWh.
</td></tr>
<tr><td>Energy intensity based on net revenue</td><td>
Information about the energy intensity (total energy consumption per net revenue) associated with activities in high-climate impact sectors, calculated by:

$$\frac{\text{Total energy consumption from activities in high-climate impact sectors (MWh)}}{\text{Net revenue from activities in high-climate impact sectors (monetary unit – e.g. Euro)}}$$

The high-climate impact sectors that are used to determine the energy intensity metric.
A reconciliation to the relevant line item or notes in the financial statements of the net revenue amount from activities in high-climate impact sectors that might be presented either:

by a cross-reference to the related line item or disclosure in the financial statements; or
if net revenue cannot be directly cross-referenced to a line item or disclosure in the financial statements, by using the format below.

<table>
<tr><td>Net revenue from activities in high-climate impact sectors used to calculate energy intensity</td><td>The company would insert information here</td></tr>
<tr><td>Net revenue (other)</td><td></td></tr>
<tr><td>Total net revenue (per the financial statements)</td><td></td></tr>
</table>
</td></tr>
</table>

9. Sectors that are listed in Sections A to H and Section L of Annex I to the NACE Regulation (as defined in the SFDR Regulatory Technical Standards).

ESRS E1.AR32

ESRS E1 contains guidance to assist companies in calculating information about energy consumption and mix.

What are high-climate impact sectors?

ESRS E1.38, 40, AR36, EFRAG Q&A ID 338

High-climate impact sectors are those listed in NACE[10]. Sections A to H and Section L of Annex I to the NACE regulation.

- Section A: Agriculture, forestry and fishing (NACE division 01–03)
- Section B: Mining and quarrying (NACE division 05–09)
- Section C: Manufacturing (NACE division 10–33)
- Section D: Electricity, gas, steam and air conditioning supply (NACE division 35)
- Section E: Water supply; Sewerage, waste management and remediation activities (NACE division 36–39)
- Section F: Construction (NACE division 41–43)
- Section G: Wholesale and retail trade; Repair of motor vehicles and motorcycles (NACE division 45–47)
- Section H: Transportation and storage (NACE division 49–53)
- Section L: Real estate activities (NACE division 68).

The high-climate impact sectors are determined at the NACE code activity level (linked to the company's own operations) and not by the company's ESRS sectors (see 3.4.1).

The sector-specific ESRS plan to build on the existing NACE Rev. 2-1 classification system by categorising NACE business activities by ESRS sectors based on common characteristics of IROs.

When disclosing total energy consumption from nuclear sources, does a company refer to all forms of energy generated from nuclear sources, such as electricity?

ESRS E1.37(b), EFRAG Q&A ID 36

Yes. The application requirements in ESRS E1 clarify that the energy to be reported refers to 'final energy consumption', which includes electricity, heat and steam that can be derived from nuclear sources.

When a company provides information about its energy consumption and mix, it discloses 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.

When electricity, heat and steam are purchased and the mix includes a portion of nuclear-generated electricity, heat and steam, these portions are included in the disclosure of total energy consumption from nuclear sources.

10. NACE (for the French term 'Nomenclature statistique des activités économiques dans le communauté Européenne') is the industry standard classification system used in the EU.

4.4.3 E1-6 GHG emissions

ESRS E1.44–45

A company is required to disclose information to provide users with an understanding of:

- gross Scope 1 GHG emissions, the direct impacts of the company on climate change and the proportion of its total GHG emissions that are regulated under emissions trading schemes;
- gross Scope 2 GHG emissions and the indirect impacts on climate change caused by the company's energy consumption;
- gross Scope 3 GHG emissions; and
- total GHG emissions and where they occur – i.e. in the company's own operations or in the value chain.

Information about GHG emissions is also disclosed to provide users with an understanding of the company's transition risks and progress against climate-related targets and EU policy goals.

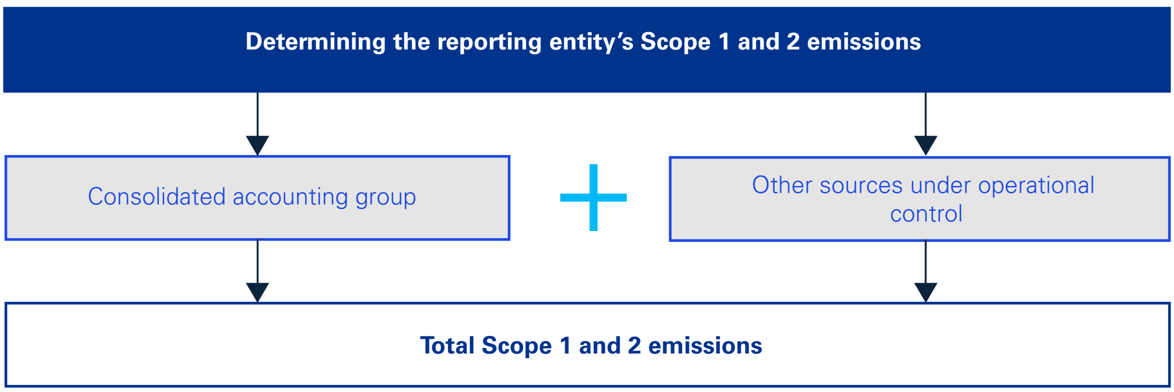
GHG emissions are categorised as follows.

Emission type	Description	Example
Scope 1 – Direct	Direct GHG emissions from sources that are owned or controlled by the company	Fuel combustion and company-owned vehicles
Scope 2 – Indirect	Indirect emissions from generating purchased or acquired electricity, steam, heat or cooling consumed by the company	Purchased electricity for own use
Scope 3 – Indirect	All indirect GHG emissions (not included in Scope 2 emissions) that occur in the value chain. Scope 3 emissions consist of 15 categories	Purchased goods and services Use of sold products Waste generated in operations Business travel

Identifying the GHG reporting boundary

ESRS 1.62, E1.46, AR40

To provide information about Scope 1 and 2 emissions, a company needs to determine its GHG reporting boundary, applying the principles in ESRS. To do this a company needs to assess which Scope 1 and 2 emissions are within its consolidated accounting group as well as whether there are other sources under its operational control.



ESRS 1.62, ESRS E1.50

The consolidated accounting group includes the parent company, all consolidated subsidiaries and the group's share of assets and liabilities in joint operations. It does not include joint ventures, associates, unconsolidated subsidiaries (e.g. subsidiaries of investment entities) or other equity investments.

IG2.34–35, EFRAG Q&A ID 148

ESRS 1 requires that the sustainability statement needs to be for the same reporting entity as the financial statements; however, differences may arise when subsidiaries or joint operations have been excluded from the financial statements because they were not material. These companies could still have sustainability matters that need to be reported in the sustainability statement, and as such need to be evaluated for the purpose of calculating Scope 1 and Scope 2 emissions.

ESRS E1.AR40

When reporting GHG emissions, a company is required to include 100 percent of the GHG emissions of the companies it operationally controls but does not consolidate for accounting purposes – e.g. associates, joint ventures, unconsolidated subsidiaries (investment entities) that it operationally controls. In practice, this happens when a company holds the licence (or permit) to operate the assets from associates, joint ventures, unconsolidated subsidiaries (investment entities) and contractual arrangements. When a company has contractually defined operational control on a part-time basis, it is required to consolidate 100 percent of the GHG emissions during the time it has operational control.

Annex II

A company has operational control when it has the ability to direct the relationships and operational activities of the entity, asset, operation or site.

To provide accurate disclosures, it is important to correctly identify sources of GHG emissions that the company has operational control over.

Calculating GHG emissions

ESRS 1.AR39

When preparing the information for reporting GHG emissions, a company is required to:

- consider the principles, requirements and guidance provided by the GHG Protocol Corporate Standard (2004 version). A company may consider Commission Recommendation (EU) 2021/2279 or the requirements stipulated by EN ISO 14064-1:2018. If a company already applies the GHG accounting methodology of ISO 14064-1:2018, then it is still required to comply with the requirements of ESRS E1 – e.g. regarding reporting boundaries and the disclosure of market-based Scope 2 GHG emissions;
- include emissions of CO_2, CH_4, N_2O, HFCs, PFCs, SF_6 and NF_3. Additional greenhouse gases may be considered when significant; and
- use the most recent Global Warming Potential (GWP) values published by the IPCC based on a 100-year time horizon to calculate CO_2eq emissions of non-CO_2 gases.

ESRS E1.AR43–AR48

ESRS E1 also includes specific requirements for the calculation and disclosure format for gross Scope 1, 2, 3 and total GHG emissions.

GHG emissions disclosures

	Information	What to disclose
ESRS E1.AR39(b)	**General**	• The methodologies, significant assumptions and emissions factors used to calculate or measure GHG emissions accompanied by the reasons why they were chosen, and a reference or link to any calculation tools used.
ESRS E1.47	**Significant changes in reporting boundary and value chain**	• If significant changes occur in the reporting boundary and value chain for the company's GHG emissions, explain the changes and their effect on the comparability of the GHG emissions reported in the current vs the previous reporting period.
ESRS E1.48, 50	**Scope 1 emissions**	• Gross Scope 1 emissions in metric tonnes of CO_2eq. • Percentage of Scope 1 emissions from regulated emissions trading schemes. • Disaggregated Scope 1 emissions presenting separately emissions from the consolidated accounting group and those from investees over which the company has operational control[11].
ESRS E1.49–50, 52	**Scope 2 emissions**	• Gross location-based Scope 2 emissions in metric tonnes of CO_2eq. • Gross market-based Scope 2 emissions in metric tonnes of CO_2eq. • Disaggregated Scope 2 GHG emissions presenting separately: – emissions from the consolidated accounting group and those from investees over which the company has operational control; and – emissions measured using the location-based method and those measured using the market-based method.
ESRS E1.51	**Scope 3 emissions**	• Gross Scope 3 emissions in metric tonnes of CO_2eq for each significant Scope 3 category (i.e. each Scope 3 category that is a priority for the company).
ESRS E1.AR46(g)		• The extent to which the company's Scope 3 emissions are measured using inputs from specific activities within the company's value chain and the percentage of emissions calculated using primary data obtained from suppliers or other value chain partners.
ESRS E1.AR46(h)		• For each significant Scope 3 emissions category: – the reporting boundaries considered; – the calculation methods for estimating Scope 3 emissions; and – whether and which calculation tools were applied.
ESRS E1.AR46(i)		• A list of Scope 3 emissions categories included in and excluded from the inventory with a justification for excluded Scope 3 categories.
ESRS E1.AR51		• If material, GHG emissions from purchased cloud computing and data centre services disaggregated from Scope 3 category 1 upstream purchased goods and services.

11. Investees include associates, joint ventures or unconsolidated subsidiaries that are not fully consolidated in the financial statements of the consolidated accounting group, as well as contractual arrangements that are joint arrangements not structured through an entity (i.e. jointly controlled operations and assets), for which it has operational control.

Information	What to disclose
Biogenic emissions	• Biogenic emissions of CO_2 from the combustion or biodegradation of biomass separately from gross Scope 1 and Scope 2 emissions but include emissions of other types of greenhouse gases (in particular CH_4 and N_2O). • Specifically for Scope 2 emissions: – if the emissions factors applied do not separate out the percentage of biomass or biogenic CO_2, then disclose this information separately; and – if GHG emissions other than CO_2 (particularly CH_4 and N_2O) are not available for, or excluded from, location-based grid average emissions factors or with the market-based method information, then explain that this is the case. • Biogenic emissions of CO_2 from the combustion or biodegradation of biomass that occur in the value chain separately from gross Scope 3 emissions, and include: – emissions of other types of greenhouse gases (such as CH_4 and N_2O); and – emissions of CO_2 that occur in the life cycle of biomass other than from combustion or biodegradation in the calculation of Scope 3 emissions – e.g. GHG emissions from processing or transporting biomass.
Total GHG emissions	• Total GHG emissions, being the sum of Scope 1, 2 and 3 emissions. • Total GHG emissions disaggregated in a way that provides a distinction between Scope 2 emissions derived using location-based and market-based methods.

ESRS E1.AR43(c), AR45(e), AR46(j)

ESRS E1.52

ESRS E1.AR48, EFRAG Q&A ID 414

ESRS E1 provides guidance for companies on how to present their GHG emissions disclosures. A company is required to follow the format of the table set out in paragraph AR48 of ESRS E1. The company is only required to fill the cells of the table that apply to it, meaning that for Scope 3 emissions only significant categories are disclosed and the cells under 'Milestones and target years' are filled according to the targets set by the company.

ESRS E1.AR41

A company is required to disaggregate information about its GHG emissions as appropriate following the general disaggregation principles included in ESRS 1 (see 2.8.3). For example, a company may disaggregate its Scope 1, 2, 3 or total GHG emissions by:

- country;
- operating segments;
- economic activity;
- subsidiary;
- GHG category (CO_2, CH_4, N_2O, HFCs, PFCs, SF_6, NF_3 and others considered by the company); or
- source type (stationary combustion, mobile combustion, process emissions and fugitive emissions).

ESRS E1.AR41, EFRAG Q&A ID 718

A company is required to disaggregate its GHG emissions by fossil and non-fossil resources if it is considered necessary to understand the climate-related IROs linked to those emissions.

GHG emissions intensity

ESRS E1.53

A company is required to disclose its GHG emissions intensity to provide users (particularly financial market participants subject to the SFDR) with an understanding of GHG emissions intensity normalised by revenue.

ESRS E1.AR53(e)

Net revenue is determined in line with the requirements in accounting standards applied for financial statements – i.e. IFRS Accounting Standards or other GAAP.

ESRS E1.54–55

Information	What to disclose
GHG emissions intensity	• GHG emissions intensity calculated as: $\frac{\text{Total GHG emissions in metrics tonnes of } CO_2\text{eq}}{\text{Net revenue}}$ • The results for the market-based and location-based methods. • A reconciliation of net revenue used in the calculation to the relevant line item or notes in the financial statements.

What if a company has a different reporting period from some or all of the companies in its value chain?

ESRS E1.AR42

A company is permitted to measure its GHG emissions using information for reporting periods that differ from its own reporting period if it obtains information from companies in its value chain with reporting periods that differ from its reporting period, on the condition that:

- it uses the most recent data available from those companies;
- the length of the reporting periods is the same; and
- it discloses the effects of significant events and changes in circumstances (relevant to its GHG emissions) that occur between the reporting dates of the companies in its value chain and the date of the company's financial statements.

Does a company need to update and disclose its gross Scope 1, 2 and 3 emissions and total GHG emissions each year?

ESRS E1.AR46(f), EFRAG Q&A ID 268

Yes. Therefore, a company is required to update Scope 3 emissions in each significant category every year on the basis of current activity data. However, the full Scope 3 GHG inventory is updated at least every three years or when a significant event or a significant change in circumstances occurs.

A significant event or change in circumstances can, for example, relate to changes in:

- the company's activities or structure;
- the value chain's activities or structure;
- calculation methodology; or
- the discovery of an error.

ESRS E1.48, AR44, EFRAG Q&A ID 535

Is there a definition of 'regulated Emission Trading Schemes'?

No, ESRS do not provide a definition or exhaustive list of 'regulated Emission Trading Schemes'.

A company is required to consider GHG emissions from the activities it operates that are subject to regulated Emission Trading Schemes (ETS), including the EU-ETS, national Emission Trading Schemes and non-EU Emission Trading Schemes, if applicable. The schemes that fall under the requirement to disclose the percentage of Scope 1 emissions from regulated emissions trading schemes include, therefore, not only EU-ETS but those regulated Emission Trading Schemes that are non-EU trading schemes.

ESRS E1.AR39(b), EFRAG Q&A ID 251

What type of information is a company required to disclose about the emission factors it uses?

The requirement to disclose information about the methodologies, significant assumptions and emission factors used to calculate or measure GHG emissions is to provide users with an understanding of how the GHG emissions inventory amounts have been determined.

In some cases, it might be sufficient to disclose information about the sources of emission factors without providing the actual figures. In other cases – e.g. when the emission factor is a key determinant of a reported figure – it may be useful to disclose the actual values of an emission factor. The judgement of the level of detail to provide is part of the materiality judgements management make when preparing the sustainability statement.

4.4.4 E1-7 GHG removals and mitigation projects financed through carbon credits

ESRS E1.57

A company is required to disclose information to provide users with an understanding of:

- the company's actions to permanently remove or actively support the removal of greenhouse gases from the atmosphere; and
- the extent and quality of carbon credits the company has purchased or intends to purchase from the voluntary market.

ESRS E1.56, 58–61, AR56–AR57, AR62

Information	What to disclose
GHG removals	• GHG removals and storage in metric tonnes of CO_2eq from projects the company may have developed in its own operations or contributed to in its value chain, including information: – disaggregated and separately disclosed for the amounts related to the company's own operations and value chain; – broken down by removal activity; – about the calculation assumptions, methodologies and frameworks applied by the company; and – providing transparency on how and to what extent the company either enhances natural sinks or applies technological solutions to remove greenhouse gases from the atmosphere.

Information	What to disclose
	• GHG emissions reductions or removals from projects outside the value chain that the company has financed or intends to finance through any purchase of carbon credits, including: – the total amount of carbon credits outside the company's value chain in metric tonnes of CO_2eq that are verified against recognised quality standards and cancelled in the reporting period; and – the total amount of carbon credits outside the company's value chain in metric tonnes of CO_2eq planned to be cancelled in the future and whether they are based on existing contractual agreements. • For each removal and storage activity: – the greenhouse gases; – whether removal and storage are biogenic or from land use change (e.g. reforestation, urban tree planting), technological (e.g. direct air capture) or hybrid (e.g. bioenergy with CO_2 capture and storage); – technological details about the removal, the type of storage and, if applicable, the transport of removed greenhouse gases; – whether the activity qualifies as a nature-based solution; and – how the risk of non-permanence is managed, including determining and monitoring leakage and reversal events.
Net-zero targets	• If the company discloses a net-zero target in addition to gross GHG emissions' reduction targets, then it explains: – the scope, methodologies and frameworks applied; and – how the residual GHG emissions (after approximately 90-95 percent of GHG emissions' reduction with the possibility for justified sectoral variations in line with a recognised sectoral decarbonisation pathway) are intended to be neutralised – e.g. by GHG emissions removals in its own operations and value chain.
Carbon credits	• If a company makes public claims of GHG neutrality that involve the use of carbon credits, then it needs to explain: – whether and how these claims are accompanied by GHG emissions reduction targets; – whether and how these claims and the reliance on carbon credits neither impede nor reduce the achievement of its GHG emissions reduction targets, or, if applicable, its net-zero target; and – the credibility and integrity of the carbon credits used, including by reference to recognised quality standards.

Information	What to disclose
	• Information about carbon credits disaggregated by: – the share (percentage of volume) of reduction and removal projects; – for carbon credits from removal projects, an explanation of whether they are from biogenic or technological sinks; – the share (percentage of volume) for each recognised quality standard; – the share (percentage of volume) issued from projects in the EU; and – the share (percentage of volume) that qualifies as a corresponding adjustment under Article 6 of the Paris Agreement.

ESRS E1.AR58, AR63

ESRS E1 contains guidance to assist companies in preparing information about:

- GHG removals and storage from the company's own operations and value chain; and
- carbon credits.

4.4.5 E1-8 Internal carbon pricing

ESRS E1.62

A company is required to disclose information to provide users with an understanding of internal carbon pricing schemes it applies and how those schemes support its decision-making and incentivise the implementation of climate-related policies and targets.

ESRS E1.62–63, AR65

Information	What to disclose
Internal carbon pricing	• Whether the company applies internal carbon pricing schemes, including: – the type of internal carbon pricing scheme, for example, the shadow prices applied for CapEx or research and development investment decision-making, internal carbon fees or internal carbon funds; – the specific scope of application of the carbon pricing schemes (activities, geographies, entities); and – the carbon prices applied according to the type of scheme and critical assumptions made to determine the prices, including the source of the applied carbon prices and why these are deemed relevant for their chosen application. • How internal carbon pricing schemes support the company's decision-making and encourage the implementation of climate-related policies and targets. • The current year approximate gross GHG emissions volumes by Scope 1, 2 and, if applicable, Scope 3 in metric tonnes of CO_2eq covered by these schemes, as well as their share of the company's overall GHG emissions for each respective Scope. • Whether and how the carbon prices used in internal carbon pricing schemes are consistent with those used in financial statements for: – the assessment of the useful life and residual value of its assets (e.g. intangibles and property, plant and equipment); – the impairment of assets; and – the fair value measurement of assets acquired through business acquisitions.

4.4.6 E1-9 Anticipated financial effects of climate-related risks and opportunities

ESRS 2 requires a company to provide information about the effects of sustainability-related risks and opportunities on the company's financial position, financial performance and cash flows over the short, medium and long term, including how the company expects its financial position, performance and cash flows to change over time.

ESRS E1 builds on the requirements in ESRS 2 (see 3.4.3.1) and requires a company to provide information that enables users to understand:

- how climate-related physical and transition risks may have or could reasonably be expected to have a material influence on the company's financial position, financial performance and cash flows over the short, medium and long term; and
- how the company has the potential to benefit from its climate-related opportunities over time.

ESRS 1.C

Phased-in relief is available that permits a company to omit the information required by E1-9 (ESRS E1.64–69) in the first annual reporting period in which it applies ESRS. If it is impracticable to do so, then a company is also permitted to omit quantitative information about anticipated financial effects and provide qualitative information only in the first three annual reporting periods.

ESRS E1.66–69, AR69, AR72, AR78–AR79

Information	What to disclose
Physical risks	• The monetary amount and share of assets subject to physical risk over the short, medium and long term before considering climate change adaptation actions, disaggregating monetary amounts of these assets by acute and chronic physical risk. • The share of assets exposed to physical risk covered by climate change adaptation actions. • Location of significant assets exposed to physical risk. • The monetary amount and share of net revenue from business activities exposed to physical risks over the short, medium and long term. • Whether and how the company assessed the anticipated financial effects for assets and business activities exposed to physical risks, including the scope of application, time horizons, calculation methodology, critical assumptions and parameters, and limitations of the assessment. • Whether and how the assessment of assets and business activities considered to be at risk relies on or is part of the process to determine physical risks and climate-related scenarios. • How the company has defined medium- and long-term time horizons and how those definitions are linked to the expected lifetime of its assets, strategic planning horizons and capital allocation plans.

Information	What to disclose
Transition risks	• The monetary amount and share of assets subject to transition risk over the short, medium and long term before considering climate mitigation actions. • The share of assets exposed to transition risk covered by climate change mitigation actions. • A breakdown of the carrying amount of the company's real estate assets by energy efficiency class. • Liabilities that may need to be recognised in the financial statements over the short, medium and long term. • The monetary amount and share of net revenue from business activities exposed to transition risks over the short, medium and long term, including when relevant, the net revenue from customers operating in coal, oil and gas-related activities. • Whether and how the company assessed the anticipated financial effects for assets and business activities exposed to transition risks including the scope of application, calculation methodology, critical assumptions and parameters, and limitations of the assessment. • Whether and how the assessment of assets and business activities considered to be at risk, relies on or is part of the process to determine transition risks and climate-related scenarios. • How the company has defined medium- and long-term time horizons and how those definitions are linked to the expected lifetime of its assets, strategic planning horizons and capital allocation plans.
Reconciliation to the financial statements	• A reconciliation to the relevant line items or notes in the financial statements of: – significant amounts of assets and net revenue subject to physical risk; and – significant amounts of assets, liabilities and net revenue subject to transition risk. • The reasons for any inconsistencies in data and assumptions used to assess and disclose information about anticipated financial effects in the sustainability statement with the corresponding data and assumptions used in the financial statements. • A cross-reference between anticipated financial effects on liabilities and the description of emissions trading schemes in the financial statements.

Information	What to disclose
Climate-related opportunities	• The cost savings envisaged from pursuing the company's climate-related opportunities, along with the time horizons and methodology used, including the scope of assessment, critical assumptions and limitations, and whether and how scenario analysis was used. • The potential market size or expected changes in net revenue of low-carbon products and services or adaptation solutions to which the company has or may have access. • How the company has assessed the market size or any expected changes to net revenue, the scope of the assessment, the time horizon, critical assumptions and limitations and to what extent this market is accessible to the company.

ESRS E1.70

A company is not required to quantify the financial effects that arise from opportunities if this information does not meet the qualitative characteristics of useful information (see Section 7.1).

5 Own workforce

ESRS S1 expands on the disclosure requirements in ESRS 2 with reporting requirements on the wellbeing and working conditions of employees.

ESRS S1.4, AR3

ESRS S1 covers a company's own workforce, which includes both people who are in an employment relationship with the company (employees) and non-employees. Non-employees are those with contracts to supply labour to the company (self-employed people) or people provided by companies primarily engaged in 'employment activities'[12].

ESRS S1.5

ESRS S1 does not cover workers in a company's value chain; these workers are covered in ESRS S2.

ESRS 1.AR16

ESRS S1 contains the following subtopics and sub-subtopics.

Topic	Subtopic	Sub-subtopic
Own workforce	**Working conditions**	Secure employment
		Working time
		Adequate wages
		Social dialogue
		Freedom of association, existence of works councils and information, consultation and participation rights of workers
		Work-life balance
		Health and safety
	Equal treatment and opportunities for all	Gender equality and equal pay for work of equal value
		Training and skills development
		Employment and inclusion of persons with disabilities
		Measures against violence and harassment in the workplace
		Diversity
	Other work-related rights	Child labour
		Forced labour
		Adequate housing
		Privacy

ESRS S1.1

The objective of ESRS S1 is to provide users with an understanding of a company's sustainability-related impacts on its own workforce, as well as related sustainability-related risks and opportunities, including:

- how the company affects its own workforce, in terms of positive and negative, actual or potential sustainability-related impacts;

12. NACE Code N78.

- any actions taken, and the result of these actions, to prevent, mitigate or remediate actual or potential negative impacts, and to address sustainability-related risks and opportunities;
- the nature, type and extent of the company's sustainability-related risks and opportunities related to its impacts and dependencies on its own workforce, and how they are managed; and
- the financial effects on the company over the short, medium and long term of sustainability-related risks and opportunities arising from the company's impacts and dependencies on its own workforce.

ESRS S1.7

The objective is also to enable users to understand the extent to which a company aligns or complies with international and European human rights instruments and conventions, including:

- the International Bill of Human Rights;
- the UN Guiding Principles on Business and Human Rights;
- the OECD Guidelines for Multinational Enterprises;
- the International Labour Organization's (ILO) Declaration on Fundamental Principles and Rights at Work and ILO fundamental conventions;
- the UN Convention on Persons with Disabilities;
- the European Convention of Human Rights;
- the revised European Social Charter;
- the Charter of Fundamental Rights of the European Union; and
- the EU policy priorities as set out by the European Pillar of Social Rights, and Union legislation, including the EU labour law acquis – i.e. the body of common rights and obligations that is binding on all the EU member states.

Interaction with other ESRS

ESRS S1.8–10

In the topic-specific standards, each disclosure requirement is labelled with the standard it belongs to and a sequential number. For instance, 'S1-1' indicates the first disclosure requirement within ESRS S1. Similarly, ESRS 2 uses a specific labelling system for each disclosure requirement. This system helps users easily identify the type and location of each requirement. For example, 'SBM-3' refers to the third disclosure requirement relating to a company's strategy and business model (SBM) within ESRS 2.

ESRS S1 needs to be applied together with ESRS 1, ESRS 2 and the other social standards, ESRS S2 *Workers in the value chain*, ESRS S3 *Affected communities* and ESRS S4 *Consumers and end-users*. In some cases, the topic-specific standards build on the ESRS 2 disclosure requirements – e.g. ESRS S1 contains a disclosure requirement related to ESRS 2 SBM-2 – *Consideration of stakeholders in the strategy and business model.* In other cases, the topic-specific standard does not have an ESRS 2-related requirement for a particular area – e.g. ESRS S1 does not have specific disclosure requirements for governance.

Information provided under ESRS S1 needs to be consistent, coherent and, when relevant, clearly linked with those disclosures about the company's value chain workers required by ESRS 2.

ESRS 2.2

Except for the information required in IRO-1 – *Identifying and assessing sustainability-related impacts, risks and opportunities* in the topic-specific standards, the disclosure requirements in the topic-specific ESRS are only required if a company assesses the information provided by a disclosure requirement as material.

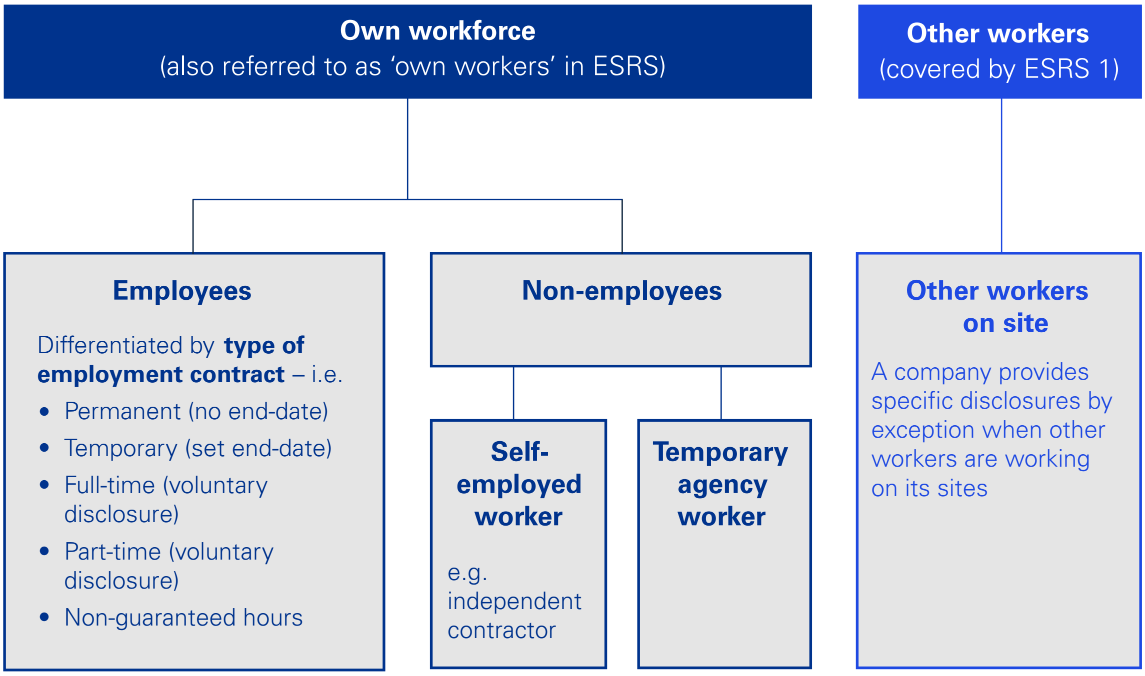
ESRS 2.60, 70

Disclosure requirements related to policies, actions, metrics and targets included in each topic-specific standard are applied in conjunction with MDR set out in ESRS 2. For further discussion on the MDR requirements in ESRS 2, see 3.5.3 and Section 3.6.

For discussion of presentation requirements, including the structure of the sustainability statement, see Chapter 7.

ESRS S1 terminology

ESRS S1 distinguishes between employees, non-employees and other workers on a company's sites. Some disclosure requirements of ESRS S1 apply to all of a company's own workforce, while others only apply to employees, non-employees or other workers onsite.



For certain disclosure requirements, a company *may* also define additional employee and non-employee categories – e.g. employees by level or function.

Annex II,
EFRAG Q&A ID 33

The ESRS Glossary of Terms defines an employee as someone who is in an employment relationship with the company according to national law or practice. EU law does not provide a definition of employee. The national labour law or practice of each jurisdiction defines what type of contracts constitute an employment relationship and those that relate to non-employees.

5.1 Strategy

ESRS S1.11

The disclosures on strategy need to be presented alongside the strategy disclosures required by ESRS 2. However, a company is permitted to present disclosures under ESRS 2 SBM-3 (see 3.4.3) with the disclosures required by ESRS S1.

5.1.1 ESRS 2 SBM-2 – Considering stakeholders in the strategy and business model

ESRS S1.12, AR4–AR5

When applying ESRS 2 SBM-2 (see 3.4.2), a company is required to disclose how the interests, views and rights of its own workforce, including their human rights, inform its strategy and business model. This is because a company's own workforce is a key group of affected stakeholders.

5.1.2 ESRS 2 SBM-3 – Sustainability-related impacts, risks and opportunities and their interaction with strategy and business model

ESRS S1.AR6

Impacts on a company's own workforce can originate in its strategy or business model in a number of different ways. For example, impacts may relate to the company's:

- value proposition (e.g. providing lowest cost products or services, or high-speed delivery, in ways that put pressure on the labour rights of its own workforce); or
- its cost structure and revenue model (e.g. shifting inventory risk to suppliers, with knock-on effects on the labour rights its own workforce).

ESRS S1.AR7

These impacts can also result in risks and opportunities for the company. For example, risks may arise if the workforce are at risk of forced labour and the company exports products to countries that will confiscate these products if they suspect they are made using forced labour. Conversely, opportunities may arise from creating jobs and upskilling as part of transitioning to a lower-carbon economy.

ESRS S1.AR7–AR9

ESRS 2 provides further examples of own workforce-related IROs.

In addition to the information required by ESRS 2 SBM-3, a company is required to disclose the following information.

	Information	What to disclose
ESRS 2.48, ESRS S1.13(a)	**Actual and potential impacts on its own workforce**	• Whether and how actual and potential impacts on the company's own workforce: – originate from or are connected to the company's strategy and business model; and – inform and contribute to adapting the company's strategy and business model.
ESRS 2.48, ESRS S1.13(b)	**Relationship between risks and opportunities and impacts and dependencies**	• The relationship between a company's sustainability-related risks and opportunities arising from impacts and dependencies on its own workforce and its strategy and business model.
ESRS 2.48, ESRS S1.14	**Completeness**	• Whether all people in the company's own workforce who could be materially impacted by the company are included in the scope of its disclosures under paragraph 48 of ESRS 2. These impacts include impacts connected with the company's own operations and its value chain, including through its products or services and its business relationships.

Reference	Information	What to disclose
ESRS 2.48, ESRS S1.14(a), 15	**Description of employees**	• A brief description of the types of employees and non-employees in the company's own workforce subject to sustainability-related impacts by its operations, including specifying whether they are employees, non-employees (e.g. self-employed) or people provided by third-party companies primarily engaged in employment activities. • In describing the main types of people in its own workforce who are or could be negatively affected, the company is required to disclose whether and how it has developed an understanding of how people with particular characteristics, those working in particular contexts or those undertaking particular activities may be at greater risk of harm.
ESRS 2.48, ESRS S1.14(b)–(c)	**Impacts**	• For negative sustainability-related impacts, whether they are: – widespread or systemic in locations where the company operates (e.g. child labour, forced labour or compulsory labour in specific countries or regions outside the EU); or – related to individual incidents (e.g. an industrial accident or an oil spill). • In the case of positive sustainability-related impacts, a brief description of the activities that result in the positive impacts and the types of employees and non-employees in its own workforce that are positively affected or could be positively affected.
ESRS 2.48, ESRS S1.14(d), 16	**Risks and opportunities**	• The sustainability-related risks and opportunities arising from impacts and dependencies on the company's own workforce. • Which, if any, of the sustainability-related risks and opportunities arising from impacts and dependencies on people in the company's own workforce relate to: – specific groups of people (e.g. particular age groups or people working in a particular factory or country); or – all of the own workforce (e.g. a general pay cut or training offered to all people in its own workforce).
ESRS S1.14(e)	**Transition plan impacts**	• The impacts on the company's own workforce that may arise from transition plans for reducing negative impacts on the environment and achieving greener and climate-neutral operations. • Information on the impacts on own workforce caused by the company's plans and actions to reduce GHG emissions in line with international agreements – e.g. restructuring, employment loss, opportunities arising from job creation and reskilling or upskilling.
ESRS S1.14(f)–(g)	**Forced and child labour**	• Operations at significant risk of incidents of forced labour, compulsory labour or child labour in terms of either: – type of operation (e.g. manufacturing plant); or – countries or geographic areas with operations considered at risk.

5.2 IRO management

5.2.1 S1-1 – Policies related to own workforce

ESRS S1.17–18

A company is required to describe its policies adopted to identify, assess and manage the sustainability-related impacts on its own workforce, as well as policies that cover sustainability-related risks and opportunities.

ESRS S1.19 ESRS 2

This information needs to contain information on MDR related to policies required by ESRS 2 (see 3.5.3). In addition, a company is required to specify if the policies cover specific groups within its own workforce or all of its own workforce.

ESRS 1.33

If the company does not have policies in place, it discloses this fact and it may report a timeframe in which it aims to have these in place.

	Policies related to	What to disclose
ESRS S1.21	**Alignment with international and European instruments and conventions**	• Whether and how the company's policies about its own workforce are aligned with relevant internationally recognised instruments, including the UN Guiding Principles on Business and Human Rights[13].
ESRS S1.20	**Human rights**	• The company's human rights policy commitments that are relevant to its own workforce, including those processes and mechanisms to monitor compliance with: – the UN Guiding Principles on Business and Human Rights; – ILO Declaration on Fundamental Principles and Rights at Work; and – the OECD Guidelines for Multinational Enterprises. • As part of this, a company is required to focus on those matters that are material in relation to, as well as its general approach to: – respect for human rights, including labour rights, of people in its own workforce; – engagement with people in its own workforce; and – measures to provide and/or enable remedy for human rights impacts.
ESRS S1.22	**Forced and child labour**	• Whether the company's policies in relation to its own workforce explicitly address trafficking in human beings, forced labour, compulsory labour and child labour.
ESRS S1.23	**Workplace accident prevention**	• Whether the company has a workplace accident prevention policy or management system.

13. The Guiding Principles refer to the International Bill of Human Rights, which consist of the Universal Declaration of Human Rights and the two Covenants that implement it, as well as the ILO's Declaration on Fundamental Rights and Principles at Work and the core conventions that underpin it.

	Policies related to	What to disclose
ESRS S1.24	**Discrimination**	• Whether the company has specific policies aimed at eliminating discrimination (including harassment), and promoting equal opportunities and other ways to advance diversity and inclusion. • Whether the following grounds for discrimination are specifically covered in the policy: – racial and ethnic origin; – colour; – sex; – sexual orientation; – gender identity; – disability; – age; – religion; – political opinion; – national extraction or social origin; or – other forms of discrimination covered by EU regulation and national law. • Whether the company has specific policy commitments related to inclusion or positive action for people from vulnerable groups in its own workforce and, if so, what these commitments are. • Whether and how these policies are implemented through specific procedures to ensure discrimination is prevented, mitigated and acted upon once detected, as well as to advance diversity and inclusion in general.
ESRS S1.AR10	**Significant changes to policies adopted during the reporting period**	• If applicable, explain significant changes to the policies adopted during the reporting period – e.g. new expectations for foreign subsidiaries, or new or additional approaches to due diligence and remedy.

What form do own workforce-related policies need to take?

ESRS S1.AR11

Own workforce-related policies may be a standalone policy regarding the company's own workforce or be included in a broader document – e.g. a code of ethics or a general sustainability policy that has already been disclosed by the company. In the latter case, a company needs to provide an accurate cross-reference to identify policy aspects that are relevant for its own workforce.

5.2.2 S1-2 – Processes for engaging with own workforce and workers' representatives about impacts

ESRS S1.25–26

A company is required to disclose information about its general processes for engaging with people in its own workforce and workers' representatives about actual and potential impacts on its workforce. This includes how the company does so as part of its ongoing due diligence process, and whether and how it considers its own workforce's perspectives in its decision-making process.

ESRS S1.A2

Examples of policies relating to social and human rights matters are included in Appendix A.2 to ESRS S1.

ESRS S1.27–29

In describing its processes, a company is required to disclose the following information.

	Information	What to disclose
ESRS S1.27(a)–(c), 28, AR18	**Engagement with own workforce**	• Whether and how the perspectives of the company's own workforce inform its decisions or its activities aimed at managing the actual and potential impacts on its own workforce, including the following. – Whether engagement occurs directly with the company's own workforce or workers' representatives. – The stage(s) at which engagement occurs, the type of engagement and frequency of the engagement. – If applicable, the steps a company takes to gain insight into the perspectives of those people in its own workforce who may be particularly vulnerable to impacts and/or marginalised – e.g. women, migrants or people with disabilities. – The function and the most senior role in the company that has operational responsibility for ensuring that this engagement happens and that the results inform the company's approach. If no such role is identified, then explain that this is the case.
ESRS S1.27(d)	**Agreements with workers' representatives**	• A Global Framework Agreement (GFA)[14] or other agreements that the company has with workers' representatives related to human rights of its own workforce, including how the agreement enables the company to gain insight into its own workforce's perspectives.
ESRS S1.27(e)	**Effectiveness of engagement**	• If applicable, how the company assesses the effectiveness of its engagement with its own workforce. This includes, when relevant, any resulting agreements or outcomes.
ESRS S1.29	**Adoption of processes for engaging**	• If the company has not adopted any processes, then it provides a statement to that effect. It may disclose the timeframe by which it aims to have a process in place.

14. GFAs serve to establish an ongoing relationship between a multinational enterprise and a global union federation to ensure that a company adheres to the same standards in every country in which it operates.

5.2.3 S1-3 – Processes to remediate negative impacts and channels for the own workforce to raise concerns

ESRS S1.30–31

A company is required to provide information that enables users to understand:

- the formal means by which the company's own workers can communicate their concerns and needs directly to the company and/or through which the company supports the availability of such channels in the workplace;
- how the company carries out follow-up with people regarding the issues raised; and
- the effectiveness of these channels.

ESRS S1.32

To describe its processes in relation to own workforce matters, a company is required to disclose the following information.

	Information	What to disclose
ESRS S1.32(b)–(e), 33	**Channels to raise concerns**	• Any specific channels (e.g. grievance mechanisms, hotlines, trade unions) the company has in place for its own workforce to raise their needs/concerns directly with the company and have them addressed. These channels include those established by the company itself and/or through participation in third-party mechanisms (e.g. those operated by governments, NGOs, industry associations and other collaborative initiatives). • Whether the company has a grievance/complaints handling mechanism related to employee matters. • The processes through which the company supports the availability of such channels in the workplace. • How the company tracks and monitors issues raised and addressed, and how it ensures the effectiveness of the channels – e.g. by involving stakeholders who are intended users. • Whether and how the company assesses that its own workforce is aware of, and trusts, these channels or processes for raising their needs/concerns and having them addressed. • Whether the company has policies in place to protect the individuals that use them from retaliation – e.g. providing workers' representatives. If a company has disclosed this information under ESRS G1-1, then it may refer to that information.
ESRS S1.34	**No channels for raising concerns**	• A company states that it has not adopted channels for raising concerns or made them available. It may disclose the timeframe by which it aims to have a channel in place.
ESRS S1.32(a)	**General approach to remedying negative impacts**	• The company's general approach and processes for remedying those negative impacts on its own workforce that it has caused or contributed to, including whether and how it assesses whether its remedial actions are effective.

5.2.4 S1-4 – Actions on sustainability-related impacts, risks and opportunities relating to own workforce, and the effectiveness of these actions

ESRS S1.35–36

A company is required to provide information that enable users to understand any actions and initiatives the company is taking in relation to:

- positive and negative impacts on its own workforce; and
- risks and opportunities related to its own workforce.

ESRS S1.37 ESRS 2

Under MDR-A in ESRS 2 (see 3.5.3), a company is required to provide a summary of the action plans and resources it has in place to manage IROs related to its own workforce.

A company is also required to disclose the following information in respect of sustainability-related impacts on its own workforce.

	Information	What to disclose
ESRS S1.38(a),38 (c), 39, AR43	**Actions**	• The processes through which the company identifies what action is appropriate and necessary in response to a specific negative impact (actual or potential) on its own workforce. • Actions taken, planned or underway to prevent or mitigate negative impacts on the company's own workforce. This includes measures taken to mitigate those negative impacts arising from the transition to a greener, climate-neutral economy. • Any additional actions the company has taken or initiatives it has in place to deliver positive impacts for its own workforce. • When a company discloses the positive outcomes intended or achieved for its own workforce, it distinguishes between evidence of: – certain activities having occurred (e.g. the number of people that have received financial literacy training); and – actual outcomes for the people concerned (e.g. the number of people reporting that they are now able to better manage their pay and their household budgets).
ESRS S1.38(b)	**Remedies**	• Whether and how the company has taken action to provide or enable remedy in relation to an actual material impact.
ESRS S1.38(d)	**Tracking**	• How the company tracks and assesses the effectiveness of its actions and initiatives in delivering outcomes for its own workforce.
ESRS S1.41	**Own practices**	• Whether and how the company ensures that its own practices do not cause or contribute to negative impacts on its own workforce, including, when relevant, its practices on procurement, sales and data use. This may include the approach it takes when conflict arises between preventing or mitigating negative impacts and other business pressures.
ESRS S1.43	**Resources**	• What resources the company allocates to managing its impacts, including information that allows users to gain an understanding of how it manages these impacts.

ESRS S1.40, 42

A company is also required to disclose the following information in respect of sustainability-related risks and opportunities related to its own workforce.

ESRS S1.41 ESRS 2

When disclosing this information, a company is required to consider MDR-T in ESRS 2 if it evaluates the effectiveness of an action by setting a target (see Section 3.6.2).

Information	What to disclose
ESRS S1.40(a) **Risks**	• What action is planned or underway to mitigate sustainability-related risks for the company arising from the company's impacts and dependencies on its own workforce. • How the company tracks effectiveness of its actions in practice.
ESRS S1.40(b) **Opportunities**	• What action is planned or underway to pursue opportunities for the company in relation to its own workforce.

Does a company need to disclose resources allocated to all impacts or only those for impacts related to its own workforce?

ESRS S1.43, EFRAG Q&A ID 214

A company needs to disclose only the resources allocated to the management of impacts relating to the topic of own workforce, not all impacts.

5.3 Metrics and targets

5.3.1 S1-5 – Targets relating to managing own workforce-related impacts, risks and opportunities

ESRS S1.44–45

A company is required to provide information that enables users to understand the extent to which a company is using outcome-oriented targets to drive and measure its progress in:

- addressing its negative impacts;
- advancing positive impacts on its own workforce; and/or
- managing risks and opportunities related to its own workforce.

ESRS S1.AR50

In some cases, targets related to risks and opportunities may be the same as or distinct from targets related to impacts. For example, a target to reach adequate wages for non-employees could both reduce impacts on those people and reduce associated risks in terms of the quality and reliability of their output.

Information	What to disclose
ESRS S1.44, 46 ESRS 2 **Targets**	• The time-bound and outcome-oriented targets the company has set to drive and measure progress in: – reducing negative impacts on its own workforce; – advancing positive impacts on its own workforce; and – managing risks and opportunities related to its own workforce. • The description of the targets is required to contain the information required by MDR-T in ESRS 2 (see 3.6.2).

ESRS S1.47

Information	What to disclose
Process	• The process for setting targets, including whether and how the company engaged directly with its own workforce or workers' representatives in: – setting any such targets; – tracking the company's performance against them; and – identifying any lessons or improvements as a result of the company's performance.

ESRS 2.72, 81, AR26

What does a company disclose if it has not set any such targets for its own workforce?

Neither ESRS 2 nor ESRS S1 requires a company to establish targets, but the standards do require disclosure of the sustainability-related targets that a company has set.

If a company has not set any targets relating to a sustainability matter, then ESRS 2 requires the company to:

- disclose the fact it has not set a target; and
- provide reasons for not having set targets.

ESRS 2 also requires a company to provide information on whether the company still tracks the effectiveness of its policies and actions in relation to IROs. If it does, then it discloses:

- the processes through which it tracks the effectiveness of its policies and actions;
- its targets; and
- any qualitative or quantitative indicators it uses to evaluate its process, including the base period from which it measures progress.

If the company has not set any measurable outcome-oriented targets, then it may disclose whether it will set any such targets and its timeframe for setting them, or the reasons why the company does not plan to set such targets.

5.3.2 S1-6 – Characteristics of the company's employees

ESRS S1.48–49

A company is required to provide information that provides insight into the company's approach to employment, including the scope and nature of impacts arising from its employment practices by describing the key characteristics of employees in its own workforce. This provides contextual information that enables an understanding of the information reported in other disclosures and serves as the basis for calculating quantitative metrics disclosed under other requirements in ESRS S1.

ESRS S1.AR55

The application requirements in ESRS S1 set out the required format for disclosing information required by S1-6.

ESRS 2.40(a)(iii)

In addition to the disclosure requirements in ESRS 2 that require a company to disclose the headcount of employees by geographical area, a company is also required to disclose the following.

	Information	What to disclose
ESRS S1.50(a)	**Total employees**	• Total number of employees by headcount. • Headcount by gender. • Headcount by country for countries in which the company has 50 or more employees, representing at least 10 percent of its total employees.
ESRS S1.50(b)	**Addition information**	• The total number by headcount or full-time equivalent (FTE), with breakdown by gender of: – permanent employees; – temporary employees; and – non-guaranteed hours employees.
ESRS S1.50(c), AR59	**Employee turnover**	• Total number of employees who have left the company during the reporting period (e.g. voluntarily or due to dismissal, retirement or death in service) and the employee turnover rate during the reporting period. • When calculating the employee turnover rate, the numerator is the total number of employees who leave voluntarily or due to dismissal, retirement or death in service. The company may determine the denominator but needs to describe the methodology used.
ESRS S1.50(d)	**Methodologies and assumptions**	• The methodologies and assumptions used to compile the data, including whether the numbers are reported: – in headcount or FTE (including an explanation of how FTE is defined); and – at the reporting date, as an average across the reporting period or using another methodology.
ESRS S1.50(e)	**Contextual information**	• If applicable, contextual information necessary to understand the data – e.g. to understand fluctuations in the number of employees during the reporting period.
ESRS S1.50(f), EFRAG Q&A ID 243	**Connectivity with the financial statements**	• A cross-reference between the breakdown by country (required by paragraph 50(a) of ESRS S1) to the most representative number in the financial statements – e.g. the average number of employees during the year (and other relevant data if disclosed in the financial statements). • If a company's methodology for calculating the headcount in the note to the financial statements differs from that used for the information disclosed under ESRS S1-6 (e.g. reporting period average for the former and reporting date for the latter), then explain the difference in the calculation basis.
ESRS S1.52	**Optional disclosures**	• A company may disclose by headcount or FTE, with breakdowns by gender and region: – full-time employees; and – part-time employees.

Does a company need to provide total employees by FTE *and* by headcount?

ESRS S1.50(a)–(b), AR56, EFRAG Q&A ID 32

No. A company is required to report the datapoint for the total number of employees in terms of headcount because the requirement specifically refers to headcount as the metric. There is no option to report this metric by FTE.

However, a company can choose to report its breakdown between permanent employees, temporary employees and non-guaranteed hour employees either by headcount or by FTE, because some countries commonly report detailed employee information on an FTE basis.

If a company has employees in more than one country, then to calculate country-level data it uses the definitions (of permanent employees, temporary employees and non-guaranteed hour employees) as set out in the legislation of the countries in which the employees are based. The country-level data is then accumulated to calculate total numbers – any differences in the definitions are ignored.

When is a company required to provide a breakdown of the headcount by country?

ESRS S1.50(a), EFRAG Q&A ID 365

A company provides the headcount for an individual country when it is at least 10 percent of the total headcount and the number of employees is at least 50 – i.e. both conditions need to be met.

What type of contextual information might a company disclose about the characteristics of its employees?

ESRS S1.AR58

A company is required to disclose contextual information to help users interpret the data provided. Quantitative information – e.g. the number of temporary or part-time employees – is unlikely to be sufficient on its own.

For example, a high proportion of temporary or part-time employees could indicate a lack of employment security for employees; equally, it could signal workplace flexibility when offered as a voluntary choice. The company provides contextual information to explain the reasons for temporary employment – e.g. it recruited employees to undertake work on a temporary or seasonal project or event, or it offers temporary six-month contracts to new employees before offering permanent employment.

What are non-guaranteed hours employees and are they considered as temporary or permanent employees?

ESRS S1.50(b), AR56, EFRAG Q&A ID 31

Non-guaranteed hours employees are employed by a company 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 company 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. The definitions of permanent, temporary and non-guaranteed hours employees differ between countries.

Paragraph 50(b) of ESRS S1 requires a three-way breakdown of employees between permanent, temporary and non-guaranteed hours employees.

In some countries, non-guaranteed hours contracts may be further classified as either permanent or temporary according to national legislation. Therefore, in these countries, a company discloses employees subject to those contracts as both non-guaranteed hours employees and as permanent or temporary employees. The company provides contextual information about how the information is reported and explains that non-guaranteed hours employees are also included in the datapoints for permanent and temporary employees.

What does a company disclose if certain data and information about employees is unavailable?

ESRS S1.AR60, ESRS 2.11

When detailed information about employees is unavailable, a company needs to estimate employee numbers or ratios to provide the information required by ESRS S1, subject to the estimated information meeting the qualitative characteristics of information in ESRS 1.

ESRS 2 requires a company to report information about the judgements made in estimating quantitative metrics and monetary amounts that are subject to a high level of measurement uncertainty (see Section 8.4).

5.3.3 S1-7 – Characteristics of non-employees in the company's own workforce

ESRS S1.53–54

A company is required to provide information that provides insight into the company's approach to employment, including the scope and nature of impacts arising from its employment practices, by describing the key characteristics of non-employees in its own workforce. This provides contextual information that enables an understanding of the information reported in other disclosures. It also serves as the basis for calculating quantitative metrics disclosed under other requirements in ESRS S1 and enables an understanding of how much the company relies on non-employees as part of its own workforce.

ESRS S1.AR61

Non-employees in a company's own workforce include both individual contractors supplying labour to the company (self-employed workers) and people provided by companies primarily engaged in employment activities. If all of the people working for the company are employees (i.e. the company has no workers that are not employees), then the disclosure of the detailed information in S1-7 is not material for the company.

ESRS S1.AR62

The application requirements in ESRS S1 provide examples of non-employees.

ESRS S1.57, AR63

When data about non-employees is not available, a company needs to estimate non-employee numbers or ratios to provide the information required by ESRS S1. ESRS 2 requires information to be reported about the judgements made in estimating quantitative metrics and monetary amounts that are subject to a high level of measurement uncertainty (see Section 8.4). A company provides the following information under ESRS S1.

ESRS 1.C

A company is permitted to omit the disclosure of all datapoints of S1-7 in the first annual reporting period in which it applies ESRS.

Information	What to disclose
ESRS S1.55(a), AR62 **Non-employees**	• Total number of non-employees in the company's own workforce – i.e. either people contracted to supply labour to the company (self-employed) or people provided by companies primarily engaged in employment activities[15].
ESRS S1.55(b) **Methodologies and assumptions**	• The methodologies and assumptions used to compile the data, including whether the number of non-employees is reported: – in headcount or FTE (including a definition of how FTE is defined); and – either at the reporting date, as an average across the reporting period or using another methodology.
ESRS S1.55(c) **Contextual information**	• If applicable, contextual information necessary to understand the data – e.g. significant fluctuations in the number of non-employees in the company's own workforce during the reporting period and between the current and the previous reporting periods.
ESRS S1.57, AR63 **Estimates**	• Whether the company has estimated information relating to non-employees and the estimate's basis of preparation. • Explain the information derived from actual data vs estimates. • If not reporting actual data, then disclose the number of non-employees in the company's own workforce to the nearest 10. When the number of non-employees exceeds 1,000, disclose the number to the nearest 100 and explain this.

5.3.4 S1-8 – Collective bargaining coverage and social dialogue

ESRS S1.58–59

A company is required to provide information that enables a user to understand the coverage of collective bargaining agreements and social dialogue for the company's own employees, including the extent to which:

- the working conditions and terms of employment of its employees are determined or influenced by collective bargaining agreements; and
- its employees are represented in social dialogue in the European Economic Area (EEA).

Annex II

The ESRS Glossary of Terms defines collective bargaining as all negotiations that take place between an employer, a group of employers or one or more employers' organisations, and one or more trade unions or, in their absence, representatives of the workers for:

- determining working conditions and terms of employment;
- regulating relations between employers and workers; and/or
- regulating relations between employers or their organisations and workers' organisations.

ESRS S1.AR66–AR70

ESRS S1 requires the information disclosed to be set out in a specific format and provides guidance on preparing that information.

ESRS 1.C

A company is permitted to omit the disclosures required by S1-8 for its own employees in non-EEA countries in the first annual reporting period in which it applies ESRS.

15. NACE code 78

	Information	What to disclose
ESRS S1.60	**Collective bargaining**	• The percentage of the company's total employees covered by collective bargaining agreements. • Whether the company has one or more collective bargaining agreements: – **in the EEA:** the overall percentage of its employees covered by these agreement(s) for each country in which it has 'significant employment'. This is defined as having at least 50 employees by headcount, representing at least 10 percent of its total number of employees. – **outside the EEA:** the percentage of its employees covered by collective bargaining agreements by region.
ESRS S1.63, AR69–AR70	**Social dialogue**	• The global percentage of employees covered by workers' representatives. This is reported at the country level for each EEA country in which the company has significant employment and is reported in the tabular format required by paragraph AR70 of ESRS S1. • The existence of any agreement with the company's employees for representation by a European Works Council (EWC), a Societas Europaea (SE) Works Council, or a Societas Cooperativa Europaea (SCE) Works Council.
ESRS S1.61	**Employees not covered by collective bargaining – Optional disclosure**	• If applicable, whether the company determines the working conditions and terms of employment for these employees based on collective bargaining agreements: – covering its other employees; or – from other companies.

5.3.5 S1-9 – Diversity metrics

ESRS S1.64–65

A company is required to provide information to enable users to understand the company's gender diversity at top management level and the age distribution of its employees.

	Information	What to disclose
ESRS S1.66	**Diversity by gender and age**	• The gender distribution in number and percentage at top management level. • The distribution of employees that are: – under 30 years old; – between 30 and 50 years old; and – over 50 years old.

ESRS S1.AR71

How is 'top management level' defined?

Top management is defined as one and two levels below the administrative and supervisory bodies. However, if this concept is already defined as part of the company's operations, then a company is permitted to use its own definition for top management. When it does so, it discloses this fact and its own definition.

5.3.6 S1-10 – Adequate wage

ESRS S1.67–68

A company is required to provide information that enables users to understand whether the company's employees are paid an adequate wage that is in line with applicable benchmarks.

An adequate wage is a wage that provides for the satisfaction of a worker's needs and those of their family given national economic and social conditions.

ESRS S1.69–70

Information	What to disclose
Adequate wage	• Whether all of the company's employees are paid an adequate wage that is in line with applicable benchmarks. • When not all employees are paid an adequate wage, disclose the countries and percentage of employees within each country that earn below the applicable adequate wage benchmark.

Does ESRS S1 provide guidance on how to benchmark adequate wages?

ESRS S1.AR72–AR73

Yes. The application requirements provide guidance on the adequate wage benchmark that a company can compare its lowest wage against. The guidance for those countries based in the EEA differs from those countries outside the EEA.

The lowest wage is calculated for the lowest pay category, excluding interns and apprentices. The calculation needs to be based on the basic wage plus any fixed additional payments that are guaranteed to all employees. The lowest wage needs to be considered separately for each country in which the company has operations, except for those countries outside the EEA. In this case, the relevant adequate or minimum wage is defined at a sub-national level.

The adequate wage benchmark used for comparing with the lowest wage cannot be lower than the following.

1) **In the EEA:** the minimum wage set by the EU Directive on Adequate Minimum Wages[16].

2) **Outside the EEA**:

   i) the wage level established in any existing international, national or sub-national legislation, official norms or collective agreements, based on an assessment of a wage level needed for a decent standard of living;

   ii) if none of the instruments in (i) exist, then any national or sub-national minimum wage established by legislation or collective bargaining; or

   iii) if none of the instruments identified in (i) or (ii) exist, any benchmark that meets the criteria set out by the Sustainable Trade Initiative (IDH) ('*Roadmap on Living Wages – A Platform to Secure Living Wages in Supply Chains*'), including applicable benchmarks aligned with the Anker methodology, or provided by the Wage Indicator Foundation or Fair Wage Network, provided priority is given to collective bargaining-led terms and conditions of employment.

16. Directive (EU) 2022/2041 of the European Parliament and of the Council of 19 October 2022 on adequate minimum wages in the European Union (OJ L 275, 25.10.2022, p. 33). The EU directive on adequate minimum wages seeks to reduce working poverty and inequality by improving the adequacy of statutory minimum wages, promoting collective bargaining and improving the enforcement and monitoring of the minimum wage protection established in each EU member state.

Until the EU Directive on Adequate Minimum Wages applies, how does a company determine the on adequate wage benchmark?

ESRS S1.AR74

EU member states have until November 2024 to transpose the EU Directive on Adequate Minimum Wages into national law. Prior to this date, and when no minimum adequate wage applies (i.e. legislation or collective bargaining has not determined a minimum wage for an EEA country), a company is required to use an adequate wage benchmark that is not lower than either:

- the minimum wage in a neighbouring country with a similar socioeconomic status; or
- a commonly referenced international norm – e.g. 60 percent of the country's median wage and 50 percent of the gross average wage.

Data for the indicative values of 60 percent of the national median gross wage or 50 percent of the national average gross wage can be obtained from the European Labour Force Survey.

5.3.7 S1-11 – Social protection

ESRS S1.72–73, AR75

A company is required to provide information that enables users to understand whether the company's employees are covered by social protection against loss of income due to major life events and, if not, the countries where this is not the case.

ESRS 1.C

A company is permitted to omit the disclosures required by S1-11 in the first annual reporting period in which it applies ESRS.

Information	What to disclose
Social protection (*ESRS S1.74*)	• Whether all of the company's employees are covered by social protection against loss of income due to any of the following major life events: – sickness; – unemployment (starting from when the own worker is working for company); – employment injury and acquired disability; – parental leave; and – retirement.
Employees not covered by social protection (*ESRS S1.75*)	• If not all of the company's employees are covered by social protection, then state this fact and disclose: – the types of employees not covered; and – the countries in which they are based.

5.3.8 S1-12 – Persons with disabilities

ESRS S1.77–78

A company is required to provide information that enables users to understand the number of persons with disabilities employed by the company.

Annex II

ESRS define persons with disabilities as those who have long-term physical, mental, intellectual or sensory impairments, which may hinder their full and effective participation in society on an equal basis with others. There may be differing definitions by country according to national legislation and ESRS S1 requires contextual information including information about where definitions vary.

ESRS 1.C

A company is permitted to omit the disclosures required by S1-12 in the first annual reporting period in which it applies ESRS.

	Information	What to disclose
ESRS S1.79–80	**Persons with disabilities**	• The percentage of a company's own employees with disabilities.
ESRS S1.AR76	**Contextual information**	• Any information necessary to understand the data and how the data has been compiled (i.e. the methodology applied). For example, information about the impact of different legal definitions of persons with disabilities in the different countries in which the company operates.

5.3.9 S1-13 – Training and skills development metrics

ESRS S1.81–82

A company is required to provide information that enables users to understand the training and skills development-related activities that it offers to employees.

ESRS defines training as initiatives put in place by the company aimed at the maintenance and/or improvement of skills and knowledge of its own workers. It can include different methodologies, such as onsite training and online training.

ESRS 1.C

A company is permitted to omit the disclosures required by S1-13 in the first annual reporting period in which it applies ESRS.

	Information	What to disclose
ESRS S1.83, AR77	**Performance and career development reviews**	• Using the employee headcount figures provided in ESRS S1-6, the percentage of employees that participated in regular performance and career development reviews, by gender, including the: – number/proportion of performance reviews per employee; and – number of reviews in proportion to the number of reviews agreed by management.
ESRS S1.83, AR78	**Average number of training hours**	• Using the employee headcount figures provided in ESRS S1-6, the average number of training hours per employee and by gender. • This is calculated as the total number of training hours offered to and completed by employees per gender category divided by the total number of employees per gender category.

ESRS S1.AR77

How are 'regular performance and career development reviews' determined?

A regular performance review is defined in ESRS S1 as a review based on criteria that is known to both the employee and their superior, and that is undertaken with the employee's knowledge at least once a year. The review can include evaluation by the employee's direct superior, peers or a wider range of employees. It can also involve the company's HR department.

5.3.10 S1-14 – Health and safety metrics

ESRS S1.86–87

A company is required to provide information that enables users to understand the coverage, quality and performance of the company's health and safety management system established to prevent work-related injuries.

ESRS 1.C

In the first annual reporting period in which it applies ESRS, a company is permitted to omit:

- the datapoints relating to work-related ill health and number of days lost to injuries, accidents, fatalities and work-related ill health; and
- reporting on non-employees.

Reference	Information	What to disclose
ESRS S1.88(a), AR80	**Coverage**	• The percentage of people in the company's own workforce (based on headcount) covered by the company's health and safety management system, based on legal requirements and/or recognised standards or guidelines.
ESRS S1.88(b)	**Fatalities**	• The number of fatalities resulting from work-related injuries and work-related ill health. • This information is also required to be reported for other workers at the company's sites, including value-chain workers.
ESRS S1.88(c)	**Work-related accidents**	• The number and rate of recordable work-related accidents.
ESRS S1.88(d)	**Work-related ill health**	• The number of cases of recordable work-related ill health among the company's employees, subject to legal restrictions on data collection.
ESRS S1.88(e), EFRAG Q&A ID 352	**Days lost**	• The number of days lost owing to work-related injuries, fatalities from work-related accidents, work-related ill health and fatalities from work-related ill health.

ESRS S1.AR89– AR95

ESRS S1 contains guidance for determining:

- the rate of work-related injuries;
- recordable work-related ill health; and
- the number of days lost.

ESRS S1.AR83– AR88

How does a company determine what is 'work-related' when reporting health and safety metrics?

Work-related injuries and work-related ill health arise from exposure to hazards at work. Other types of incidents can occur that are not connected with work. ESRS S1 provides specific guidance on work-related vs non-work-related incidents and this guidance is used unless otherwise stipulated in applicable national legislation.

Work-related	Non-work-related
Incidents when travelling if, at the time of the injury or ill health, the person was engaged in work activities in the interest of the employer – e.g. travelling to and from customers.	Incidents that arise during travel, outside the employer's responsibility – i.e. regular commuting to and from work.
Incidents occurring while commuting when the employer is responsible for the transport.	Health issues resulting from factors unrelated to work – e.g. smoking, drug and alcohol abuse, physical inactivity, unhealthy diets and psychosocial factors unrelated to work.
Incidents that occur when working from home, if the injury or ill health occurs while the person is performing work from home and the incident is directly related to the performance of work rather than the general home environment.	Mental illness that has been notified voluntarily by the person concerned and is supported by an opinion that the illness is work-related from a licensed healthcare professional with appropriate training and experience.

5.3.11 S1-15 – Work-life balance metrics

ESRS S1.91–92

A company is required to provide information that enables users to understand the extent to which employees can take family-related leave in a gender-equitable manner.

ESRS S1.AR96–AR97

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 either reported their entitlement to the company or the company is aware of their entitlement.

Family-related leave includes maternity leave, paternity leave, parental leave and carers' leave that is available under national law or collective agreements. ESRS S1 defines these concepts in the following way.

Type of leave	Definition
Maternity leave	Employment-protected leave of absence for employed women directly around the time of childbirth (or, in some countries, adoption).
Paternity leave	Leave for fathers or, if 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 purpose of providing care.
Parental leave	Leave for parents on the grounds of the birth or adoption of a child to take care of that child, as defined by each EU member state.
Carers' leave	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 EU member state.

ESRS 1.C

A company is permitted to omit the disclosures required by S1-15 in the first annual reporting period in which it applies ESRS.

Information	What to disclose
ESRS S1.94 **Family-related leave**	• When *all* employees are entitled to family-related leave through social policy and/or collective bargaining agreements, a statement to this effect.
ESRS S1.93 **Not all employees entitled to family-related leave**	• Otherwise, the percentage of: – employees entitled to take family-related leave; and – entitled employees that took family-related leave with a breakdown by gender.

ESRS S1.AR96, EFRAG Q&A ID 340

Does an employee need to be entitled to all types of relevant family leave to be considered within the family-related leave metric required by paragraph 94 of ESRS S1?

Yes. Family-related leave is defined as including maternity leave, paternity leave, parental leave and carers' leave. Under national law or collective agreements, if female/male employees are not entitled to all of the respective female/male types of family-related leave, then they would not qualify to be considered in the metric's denominator.

The scope of family leave may vary across countries and this contextual information may be relevant to users – e.g. that in a given country, employees are entitled to maternity leave but not to paternity leave.

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

ESRS S1.95–96

A company is required to provide information that enables users to understand:

- the extent of any gap between a female employee's and a male employee's pay; and
- the level of remuneration inequality and whether wide pay disparities exist.

Information	What to disclose
ESRS S1.97(a), AR98, AR100 **Gender pay gap**	• This is defined as the difference between the average pay levels for female and male employees, expressed as a percentage of the average pay level for male employees. $\frac{\text{(Average gross hourly pay level of male employees – average gross hourly pay level of female employees)}}{\text{Average gross hourly pay level of male employees}} \times 100$ • The metric is reported for the current reporting period and, if reported in previous sustainability statements, for the previous two reporting periods.

ESRS S1.97(b), AR101(a),(c)

ESRS S1.97(c), AR99, AR102

Information	What to disclose
Remuneration ratio	• The annual total remuneration ratio of the highest-paid individual to the median annual total remuneration for all employees (excluding the highest-paid individual). $\frac{\text{Annual total remuneration for the company's highest-paid individual}}{\text{Median employee annual total remuneration (excluding the highest-paid individual)}} \times 100$
Contextual information	• If applicable, any contextual information necessary to understand the data and how the data has been compiled – i.e. the methodology applied. This is because gender pay-gap metrics and remuneration ratios may not be sufficient on their own to understand pay disparity and its drivers.

Are variable or complementary elements of an employee's pay included when calculating the metrics?

Annex II, EFRAG Q&A ID 132

Yes. Both complementary and variable components of the employee's remuneration package form part of the calculation. Pay is defined in the ESRS Glossary of Terms as the salary and other remuneration in cash or in kind that the employee receives directly or indirectly in respect of his/her employment.

5.3.13 S1-17 – Incidents, complaints and severe human rights impacts

ESRS S1.100–101

A company is required to provide information that enables users to understand the extent to which work-related incidents and severe cases of human rights impacts are affecting the company's own workforce.

ESRS S1.100

A company is required to disclose the number of work-related incidents and/or complaints, severe human rights impacts within its own workforce and any related fines, sanctions or compensation for the reporting period.

ESRS S1.102

The disclosure is required to include, subject to the relevant privacy regulations, work-related incidents of discrimination on the grounds of gender, racial or ethnic origin, nationality, religion or belief, disability, age, sexual orientation or other relevant forms of discrimination involving internal and/or external stakeholders across operations in the reporting period. This includes incidents of harassment as a specific form of discrimination.

	Information	What to disclose
ESRS S1.103	**Work-related incidents of discrimination**	• The total number of incidents of discrimination, including harassment, reported in the reporting period. • The number of complaints filed through channels for people in the company's own workforce to raise concerns (including grievance mechanisms) and, if applicable, to the National Contact Points for OECD Multinational Enterprises that relate to the matters defined in paragraph 2 of ESRS S1. This excludes those incidents already reported as part of the requirement above. • The total amount of fines, penalties and compensation for damages as a result of the incidents and complaints disclosed above, and a reconciliation of these totals, with an amount presented in the financial statements. • If applicable, contextual information necessary to understand the data and how such data has been compiled.
ESRS S1.104	**Severe human rights incidents – e.g. forced labour, human trafficking or child labour**	• The number of severe human rights incidents relating to the company's workforce in the reporting period, including an indication of how many of these are cases of non-respect of the UN Guiding Principles on Business and Human Rights, ILO Declaration on Fundamental Principles and Rights at Work or OECD Guidelines for Multinational Enterprises. If no such incidents have occurred, then the company states this. • The total amount of fines, penalties and compensation for damages for the incidents described as part of the requirement above and a reconciliation to an amount in the financial statements.

What is considered a severe human rights incident?

ESRS S1.AR105

Severe human rights incidents include instances of lawsuits, formal complaints through the company or third-party complaint mechanisms and serious allegations in public reports or the media. These incidents (and any other severe human rights impacts that the company is aware of) need to be connected to the company's own workforce and have a fact pattern that is undisputed by the company.

6 Other topic-specific standards

Other topic-specific standards contain disclosure requirements across the four reporting areas for environmental, social, and governance topics.

This section provides a high-level summary of the topic-specific standards set out in the table below. As noted earlier the topic-specific standards follow a structure comprising disclosure requirements across the areas of governance, strategy, impacts, risks and opportunity management, and metrics and targets. The topic summaries included in this section summarise the requirements for each standard following this same structure.

There is significant interaction and linkage between the topic-specific standards and therefore in some cases requirements relevant to one topic-specific standard may be also covered or included in another.

Environment	Social	Governance
• **ESRS E2** *Pollution* (see Section 6.1) • **ESRS E3** *Water and marine resources* (see Section 6.2) • **ESRS E4** *Biodiversity and ecosystems* (see Section 6.3) • **ESRS E5** *Resource use and circular economy* (see Section 6.4)	• **ESRS S2** *Workers in the value chain* (see Section 6.5) • **ESRS S3** *Affected communities* (see Section 6.6) • **ESRS S4** *Consumers and end-users* (see Section 6.7)	• **ESRS G1** *Business conduct* (see Section 6.8)

6.1 Pollution

ESRS E2.2

ESRS E2 sets out disclosure requirements related to pollution of air, water, soil, substances of concern and substances of very high concern.

Pollution is the direct or indirect introduction, as a result of human activity, of pollutants into air, water or soil that may:

- be harmful to human health and/or the environment;
- result in physical damage to property; or
- impair or interfere with amenities and other legitimate uses of the environment.

A pollutant is a substance, vibration, heat, noise, light or other contaminant present in air, water or soil that results in pollution.

The table below provides a summary of the disclosure requirements included in ESRS E2 for each of the four reporting areas. ESRS E2 also includes additional disclosures that a company may include with respect to the topics covered.

Area	Summary of disclosure requirements
Governance	None.
Strategy	None.
IRO management	*ESRS E2.11* ESRS 2 **IRO-1 Description of the process to identify and assess IROs** Disclose the company's process for identifying IROs. Provide information on whether and how it has screened its site locations and business activities and conducted consultations, in particular with affected communities. *ESRS E2.12–15* **E2-1 Policies related to pollution** Disclose the company's policies to manage IROs related to pollution prevention and control. This includes complying with MDR-P in ESRS 2 (see 3.5.3) as well as indicating, for its own operations and value chain, whether the policies address: • mitigating negative impacts and substituting; • minimising the use of substances of concern; • phasing out substances of very high concern; and • avoiding incidents and emergency situations. *ESRS E2.16–19* **E2-2 Actions and resources related to pollution** Provide information on the company's pollution-related actions and the resources allocated to implement them under MDR-A in ESRS 2 (see 3.5.3).
Metrics and targets	*ESRS E2.20–25* ESRS 2 **E2-3 Targets related to pollution** Disclose the pollution-related targets the company has set under MDR-T in ESRS 2 (see 3.6.2). In addition, disclose whether and how the company's targets relate to the prevention and control of: • air pollutants and respective specific loads; • emissions to water and respective specific loads; • pollution to soil and respective specific loads; and • substances of concern and substances of very high concern. Specify whether the targets are mandatory (required by legislation) or voluntary. *ESRS E2.26–31* **E2-4 Pollution of air, water and soil** Disclose the pollutants that the company emits through its own operations, as well as the microplastics it generates or uses. The amounts disclosed are required to be calculated applying guidance included in ESRS E2

ESRS E2.32–35

Area	Summary of disclosure requirements
	E2-5 Substances of concern and substances of very high concern Disclose information on the production, use, distribution, commercialisation and import/export of substances of concern and very high concern, on their own, in mixtures or in articles. Disclose the total amounts of substances of concern and very high concern – split into main hazard classes – that: • are generated or used during production or that are procured; and • leave the company's facilities as emissions, as products or, as part of products or services.

ESRS E2.36–41

Area	Summary of disclosure requirements
	E2-6 Anticipated financial effects from material pollution-related risks and opportunities Disclose the anticipated financial effects of pollution-related risks and opportunities over the short, medium and long term, including: • quantification of the anticipated financial effects in monetary terms before considering actions; • the effects considered, the related impacts and the time horizons in which they are likely to materialise; and • critical assumptions used (and sources) and level of uncertainty in those assumptions. If quantification of anticipated financial effects is not possible without undue cost or effort, then qualitative information is required instead. Financial effects for opportunities are not required if the information would not meet the qualitative characteristics of information (see Section 7.1). When disclosing information on anticipated financial effects include: • the share of net revenue made with products and services that are or that contain substances of concern, and the share of net revenue made with products and services that are or that contain substances of very high concern; • the operating and capital expenditures incurred in the reporting period in conjunction with major incidents and deposits; and • the provisions for environmental protection and remediation costs – e.g. for rehabilitating contaminated sites and removing environmental contamination at existing production or storage sites and similar measures. This disclosure is in addition to the general disclosure requirement in ESRS 2 SBM-3 (see 3.4.3) to provide information on the anticipated financial effects of sustainability-related risks and opportunities.

6.2 Water and marine resources

Topic-specific standard ESRS E3 sets out disclosure requirements related to water and marine resources.

Marine resources are biological and non-biological resources found in the seas and oceans. Examples include but are not limited to deep sea minerals, gravels and seafood products.

The table below provides a summary of the disclosure requirements included in ESRS E3 for each of the four reporting areas. ESRS E3 also includes additional disclosures that a company may include with respect to the topics covered.

Area	Summary of disclosure requirements
Governance	None.
Strategy	None.
IRO management	*ESRS E3.8* ESRS 2 **IRO-1 Description of the process to identify and assess IROs** Disclose the company's process for identifying IROs. Provide information on whether and how it has screened its site locations and business activities and conducted consultations, in particular with affected communities. *ESRS E3.9–14* **E3-1 Policies related to water and marine resources** Disclose the company's policies to manage IROs related to water and marine resources. This includes complying with the MDR-P in ESRS 2 (see 3.5.3) as well as indicating whether and how the policies address the following matters: • water management; • product and service design in view of addressing water-related issues and the preservation of marine resources; and • commitment to reduce material water consumption in areas at water risk in its own operations and along the upstream and downstream value chain. For sites located in an area of high water stress which are not covered by a policy, state this to be the case and provide reasons for not having adopted a policy. Specify whether the company has adopted policies or practices related to sustainable oceans and seas. *ESRS E3.15–19* **E3-2 Actions and resources related to water and marine resources** Provide information on the company's water and marine-related actions and the resources allocated to implement them under MDR-A in ESRS 2 (see 3.5.3). Specify the company's actions and resources in relation to areas at water risk, including areas of high water stress.

Area	Summary of disclosure requirements
Metrics and targets	ESRS E3.20–25 ESRS 2 **E3-3 Targets related to water and marine resources** Disclose the water and marine resources-related targets the company has set under MDR-T in ESRS 2 (see 3.6.2). ESRS E3 also requires the company to disclose whether and how the company's targets relate to: • the management of IROs related to areas at water risk; • the responsible management of marine resources-related IROs; and • the reduction of water consumption, including an explanation of how those targets relate to areas at water risk, including areas of high water stress. Specify whether the targets are mandatory (required by legislation) or voluntary.
	ESRS E3.26–29 **E3-4 Water consumption** Disclose information on the company's water consumption performance from its own operations related to its IROs. ESRS E3 requires the disclosure to include: • total water consumption in m^3; • total water consumption in m^3 in areas at water risk, including areas of high water stress; total water recycled and reused in m^3; • total water stored and changes in storage in m^3; and • contextual information (e.g. standards, methodologies and assumptions used). Provide information on the company's water intensity and total water consumption in its own operations in m^3 per million EUR net revenue.
	ESRS E3.30–33 **E3-5 Anticipated financial effects from material water and marine resources-related risks and opportunities** Disclose the anticipated financial effects of water and marine resources related risks and opportunities over the short, medium and long term, including: • quantification of the anticipated financial effects in monetary terms before considering actions; and • critical assumptions used (and sources) and the level of uncertainty in those assumptions. If quantification of the anticipated financial effects is not possible without undue cost or effort, then qualitative information is required instead. Financial effects for opportunities are not required if the information would not meet the qualitative characteristics of information (see Section 7.1). This disclosure is in addition to the general disclosure requirement in ESRS 2 SBM-3 (see 3.4.3) to provide information on the anticipated financial effects of sustainability-related risks and opportunities.

6.3 Biodiversity and ecosystems

ESRS E4.2–3

Topic-specific standard ESRS E4 sets out disclosure requirements related to a company's effect on biodiversity and ecosystems.

Biodiversity refers to every living thing, including plants, bacteria, animals and humans. It encompasses the diversity of life on Earth, including the diversity of ecosystems, species and genes. Biodiversity is a key indicator to understand the status and intactness of nature.

ESRS define biodiversity as the variability among living organisms from all sources including terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are a part. This includes variation in genetic, phenotypic, phylogenetic and functional attributes, as well as changes in abundance and distribution over time and space within and among species, biological communities and ecosystems.

An ecosystem is a dynamic complex of plant, animal and microorganism communities and their non-living environment interacting as a functional unit. A typology of ecosystems is provided by the International Union for Conservation of Nature (IUCN) Global Ecosystem Typology 2.0.

The table below summarises the disclosure requirements included in ESRS E4 for each of the four reporting areas. ESRS E4 also includes additional disclosures that a company may include with respect to the topics covered.

ESRS E4.11–15

Area	Summary of disclosure requirements
Governance	None.
Strategy	**E4-1 Transition plan and consideration of biodiversity and ecosystems in strategy and business model** Disclose how the company's biodiversity and ecosystem impacts, dependencies, risks and opportunities originate from and trigger adaptation of its strategy and business model. Disclose the resilience of the company's strategy and business model in relation to biodiversity and ecosystems. Include in the description: • an assessment of the resilience of the current business model and strategy to biodiversity and ecosystems-related physical, transition and systemic risks; • the scope of the resilience analysis in relation to the company's own operations and its value chain and in relation to the risks considered in that analysis; • the key assumptions made and time horizons used; • the results of the resilience analysis; and • the involvement of stakeholders, including, if appropriate, holders of indigenous and local knowledge.

	Area	Summary of disclosure requirements
ESRS E4.16 ESRS 2		**SBM-3 Material impacts, risks and opportunities and their interaction with strategy and business model** Disclose a list of material sites in the company's own operations, including sites under its operational control. Disclose these locations by: • specifying the activities negatively affecting biodiversity-sensitive areas; • providing a breakdown of sites according to the impacts and dependencies identified, and to the ecological status of the areas where they are located; and • specifying the biodiversity-sensitive areas impacted, so that users are able to determine the location and the responsible competent authority for the material sites. Disclose whether the company: • has identified negative impacts regarding land degradation, desertification or soil sealing; and • has operations that affect threatened species.
ESRS E4.17–19 ESRS 2	**IRO management**	**IRO-1 Description of the process to identify and assess IROs** Describe the company's process to identify impacts, risks, dependencies and opportunities, including whether and how the company: • identified and assessed: – actual and potential impacts on biodiversity and ecosystems at own-site locations and in the value chain; – dependencies on biodiversity and ecosystems and their services at own-site locations and in the value chain; and – transition and physical risks and opportunities related to biodiversity and ecosystems; • considered systemic risks; and • conducted consultations with affected communities on sustainability assessments of shared biological resources and ecosystems. Specifically disclose: • whether or not the company has sites located in or near biodiversity-sensitive areas and whether activities related to these sites negatively affect these areas; and • whether the company has concluded that it is necessary to implement biodiversity mitigation measures.

Area	Summary of disclosure requirements
	ESRS E4 20–28 **E4-2 Policies related to biodiversity and ecosystems** Disclose the company's policies to manage IROs related to biodiversity and ecosystems. This includes complying with MDR-P in ESRS 2 (see 3.5.3) as well as describing whether and how its policies relate to and address certain matters – such as its biodiversity and ecosystem-related impacts and their social consequences. Disclose whether the company has adopted policies related to: • the protection of biodiversity and ecosystems in operational sites owned, leased, or managed in or near a biodiversity-sensitive area; • deforestation; • ocean and sea practices; and • land and agriculture practices.
	ESRS E4-25–28 **E4-3 Actions and resources related to biodiversity and ecosystems** Disclose the company's biodiversity and ecosystem-related actions and the resources allocated to implement them under MDR-A in ESRS 2 (see 3.5.3). ESRS E4 requires this description to include: • whether the company used biodiversity offsets in its action plans; • specific information about any offsets included; and • whether and how the company has incorporated local and indigenous knowledge and nature-based solutions into biodiversity and ecosystems-related actions.
Metrics and targets	*ESRS E4.29–32* ESRS 2 **E4-4 Targets related to biodiversity and ecosystems** Disclose the biodiversity and ecosystem-related targets the company has set under MDR-T in ESRS 2 (see 3.6.2). ESRS E4 requires the disclosure to include specific information about the targets – e.g. information about use of ecological thresholds and use of offsets in targets.
	ESRS E4.33–41 **E4-5 Impact metrics related to biodiversity and ecosystems change** Report metrics related to the company's impacts on biodiversity and ecosystems. Disclose the number and area (in hectares) of sites owned, leased or managed in or near biodiversity-sensitive areas that the company is negatively affecting. When the company concludes that it directly contributes to the impact drivers of land use change, freshwater use change and/or sea use change, it reports relevant metrics. ESRS E4 provides example metrics the company may disclose to meet the requirement.

ESRS E4.42–45

Area	Summary of disclosure requirements
	E4-6 Anticipated financial effect from material biodiversity and ecosystem-related risks and opportunities Disclose the anticipated financial effects of biodiversity and ecosystem-related risks and opportunities over the short, medium and long term, including: • quantification of the anticipated financial effects in monetary terms before considering actions; and • critical assumptions used (and sources) and the level of uncertainty in those assumptions. If quantification of anticipated financial effects is not possible without undue cost or effort, then qualitative information is required instead. Financial effects for opportunities are not required if the information would not meet the qualitative characteristics of information (see Section 7.1). This disclosure is in addition to the general disclosure requirement in ESRS 2 SBM-3 (see 3.4.3) to provide information on the anticipated financial effects of sustainability-related risks and opportunities.

6.4 Resource use and circular economy

Topic-specific standard ESRS E5 focuses on resource use and circular economy – in particular resource inflows, resource outflows and waste.

Circular economy is an economic system in which the value of products, materials and other resources in the economy is maintained for as long as possible, enhancing their efficient use in production and consumption, thereby reducing the environmental impact of their use, minimising waste and the release of hazardous substances at all stages of their life cycle, including through the application of the waste hierarchy.

The table below summarises the disclosure requirements included in ESRS E5 for each of the four reporting areas. ESRS E5 also includes additional disclosures that a company may include with respect to the topics covered.

ESRS E5.11 ESRS 2

Area	Summary of disclosure requirements
Governance	No requirements.
Strategy	No requirements.
IRO management	**IRO-1 Description of the process to identify and assess IROs** Disclose the company's process to identify IROs related to resource use and circular economy. Provide information on whether the company has screened its assets and activities to identify matters in its own operations and its value chain and whether and how it conducted consultations with stakeholders.

Area	Summary of disclosure requirements
	ESRS E5.12–16 **E5-1 Policies related to resource use and circular economy** Disclose the company's policies to manage IROs related to resource use and circular economy. This includes complying with MDR-P in ESRS 2 (see 3.5.3). Provide information on whether and how the company's policies address transitioning away from the use of virgin resources to sustainable sourcing and use of renewable resources. Policies are required to address both the company's own operations and value chain. *ESRS E5.17–20* **E5-2 Actions and resources related to resource use and circular economy** Disclose the company's resource use and circular economy actions and the resources allocated to implement them under MDR-A in ESRS 2 (see 3.5.3).
Metrics and targets	*ESRS E5.21–27* ESRS 2 **E5-3 Targets related to resource use and circular economy** Disclose the resource use and circular economy-related targets the company has set under MDR-T in ESRS 2 (see 3.6.2). In addition, indicate whether and how the company's targets relate to: • the increase of circular product design; • the increase of circular material use, and the minimisation of primary raw material; • sustainable sourcing and use of renewable resources; • waste management; and • other matters related to resource use or circular economy. Specify which layer of the waste hierarchy a target relates to and whether the targets set are mandatory (e.g. required by legislation) or voluntary. *ESRS E5.28–32* **E5-4 Resource inflows** Disclose the resource inflows used in the company's operations and its upstream value chain, including: • products and packaging; • materials including critical materials and rare earths; • water; and • property, plant and equipment. The information disclosed about the materials used to manufacture its products and services includes: • overall weight of products and technical and biological materials used; • the percentage of biological materials used that are sustainably sourced; • the weight of secondary reused or recycled components, secondary intermediary products and secondary materials; and • the methodologies and key assumptions used to calculate the data.

ESRS E5.33–40

ESRS E5.41–43

Area	Summary of disclosure requirements
	E5-5 Resource outflows Disclose the key products and materials of the company's production process that are designed along circular principles, including information on expected durability, repairability and rates of recyclable content in products and packaging. Provide information on the total amount of hazardous and non-hazardous waste, and any radioactive waste generated from its operations, including: • total waste generated; • waste diverted from disposal; • waste directed to disposal (including the type of disposal – e.g. landfill); and • non-recycled waste. Provide information on the methodologies and assumptions used to calculate the data. **E5-6 Anticipated financial effects from resource use and circular economy-related risks and opportunities** Disclose the anticipated financial effects of risks and opportunities related to resource use and circular economy over the short, medium and long term, including: • quantification of the anticipated financial effects in monetary terms before considering actions; and • critical assumptions used (and sources) and the level of uncertainty in those assumptions. If quantification of anticipated financial effects is not possible without undue cost or effort, then qualitative information is required instead. Financial effects for opportunities are not required if the information would not meet the qualitative characteristics of information (see Section 7.1). This disclosure is in addition to the general disclosure requirement in ESRS 2 SBM-3 (see 3.4.3) to provide information on the anticipated financial effects of sustainability-related risks and opportunities.

6.5 Workers in the value chain

Topic-specific standard ESRS S2 sets out disclosure requirements related to a company's effect on the workers in its value chain.

A value-chain worker is an individual performing work in the company's value chain (see Sections 2.1 and 2.2), regardless of the existence or nature of any contractual relationship with the company. Value-chain workers are a key group of affected stakeholders, which includes all workers that are not part of a company's own workforce (see Chapter 5).

ESRS S2.2

The information disclosed under ESRS S2 is intended to explain a company's general approach to identifying and managing actual and potential impacts on value-chain workers in relation to working conditions (e.g. secure employment and adequate wage); equal treatment and opportunities for all (e.g. gender equality and measures against harassment in the workplace); and other worker related rights (e.g. child labour, forced labour and adequate housing).

The table below summarises the disclosure requirements included in ESRS S2 for each of the four reporting areas. ESRS S2 also includes additional disclosures that a company may include with respect to the topics covered.

ESRS S2.9 ESRS 2

ESRS S2.10–13

Area	Summary of disclosure requirements
Governance	None.
Strategy	**SBM-2 Interests and views of stakeholders** Disclose how the interests, views and rights of a company's value-chain workers: • could be impacted by the company, including respect for their human rights; and • inform its strategy and business model. **SBM-3 Material impacts, risks and opportunities and their interaction with the strategy and business model** Disclose whether and how actual and potential impacts on value-chain workers relate to, influence and interact with the company's strategy and business model, including the following information. • The types of value-chain workers that could be materially impacted by the company, including where in the value chain the affected workers are located and the nature of the IRO. Include information about whether the workers are particularly vulnerable to negative impacts (e.g. trade unionists, women, young workers or migrant workers) and whether the workers are: – working on the company's site but are not part of the company's own workforce; – working in the company's upstream value chain; – working in the company's downstream value chain; or – working in the operations of a joint venture or a special purpose vehicle involving the company. • Any geographies or commodities for which there is a significant risk of child labour, forced labour or compulsory labour among value-chain workers. • For negative impacts, disclose whether they are widespread or systemic, or related to individual incidents. • For positive impacts, briefly describe the activities that cause them. Any risks and opportunities for the company arising from impacts and dependencies on value-chain workers.

	Area	Summary of disclosure requirements
ESRS S2.14–19 ESRS 2	**IRO management**	**S2-1 Policies related to value-chain workers** Disclose the policies to manage the impacts on a company's value-chain workers and the associated risks and opportunities. This includes complying with MDR-P in ESRS 2 (see 3.5.3). In addition, specify whether these policies cover specific groups of value-chain workers or all value-chain workers. Also disclose the following information. • The company's human rights policy commitments that are relevant to value-chain workers. • Whether policies in relation to value-chain workers explicitly address trafficking in human beings, forced or compulsory labour and child labour. • Whether the company has a supplier code of conduct. • Whether and how the company's policies with regard to value-chain workers align with internationally recognised instruments relevant to value-chain workers.
ESRS S2.20–24		**S2-2 Process for engaging with value-chain workers about impacts** Disclose the process for engaging with value-chain workers and their representatives, and whether and how their perspectives inform a company's decisions or activities. This includes providing relevant information on: • how and when it occurs; • which member of management is responsible; and • how the company assesses its effectiveness. If a company has not adopted a process to engage with value-chain workers, then it is required to state this is the case.
ESRS S2.25–29		**S2-3 Process to remediate negative impacts and channels for value-chain workers to raise concerns** Describe the company's processes for remediating negative impacts on value-chain workers, including the following specific information under ESRS S2. • The company's approach to and processes for contributing to remedies. • Channels the company has in place for value-chain workers to report concerns. • How the company tracks and monitors issues raised. • How the company assesses whether value-chain workers are aware of and trust the channels in place. If a company has not adopted a channel for raising concerns or does not support a channel being available to value-chain workers in the workplace, then it is required to disclose this fact.

Area	Summary of disclosure requirements
	ESRS S2.30–38 **S2-4 Taking action on material impacts on value-chain workers and approaches to managing material risks and pursuing material opportunities related to value chain workers, and the effectiveness of those actions.** Disclose how the company acts to: • address impacts on value-chain workers; and • manage risks and pursue opportunities related to value-chain workers, and the effectiveness of those actions. Provide a summarised description of the action plans and resources to manage IROs related to value-chain workers under MDR-A in ESRS 2 (see 3.5.3). ESRS S2 requires a company to include specific information in its description, including: • the processes used to identify actions needed; • the company's approach to taking actions; • actions planned, underway or taken; and • how the company tracks the effectiveness of its actions. Disclose whether and how the company takes action to avoid causing or contributing to material negative impacts on value-chain workers through its own practices. Disclose reported severe human rights issues and incidents connected to its value chain.
Metrics and targets	*ESRS S2.39–42* ESRS 2 **S2-5 Targets related to managing material negative impacts, advancing positive impacts and managing material risks and opportunities** Disclose the targets the company has set to address impacts on, and manage material risks and opportunities related to, value-chain workers. Also disclose: • the information required by MDR-T in ESRS 2 (see 3.6.2); and • the process for setting targets, including whether and how the company engages with value-chain workers to identify, set and track targets.

6.6 Affected communities

ESRS S3.1

Topic-specific standard ESRS S3 sets out disclosure requirements related to a company's effect on affected communities, including in areas where impacts (positive and negative, and actual or potential) are most likely to be present and severe.

Affected communities are people or groups living or working in the same area that have been or may be affected by a company's operations in its value chain. Affected communities are a key group of affected stakeholders.

ESRS S3.2

The information disclosed under ESRS S3 is intended to explain a company's general approach to identifying and managing actual and potential impacts in relation to communities' economic, social and cultural rights; communities' civil and political rights; and particular rights of indigenous peoples.

The table below summarises the disclosure requirements included in ESRS S3 for each of the four reporting areas. ESRS S3 also includes additional disclosures that a company may include with respect to the topics covered.

Area	Summary of disclosure requirements
Governance	None.
Strategy	*ESRS S3.7* ESRS 2 **SBM-2 Interests and views of stakeholders** Disclose how the views, interests and rights of affected communities – including respect for their human rights and their rights as indigenous peoples, if applicable – inform the company's strategy and business model. *ESRS S3.8–11* **SBM-3 Material impacts, risks and opportunities and their interaction with strategy and business model** Disclose: • whether and how actual and potential impacts on affected communities relate to, influence and interact with the company's strategy and business model; • the types of communities that could be impacted by the company, including where in the value chain the communities are located and the nature of the IRO; • whether material negative impacts are either widespread or systemic, or are related to individual incidents in the company's own operations or specific business relationships; • for material positive impacts, a brief description of activities that result in these positive impacts and the types of communities that are or could be positively affected; and • any material risks and opportunities arising for the company from the impacts and dependencies on affected communities.
IRO management	*ESRS S3.12–18* ESRS 2 **S3-1 Policies related to affected communities** Disclose the policies to manage impacts on affected communities, as well as the associated risks and opportunities. This includes complying with MDR-P in ESRS 2 (see 3.5.3). Also disclose: • any policies for preventing and addressing impacts on indigenous peoples; • the company's human rights policy commitments that are relevant to affected communities; and • whether and how the company's policies on affected communities align with internationally recognised instruments relevant to communities and indigenous peoples.

ESRS S3.19–24

Area	Summary of disclosure requirements
	S3-2 Process for engaging with affected communities about impacts Disclose whether and how the perspectives of affected communities inform the company's decisions or activities aimed at managing the actual and potential impacts on affected communities. This includes providing relevant information on: • how and when it occurs; • which member of management is responsible for it; and • how the company assesses its effectiveness. If a company has not adopted a process to engage with affected communities, then it is required disclose this fact.

ESRS S3.25–29

	S3-3 Process to remediate negative impacts and channels for affected communities to raise concerns Describe the processes the company has in place to remediate negative impacts on affected communities, as well as the channels available to affected communities to raise concerns and have them addressed. ESRS S3 requires specific information, including: • the company's approach to and processes for contributing to remedies; • channels the company has in place or other support for affected communities to report concerns; • how the company tracks and monitors issues raised; and • how the company assesses affected communities' awareness of, and trust in, the channels in place. If a company has not adopted a channel for raising concerns or does not support a channel being available for its business relationships, then it is required to disclose this fact.

	Area	Summary of disclosure requirements
ESRS S3.30–38		**S3-4 Taking action on material impacts on affected communities and approaches to managing material risks and pursuing material opportunities related to affected communities, and the effectiveness of those actions.** Disclose how a company takes action to: • address impacts on affected communities; and • manage risks and pursue material opportunities related to affected communities and the effectiveness of those actions. Provide a summarised description of the action plans and resources to manage IROs related to value-chain workers, as set out in MDR-A in ESRS 2 (see 3.5.3). ESRS S2 requires this description to specifically include: • the processes used to identify actions needed; • the company's approach to taking actions; • actions planned, underway or taken; • how the company tracks the effectiveness of its actions; and • which resources the company allocates to managing its impacts. Disclose whether and how the company takes action to avoid causing or contributing to negative impacts on affected communities through its own practices. Disclose reported severe human rights issues and incidents connected to its value chain.
ESRS S3.39–42 ESRS 2	**Metrics and targets**	**S2-5 Targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities** Disclose the targets a company may have set for addressing impacts on affected communities and managing risks and opportunities related to affected communities. In addition to disclosing the information required by MDR-T in ESRS 2 (see 3.6.2), disclose the process for setting targets including whether and how the company engages with affected communities in identifying, setting and tracking the targets.

6.7 Consumers and end-users

Topic-specific standard ESRS S4 sets out disclosure requirements related to a company's effect on the consumers and/or end-users of its products and/or services (consumers and end-users), in terms of positive and negative actual or potential impacts.

Consumers are individuals who acquire, consume or use goods and services for personal use, either for themselves or for others. They do not acquire them for resale, commercial or trade, business, craft or profession purposes.

End-users are individuals who ultimately use or are intended to ultimately use a particular product or service. Consumers and/or end-users are key groups of affected stakeholders.

ESRS S4.2

The information disclosed under ESRS S2 is intended to explain a company's general approach to identifying and managing actual and potential impacts in relation to information-related impacts on consumers and/or end-users (e.g. privacy and freedom of expression); personal safety (e.g. health and safety); and social inclusion.

The table below summarises the disclosure requirements included in ESRS S4 for each of the four reporting areas. ESRS S4 also includes additional disclosures that a company may include with respect to the topics covered.

ESRS S4.8 ESRS 2

ESRS S4.9–11

Area	Summary of disclosure requirements
Governance	None.
Strategy	**SBM-2 Interests and views of stakeholders** Disclose how the interests, views and rights of a company's consumers and/or end-users, including respect for their human rights, inform its strategy and business model. **SBM-3 Material impacts, risks and opportunities and their interaction with strategy and the business model** Disclose: • whether and how actual and potential impacts on consumers and/or end-users relate to, influence and interact with the company's strategy and business model; • the groups of consumers and/or end-users affected and the nature of the IROs relating to those groups; • whether negative impacts are either widespread or systemic, or related to individual incidents in the company's own operations or specific business relationships; • for positive impacts, a brief description of activities that cause those positive impacts and the types of consumers and/or end-users that are, or could be, positively affected; • any risks and opportunities arising for the company from impacts and dependencies on consumers and/or end-users; and • whether any of the risks and opportunities identified relate to specific groups of consumers or end-users (e.g. particular age groups) rather than to all consumers and/or end-users.

Area	Summary of disclosure requirements
IRO management	*ESRS S4.13–17* (ESRS 2) **S4-1 Policies related to consumers and end-users** Disclose the company's policies to manage impacts on consumers and end-users and the associated risks and opportunities to comply with MDR-P in ESRS 2 (see 3.5.3). Also disclose if these policies cover specific groups of or all consumers and/or end-users. Disclose: • the company's human rights policy commitments that are relevant to consumers and end-users; • whether and how the company's policies for consumers and end-users align with internationally recognised instruments relevant to communities and indigenous peoples; and • the extent to which cases contravening the UN Guiding Principles on Business and Human Rights, ILO Declaration on Fundamental Principles and Rights at Work or OECD Guidelines for Multinational Enterprises, and that involve consumers and/or end-users have been reported in the company's downstream value chain. If applicable, indicate the nature of these cases. *ESRS S4.18–22* **S4-2 Process for engaging with consumers and end-users about impacts** Disclose whether and how consumers and end-users' perspectives inform the company's decisions or activities. This includes providing relevant information on: • how and when it occurs; • which member of management is responsible; and • how the company assesses its effectiveness. If a company has not adopted a process to engage with consumers and end-users, then it discloses this fact. *ESRS S4.23–27* **S4-3 Process to remediate negative impacts and channels for consumers and end-users to raise concerns** Describe the processes the company has in place to provide for or cooperate in remediating negative impacts on consumers and end-users that it is connected with. Describe also the channels available to consumers and end-users to raise concerns and have them addressed. ESRS S4 requires this description to include the following specific information: • the company's approach to and processes for contributing to remedies; • channels the company has in place for consumers and end-users to report concerns; and • how the company tracks and monitors issues raised and how it assesses consumers and end-users' awareness of, and trust in, the channels in place. If a company has not adopted a channel for raising concerns or does not support the availability of such mechanisms by its business relationships, then it discloses this fact.

	Area	Summary of disclosure requirements
ESRS S4.28–37		**S4-4 Taking action on material impacts for consumers and end-users and approaches to managing material risks and pursuing material opportunities related to consumers and end-users, and the effectiveness of those actions.** Disclose how the company takes action to: • address impacts on consumers and end-users; and • manage risks and pursue opportunities related to consumers and end-users, and the effectiveness of those actions. Provide a summarised description of the company's action plans and resources to manage its IROs related to consumers and end-users, as set out in MDR-A in ESRS 2 (see 3.5.3). ESRS S2 requires the following specific information to be included in its description of actions related to IROs. • The processes used to identify actions needed. • The company's approach to taking actions. • Actions planned, underway or taken. • How the company tracks the effectiveness of its actions. • Which resources are allocated to managing the company's material impacts. Disclose whether and how the company takes action to avoid causing or contributing to material negative impacts on consumers and/or end-users through its own practices. Disclose reported severe human rights issues and incidents connected to its value chain.
ESRS S4.38–42 ESRS 2	**Metrics and targets**	**S2-5 Targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities** Disclose the targets the company may have set for addressing impacts and managing risks and opportunities related to consumers and end-users. In addition to disclosing the information required by MDR-T in ESRS 2 (see 3.6.2), disclose the process for setting targets. This includes describing whether and how the company engages with consumers and end-users in identifying, setting and tracking its targets.

6.8 Business conduct

Topic-specific standard ESRS G1 sets out disclosure requirements for business conduct matters. The requirements focus on business ethics, corporate culture, relationships with suppliers and lobbying activities.

The table below summarises the disclosure requirements included in ESRS G1 under each of the four reporting areas. ESRS G1 also includes additional disclosures that a company may include with respect to the topics covered.

	Area	Summary of disclosure requirements
ESRS G1.5 ESRS 2	**Governance**	**GOV-1 The role of the governing bodies** Disclose information on the role of governing bodies related to business conduct and the expertise of those bodies on business conduct matters.
	Strategy	None.
ESRS G1.6 ESRS 2	**IRO management**	**IRO-1 Description of the process to identify and assess IROs** Disclose the process and all relevant criteria used in the company's process to identify IROs – e.g. the location, activities, sector and structure of the transactions data. For example, a company may analyse whether it has sites in countries with a high risk of corruption. As a result, subsidiaries in high-risk countries might have disclosures on IROs whereas subsidiaries in other countries might not. A company can identify high-risk countries through the annual list published by the NGO Transparency International.
ESRS G1.7–11		**G1-1 Business conduct policies and corporate culture** Disclose the company's policies on business conduct matters and explain how they establish, develop, promote and evaluate the company's corporate culture. The disclosure is required to cover specific aspects of a company's policies including mechanisms for identifying, reporting and investigating concerns, and safeguarding measures (e.g. policies related to whistleblowers, business conduct training and animal welfare).
ESRS G1.12–15		**G1-2 Management of relationships with suppliers** Provide information on the company's management of its relationships with its suppliers and the impact on its supply chain. This includes information that enables users to understand the procurement processes applied to ensure fair behaviour with suppliers and a description of the policy to prevent late payments.
ESRS G1.16–21		**G1-3 Prevention and detection of corruption and bribery** Provide information about the company's system to prevent and detect, investigate and respond to allegations or incidents related to corruption and bribery. For example, information on training sessions to own workers and on communication tools and channels (e.g. dedicated social media, flyers and newsletters) provided internally or to suppliers.

Area	Summary of disclosure requirements
Metrics and targets	*ESRS G1.22–26* **G1-4 Incidents of corruption or bribery** Disclose information on incidents of corruption or bribery during the reporting period, including the number of convictions and the amount of fines for violation of anti-corruption and anti-bribery laws. Disclose also any actions taken to address breaches in procedures and of anti-corruption and anti-bribery standards. Include in these disclosures those incidents involving actors in the company's value chain when it or its employees are directly involved.
	ESRS G1.27–30 **G1-5 Political influence and lobbying activities** Provide information on the company's activities and commitments related to exerting its political influence – e.g. its responsibilities for overseeing those activities, its financial or in-kind political contributions, the main topics covered by its activities and its positions on these, and its registration in the EU Transparency Register or equivalent.
	ESRS G1.31–33 **G1-6 Payment practices** Provide information on the company's payment practices, including specific information – e.g. the average number of days to pay an invoice, its standard payment terms (in days), the number of current legal proceedings for late payments and additional relevant contextual information.

7 Presentation

ESRS 1 provides the key principles for preparing a sustainability statement, including the structure and location of information.

This chapter explains some of the principles that are important to understand when preparing sustainability statements under ESRS. The topics covered are:

- **Qualitative characteristics of information** (see Section 7.1);
- **Connected information** (see Section 7.2);
- **Location and structure of the sustainability statement** (see Section 7.3); and
- **Incorporation by reference** (see Section 7.4).

7.1 Qualitative characteristics of information

ESRS 1.19–20, QC1, QC5, QC10, QC13, QC16

A company needs to provide useful information with both fundamental and enhancing characteristics. To meet the fundamental characteristics, companies provide information that is:

- **relevant**: capable of influencing users' decisions; and
- a **faithful representation**: a complete, neutral and accurate depiction of the IRO it purports to represent.

To meet the enhancing characteristics, companies provide information that is:

- **comparable**: can be compared with prior periods' disclosures and with other companies' disclosures;
- **verifiable**: possible to corroborate by a knowledgeable and independent observer; and
- **understandable**: clear and concise.

Will all companies in a particular industry provide the same information?

No. A company provides information that is specific to its unique facts and circumstances. Adapting a disclosure to align with industry peers that would result in less-relevant information would not meet the requirement to provide useful information.

For example, if all companies in a particular industry provide information on global water usage, but one company has a specific sustainability-related risk affecting a water-stressed site, then that company would provide material information specific to that site, even if all its peers did not make a similar disclosure.

Does all of the information a company discloses need to be perfectly precise?

ESRS 1.QC9

No. A sustainability statement needs to be accurate, but that does not mean it needs to be perfectly precise in all respects. The level of precision depends on the nature of the information and the matters to which the information relates. Accuracy does require that:

- there are no material errors made:
  - in factual information; or
  - in selecting and applying an appropriate process for developing a forecast, estimate or approximation;
- forecasts, estimates and approximations are clearly identified as such;
- descriptions are precise;
- assertions and inputs used in developing estimates are reasonable and based on information of sufficient quality and quantity; and
- information on judgements about the future faithfully reflects the information the judgements are based on and the judgements themselves.

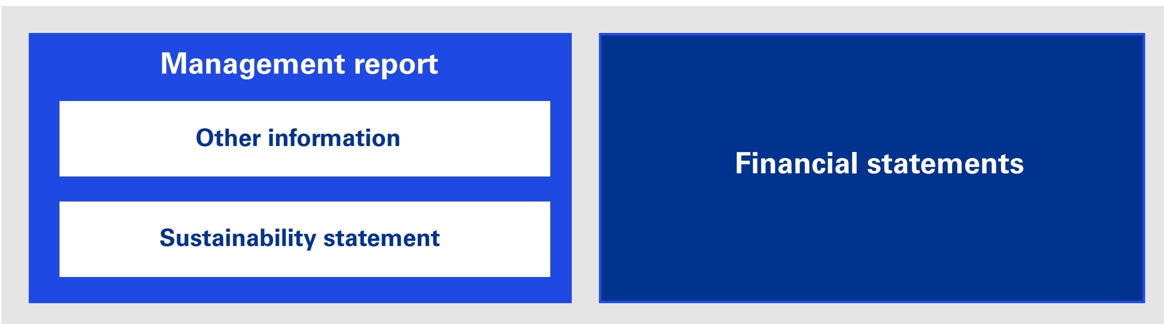
7.2 Connected information

ESRS 1.118, 123

A company is required to describe the connections between different pieces of information. This includes explaining the connections between both:

- the underlying business issues – e.g. its identified IROs; and
- the related information about those underlying business issues, including:
  - within the sustainability statement; and
  - across the financial statements, sustainability statement and other content in the company's management report.

A company also needs to decide how to present information to ensure that relevant connections are clear and concise.



7.2.1 Connecting the sustainability statement and financial statements

ESRS 1.123

A company may need to explain:

- connections between its governance, strategy and IRO management disclosures and its metrics and targets;
- the effect or likely effect of its strategy on its financial statements or financial plans;
- how its strategy relates to metrics and targets used to measure progress against performance;
- how its use of natural resources and changes within its supply chain could amplify, change or reduce its IROs; or
- the link between narrative information to the related metrics and targets and to information in the financial statements.

ESRS specify when and how connections between the sustainability statement and the financial statements need to be disclosed.

	Type of connection	What to disclose
ESRS 1.124	**Direct**	• When the sustainability statement includes monetary amounts or other quantitative datapoints that are presented in the financial statements: – include a reference to the relevant paragraph of its financial statements where the corresponding information can be found.
ESRS 1.125	**Indirect**	• When the sustainability statement includes monetary amounts or other quantitative datapoints that are either an aggregation of, or a part of, monetary amounts or quantitative data presented in the financial statements: – explain how the amounts or datapoints relate to the most relevant amounts presented in the financial statements; and – include a reference to the line item and/or to the relevant paragraphs of its financial statements where the corresponding information can be found. Note: To do this, a company might provide a reconciliation, which could be presented in a tabular form.
ESRS 1.126–128	**Data, assumptions and qualitative information**	• Explain, based on a threshold of materiality, how consistent the significant data, assumptions and qualitative information included in the sustainability statement are with the corresponding data, assumptions and qualitative information included in the financial statements, and then explain any differences. Note: Consistency is required to be considered at the level of a single datapoint. An example of when an explanation would be required is when consistent macroeconomic or business projections are used to develop metrics in the sustainability statement, and they are also used in estimating the recoverable amount of assets or the amount of liabilities in the financial statements.
ESRS 1.129, ESRS E1.55	**Specific requirements**	• Topic-specific and sector-specific ESRS might contain requirements to include reconciliations or to illustrate consistency of data and assumptions for specific disclosure requirements. For example, ESRS E1 requires the net revenue amounts used in the GHG emissions metric (which is disclosed in the sustainability statement) to be reconciled to the relevant line item or notes in the financial statements.

Example 6 – Direct connectivity with the financial statements

ESRS 1.124, 129, ESRS E1.55

Company Y is a global retailer. As part of its DMA process, it has assessed climate change as a material sustainability matter and determines that the GHG emissions intensity metric is material information. Therefore, Y discloses the metric which is calculated as total gross GHG emissions divided by net revenue.

The net revenue figure used in the calculation is the amount presented in Y's related financial statements – i.e. there is direct connectivity. Because Y has used a quantitative datapoint from its financial statements, it discloses the reference to the relevant paragraph in its financial statements where the net revenue figure can be found.

Sustainability statement

GHG Intensity

$$\frac{\text{Total GHG emissions in tCO}_2\text{e}}{\text{Net revenue (€m) per the financial statements}} = \frac{1{,}161}{45} = 25.8$$

Consolidated statement of profit or loss and other comprehensive income

	€m
Revenue	45
Cost of sales	(30)
Gross profit	**15**
Other income	2
Other expenses	(5)
Operating profit	**12**

Example 7 – Consistency of data and assumptions with the financial statements

ESRS 1.126(b), 128(b)

Company M is a packaging manufacturer. In March 2024, M makes a public statement at its annual shareholder meeting and on its website that it commits to:

- reduce its future annual Scope 1 and 2 emissions (as determined under the GHG Protocol Corporate Standard) by 75 percent of 2023 levels by 2030; and
- purchase carbon credits for use as offsets against its residual emissions produced in 2030 and thereafter.

To support its statement, M publishes its transition plan which includes:

- steps it plans to take to meet its Scope 1 and 2 emissions target, while also helping to reduce Scope 3 emissions;
- the actions it has taken to date to support its plan; and
- its plan to report its progress annually on its website.

M discloses in its sustainability statement that as part of its transition plan, it plans to replace carbon-intensive items of property, plant and equipment such as its forklifts.

M also discloses a hypothetical 'what-if' adverse scenario in its sustainability statement, in which the company's cash flow prospects would not be sufficient to support the impairment conclusions in the financial statements.

In its sustainability statement, M explains:

- that the useful lives of the forklifts recognised in its related financial statements are consistent with the timing of the plan to replace its carbon-intensive assets; and
- how the assumptions used for the impairment assessment in the financial statements differ from those used in preparing the scenario analysis, cross-referring to any disclosures of those assumptions in the financial statements, if applicable.

Is a company likely to identify situations in which data and assumptions are not consistent with its financial statements?

ESRS 1.127

Yes. The data and assumptions used in preparing the sustainability statement and the financial statements may differ because of different requirements in IFRS Accounting Standards or other GAAP. When significant data, assumptions and qualitative information are not consistent, a company discloses that fact and explains the reason – helping users to understand and reconcile the information in the sustainability statement to the financial statements.

For example, under IAS 36 *Impairment of Assets*, cash flow projections based on the most recent financial budgets or forecasts cover a maximum period of five years when estimating the value in use of an asset (or cash-generating unit) in the impairment analysis, unless a longer period can be justified[17]. In the absence of such a time limit under ESRS, a company might base projections in its sustainability statement on a longer forecasting period, when appropriate. In such a case, a company would need to disclose information about the differences in the assumptions.

Do ESRS require changes in accounting policy to ensure consistency in data and assumptions?

No, ESRS do not require a company to change its accounting policies, nor do they require disclosures to be made in the financial statements. However, a company needs to ensure that it tells a connected story – by providing a coherent and connected picture across its financial statements, sustainability statement and other areas of its corporate reporting.

17. Further, under IAS 36, cash flow projections beyond the period covered by the company's most recent budgets or forecasts are estimated by extrapolating the projections based on the budgets or forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified.

7.3 Location and structure of the sustainability statement

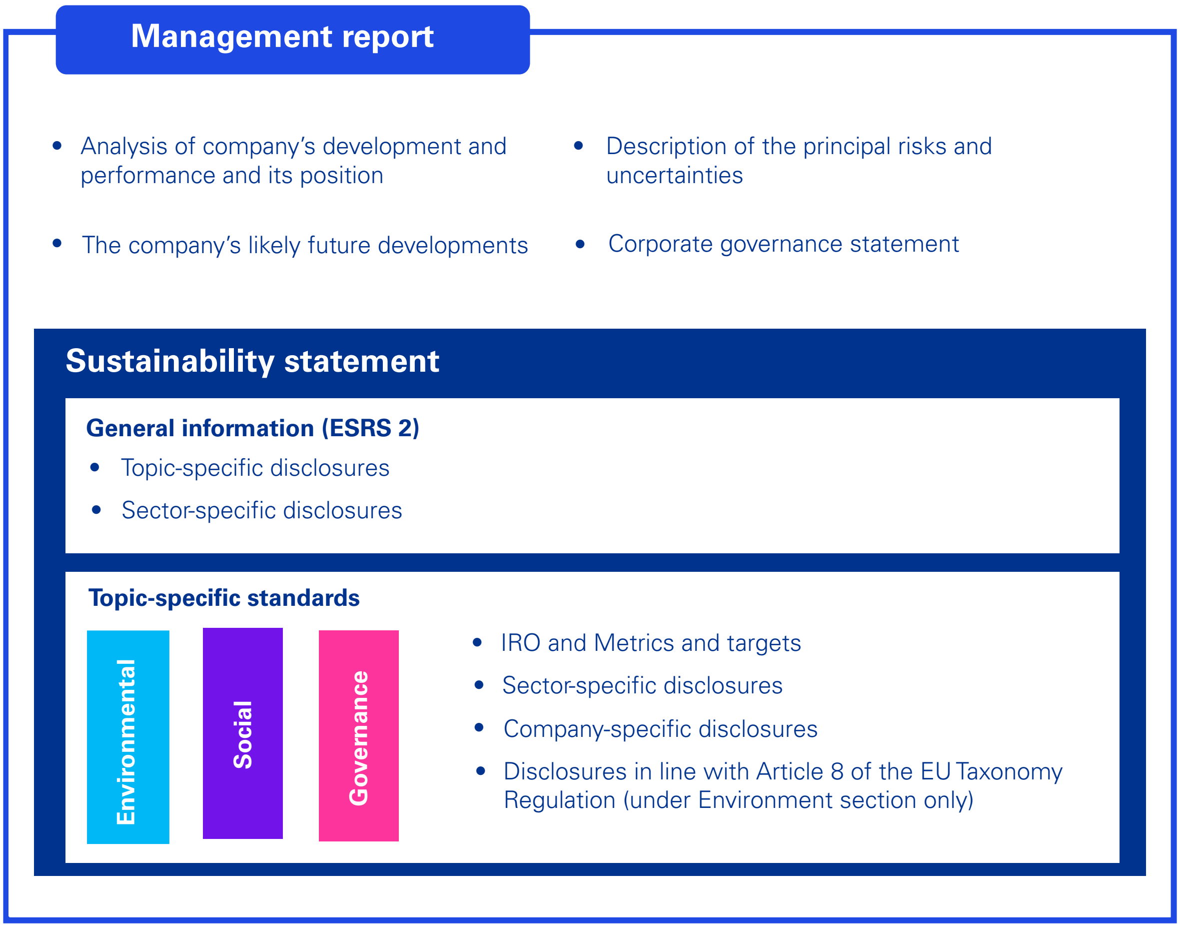
ESRS 1.111–112, 114–117

ESRS mandate where information is located and how it is structured in the sustainability statement.

- Information is required to be disclosed in a clearly identified, dedicated section of the management report. Subject to certain conditions, information can be incorporated in the sustainability statement by reference (see Section 7.4).
- Information in the sustainability statement needs to be presented:
  - in a way that allows a distinction between information required by ESRS, and other information included in the management report; and
  - in a format that is both human- and machine-readable using the European Single Electronic Format (ESEF) and marked-up within the management report in accordance with the specific digital taxonomy that will be adopted by way of an amendment to the ESEF Delegated Regulation.
- The sustainability statement needs to be presented in a specific order – i.e. general information, environmental, social, governance information – as set out in the diagram below, but the disclosures within the sections do not.
- Any other information that a company includes in its sustainability statement – e.g. based on other legislation or guidance – is presented separately and distinctly. The reporting needs to clarify that this information refers to other requirements and provide a suitable reference.
- When information provided in one part of the sustainability statement contains information to be reported in another part, a company may refer to information presented in another part to avoid duplication.
- Sector-specific disclosures need to be grouped by cross-cutting reporting area and topic.
- Company-specific disclosures need to be reported alongside the most relevant reporting areas.

Draft EC FAQ 38

Note that until the adoption of the ESRS XBRL Taxonomy, a company is not required to mark-up its sustainability statement or prepare its management report in the electronic reporting format – i.e. XHTML.



Source: ESRS 1 Appendix F: Example of structure of ESRS sustainability statement

ESRS 1.113 A company is also required to disclose information required by the EU Taxonomy (Article 8 of the Taxonomy Regulation) in a separately identifiable part of the environmental section of the sustainability statement.

EFRAG Q&A ID 38 ESRS 2 contains specific requirements for presenting information required by SBM-3 in the topic-specific ESRS. Those disclosures can either be presented alongside information required by ESRS 2, or alongside the respective topic-specific disclosures (i.e. in the environmental, social or governance sections of the sustainability statement). If the information is presented alongside topic-specific disclosures, then the company still has to present a statement of its IROs alongside its disclosures prepared under SBM-3 of ESRS 2.

ESRS 2.13 When a company changes the way it prepares or presents information in its sustainability statement from the previous reporting period, it is required by BP-2 of ESRS 2 to provide information about the change (see Section 8.6 and 3.2.2).

Does a company have to follow the order of the disclosure requirements in ESRS when preparing its sustainability statement?

EFRAG Q&A ID 426, ID 38

No. A company needs to present its sustainability statement in four sections – i.e. general information, environmental, social and governance information – but it does not need to present its disclosures in a specific order within the four sections. For example, for health and safety, a company might 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 topic-specific ESRS, such as ESRS S1.

A company might find it useful to refer to the digital ESRS XBRL Taxonomy to prepare its sustainability statement in a structured way. EFRAG published implementation guidance, IG 3 *List of ESRS Data Points*, which a company can refer to when preparing its sustainability statement.

7.4 Incorporation by reference

ESRS 1.119

Some companies also release other documents in addition to their financial statements and management report. Information may be incorporated in the sustainability statement by reference to any of the following.

- Another section of the management report.
- The financial statements.
- The corporate governance statement (if not part of the management report).
- The remuneration report (required by the Shareholder Rights Directive).
- The universal registration document (as referred to in Article 9 of the Prospectus Regulation).
- Pillar 3 disclosures (Public disclosures under the Capital Requirements Regulation).

ESRS 1.120

Incorporation by reference to the documents (or part of the documents) listed above is permitted if a company meets all of the following conditions.

- The information incorporated by reference can be clearly identified as addressing the relevant disclosure requirement or specific datapoint.
- The report is released at the same time, or before, the management report containing the sustainability statement.
- The report is in the same language as the sustainability statement.
- Any information incorporated by reference is subject to at least the same level of assurance as the sustainability statement.
- The report's technical requirements for digitalisation are the same as those for the sustainability statement – i.e. prepared using ESEF.

ESRS 2.16

If a company chooses to incorporate information in its sustainability statement by reference, it is required to disclose a list of the disclosure requirements in ESRS which have been incorporated by reference.

ESRS 1.120, 122

A company is also required to consider the overall cohesiveness of the information it reports and ensure that incorporating information by reference does not impair the readability of the sustainability statement. A company may find these conditions challenging to meet. Therefore, it may prefer to avoid incorporating information by reference.

Can a company cross-refer to a separate sustainability report?

No. Incorporating information by reference is only permitted with respect to specific reports (set out above) and the sustainability statement needs to be included in the management report.

Currently, many companies publish a separate sustainability report to provide a comprehensive description of their impacts on the economy, environment or society, as well as information about sustainability-related risks and opportunities. When applying ESRS, a company needs to follow the prescribed presentation structure of the sustainability statement, with incorporation by reference only permitted to limited reports and subject to certain conditions.

Can a company include additional disclosures based on other laws or sustainability reporting frameworks in its sustainability statement?

ESRS 1.114, ESRS 2.15

Yes. A company can include additional information based on other laws, sustainability reporting frameworks (e.g. ISSB or GRI Standards) or guidance in its sustainability statement, provided the disclosures:

- are clearly identified with appropriate reference to the relevant laws or frameworks; and
- meet the requirements for qualitative characteristics of information (see Section 7.1).

If doing so, a company needs to disclose the fact that it includes information from other EU laws or reporting frameworks in its sustainability statement and a reference to the paragraphs of the standard or framework applied.

This is separate to the transitional provisions in ESRS 1 for company-specific information (see Section 9.2).

Can a company cross-refer to its EU Eco-Management and Audit Scheme (EMAS) report?

ESRS 1.121

Yes. A company is permitted to cross-refer to its EMAS report when providing information required by ESRS, subject to the general incorporation by reference conditions. In addition, a company is required to ensure that the information included by reference is prepared using the same basis for preparation as required under ESRS – e.g. the same scope of consolidation and treatment of value chain information.

8 Practicalities of reporting

ESRS 1 outlines the principles and guidance to support a company in providing comparable and connected information.

A company needs to implement effective processes to be able to produce a compliant sustainability statement. For example, reporting at the same time as the financial statements and for the same period will be a change for many companies, and may require significant incremental effort and cross-company collaboration.

This chapter covers:

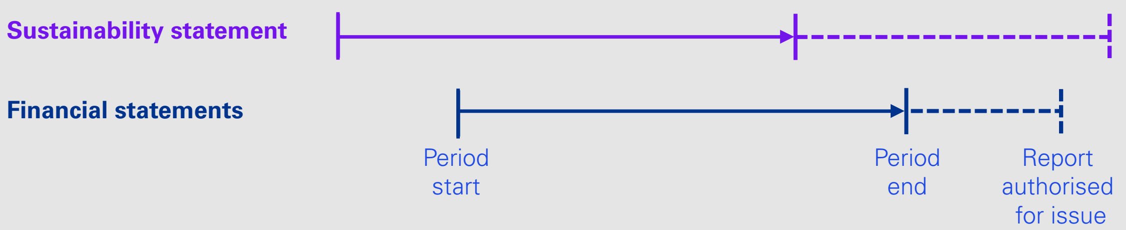
- the **reporting period –** i.e. when to report and for what period (see Section 8.1);
- **time horizons** used in preparing the sustainability statement (see Section 8.2);
- using **judgement** (see Section 8.3);
- using **estimates** and estimation uncertainty (see Section 8.4);
- disclosing **confidential information** (see Section 8.5);
- disclosing **comparative information** and **changes in information presented** (see Section 8.6);
- correcting **errors** (see Section 8.7); and
- reporting information about **opportunities** (see Section 8.8).

8.1 Reporting period

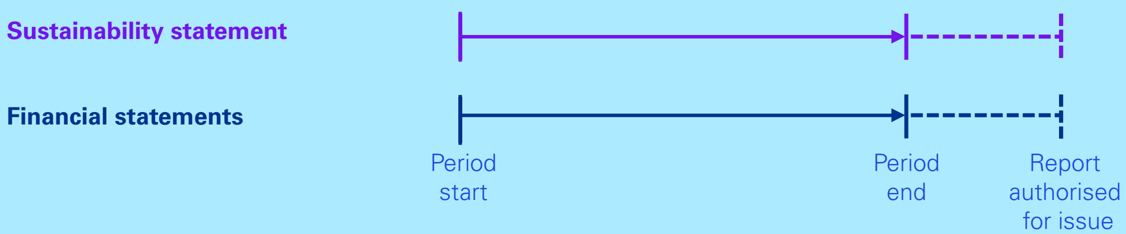
ESRS 1.73, 112

A company reports its sustainability statement for the same period and at the same time as its annual financial statements.

Current practice illustration



Under the standards



Preparing the sustainability statement at the same time as the financial statements may require substantial effort across the company and affect departments beyond financial and sustainability reporting – e.g. legal, HR, procurement, sales and IT. A company needs sufficiently rigorous processes and controls to generate high-quality information.

Is it possible to report some metrics on a different basis to the financial year if the financial year basis is not the calendar year?

ESRS 1.73, 89–90, ESRS E1.AR42, EFRAG Q&A ID 286

Generally, no. The reporting period for the sustainability statement is the same as the related financial statements. Therefore, it is not possible to report metrics for a period that differs from the reporting period for the financial statements and the sustainability statement.

For example, a company with a financial reporting period of 1 July to 30 June could not report its energy consumption metrics based on its energy bill for the calendar year (i.e. 1 January to 31 December). If using the energy bill as a basis for calculating its energy consumption, the company needs to adjust the information in the energy bill to reflect the effective usage for the reporting period of 1 July to 30 June. However, the energy bill data might form the basis of a usage estimate for a portion of the period.

An exception exists for GHG emissions when a company has a different reporting period from some or all of the companies in its value chain. In such circumstances, a company is permitted to measure its GHG emissions using information for reporting periods that are different from its own reporting period, subject to certain conditions (see 4.4.3).

8.1.1 Events after the end of the reporting period

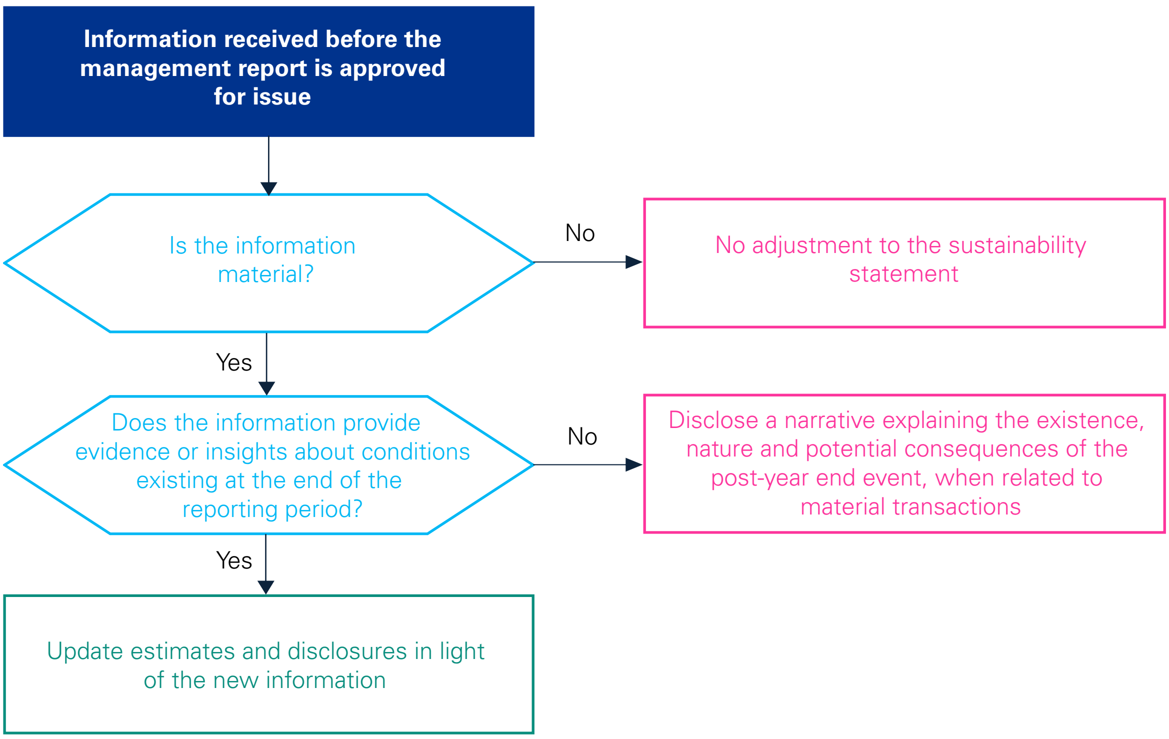
A company may receive information after the reporting date but before the management report (including the sustainability statement) has been approved for issue.

ESRS 1.93

A company needs to report information obtained up to the date the management report is authorised for issue, if such information is material. However, only information about conditions that existed at the end of the reporting period is used to update estimates and disclosures, when appropriate. This is consistent with the approach taken for adjusting and non-adjusting events in IFRS Accounting Standards.

ESRS 1.94

Conversely, if information relates to material transactions, events or other conditions that arise after the end of the reporting period, a company provides narrative disclosures about their existence, nature and potential consequences.



For example, if a company estimated information about its GHG emissions for the last quarter of the year but, before the report's approval for issue, it obtained information about its actual emissions for the last quarter, it would adjust its GHG emissions metrics, if material. However, if a significant change in the value chain occurred after the period end, a company would not adjust its metrics for the reporting period to take account of the change, but would disclose material information about the change.

Example 8 – Events after the end of the reporting period

Company D, a drinks manufacturer, relies on a third-party company to bottle its product before it sells on to consumers. After the period end, new information is identified from the outcome of an audit at this supplier.

The new information shows that the supplier had switched its energy provider during the year which impacted the GHG emissions of the bottles produced.

The information is identified prior to the management report being approved for issue. Although the information provides evidence of conditions existing at the end of the reporting period (i.e. the supplier switched energy providers during the year), in this case, D determines that the metrics disclosed would not materially change based on the new information provided. Therefore, no adjustment is made to the related metrics and disclosures in the sustainability statement.

8.2 Time horizons

ESRS 1.43, 49 IROs can arise over the short, medium or long term and ESRS emphasise the importance of showing the relationship between historic and forward-looking information.

ESRS 1.74 Forward-looking information might include descriptions of action plans, targets the company has set, or explanations of anticipated financial effects.

ESRS 1.43, 49 Providing information across time horizons enables users to understand when IROs could be reasonably expected to impact people and the environment and affect the company's development, financial position, financial performance, cash flows, access to finance or cost of capital.

ESRS 1.77, 78 Generally, a company is required to use the time horizons specified in ESRS 1 when preparing its sustainability statement. Having a standardised approach to the time horizons used in sustainability statements allows for better comparability across companies. The time horizons a company is required to use are defined as follows.

Short term	**Reporting period used in the financial statements**
Medium term	**End of the short-term reporting period, up to five years**
Long term	**More than five years, additional breakdown can be used to provide relevant information about long-term impacts and actions for users**

ESRS 1.79

The definition for the short-term time horizon aligns with the reporting period of the financial statements to facilitate connectivity between the sustainability and financial reporting. Certain ESRS may require different definitions of medium- or long-term time horizons. If that is the case, a company applies the definitions specified in the topic-specific or sector-specific standard.

ESRS 1.80, EFRAG Q&A ID 180

In some cases, the time horizons defined in ESRS 1 may not result in a company providing relevant information to users. This could be due to industry-specific characteristics, such as cash flow and business cycles, or the expected duration of capital investments and other factors, including the company's internal planning horizons. In such cases, a company may use its own definitions for medium- and long-term time horizons.

ESRS 2.9

When a company deviates from the time horizons defined in ESRS 1, it discloses the following information required by BP-2 of ESRS 2 (see 3.2.2):

- its definitions of medium- or long-term time horizons; and
- the reasons for using those definitions.

Can a company deviate from the time horizons defined in ESRS?

ESRS 1.80, ESRS 2.9

Yes. For example, a forestry company defines medium term as 10 years in its cash flow forecast for internal planning purposes, and determines that it is more relevant to use 10 years as its definition of medium-term when preparing its sustainability statement. The company discloses that its medium-term time horizon is 10 years and the reason for using that definition.

Does a company have to make an explicit link between historical and forward-looking information?

ESRS 1.74

Yes. A company is required to establish appropriate linkages between historical information and forward-looking information in a meaningful way, to show the relationship between past and future sustainability information. A company could present its sustainability information in the same format, units and time intervals to support the comparison of past, present and future data.

8.3 Use of judgement

A company will use judgement when applying ESRS, for example when:

- making estimates (see Section 8.4);
- providing information about the future (see 8.4.2);
- assessing materiality (see Section 2.6); and
- deciding what information to provide about opportunities (see Section 8.8).

ESRS 1.42, IG 1.29

Additionally, a company is required to provide transparency on the judgement exercised in its DMA process – i.e. quantitative or qualitative thresholds and other criteria used (see 3.5.1).

8.4 Use of estimates

ESRS 1.89

Estimates are a fundamental part of preparing the sustainability statement. They do not undermine the usefulness of the information and are needed, for example, when information is forward-looking, or because there is a lack of relevant historical data or more accurate measurement techniques.

ESRS 1.87

Estimates often require management to make difficult, subjective or complex judgements. The number of variables and assumptions affecting those judgements means that there is uncertainty underlying estimates. Measurement uncertainty arises when amounts cannot be measured directly. Sources of measurement uncertainty may include measurement techniques, dependence on future events and the quality or availability of data from the value chain.

ESRS 1.72, 89

The use of reasonable assumptions and estimates (e.g. use of scenario or sensitivity analysis and sector-average data or other proxies) does not undermine the usefulness of the information or prevent it from meeting the qualitative characteristics of information (see Section 7.1), even when there is a high level of measurement uncertainty.

Draft EC FAQ 29

A company needs to consider whether using estimates is likely to affect the quality of the information it reports. In some cases, using estimates could enhance the quality of reported information – e.g. if it helps to ensure that information about the IROs is neutral or if the actual collected information would not be of the appropriate reliability. In other cases, using estimates could reduce the quality of the reported information – e.g. if it results in information that is less accurate and/or less complete.

ESRS 1.88, IG 1.27

A company is required to provide information to enable users to understand the most significant uncertainties affecting the quantitative metrics and monetary amounts a company reports.

ESRS 2.11

ESRS 2 requires information to be reported about the judgements made in estimating quantitative metrics and monetary amounts that are subject to a high level of measurement uncertainty.

The following information is needed to ensure that users have transparency over sources of estimation and outcome uncertainty.

Information	What to disclose
Sources of estimation and outcome uncertainty	• The identity of the quantitative metrics and monetary amounts that are subject to a high level of measurement uncertainty. • For each quantitative metric and monetary amount identified: – information about the sources of measurement uncertainty; and – the assumptions, approximations and judgements the company has made in measuring it.

ESRS 2.8

A company may report the specific information required under BP-2 alongside the disclosures to which they refer – i.e. the information is not required to be included in a separate section of the sustainability statement (see 3.2.2).

ESRS 1.95

Estimates may need to be revised as new information becomes known, including in some cases revising comparative information related to estimated figures disclosed in a previous period (see 8.6.1).

8.4.1 Value chain estimates

ESRS 1.69, AR17

Measurement uncertainty often arises when a company cannot collect information about its value chain after making reasonable efforts to do so. In these circumstances, a company estimates the information to be reported about its upstream and downstream value chain by using all reasonable and supportable information that is available at the reporting date without undue cost or effort. This includes, but is not limited to, internal and external information, such as:

- indirectly sourced data;
- sector-average data;
- sample analyses, market and peer group data;
- other proxies; or
- spend-based data.

ESRS 2.10

ESRS 2 requires information to be reported when a company's metrics include value chain data estimated using indirect sources such as sector-average data or other proxies (see 3.2.2).

Information	What to disclose
Value chain estimation	• The identity of the metrics. • How the metrics are calculated. • The level of accuracy of the estimate. • If applicable, the planned actions to improve the accuracy of the metric in the future.

Example 9 – Estimating value chain information

Company C, operating in the clothing retail sector, encounters significant difficulties when collecting data from suppliers in its value chain for its Scope 3 emissions disclosure. In this case, C uses an estimate based on proxy data or sector-average data that is readily available through clothing manufacturing industry journals. This does not undermine the usefulness of the information disclosed, provided the company explains the estimate it is using.

What constitutes 'reasonable effort' under ESRS 1?

Draft EC FAQ 29

'Reasonable effort' is based on a company's specific facts and circumstances and the external environment in which it operates. This means that 'reasonable effort' will vary between companies. However, when determining what constitutes reasonable effort, a company may consider the following factors. Meeting any one or a combination of these factors could be sufficient to determine that a company has made reasonable effort.

Factors influencing reasonable effort	Description
Company size and resources	Reasonable effort for a larger, well-resourced company might exceed that for a smaller company with fewer resources but a similar value chain.
Technical readiness	Reasonable effort for a very large company with substantial prior experience of collecting sustainability information from actors in its value chain might exceed that for a smaller company with no such prior experience.
Availability of tools to access and share value chain information	The availability of these tools to a company, including digital tools, will affect what constitutes reasonable effort.
Level of influence and buying power over actors in the value chain	Obtaining information from an actor in the value chain that is partly owned by the company or that earns a high proportion of its revenue from sales to the company may require less effort.
Size, resources and capability of actors in the value chain	If a company's value chain includes smaller companies, then they may not have adequate resources to provide information to the company.
Proximity of actors in the value chain	If an actor in the value chain is a Tier 1 supplier or a direct customer of the company, then obtaining information may require less effort than for other actors in the value chain.

8.4.2 Future events with uncertain outcomes

Some IROs may have uncertain outcomes that may only crystallise over the longer term. For example, a company might expect a new piece of environmental regulation to be introduced over the next decade. When considering anticipated financial effects, the company's ability to pass the costs associated with the new regulations on to its customers may be highly uncertain, depending on how the regulation is implemented and how the company's competitors respond.

ESRS 1.91

ESRS require a company to disclose information about possible future events that have uncertain outcomes. To determine if this information is material and therefore needs to be disclosed, a company might consider:

- the anticipated financial effects;
- the severity and likelihood of the impacts (see 2.6.1); and
- the full range of possible outcomes and the likelihood of such outcomes.

Does a company need to consider uncertain outcomes which have a low probability?

ESRS 1.92

Yes. A company considers all relevant facts and circumstances when investigating possible outcomes, as well as information about low-probability and high-impact outcomes that could become material when they are aggregated.

For example, a company's supply chain could be disrupted because it is exposed to several impacts and risks that could cause the same type of disruption. Information about the aggregate risk affecting the supply chain could be material even if the risks are not considered to be material individually – e.g. because disruption from that source is highly unlikely to occur.

8.5 Confidential information

ESRS 1.105

ESRS 1 includes certain exemptions from reporting when information is classified, sensitive or relates to intellectual property, know-how or the results of innovation (i.e. confidential information).

Annex II

Classified information is defined as any information or material designated by an EU security classification[18].

Annex II

Sensitive information is defined as information and data, including classified information, which is to be protected from unauthorised access or disclosure because of obligations laid down in EU or local laws, or in order to safeguard the privacy or security of an individual or company[19].

ESRS 1.105

A company is not required to disclose classified or sensitive information, even if such information is material.

18. The unauthorised disclosure of which could cause varying degrees of prejudice to the interests of the European Union or of one or more of the member states. EU classified information is defined in 2013/488/EU: Council Decision of 23 September 2013 on the security rules for protecting EU classified information (OJ L 274, 15.10.2013, p. 1).
19. Sensitive information is defined in Regulation (EU) 2021/697 of the European Parliament and of the Council of 29 April 2021 establishing the European Defence Fund and repealing Regulation (EU) 2018/1092 (OJ L 170, 12.5.2021, p. 149).

ESRS 1.106

Specific pieces of information about intellectual property, know-how or the results of innovation that are relevant to disclosures about a company's strategy, plans and actions may be omitted in limited circumstances when the information:

- is secret and not readily known or accessible to those that deal with such information;
- has commercial value due to the secretive nature of the information; and
- has been subject to reasonable steps to keep it secret.

ESRS 1.107–108, ESRS 2.5(d)

If information is omitted because it is confidential, the rest of the information required by the disclosure requirement still needs to be disclosed, while making every reasonable effort to maintain the relevance of the disclosure. A company is also required to disclose whether it has used an exemption to omit information.

Example 10 – Confidential information

ESRS 1.107–108, ESRS 2.5(d)

Car manufacturer M operates in the automotive sector and as part of its strategy to transition to a lower-carbon economy, it has invested and developed a new technology that improves the performance of its electric vehicles, whilst reducing carbon emissions from the vehicles.

This technology uses hydrogen to produce electricity and is in the early stages of development. Although the information about M's strategy to transition to electric vehicles is market knowledge, the information about the exact technology that is under development is secret in nature and has high commercial value, given its ability to reduce emissions without compromising vehicle performance.

As the information about this new technology is not publicly available, has commercial value and M's management team have taken steps to ensure it remains a secret, information about the technology may be omitted as part of the disclosures. However, M is still required to disclose information about its climate-related transition plan and discloses the fact that it has taken the exemption to omit certain information about its proprietary technology.

8.6 Comparative information

ESRS 1.83, 86

A company needs to disclose comparative information for the previous period for all metrics and monetary amounts disclosed in the current period unless topic- or sector-specific ESRS require otherwise. A company also includes comparative information for narrative disclosures when the information is relevant to understanding the current period's sustainability statement.

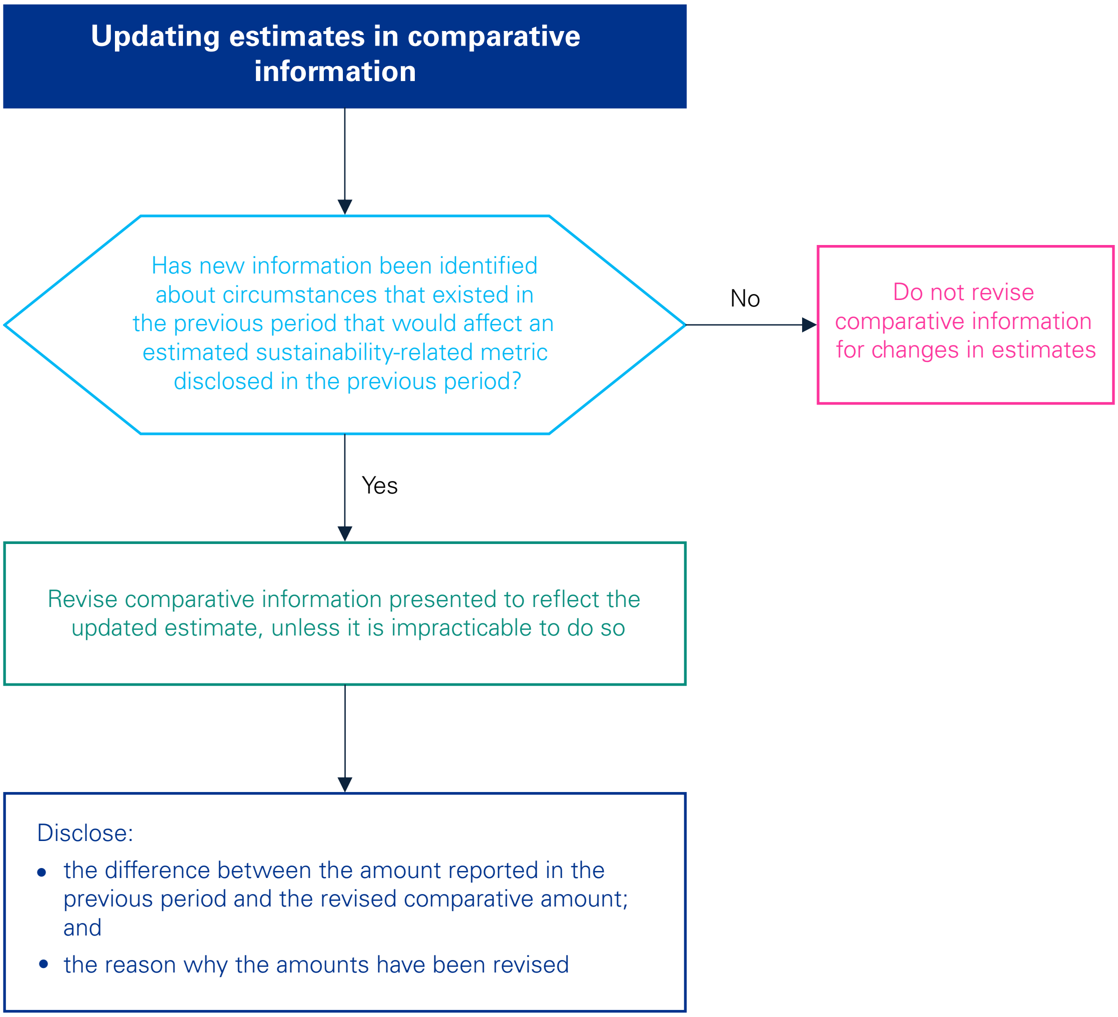
ESRS 1.136

There is an exemption from providing comparative information which is available in the first year that companies apply ESRS (see Section 9.2).

8.6.1 Updating estimates in comparative information

ESRS 1.95

If a company identifies new information in relation to the estimated amount disclosed in the previous period and that information provides evidence about circumstances that existed in the previous reporting period, then it may need to revise the comparative amount.



This differs from many accounting frameworks (e.g. IFRS Accounting Standards) which require that a change in estimate is reflected only prospectively in the financial statements (i.e. comparative information is not restated), the reason being that comparability is relevant to see progress against targets and therefore the estimation needs to be based on the same conditions.

Example 11 – Change in estimates: Disclosure of comparatives

Company M discloses metrics based on average hourly wages by location for certain low-paid employee groups, to illustrate its sustainability-related risk of financial penalties from minimum wage legislation breaches.

M estimates its average hourly wage figures based on total wages paid to employees (excluding overtime pay) in the lowest pay grades at each location, divided by actual working hours (excluding overtime hours) and compares this to minimum wages in each location. For 20X3, M obtained actual employee working-hour data from the working time management system, which records information for completed hours – i.e. rounding down to the nearest completed hour.

In 20X4, M implemented a new working time management system to record exact working-hour data by minute. This followed an inspection in late 20X3 which identified potential breaches of minimum wage legislation caused by poor record keeping.

In 20X3, management estimated that the fine for breaches of minimum wage legislation could be 3,000 and obtained initial estimates of 4,000 for the new system's required capital expenditure. In 20X4, a fine of 2,000 was imposed and M incurred expenses of 4,500 to purchase and implement the new system.

In its sustainability statement in 20X3 and 20X4, M discloses the items as follows.

20X3

Comparative period 20X2	Current period 20X3
20X2 average hourly wage figures using working-hour data from the original system, compared to minimum wages by location.	20X3 average hourly wage figures using working-hour data from the original system, compared to minimum wages by location. Discussion of the results of the inspection and planned response, including the planned future capital expenditure of 4,000. Cross-reference to the financial statements where a provision for the fine of 3,000 was discussed.

20X4

Comparative period 20X3	Current period 20X4
20X3 average hourly wage figures using the old system, including an explanation that although in 20X4 it was discovered that the 20X3 estimate was understated compared to the new methodology, it was impracticable to update the estimate because updated data for 20X3 had not been recorded at the time. The planned future capital expenditure of 4,000. Cross-reference to the financial statements, where comparatives include a 3,000 provision for the potential fine (not revised).	20X4 average hourly wage figures using working-hour data from the new system, compared to minimum wages by location. Discussion of the response to the 20X3 inspection, including the incurred expenditure on the new system of 4,500, noting that this had risen compared to the prior-year estimate of 4,000. Cross-reference to the financial statements where the imposed fine of 2,000 was recorded as paid and the related provision released.

Example 12 – Change in Scope 3 emissions estimates

Telecommunications Company T estimates and discloses its Scope 3 emissions.

During 20X1, T starts reporting its Scope 3 emissions using a more accurate estimation process, resulting in a material change in its Scope 3 emissions estimates.

T's sustainability statement for these periods includes explanations of the items below.

20X0	• The methodology used to calculate its emissions.
20X1	• That T revised its comparatives, explaining that this was to make use of a more accurate estimation process. • The difference between the restated comparative amounts and the amounts disclosed in the preceding period.

Note: Other disclosures are also required relating to Scope 3 emissions (see 4.4.3).

8.6.2 Updating or replacing a metric or target

ESRS 1.95

The definition and calculation of metrics, including metrics used to set targets and monitor progress towards them, needs to be consistent over time.

ESRS 1.84–85, 95, ESRS 2.13

When a company changes the way it prepares or presents information in the sustainability statement from the previous reporting period, it is required to provide information about the change.

Information	What to disclose
Changes in the preparation or presentation of sustainability information	• When a company changes, replaces or stops disclosing a metric that was disclosed in the previous reporting period, it discloses: – an explanation of the change; – the reason for the change, including why the replacement metric is more useful; and – its restated comparatives, unless this is impracticable. • When a company introduces a new metric, it discloses a comparative amount for that metric, unless that is impracticable. • When it is impracticable to revise comparative amounts, companies need to disclose that fact.

ESRS 1.85, ESRS 2.13(b)

As noted above, when it is impracticable to revise comparative amounts, a company discloses this fact. For example, following a change in methodology, a company identifies that it did not collate the information that it needed in prior periods to restate the comparatives and is unable to recreate it in the current period. In this case, the company would explain the reason why it was not able to restate its comparatives.

8.7 Errors

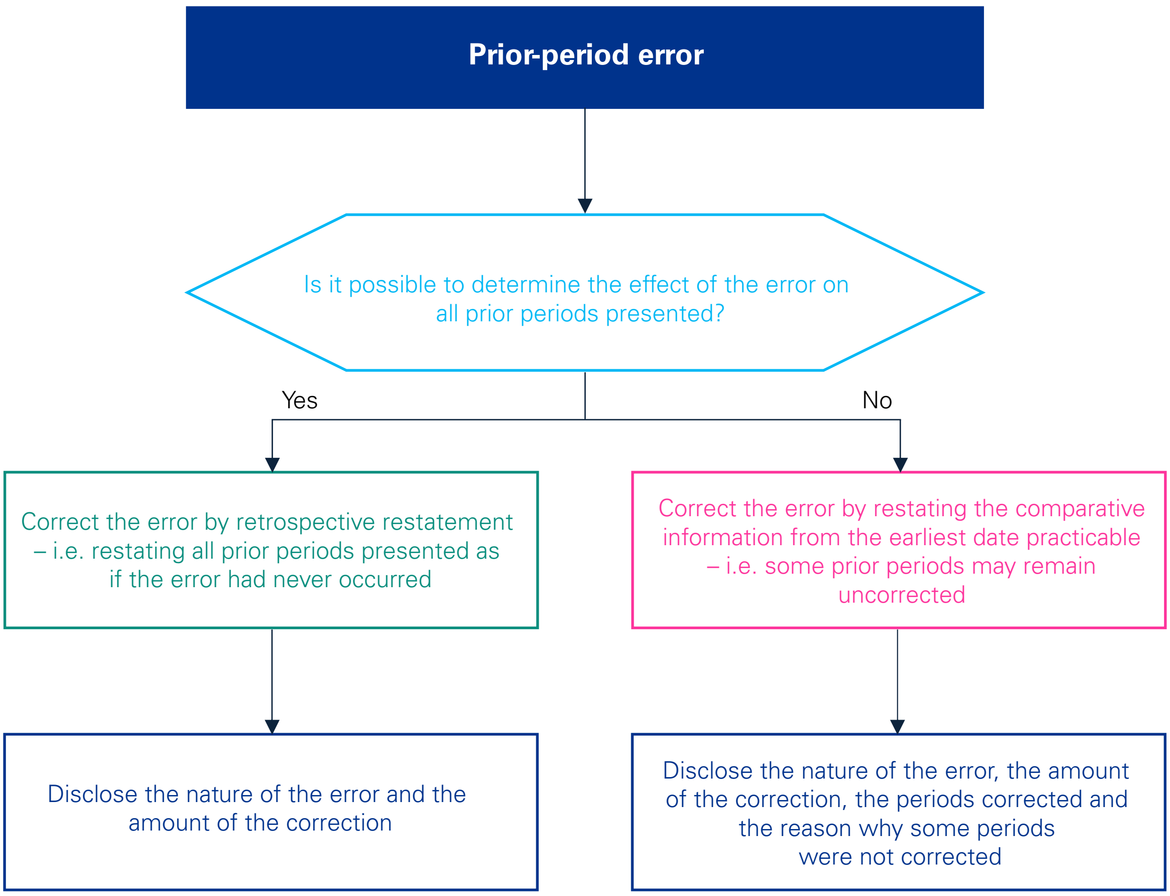
ESRS 1.97 Prior-period errors are omissions from, and misstatements in, a company's sustainability statement for one or more periods. Errors arise from a failure to use or the misuse of reliable information that:

- was available when the management report (including the sustainability statement) for those periods was authorised for issue; and
- the company could reasonably have obtained and considered in preparing those disclosures.

ESRS 1.98 Errors include mathematical mistakes, mistakes in applying the definitions of metrics or targets, oversights or misinterpretations of facts, and fraud.

ESRS 1.99 Potential errors in the current period which are discovered in that period are corrected before the management report is authorised for issue.

ESRS 1.96, 100, ESRS 2.14 Companies correct material prior-period errors by revising (i.e. restating) the comparative amounts disclosed, unless it is impracticable to do so. This diagram depicts the process a company follows if it identifies a prior-period error.



ESRS 1.101 Corrections of prior-period errors are different from changes in estimates. A change in estimate results from new information or new developments, rather than omissions from or misstatements in the company's sustainability statement (see 8.6.1).

8.8 Reporting on opportunities

ESRS 1.109, ESRS 2.48(e)

The nature of opportunities means that reporting information about them may require further consideration by a company.

When considering the materiality of information to disclose about opportunities, a company needs to consider:

- whether the opportunity is currently being pursued and is part of the company's general strategy, as opposed to being a general opportunity for the company or the sector it operates in; and
- whether it is appropriate to include quantitative information in the disclosures the company provides on the anticipated financial effects of an opportunity because of the inherent level of uncertainty and high number of assumptions that may be involved in providing the information.

9 Effective date and transition

The standards apply for certain large companies from 1 January 2024 with phased introduction and transition reliefs.

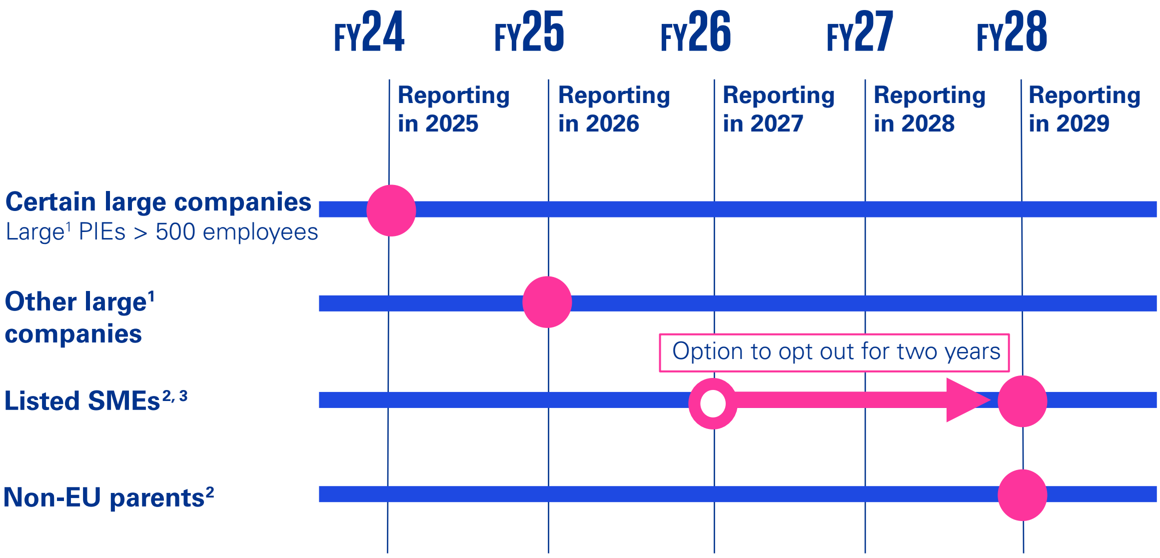
Companies need to understand when ESRS impact them and how they will transition.

9.1 Effective date

The CSRD mandates which companies are in scope of ESRS. ESRS will be applied by:

- all large EU companies;
- most companies with securities listed on EU regulated markets; and
- non-EU companies with substantial activity and a presence in the EU[20].

The CSRD specifies the effective date of ESRS. They first apply for years beginning on or after 1 January 2024 (i.e. reporting in 2025) for certain large companies, with a phased introduction for other companies in subsequent years.



[1] Large companies are those that, on the balance sheet date, exceed two of the following three criteria (including EU and non-EU subsidiaries) in the last two consecutive years:

- 250 average employees during the financial year;
- net revenue of EUR 50m; or
- total assets of EUR 25m.

[2] Separate standards will be developed for SMEs and non-EU parent companies.

[3] Small and non-complex institutions and captive insurers are treated like listed SMEs (the option to opt out until 2028 does not apply unless they also meet the definition of an SME).

20. For further information about the scoping criteria for non-EU companies, see page 7 of Get ready for European Sustainability Reporting Standards.

9.2 Transition reliefs

When a company first applies ESRS, there are various reliefs available to help with transition. Whilst some of these transition reliefs are available to all companies, others are specific to those with fewer than 750 employees.

The available reliefs can be summarised as follows.

Reference	Relief	Timing of relief	How it applies
ESRS 1.136	**Comparative information (see Section 8.6)**	Year 1	Disclosures are not required for any period before the date of initial application. This means that comparative information is not required in the first annual reporting period.
ESRS 1.131(a)	**Company-specific disclosures (see 2.8.4)**	Year 1–3	Disclosures reported in periods before the date of initial application of ESRS may continue to be used if they meet the characteristics of useful information in ESRS 1 (see Section 7.1).
ESRS 1.131(b), EFRAG Q&A ID 106	**Sector-specific disclosures (see Section 1.3)**	Year 1–3	Existing best practice or other available frameworks – e.g. ISSB Standards' industry-based guidance (i.e. the SASB Standards) or GRI Sector Standards – may be used to develop relevant company-specific disclosures in advance of sector-specific ESRS being adopted.
ESRS 1.132–135, IG 2.82	**Value chain information (see Section 2.1)**	Year 1–3	If information about the value chain is not available, it does not need to be provided in the first three years of reporting. However, this relief is not applicable when: • disclosing information on policies, actions and targets. In these cases, a company may limit information about the value chain to available in-house and publicly available data; and • disclosing information for datapoints derived from other EU laws which are listed in ESRS 2. A company taking this relief needs to explain: • the efforts it has made to obtain the necessary information about its value chain; • the reasons why not all the information could be obtained; and • its plans to obtain the information in the future.

ESRS 1.137

Relief	Timing of relief	How it applies
		This temporary relief does not relieve a company of the requirement to consider the value chain in its materiality assessment. Starting from the fourth annual reporting period in which a company applies ESRS, it is required to include value chain information. The information required by ESRS to be obtained from SMEs in the company's value chain will not exceed the content of the future ESRS for listed SMEs.
Phased-in (see 9.2.1)	Various	Certain ESRS requirements only become effective in the second or third year of reporting. ESRS 1 contains a list of disclosure requirements that are subject to phased-in relief. Some phased-in reliefs are available to all companies; others are only available to companies with fewer than 750 employees – e.g. the relief from applying disclosure requirements in ESRS E4 for the first two years of reporting.

The datapoints that are derived from other EU laws need to be disclosed irrespective of a company's DMA if there is a related requirement in ESRS 2. If the corresponding requirement is in the topic-specific ESRS, they are subject to the materiality assessment. The disclosure of datapoints derived from EU laws need to be reported irrespective of any transition relief available, unless specifically stated in an ESRS.

Does the value chain transition relief only apply to SMEs in the value chain?

ESRS 1.134

No, it is not limited to SMEs in the value chain, but is applicable to all types of actors in the value chain. This is because whilst SMEs may struggle to collect and provide the relevant information, data quality and availability issues are expected to be pervasive regardless of the size of the company.

9.2.1 Phased-in relief

ESRS 1.137, C

In addition to the above transition reliefs, ESRS 1 includes phased-in reliefs for specific disclosure requirements. These phased-in reliefs can be broadly split into reliefs available to all companies and those available to companies with fewer than 750 employees. When a company takes these reliefs, it is also permitted to exclude comparative information in the subsequent year of reporting. This means that the company is not required to collate information for the phased-in requirements in the reporting periods in which the phasing-in applies.

All companies

Standard	Disclosure requirement(s)	Transition relief
ESRS 2	• SBM-1 Breakdown of total revenue by significant sector • SBM-3 Anticipated financial effects	Until sector-specific ESRS are adopted Omit information in the **first year** and provide only qualitative disclosures for the **first three years**[1]
Environmental	**Anticipated financial effects from:** • E1-9 Material physical and transition risks and potential climate-related opportunities • E2-6 Pollution-related risks and opportunities[2] • E3-5 Water and marine resources-related risks and opportunities • E4-6 Biodiversity and ecosystem-related risks and opportunities • E5-6 Resource use and circular economy-related risks and opportunities	Omit information in the **first year** Provide only qualitative disclosures for the **first three years**[1]
Social	See below for further information about the relief available for specific disclosure requirements in the ESRS S1	Relief for the first annual reporting period. See below

[1] ESRS 2 and ESRS E1 specify that relief is available from providing quantitative information about anticipated financial effects in the first three annual reporting periods if it is impracticable to do so. For the other topic-specific standards, there is no impracticable threshold to meet in order to apply the relief.

[2] Despite the existence of relief, ESRS E2 still requires information about operating and capital expenditures that occurred during the reporting period in conjunction with major incidents and deposits – i.e. some quantitative information is required.

ESRS 1.C

ESRS 1 includes phased-in relief for specific disclosure requirements in ESRS S1 for the first annual reporting period in which a company applies ESRS.

All companies		
Standard	**Disclosure requirement(s)**	**Transition relief**
Social	• S1-7 Characteristics of non-employee workers in the company's own workforce	Omit the disclosure of all datapoints in the **first three years**
	• S1-8 Collective bargaining coverage and social dialogue	Omit the disclosures for own employees in non-EEA countries in the **first year**
	• S1-11 Social protection • S1-12 Persons with disabilities • S1-13 Training and skills development • S1-15 Work-life balance	Omit the disclosures required in the **first year**
	• S1-14 Work-related ill-heath number of days lost to injuries, accidents, fatalities and work-related ill health • S1-14 Health and safety of non-employees	Omit in the **first year**: • the datapoints relating to work-related ill health and on number of days lost to injuries, accidents, fatalities and work-related ill health; and • reporting on non-employees.

ESRS 1.C

The following phased-in relief is available to companies with fewer than 750 employees.

Companies with fewer than 750 employees		
Standard	**Disclosure requirement(s)**	**Transition relief**
Environmental	• ESRS E1-6 Data points on Scope 3 emissions and total GHG emissions	Omit information in the **first year**
	All disclosure requirements in • ESRS E4 *Biodiversity and eco-systems*	Omit information in the **first two years**
Social	**All disclosure requirements in** • ESRS S1 *Own workforce*	Omit information in the **first year**
	All disclosure requirements in • ESRS S2 *Workers in the value chain* • ESRS S3 *Affected communities* • ESRS S4 *Consumers and end-users*	Omit information in the **first two years**

ESRS 2.17

If a company with fewer than 750 employees applies the phased-in relief to omit information required by ESRS E4, ESRS S1, ESRS S2, ESRS S3 or ESRS S4, then it still has to disclose the following 'de minimis' information for each topic identified as material.

Information	What to disclose
Use of phased-in reliefs by a company with fewer than 750 employees	• When applying the phased-in transition relief applicable to companies with fewer than 750 employees, a company is required to disclose whether topics covered by the following ESRS have been assessed as material: – ESRS E4; – ESRS S1; – ESRS S2; – ESRS S3; and – ESRS S4. • If any of the topics is material, the company is required to: – disclose the list of sustainability matters that are material and describe how the company's business model and strategy considers the company's sustainability-related impacts related to those matters; – describe any time-bound targets the company has set related to the matters, including the progress it has made to achieve those targets and whether its targets related to biodiversity and ecosystems are based on conclusive scientific evidence; – describe the policies relating to the matters; – describe the actions taken to identify, monitor, prevent, mitigate, remediate or bring an end to actual or potential adverse impacts relating to the matters and the outcome of such actions; and – disclose the metrics the company uses to measure performance towards the targets set.

In the years in which the phased-in reliefs for fewer than 750 employees are applied, where does a company present the minimum disclosures required by ESRS 2?

ESRS 1.115, ESRS 2.1, 61, 71, EFRAG Q&A ID 306

The minimum disclosures may be disclosed as part of the general information required by ESRS 2 – e.g. together with the disclosures related to SBM-3 (see 3.4.3).

Another reasonable approach might be to disclose this information in the related environmental, social and governance sections of the sustainability statement, with appropriate cross-referencing to the general information section. This is because ESRS 2 permits companies to present information on policies, actions, metrics and targets alongside disclosures prescribed by the relevant topic-specific ESRS.

Are disclosure requirements in the topic-specific ESRS that are related to ESRS 2 also subject to the phased-in reliefs for companies with fewer than 750 employees?

ESRS 2.17, EFRAG Q&A ID 291

Yes. The phased-in reliefs relate to all disclosure requirements in the topic-specific ESRS, including the ESRS 2-related disclosure requirements in the topic-specific ESRS.

When applying the phased-in reliefs for companies with fewer than 750 employees, a company is still required to provide certain minimum disclosures for its material topics – see table above for discussion of the de minimis information required.

If disclosures are still required for phased-in ESRS (e.g. ESRS E4), what is the benefit in applying the phased-in relief for companies with fewer than 750 employees?

ESRS 2.17, EFRAG Q&A ID 58

The phased-in transition relief permits companies to provide less-granular information than will be required after the transition period. The information required to be provided is more summarised than the requirements in the topic-specific ESRS.

These are the main simplifications.

- A company may choose to disclose at topic, subtopic or sub-subtopic level; separate disclosure of IROs is not required. The company is not required to disclose where IROs are concentrated in its business model, its own operations and its value chain.
- Information related to sustainability-related impacts on a company's strategy and business model may be disclosed at a more summarised level.
- Further detailed information about IROs is not required. However, a company may find it useful to disclose some contextual information about impacts, which is required by paragraph 48(c) of ESRS 2 – e.g. the reasonably expected time horizon of impacts and whether impacts arise through the company's activities or because of its business relationships.
- A summarised description of policies, actions and targets is required instead of the detailed datapoints in MDR-P (see 3.5.3.1), MDR-A (see 3.5.3.2) and MDR-T (see 3.6.2) in ESRS 2.
- A company may apply judgement in applying the requirements for metrics in the topic-specific ESRS. Such judgement relates to the number and nature of metrics disclosed – e.g. the company may disclose a reduced number of metrics or at a high level of granularity. For example, a metric may be presented at a global level without a breakdown by jurisdiction.

Can the transition relief for value chain information be applied to the reporting of Scope 3 emissions?

ESRS 1.133, B, C, ESRS E1.44

No, the disclosure of Scope 3 emissions is a datapoint derived from EU laws which needs to be reported irrespective of any transition relief available. The only exception is for companies with fewer than 750 employees – these companies can omit the datapoints on Scope 3 emissions and total GHG emissions from ESRS E1 for the first year they apply ESRS.

10 EU Taxonomy

The EU Taxonomy applies to all companies that prepare a sustainability statement.

The EU Taxonomy is a classification system for sustainable activities. The requirements are set out in a standalone regulation[21] that is supported by delegated acts[22]. It aims to help the EU meet its European Green Deal environmental ambitions by:

- establishing criteria for companies to determine whether an economic activity – and investment in such economic activities – is environmentally sustainable; and
- providing a standardised, common language of what is sustainable, to support both companies and investors in making comparisons and to avoid greenwashing.

For reporting periods beginning on or after 1 January 2024, the EU Taxonomy requirements apply to a company if it prepares a sustainability statement – see Chapter 9 for a discussion on effective dates for ESRS.

The EU Taxonomy requirements will continue to be amended as the regulation evolves. A company therefore needs to be alert for additions and changes in existing economic activities.

Eligible and aligned activities

A company is required to identify which of its activities are eligible activities (potentially sustainable activities) and aligned activities (sustainable activities) based on the Technical Screening Criteria set out by the EU Taxonomy. The process is illustrated below.

1	**Identify economic activities**	The EU Taxonomy defines that an economic activity takes place when resources (e.g. capital goods, labour, manufacturing techniques or intermediary products) are combined to produce specific goods or services. Therefore, an economic activity includes an input of resources, a production process and an output of products (goods or services).
2	**Determine eligible activities**	The EU Taxonomy sets out the list of activities that are eligible. This typically means that a company's economic activity is eligible if it matches the description of an activity included in the requirements of the Delegated Act. When an economic activity is **eligible**, then it is **potentially environmentally sustainable**.
3	**Determine aligned activities**	Aligned activities are eligible activities that fulfil all of the following three criteria. • Contribute substantially to at least one environmental objective ('**substantial contribution**'). • **Do Not Significantly Harm** (DNSH) any of the other environmental objectives. • Are carried out in compliance with the **minimum safeguards** (which are the same for all activities). Each eligible activity has its own specific substantial contribution and DNSH criteria. **Aligned** activities are **environmentally sustainable**.

Note: Minimum safeguards are defined in Article 18 of Taxonomy Regulation (EU) 2020/852.

21. Taxonomy Regulation (EU) 2020/852.
22. Disclosures Delegated Act (EU) 2021/2178, Climate Delegated Act (EU) 2021/2139 and Environmental Delegated Act (EU) 2021/2139.

KPIs

Under the EU Taxonomy, a company is required to report specified KPIs which provide information on how environmentally sustainable a company's activities are in a common format.

The EU Taxonomy disclosures are included in the environmental section of the sustainability statement. The EU Taxonomy includes calculation requirements and tables that are required to be used as the basis to present the information.

EU Taxonomy disclosure requirements differ between non-financial companies and types of financial companies[23].

Type of company	KPIs to report
Non-financial	Focus on the activities a company carries out. Present the percentage of the company's net turnover, CapEx and OpEx which relate to eligible and aligned activities.
Financial	Focus on the activities that a company's financial products fund. Vary by type of company but focus on income and investments.

23. Financial companies include asset managers, credit institutions, investment firms, insurance and reinsurance companies.

Appendix 1: Glossary

A1.1 Key terminology

The following key terms are used often throughout this publication and their description aligns with those as set out in the annex to Directive 2013/34/EU (the Annex). This list of terms is not exhaustive: a glossary of all defined terms in ESRS is available in the Annex.

Actions	**Actions** refer to: i. actions and action plans (including transition plans) that are undertaken to ensure that the company delivers against targets set and through which the company seeks to address material impacts, risks and opportunities; and ii. decisions to support these with financial, human or technological resources.
Anticipated financial effects	Financial effects that do not meet the recognition criteria for inclusion in the financial statement line items in the reporting period and that are not captured by the current financial effects.
Business model	The company's system of **transforming inputs through its activities into outputs and outcomes** that aims to fulfil the company's strategic purposes and create value over the short, medium and long term. ESRS use the term 'business model' in the singular, although it is recognised that companies may have more than one business model.
Business relationships	The relationships the company has with **business partners, entities in its value chain, and any other non-state or state entity directly linked to its business operations, products or services**. Business relationships are not limited to direct contractual relationships. They include indirect business relationships in the company's value chain beyond the first tier and shareholding positions in joint ventures or investments.
Carbon credit	A **transferable or tradable instrument** that represents one metric tonne of CO_2eq emissions reduction or removal and is issued and verified according to recognised quality standards.
Child labour	Work that deprives children of their childhood, their potential and their dignity, and that is harmful to physical and mental development. It refers to work that: i. is mentally, physically, socially or morally dangerous and harmful to children; and/or ii. interferes with their schooling by depriving them of the opportunity to attend school; obliging them to leave school prematurely; or requiring them to attempt to combine school attendance with excessively long and heavy work. A child is defined as a person under the age of 18. Whether or not particular forms of 'work' can be called 'child labour' depends on the child's age, the type and hours of work performed and the conditions under which it is performed. The answer varies from country to country, as well as among sectors within countries.

	The minimum age of work should not be less than the minimum age of completion of compulsory schooling, and, in any case, should not be less than 15 years according to ILO Convention No. 138 on Minimum Age. Exceptions can occur in certain countries where economies and educational facilities are insufficiently developed, and a minimum age of 14 years applies. These countries of exception are specified by the ILO in response to a special application by the country concerned and in consultation with representative organisations of employers and workers. National laws may permit the employment of persons 13 to 15 years of age in light work as long as it is not likely to be harmful to their health or development and does not prejudice their attendance at school or participation in vocational or training programmes. The minimum age for admission into work which by its nature or the circumstances in which it is carried out is likely to jeopardise the health, safety or morals of young persons shall not be less than 18 years.
Climate change adaptation	The process of adjustment to actual and expected climate change and its impacts.
Climate change mitigation	The process of **reducing GHG emissions** and holding the increase in the global average temperature to 1.5°C above pre-industrial levels, in line with the Paris Agreement.
Climate resilience	The capacity of a company to adjust to climate change and to developments or uncertainties related to climate change. Climate resilience involves the **capacity to manage climate-related Scope 1 and benefit from climate-related opportunities**, including the ability to respond and adapt to transition risks and physical risks. A company's climate resilience includes both its strategic resilience and its operational resilience to climate-related changes, developments or uncertainties associated with climate change.
Climate-related physical risk (Physical risk from climate change)	Risks resulting from climate change that can be event-driven (acute) or from longer-term shifts (chronic) in climate patterns. Acute physical risks arise from particular hazards, especially weather-related events such as storms, floods, fires or heatwaves. Chronic physical risks arise from longer-term changes in the climate, such as temperature changes, and their effects on rising sea levels, reduced water availability, biodiversity loss and changes in land and soil productivity.
Current financial effects	Financial effects for the current reporting period that are recognised in the primary financial statements.
Decarbonisation levers	Aggregated types of mitigation actions such as energy efficiency, electrification, fuel switching, use of renewable energy, products change and supply-chain decarbonisation that fit with companies' specific actions.
Double materiality	Double materiality has two dimensions: impact materiality and financial materiality. A sustainability matter meets the criterion of double materiality if it is material from the impact perspective or the financial perspective or both.
Financial effects	Effects from risks and opportunities that affect the company's financial position, financial performance and cash flows over the short, medium or long term.

Forced labour	All work or service which is exacted from any person under the threat of penalty and for which the person has not offered himself or herself voluntarily. The term encompasses all situations in which persons are coerced by any means to perform work and includes both traditional 'slave-like' practices and contemporary forms of coercion where labour exploitation is involved, which may include human trafficking and modern slavery.
Global warming potential (GWP)	A factor describing the radiative forcing impact (degree of harm to the atmosphere) of one unit of a given greenhouse gas relative to one unit of CO_2.
Greenhouse gases (GHG)	The gases listed in Part 2 of Annex V of Regulation (EU) 2018/1999 of the European Parliament and of the Council[24]. These include carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), sulphur hexafluoride (SF_6), nitrogen trifluoride (NF_3), hydrofluorocarbons (HFCs) and perfluorocarbons (PFCs).
Impacts	The effect the company has or could have on the environment and people, including effects on their human rights, connected with its own operations and upstream and downstream value chain, including through its products and services, as well as through its business relationships. The impacts can be actual or potential, negative or positive, intended or unintended, and reversible or irreversible. They can arise over the short, medium or long term. Impacts indicate the company's contribution, negative or positive, to sustainable development.
Incident	A legal action or complaint registered with the company or competent authorities through a formal process, or an instance of non-compliance identified by the company through established procedures. Established procedures to identify instances of non-compliance can include management system audits, formal monitoring programmes or grievance mechanisms.
Internal carbon price	Price used by a company to assess the financial implications of changes to investment, production and consumption patterns, and of potential technological progress and future emissions abatement costs.
Internal carbon pricing scheme	An organisational arrangement that allows a company to apply carbon prices in strategic and operational decision-making. There are two types of internal carbon prices commonly used by companies. The first type is a shadow price, which is a theoretical cost or notional amount that the company does not charge but that can be used in assessing the economic implications or trade-offs for such things as risk impacts, new investments, net present value of projects and the cost-benefit of various initiatives. The second type is an internal tax or fee, which is a carbon price charged to a business activity, product line or other business unit based on its GHG emissions (these internal taxes or fees are similar to intracompany transfer pricing).
Locked-in GHG emissions	Estimates of future GHG emissions that are likely to be caused by a company's key assets or products sold within their operating lifetime.
Materiality	A sustainability matter is material if it meets the definition of impact materiality, financial materiality or both.

24. Regulation (EU) 2018/1999 of the European Parliament and of the Council of 11 December 2018 on the Governance of the Energy Union and Climate Action, amending Regulations (EC) No 663/2009 and (EC) No 715/2009 of the European Parliament and of the Council, Directives 94/22/EC, 98/70/EC, 2009/31/EC, 2009/73/EC, 2010/31/EU, 2012/27/EU and 2013/30/EU of the European Parliament and of the Council, Council Directives 2009/119/EC and (EU) 2015/652 and repealing Regulation (EU) No 525/2013 of the European Parliament and of the Council (OJ L 328, 21.12.2018, p. 1).

Metrics	Qualitative and quantitative indicators that the company uses to measure and report on the effectiveness of the delivery of its sustainability-related policies and against its targets over time. Metrics also support the measurement of the company's results in respect of affected people, the environment and the company.
Minimum disclosure requirement (MDR)	A minimum disclosure requirement sets the required content of the information that the company includes when it reports on policies, actions, metrics or targets, either in applying a disclosure requirement in an ESRS or on a company-specific basis.
Operational control	Operational control (over an entity, site, operation or asset) is the situation where the company has the ability to direct the operational activities and relationships of the entity, site, operation or asset.
Opportunities	Sustainability-related opportunities with positive financial effects.
Own workforce/ own workers	Employees who are in an employment relationship with the company (employees) and non-employees who are either individual contractors supplying labour to the company (self-employed people) or people provided by companies primarily engaged in 'employment activities' (NACE Code N78).
Physical risks	All global economic enterprise depends on the functioning of earth systems, such as a stable climate, and on ecosystem services, such as the provision of biomass (raw materials). Nature-related physical risks are a direct result of an organisation's dependence on nature. Physical risks arise when natural systems are compromised, due to the impact of climatic events (e.g. extremes of weather such as a drought), geologic events (e.g. seismic events such as an earthquake) events or changes in ecosystem equilibria (e.g. soil quality or marine ecology), which affect the ecosystem services organisations depend on. These can be acute, chronic or both. Nature-related physical risks arise as a result of changes in the biotic (living) and abiotic (non-living) conditions that support healthy, functioning ecosystems. Physical risks are usually location-specific. Nature-related physical risks are often associated with climate-related physical risks.
Policy	A set or framework of general objectives and management principles that the company uses for decision-making. A policy implements the company's strategy or management decisions related to a material sustainability matter. Each policy is under the responsibility of a defined person (or persons), specifies its perimeter of application, and includes one or more objectives (linked if applicable to measurable targets). A policy is validated and reviewed following the companies' applicable governance rules. A policy is implemented through actions or action plans.
Purchased or acquired electricity, heat, steam or cooling	When the company has received its electricity, heat, steam or cooling from a third party. The term 'acquired' reflects circumstances where a company may not directly purchase electricity (e.g. a tenant in a building), but where the energy is brought into the company's facility for use.
Recognised quality standards for carbon credits	Quality standards for carbon credits that are verifiable by independent third parties, make requirements and project reports publicly available and, at a minimum, ensure additionality, permanence, avoidance of double counting and provide rules for calculation, monitoring and verification of the project's GHG emissions and removals.

Recordable work-related injury or 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.

Risks

Sustainability-related risks with negative financial effects arising from environmental, social or governance matters that may negatively affect the company's financial position, financial performance, cash flows, access to finance or cost of capital in the short, medium or long term.

Scenario

A plausible description of how the future may develop based on a coherent and internally consistent set of assumptions about key driving forces (e.g. rate of technological change, prices) and relationships. Note that scenarios are neither predictions nor forecasts but are used to provide a view of the implications of developments and actions.

Site

The location of one or more physical installations. If there is more than one physical installation from the same or different owners or operators and certain infrastructure and facilities are shared, the entire area where the physical installations are located may constitute a site.

Supply chain

The full range of activities or processes carried out by entities upstream from the company, which provide products or services that are used in the development and production of the company's own products or services. This includes upstream entities with which the company has a direct relationship (often referred to as a Tier 1 supplier) and entities with which the company has an indirect business relationship.

Sustainability statement

The dedicated section of the company's management report where the information about sustainability matters prepared in compliance with Directive 2013/34/EU of the European Parliament, and of the Council[25] and ESRS is presented.

Targets

Measurable, outcome-oriented and time-bound goals that the company aims to achieve in relation to material impacts, risks or opportunities. They may be set voluntarily by the company or derive from legal requirements on the company.

Transition plan

A specific type of action plan that is adopted by the company in relation to a strategic decision and that addresses:

i. a public policy objective; and/or

ii. a company-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.

25. Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of companies, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC (OJ L 182, 29.6.2013, p. 19).

Transition risks	Risks that result from a misalignment between an organisation's or investor's strategy and management and the changing regulatory, policy or societal landscape in which it operates. Developments aimed at halting or reversing damage to the climate or to nature, such as government measures, technological breakthroughs, market changes, litigation and changing consumer preferences can all create or change transition risks.
Value chain	The full range of activities, resources and relationships related to the company's business model and the external environment in which it operates. A value chain encompasses the activities, resources and relationships the company uses and relies on to create its products or services from conception to delivery, consumption and end-of-life. Relevant activities, resources and relationships include: i. those in the company's own operations, such as human resources; ii. those along its supply, marketing and distribution channels, such as materials and service sourcing and product and service sale and delivery; and iii. the financing, geographical, geopolitical and regulatory environments in which the company operates. Value chain includes actors upstream and downstream from the company. Actors upstream from the company (e.g. suppliers) provide products or services that are used in the development of the company's products or services. Entities downstream from the company (e.g. distributors, customers) receive products or services from the company. ESRS use the term value chain in the singular, although it is recognised that companies may have multiple value chains.
Wage	Gross wage, excluding variable components such as overtime and incentive pay, and excluding allowances unless they are guaranteed.
Workers' representatives	Workers' representatives means: i. trade union representatives, namely representatives designated or elected by trade unions or by members of such unions in accordance with national legislation and practice; ii. duly elected representatives, namely representatives who are freely elected by the workers of the organisation, not under the domination or control of the employer in accordance with provisions of national laws or regulations or of collective agreements, and whose functions do not include activities which are the exclusive prerogative of trade unions in the country concerned and whose existence is not used to undermine the position of the trade unions concerned or their representatives.

A1.2 Acronyms

The following acronyms are used in the publication:

AR	Application requirements
BP	Basis of preparation
CapEx	Capital expenditure
COP	Conference of the Parties to the United Nations Framework Convention on Climate Change
CO_2eq	Carbon dioxide equivalent
CSDDD	Corporate Sustainability Due Diligence Directive
CSRD	Corporate Sustainability Reporting Directive
DMA	Double materiality assessment
EC	European Commission
EEA	European Economic Area
EFRAG	European Financial Reporting Advisory Group
EMAS	EU Eco-Management and Audit Scheme
ESEF	European Single Electronic Format
ESRS	European Sustainability Reporting Standards
EU	European Union
EWC	European Works Council
FTE	Full-time equivalent
GAAP	Generally Accepted Accounting Principles
GFA	Global Framework Agreement
GHG	Greenhouse gas
GOV	Governance
GRI	Global Reporting Initiative
GWP	Global Warming Potential
ILO	International Labour Organization
IPCC	Intergovernmental Panel on Climate Change
IROs	Impacts, risks and opportunities
ISO	International Organization for Standardization
ISSB	International Sustainability Standards Board (IFRS® Sustainability Disclosure Standards are sometimes known as ISSB Standards)
IUCN	International Union for Conservation of Nature
KPI	Key performance indicator
MDR	Minimum disclosure requirement
MWh	Megawatt-hours

NACE	Statistical Classification of Economic Activities in the European Community (for the French term 'Nomenclature statistique des activités économiques dans le communauté Européenne')
NGFS	Network for Greening the Financial System
NGO	Non-governmental Organisations
NUTS	Nomenclature of Territorial Units of Statistics
ODS	Ozone-depleting substances
OECD	Organisation for Economic Co-operation and Development
OpEx	Operating expenditure
SASB	Sustainability Accounting Standards Board
SBM	Strategy and business model
SCE	Societas Cooperativa Europaea
SE	Societas Europaea
SFDR	Sustainable Finance Disclosures Regulation
SME	Small- and medium-sized entities
SSP	Shared Socioeconomic Pathway
TCFD	Task Force on Climate-related Financial Disclosures
tCO_2e	Tonnes of carbon dioxide equivalent
UN	United Nations
XBRL	Extensible Business Reporting Language
XHTML	Extensible Hypertext Markup Language

Appendix 2: EFRAG Q&As

This Appendix includes Q&As published by EFRAG that are referred to in this publication.

EFRAG Question	Section
ID 29 and ID 261 – 'May' and 'shall' reporting requirements	1.3
ID 148 – Scope of consolidation for non-EU and unconsolidated subsidiaries	2.1, 4.4.3
ID 162 – Minimum number of material matters	2.3
ID 185 – Objective evidence and stakeholders' opinion	2.4
ID 37 – Positive impact only	2.6.1
ID 821 – Risk and opportunity for financial materiality	2.6.2
ID 180 – Time horizon: impact vs financial materiality	2.6.3, 8.2
ID 517 – Disclosure of thresholds	2.7
ID 442 – Entity-specific metrics	2.8.4
ID 728 – Representation of employees and other workers	3.3.1
ID 171 and ID 358 – Administrative, management and supervisory bodies	3.3.1
ID 39 – SBM-1 sector breakdown and phase-in	3.4.1
ID 482 – Breakdown of total revenue – financial institutions	3.4.1
ID 395 – Revenue/net revenue	3.4.1
ID 296 – Location of ESRS 2-related Disclosure Requirements in topical standards	3.4.3
ID 628 – Content index	3.5.2
ID 906 – Structure of sustainability statement – annex / appendix possible?	3.5.2
ID 335 – Applicability of EU data points – Appendix B	3.5.2
ID 293 – Relationship of strategy and policy	3.5.3
ID 762 – Location of policies, actions and targets in the sustainability report	3.6
ID 504 – Disclosure Requirements on material metrics when information is not available	3.6.1
ID 338 – Activities in high-climate impact sectors	4.4.2
ID 36 – Energy mix	4.4.2
ID 414 – Disaggregation of total emissions	4.4.3
ID 718 – Disaggregation of GHG emissions	4.4.3
ID 268 – GHG emissions and annual update	4.4.3
ID 535 – Emission trading schemes	4.4.3

EFRAG Question	Section
ID 251 – Emission factors disclosure	4.4.3
ID 33 – Definition of non-employees	5
ID 214 – Resources to manage material impacts	5.2.4
ID 243 – Reference to financial statements	5.3.2
ID 32 – Methodology for presenting information on employees	5.3.2
ID 365 – Significant employment	5.3.2
ID 31 – Breakdown of temporary, permanent, and non-guaranteed hours employees	5.3.2
ID 352 – Work-related ill health and fatalities from ill health	5.3.10
ID 340 – Entitlement to family-related leave	5.3.11
ID 132 – Gender pay gap	5.3.12
ID 38 – Structure of the sustainability statement	7.3
ID 426 – Structure of the sustainability statement	7.3
ID 286 – Financial year different from calendar year	8.1
ID 106 – Entity-specific guidance and examples	9.2
ID 306 – Location of MDR in the report during phase-in 750 employees	9.2.1
ID 58 – Transitional provisions 750 employees	9.2.1
ID 291 – Phase-in 750 employees and topical standards	9.2.1

Appendix 3: List of examples

Appendix 4: List of standards

Title
ESRS 1 – General requirements
ESRS 2 – General disclosures
ESRS E1 – Climate change
ESRS E2 – Pollution
ESRS E3 – Water and marine resources
ESRS E4 – Biodiversity and ecosystems
ESRS E5 – Resource use and circular economy
ESRS S1 – Own workforce
ESRS S2 – Workers in the value chain
ESRS S3 – Affected communities
ESRS S4 – Consumers and end-users
ESRS G1 – Business conduct

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ESRS

European Sustainability Reporting Standards

Comparing sustainability reporting requirements

Comparing requirements from the ISSB, EU and US SEC

GHG Protocol

Measuring and reporting greenhouse gas emissions

Financial reporting

Clear on climate reporting hub

The financial reporting impacts

Emissions and green schemes

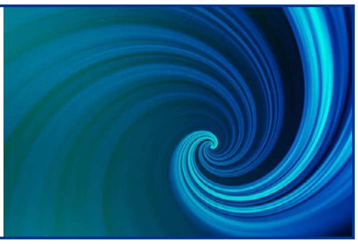
Your questions answered

Ready for ESG reporting

Insight, high-level guidance and detailed analysis

Uncertain times hub

The financial reporting impacts



For more information on US financial and sustainability reporting, see Financial Reporting View from KPMG in the US.

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