



Get ready for European Sustainability Reporting Standards

Understanding the first set of ESRs

November 2023



Get ready for European Sustainability Reporting Standards



What's the issue?

Under the CSRD, many more companies in the EU will need to prepare extensive sustainability reports as part of their management reports.

ESRSs will be applied by:

- all large and most listed EU companies;
- large subsidiaries of non-EU parents (group exemptions apply); and
- non-EU companies with a turnover in the EU of more than EUR 150 million.

In July 2023, the EC published the final text of its first set of ESRs. For the first wave of companies, disclosures will be required as early as the 2024 reporting period.



What's the impact?

The ESRs are ambitious and will have a significant impact on the scope, volume and granularity of sustainability-related information to be collected and disclosed by companies.

They introduce the concept of double materiality (the multi-stakeholder approach) and expand a company's reporting boundary to cover material information across its value chain.

A company will need to report on how its activities and value chain affect the environment and people, as well as how sustainability-related matters affect its cash flows, financial position and financial performance.



What's next?

- Make yourself familiar with the reporting requirements under the ESRs.
- Identify what you will be required to report.
- Understand the practical implications for your company's people, processes and systems.
- Prepare: based on a phased timeline, adoption will start for the first tranche of companies for years beginning on or after 1 January 2024.

[Abbreviations and key terms](#)

Key questions to get ready

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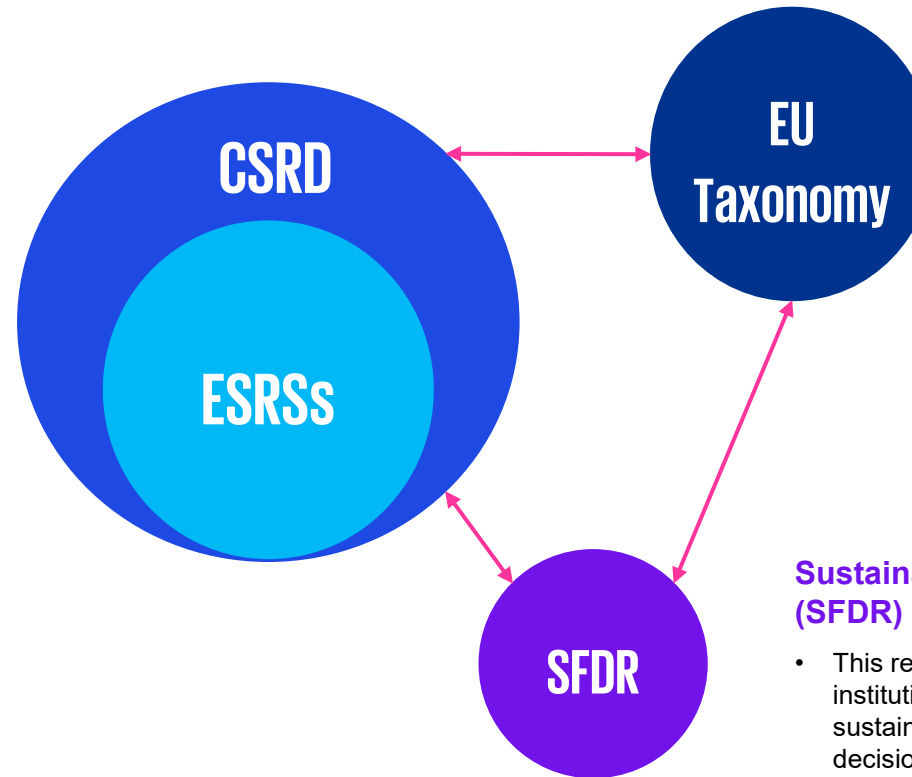
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What do you need to do now?

01 What is the legal basis for applying ESRs?

Corporate Sustainability Reporting Directive (CSRD)

- The CSRD sets out which companies need to report sustainability-related information and when. The ESRs support this with detailed reporting requirements.
- It is a key component of the EU's sustainable finance action plan¹ – which also includes reporting under the EU Taxonomy and SFDR.
- It requires companies to report on their sustainability-related information with the aim of:
 - providing investors and stakeholders access to necessary information for assessing investment risks related to climate change and other sustainability-related matters; and
 - establishing greater transparency about a company's impact on people and the environment.



EU Taxonomy

- The EU Taxonomy is a classification system that defines activities deemed to be aligned with a net-zero trajectory by 2050. It aims to help direct investment towards activities that will support the transition to a greener economy.
- As part of the CSRD, in addition to ESR requirements, companies in scope are also required to report under the EU Taxonomy regulation. This regulation sets out specific KPIs about the extent of a company's sustainable activities.

Sustainable Finance Disclosure Regulation (SFDR)

- This regulation requires asset managers and other institutional investors to disclose information about how sustainability is integrated into their investment decision-making process. To report this information, asset managers and others captured by the SFDR require data from the companies they invest in.
- ESRs are designed to provide this information, where material.



The CSRD does **not** apply solely for EU-based companies. Its [scoping requirements](#) capture a range of companies, including non-EU companies with significant operations in the EU and non-EU-based companies listed in the EU.

¹ The EU's sustainable finance action plan is part of the European Green Deal – a major package of policy initiatives designed to support the EU to achieve climate neutrality by 2050.

02 When and to whom will ESRs apply?

When: ESRs will apply for years beginning on or after 1 January 2024 (reporting in 2025). Phased introduction will start with Public Interest Entities (PIEs) and companies with listed securities on EU-regulated markets which are large and have more than 500 employees (e.g. those already subject to reporting requirements under the NFRD).

Who: Ultimately, ESRs will be applied by ([group exemptions](#) may apply):

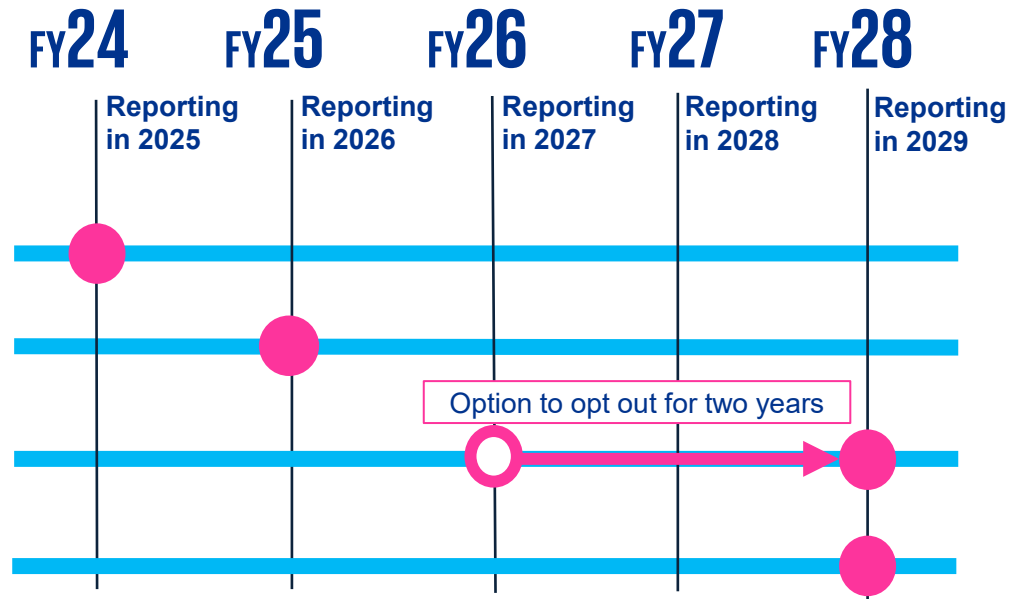
- large EU companies¹;
- [most companies with listed securities on EU-regulated markets](#) (irrespective of whether they are based in the EU or not²); and
- [ultimate non-EU parent companies](#)⁴ with a combined group turnover in the EU of more than EUR 150 million.

Certain large companies
(large¹ PIEs > 500 employees)

Other large¹ companies

Listed SMEs^{3, 4}
(except micro-undertakings²)

Non-EU parents³



¹ Large companies are those that, on the balance sheet date, exceed two of the following three criteria (including EU and non-EU subsidiaries): 250 employees, net revenue of EUR 50mn (formerly EUR 40m) or total assets of EUR 25m (formerly EUR 20m). The new thresholds take effect from FY 2024. EU member states can choose to adopt them early from FY 2023.

² Exemptions apply, for example, for micro-undertakings (companies that do not exceed two of the following three criteria (including EU and non-EU subsidiaries): 10 employees, net revenue of EUR 900,000 (formerly EUR 700,000) or total assets of EUR 450,000 (formerly EUR 350,000) and for certain debt listings. The new thresholds take effect from FY 2024. EU member states can choose to adopt them early from FY 2023.

³ Separate standards will be developed for SMEs and [non-EU parent companies](#).

⁴ 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).



EFRAG will develop and publish additional sets of ESRs in due course. These will include sector-specific standards, standards for SMEs and a standard on non-EU parent companies.

03 Is reporting required at an individual or consolidated level?

Individual reporting

- Companies (including parent companies and subsidiaries) will be required to report on a standalone basis if they meet the [scoping](#) thresholds, unless they are [exempt](#) (e.g. via being included in a consolidated report).
- Large listed PIEs are required to report on an individual basis regardless of whether they are included in a consolidated report.
- A group with a non-EU-based parent and multiple subsidiaries that each individually meet the scoping thresholds may use the temporary [ultimate non-EU parent exemption](#) to reduce the number of individual reports required.

Consolidated reporting



Groups with an EU-based parent

- EU-based parent companies of a large group will report for their consolidated group but can claim an exemption from preparing separate sustainability reporting at the parent company level unless they are also a large PIE.
- Many EU subsidiary companies will be able to rely on this consolidated parent's report rather than reporting in their own right. This also allows intermediate parent companies to be exempt from preparing a sustainability statement for their subgroup.



Groups with a non-EU-based parent

- Non-EU-based companies may be required to [report](#) on a standalone or consolidated basis if they have listed securities on EU-regulated markets.
- EU subsidiary companies may be able to apply the group exemption by relying on a consolidated parent's report that is made available voluntarily.
- From 2028, for an ultimate non-EU parent company that has substantial activity and a presence in the EU, [reporting](#) is required to cover the entire global group – i.e. from the perspective of the ultimate parent. This reporting would follow separate non-EU parent standards, yet to be published.

04 Which non-EU-based companies will need to report?

Non-EU-based companies with listed securities¹ on a regulated market in the EU

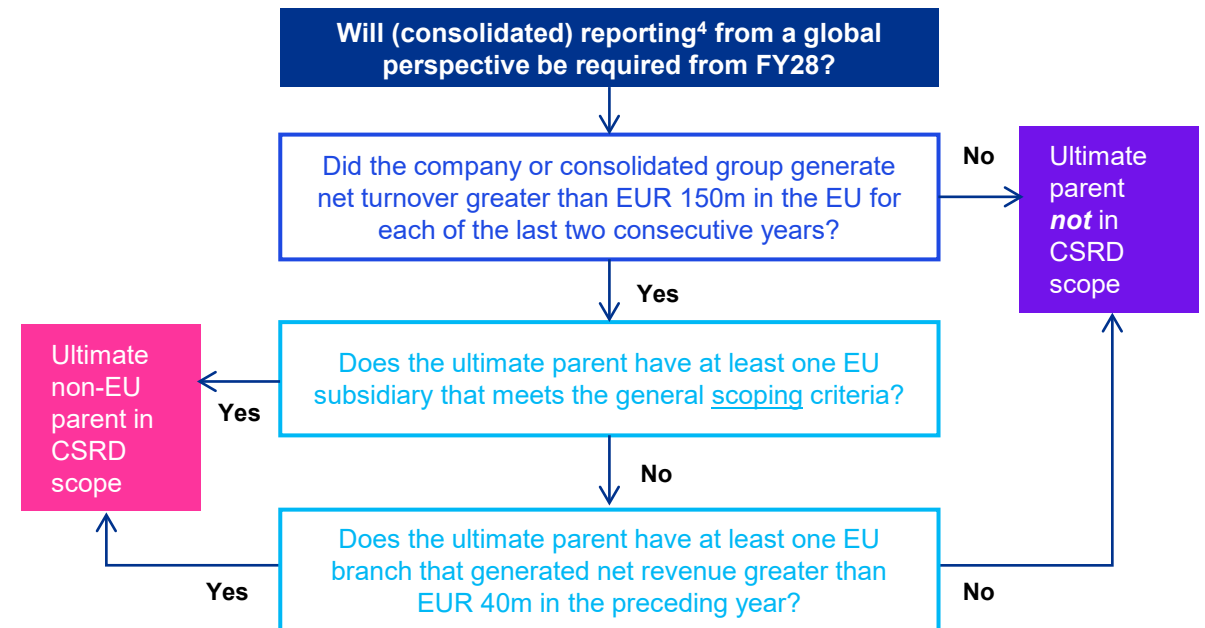
These companies will need to report at the same time as EU companies in the comparable group as follows.

- Large companies² with more than 500 employees in FY24.
- Other large² companies in FY25.
- Small or medium-sized companies³ (except micro companies) in FY26 (with a possibility to opt out for two years).

Reporting might be required on an [individual or consolidated](#) basis⁵.

Other non-EU companies

Certain non-EU-based companies with substantial activity and a presence in the EU will be required to report at a global level from 2028.



¹ Companies with securities listed on EU-regulated markets that comprise only debt with a denomination per unit of at least EUR 100,000 are exempt. For debt issued prior to 31 December 2010, this threshold is EUR 50,000.

² The [scoping](#) criteria for large companies and micro companies also apply here.

³ Small and non-complex institutions and captive insurers as specified in Article 5 of the CSRD are treated like listed SMEs (the opt-out option until 2028 does not apply for those entities, unless they also meet the definition of an SME).

⁴ Separate standards will be developed for non-EU companies. The EU proposed to move the deadline for adoption from 30 June 2024 to 30 June 2026.

⁵ See [KPMG's US Hot Topic](#) publication for more information about how the CSRD will impact non-EU-based companies.

05 Which reporting exemptions are available?

Group exemption – N/A for large listed PIEs

If an EU parent makes available sustainability reporting (under the first set of ESRs) that includes the entire group, then all in-scope subsidiaries are exempt from preparing their own sustainability reporting. Note that this exemption does not apply for large listed PIEs that are required to prepare their own report.

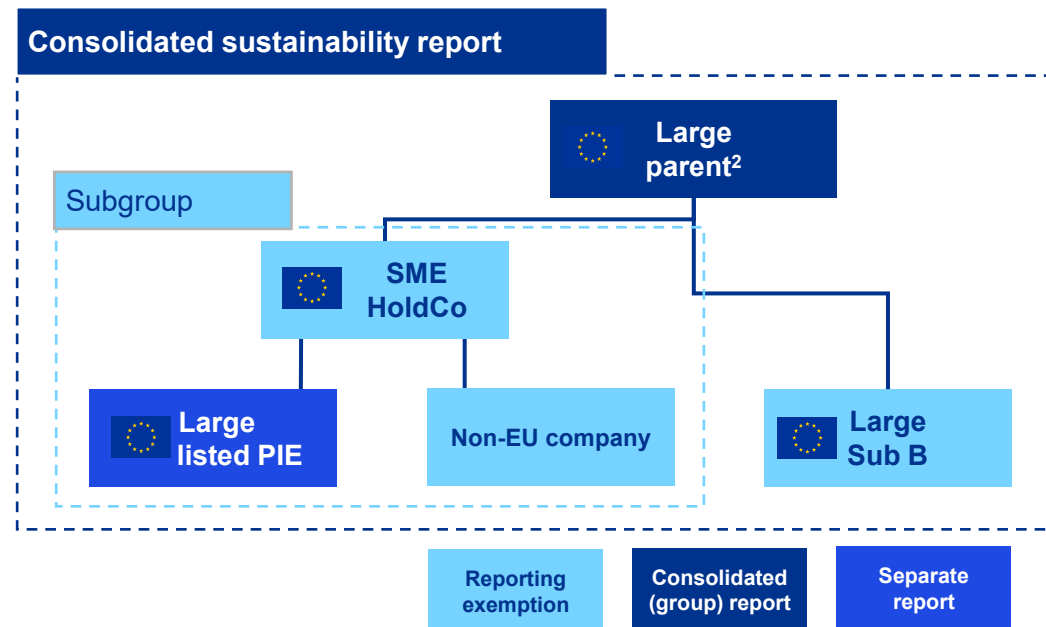
Ultimate non-EU parent exemption

If a non-EU parent has multiple in-scope subsidiaries in the EU, then one of the largest EU subsidiaries may prepare consolidated sustainability reporting that includes only those in-scope EU subsidiaries (in their own right and under the general scoping requirements). This exemption is available until 6 January 2030.

Equivalency exemption

The EC can designate individual sustainability reporting frameworks or reporting regimes as 'equivalent' to reporting under the CSRD. It has not yet determined what it would consider to be an equivalent sustainability reporting framework¹.

Example of the group exemption in practice



If an ultimate non-EU parent makes available sustainability reporting in accordance with full ESRs that includes the entire group, then a consolidated EU subsidiary can apply the group exemption³ (unless it is a large listed PIE).

- 1 The equivalency exemption is only relevant for applying the group exemption by subsidiaries with non-EU parents, or for reporting by non-EU companies, and not for reporting by EU companies themselves.
- 2 In this illustration, the large EU parent company is able to claim an exemption from preparing a separate report because it prepares a consolidated report.
- 3 This applies for reporting that is compliant with a full set of ESRs or an equivalent framework.

06 What has been released?

Ten topic-specific ESRs

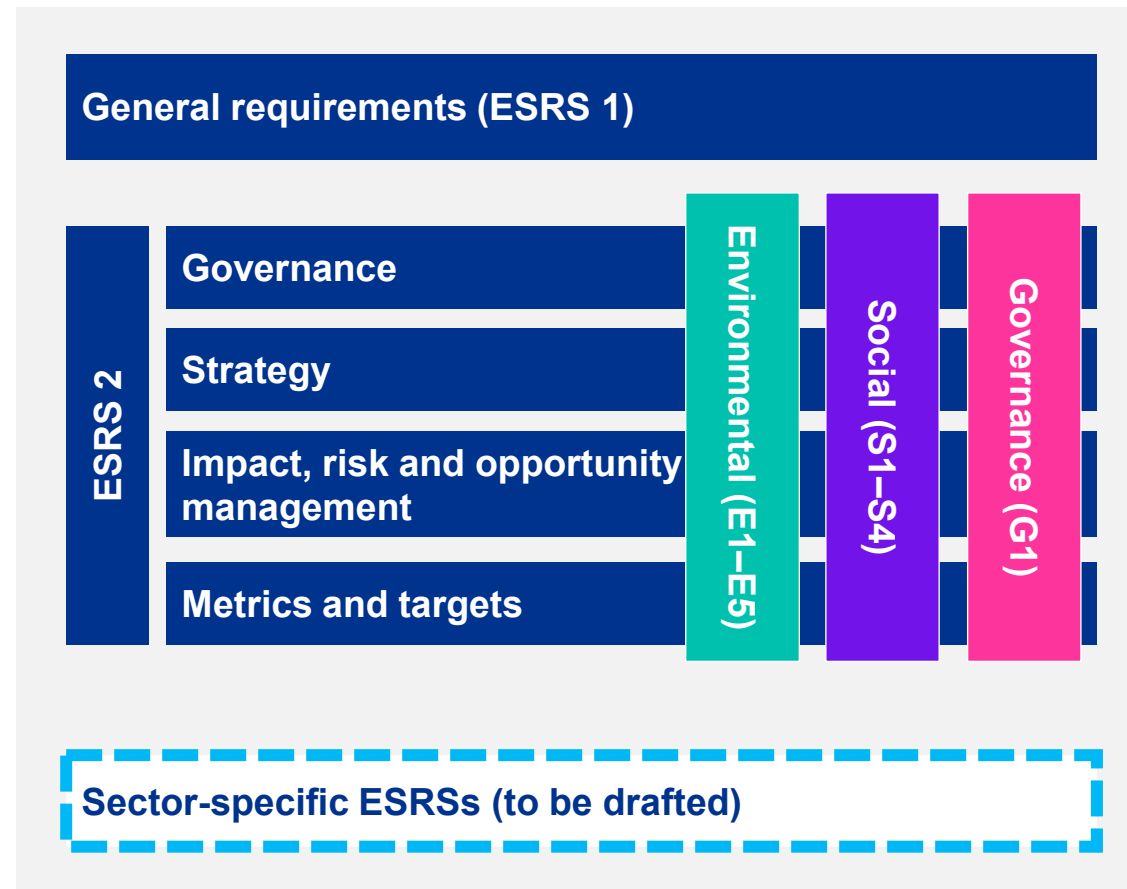
- Provide topic-specific disclosure requirements on:
 - governance;
 - strategy; and
 - impact, risk and opportunity management.
- Establish metrics and explain how to disclose related targets for each topic.

Two cross-cutting ESRs

- Explain fundamental concepts from the CSRD.
- Set cross-cutting disclosure requirements applicable to all topics for:
 - governance;
 - strategy;
 - impact, risk and opportunity management; and
 - metrics and targets.
- Provide principles of disclosure and presentation structure.
- Establish transition options, including phasing-in.

For future release: Sector-specific ESRs

- Additional standards to address sector-specific requirements are yet to be developed for later adoption. The EU proposed to move the deadline for adoption from 30 June 2024 to 30 June 2026.



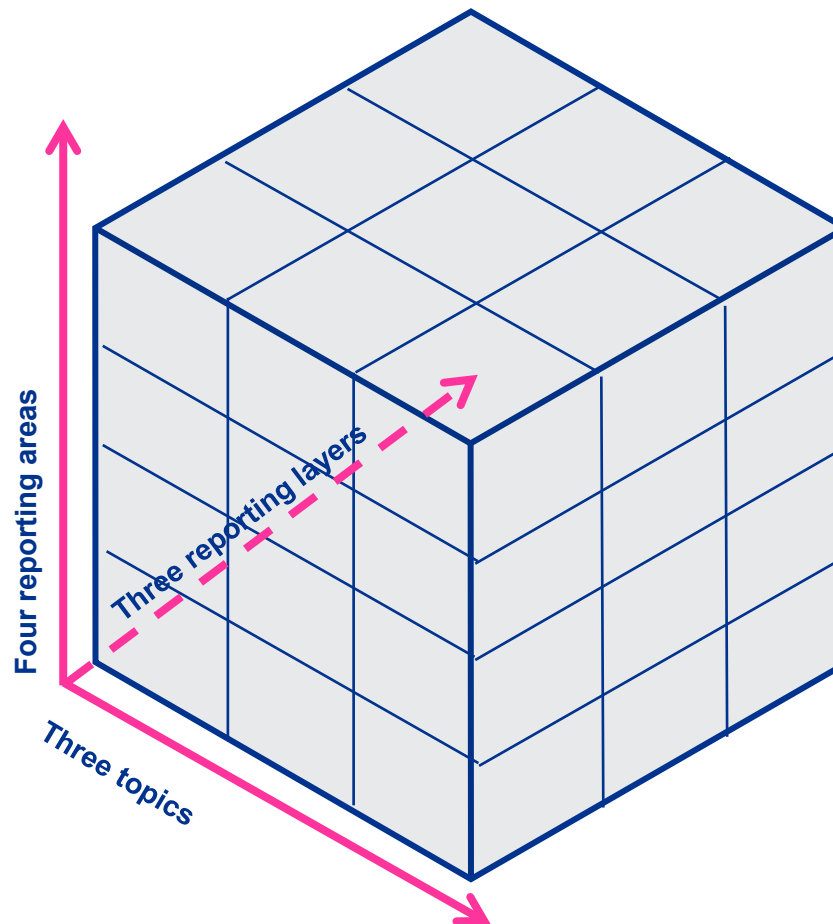
07 What will companies need to disclose?

Four reporting areas

- **Governance** – disclosures relating to the governance of sustainability topics will apply to all companies.
- **Strategy** – disclosure requirements in this area will apply to all companies and topics.
- **Impact, risk and opportunity management** – disclosures on impacts, risks and opportunities will need to be provided for topics that are assessed as material.
- **Metrics and targets** – specific sets of sector-agnostic metrics and targets will need to be disclosed for material topics by a company, regardless of its industry.

Three reporting layers

- **Sector-agnostic disclosures** – disclosure requirements applying to all companies (for maximum comparability).
- **Sector-specific disclosures** (standards under development) – disclosure requirements applying to companies of a specific sector (for maximum relevance).
- **Company-specific disclosures** – additional disclosure requirements on material impacts, risks and opportunities not covered by topical standards.



Three topics

- **Environmental:**
 - Climate change
 - Pollution
 - Water and marine resources
 - Biodiversity and ecosystems
 - Resource use and circular economy
- **Social:**
 - Own workforce
 - Workers in the value chain
 - Affected communities
 - Consumers and end users
- **Governance:**
 - Business conduct

08 What type of content will need to be disclosed?

Content disclosed will comprise:

- mandatory information for all companies, as set out in ESRS 2 *General disclosures*; and
- information that a company considers material, from a financial perspective or an impact perspective. This is known as [double materiality](#).



Earlier versions of the ESRs included a list of mandatory datapoints that companies were required to disclose to support financial institutions in fulfilling their reporting obligations.

In the final version, it is not mandatory to disclose all of the datapoints on this list. However, companies are required to present a table listing where all datapoints can be found in the sustainability statement or explicitly stating that they are not material.

Mandatory information

- **Basis for preparation** – e.g. how the company has prepared its sustainability statement
- **Governance** – e.g. information about the composition of management and the board, roles and responsibilities and diversity of members
- **Strategy** – e.g. the key elements of the general strategy that relate to or affect sustainability matters
- **Impact, risk and opportunity (IRO) management** – e.g. a description of the process to identify IROs and information about topics that have been omitted from the report as a result of the materiality assessment

This is supplemented by additional minimum disclosures for topics assessed as material.



Information subject to materiality

Disclosure requirements relating to impacts, risks and opportunities covering the following.

- **Policies**
- **Actions**
- **Metrics**
- **Targets**

For this information, companies can decide what is material at a topical standard level, or based on individual disclosure requirements and datapoints. It is possible to omit information and datapoints, if considered not material.

If a sustainability-related matter that is assessed as material is not covered by the ESRS topical standards, then the company needs to disclose **company-specific** disclosures related to that matter.

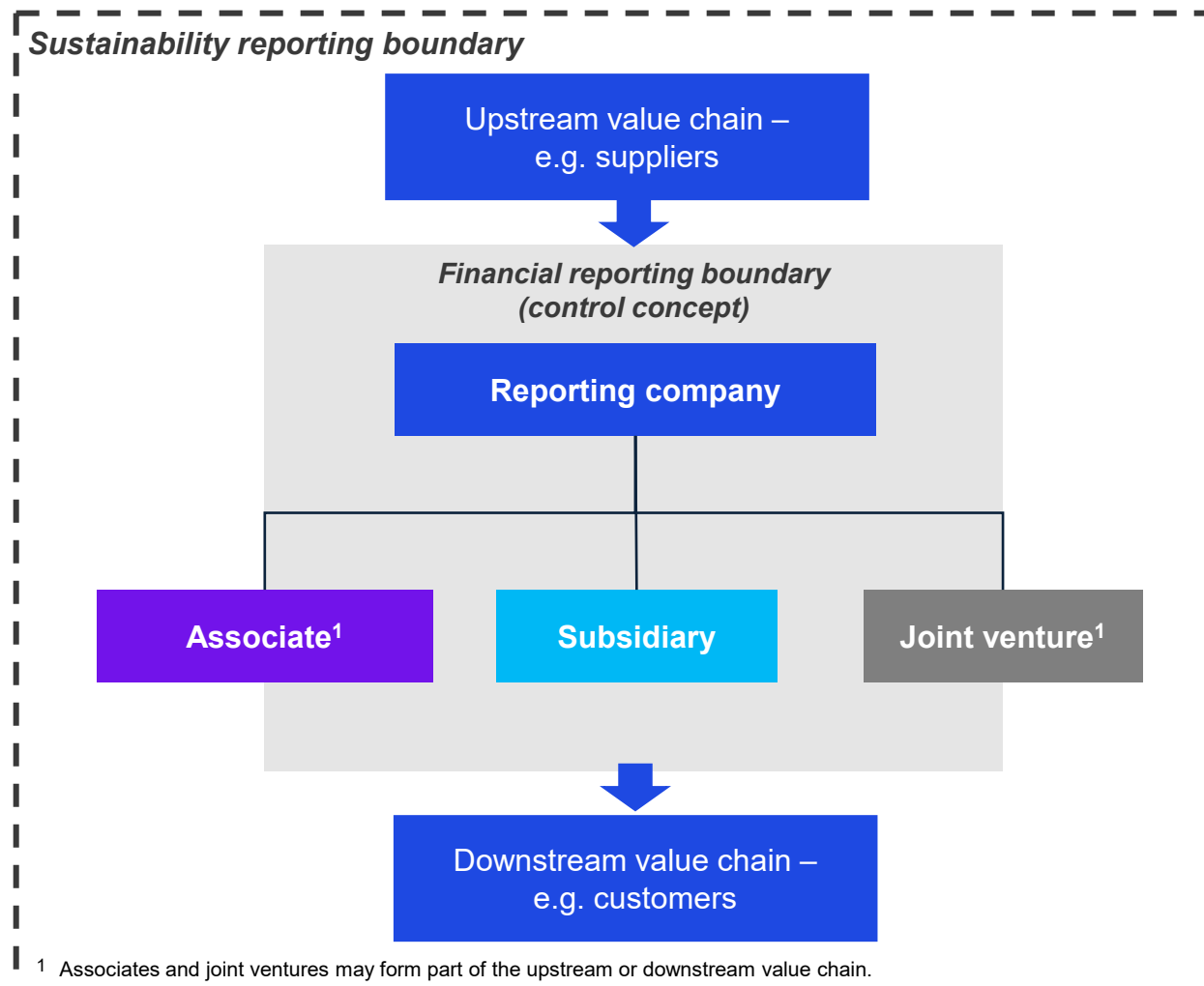
09 What reporting boundary do you need to consider?

Reporting boundary for sustainability reporting

The reporting boundary will be based on the financial statements – but expanded to cover material impacts, risks and opportunities related to the upstream and downstream value chain.

If information from the value chain is not available, then a company will use estimated data using all reasonable and supportable information. In the first three years of application, the ESRs will allow [transitional measures](#) if information cannot be obtained.

The ability to obtain the necessary data depends on various factors – e.g. the contractual arrangements in place and the level of control over the value chain.



¹ Associates and joint ventures may form part of the upstream or downstream value chain.



Particular care is needed when determining the information to include from associates, joint ventures and joint operations.

10 What is double materiality?

Company-specific materiality assessments

Double materiality refers to two dimensions of materiality – ‘financial’ and ‘impact’.

Companies will need to perform materiality assessments for both dimensions and report matters that are material in either dimension.

Companies will be able to conclude that information is immaterial on the level of a topical standard, an individual disclosure requirement or even a single datapoint.



Compared with the draft ESRs developed by EFRAG, the EC has reduced the number of disclosure requirements that are always **mandatory** independently from the company-specific materiality assessment. The only remaining disclosure requirements that are always mandatory are those required by ESRs 2.

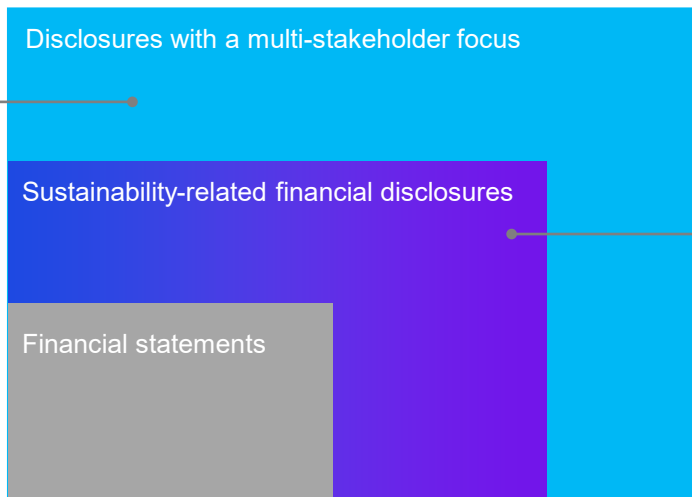
Impact materiality

Under the ESRs, impact materiality will require disclosure of sustainability-related matters that relate to a company’s material actual or potential, positive or negative, impacts on people or the environment over the short, medium or long term.

Application requirements in ESRs 1 *General requirements* specify the steps that a company needs to consider to assess impact materiality.

This assessment includes impacts in a company’s upstream and downstream value chain.

Materiality will be assessed based on severity and likelihood of the impact.



Financial materiality

Under the ESRs, financial materiality will require disclosure of sustainability-related matters that (may) trigger material financial effects on a company’s development – e.g. cash flows, financial position or financial performance – in the short, medium or long term.

This assessment will not be limited to matters within the company’s control.

Materiality will be assessed based on likelihood and (potential) size of the financial effect.

11 How do you determine material topics?

Companies need to perform a **materiality assessment** to determine which topics to report on.

ESRS 1 includes a process that companies are required to follow when assessing materiality.

Considering disaggregation

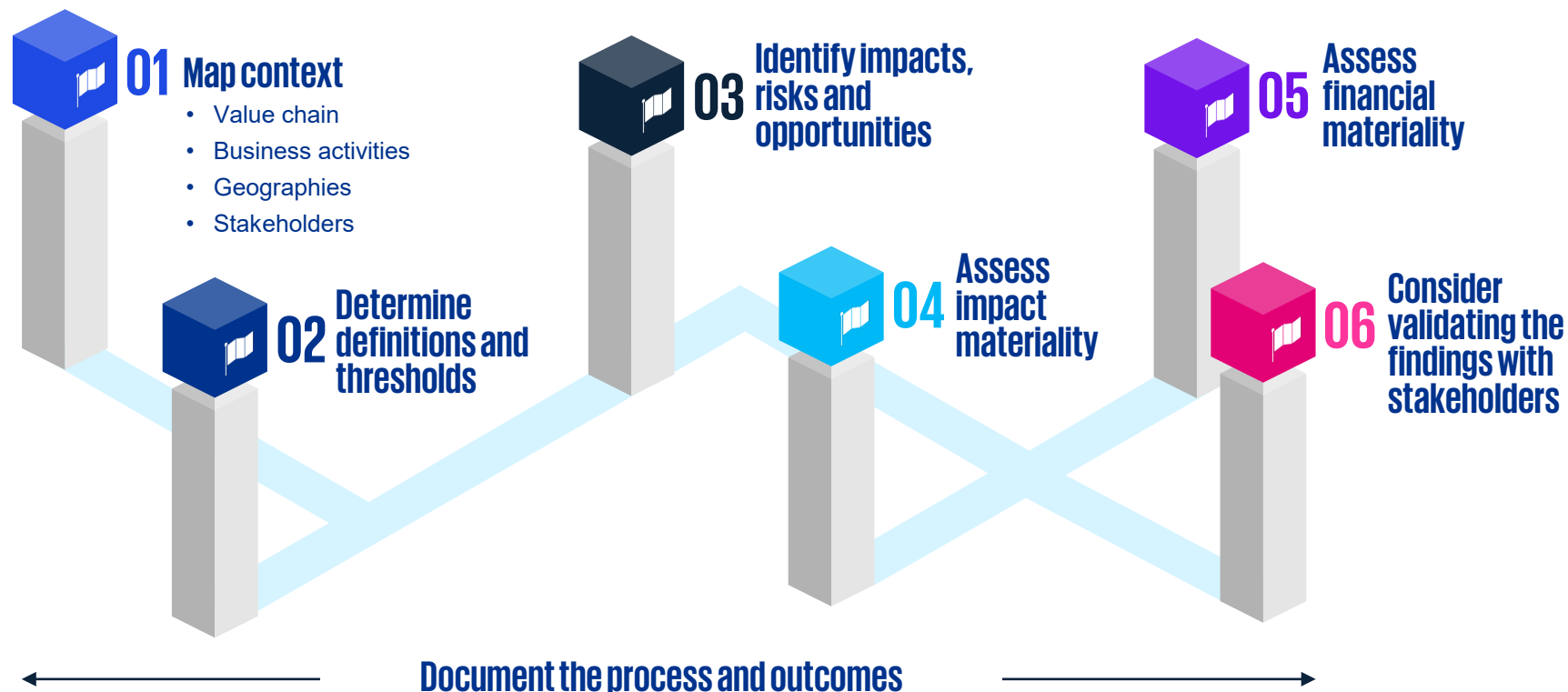
When assessing materiality, it is important to consider the appropriate level of disaggregation.

Matters that are disclosed at group level may need to be disaggregated for a proper understanding of their material impacts, risks and opportunities.

Disaggregation may be required, for example when there are significant variations of material impacts, risks and opportunities and presenting the information at a higher level of aggregation would obscure material information.



Engagement with affected stakeholders is an important part of the company's ongoing due diligence process that informs the materiality assessment.



12 How will companies present their sustainability reports?

Present in a clearly identified single section of the management report titled 'Sustainability statement'

- A sustainability statement needs to be presented in a specific order – i.e. general information, environmental, social and governance information – as set out in the diagram.
- 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.
- Sector-specific disclosures to be grouped by cross-cutting reporting area and topic.
- Company-specific disclosures to be reported alongside the most relevant reporting areas.
- Sustainability-related information needs to be presented in a format that is both human- and machine-readable using the European Single Electronic Format (ESEF).

Management report

Analysis of company's development and performance and its position	Description of the principal risks and uncertainties
The company's likely future developments	Corporate governance statement

Sustainability statement

General information (ESRS 2) <ul style="list-style-type: none"> • Specific topical disclosures • Sector-specific disclosures 	<ul style="list-style-type: none"> • List of disclosure requirements applied • Table of all datapoints deriving from other EU legislation 			
Topical standards <table border="1"> <tr> <td>Environmental</td> <td>Social</td> <td>Governance</td> </tr> </table>	Environmental	Social	Governance	<ul style="list-style-type: none"> • IRO and Metrics and Targets • Sector-specific disclosures • Company-specific disclosures • Disclosures in line with Article 8 of the EU Taxonomy regulation (under Environment only)
Environmental	Social	Governance		

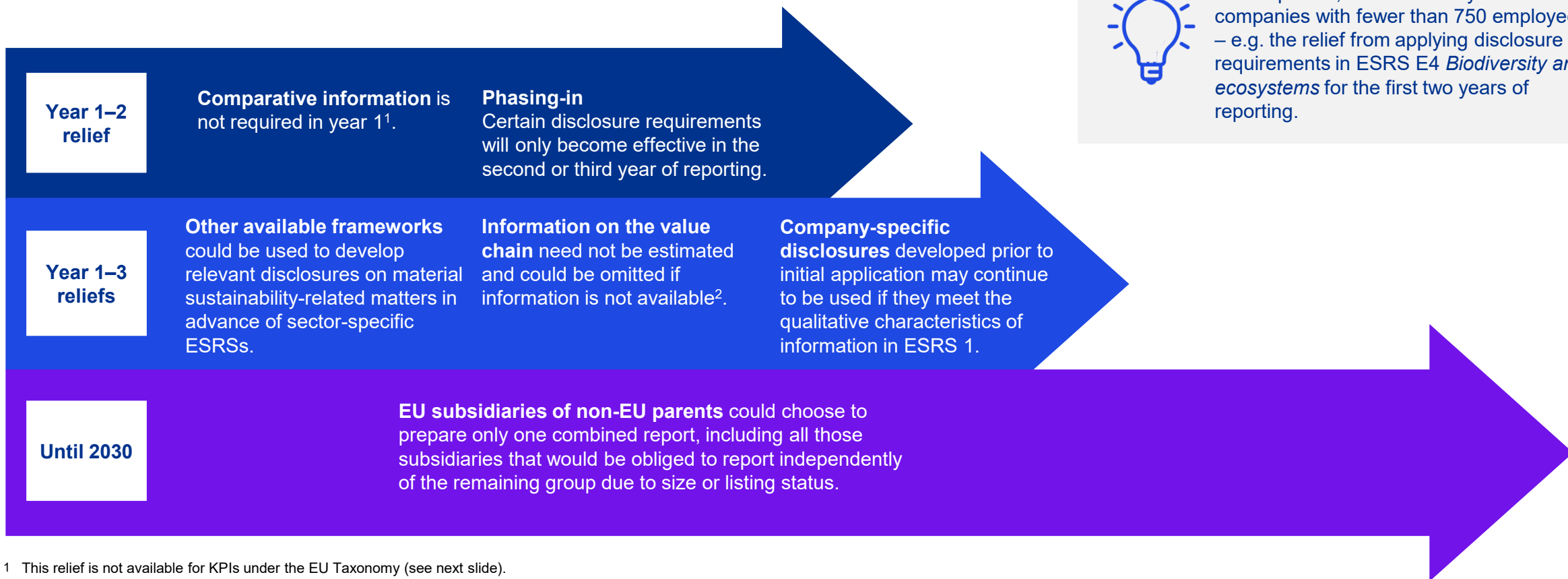
Source: ESRS 1 Appendix F: Example of structure of ESRS sustainability statement

13 What phase-in reliefs will apply?

The ESRs include specific reliefs that companies could apply in the early years of adoption to support them in transitioning from existing methodologies or reporting frameworks.



Some phase-in measures 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 *Biodiversity and ecosystems* for the first two years of reporting.



1 This relief is not available for KPIs under the EU Taxonomy (see next slide).

2 This relief is not applicable when disclosing information on policies, actions and targets. However, in this case a company may limit information to available in-house data and publicly available data. When disclosing metrics, the relief is not applicable for datapoints derived from other EU laws.

14 What about EU Taxonomy reporting?

Companies need to include disclosures required by the EU Taxonomy regulation in their sustainability statement

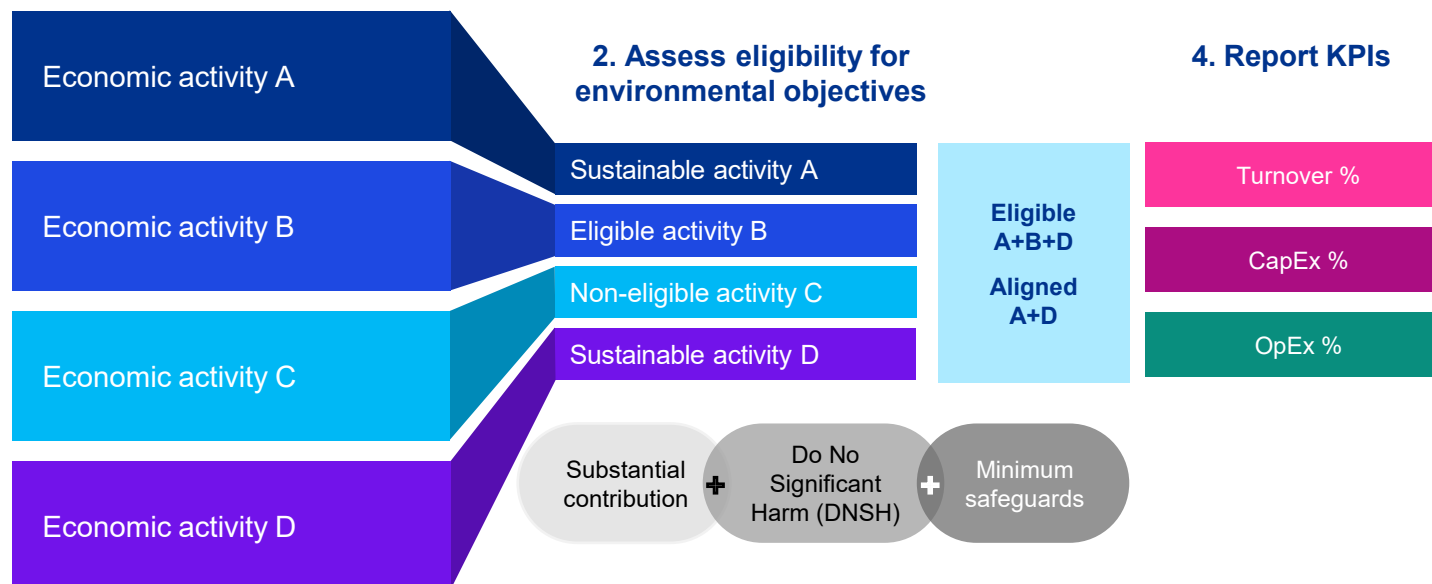
Disclosure requirements in ESRGs require companies to report on which of their economic activities are:

- **Eligible** – meaning that the activities are included in the list of activities defined by the EU Taxonomy regulation as having the potential to be sustainable; and
- **Aligned** – meaning that the economic activity meets specific criteria established by the EU Taxonomy regulation.

The EU Taxonomy regulation has six environmental objectives:

1. Climate change mitigation
2. Climate change adaptation
3. Water and marine resources
4. Circular economy
5. Pollution prevention
6. Biodiversity and ecosystems

1. Select and screen company activities

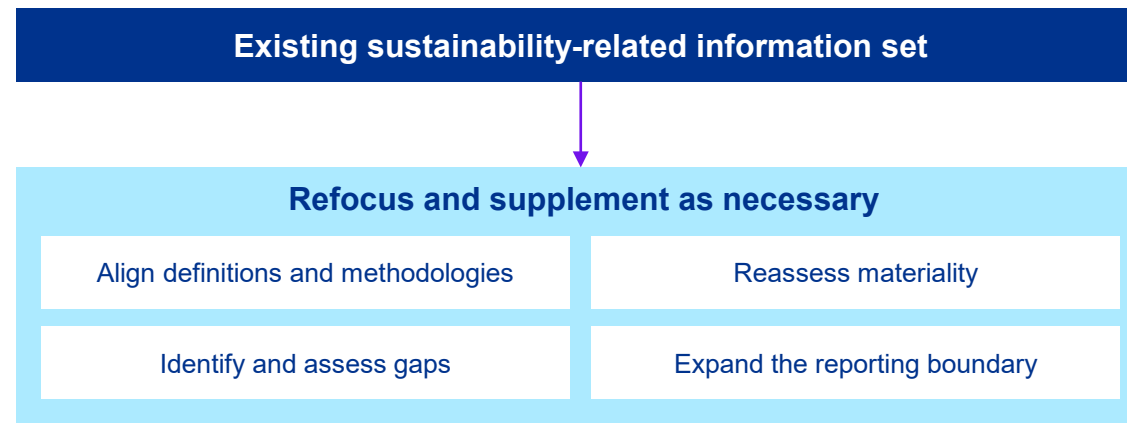


3. Assess alignment with environmental objectives

15 What if you have already adopted other frameworks?

Build and adapt

- Identify conceptual differences from existing frameworks by comparing definitions, guiding principles and the basis of preparation, as well as the principles of cross-cutting requirements.
- Assess the scope of the ESRs. Because they may be significantly broader than any existing sustainability reporting framework, companies that adopt other frameworks will need to identify any gaps and assess how to fill them.
- Map how specific disclosure requirements in the ESRs differ from those in the existing frameworks.
- Identify where additional data will be needed and whether frameworks will allow collaborative reporting or require the company to issue two separate reports.



▶ Items to consider if previously adopted TCFD

- The scope of ESRs is broader than the TCFD recommendations because they apply the double materiality concept; the TCFD applies a materiality concept focused on investors. The TCFD focuses on climate only, so companies will need to significantly expand their disclosures on other environmental topics as well as social- and governance-related disclosures.

▶ Items to consider if previously adopted GRI Standards

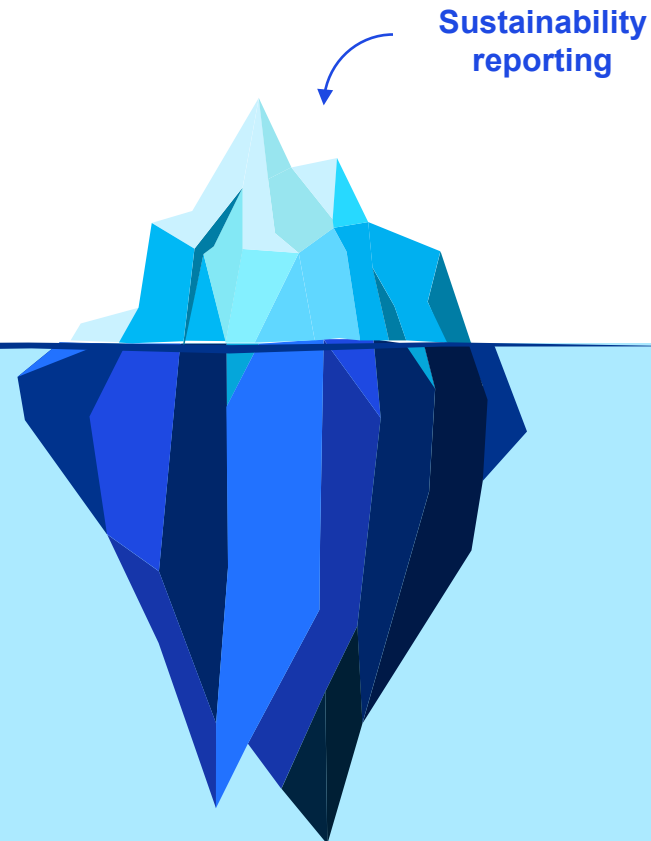
- Disclosure requirements are partly based on GRI Standards and EFRAG has cooperated with the GRI to aim for alignment.
- Under the ESRs, companies could include disclosures based on GRI Standards when developing their company-specific disclosures.

16 What is the impact on people, processes and controls, systems and data?

One of the core objectives of the CSRD is to ensure that sustainability and financial reporting become of equal importance. Using the ESRs, companies need to disclose a greater scope, volume and granularity of sustainability-related information than under previous EU requirements.

The information needs to be collected and ready to disclose at the same time as the financial statements. To achieve this, companies need effective processes and controls to gather ESG data, evaluate sustainability performance, and report according to the ESRs in an appropriate, assurable way.

The transparency driven by the new requirements may drive companies to revisit or develop policies and targets, as well as integrate sustainability into corporate strategy and operations.



People

- Maturity of current state and ambition level
- Organisation and governance model (roles, ownership responsibilities)
- Communication and change management (culture, literacy)

Processes and controls

- Central KPIs navigation (setting priorities, definitions, units, scopes)
- Sustainability reporting workflow (manuals, protocols)
- Sustainability management workflow (setting, tracking)

Systems/Solutions

- Technical system architecture, configuration and functionality
- Data/KPI governance (instructions, access management, compliance, quality control)
- Embedded specialist solutions
- Tailored analytics

Data

- Sourcing raw data from different functions, subsidiaries, suppliers
- Ensuring secure data handling
- Data identification

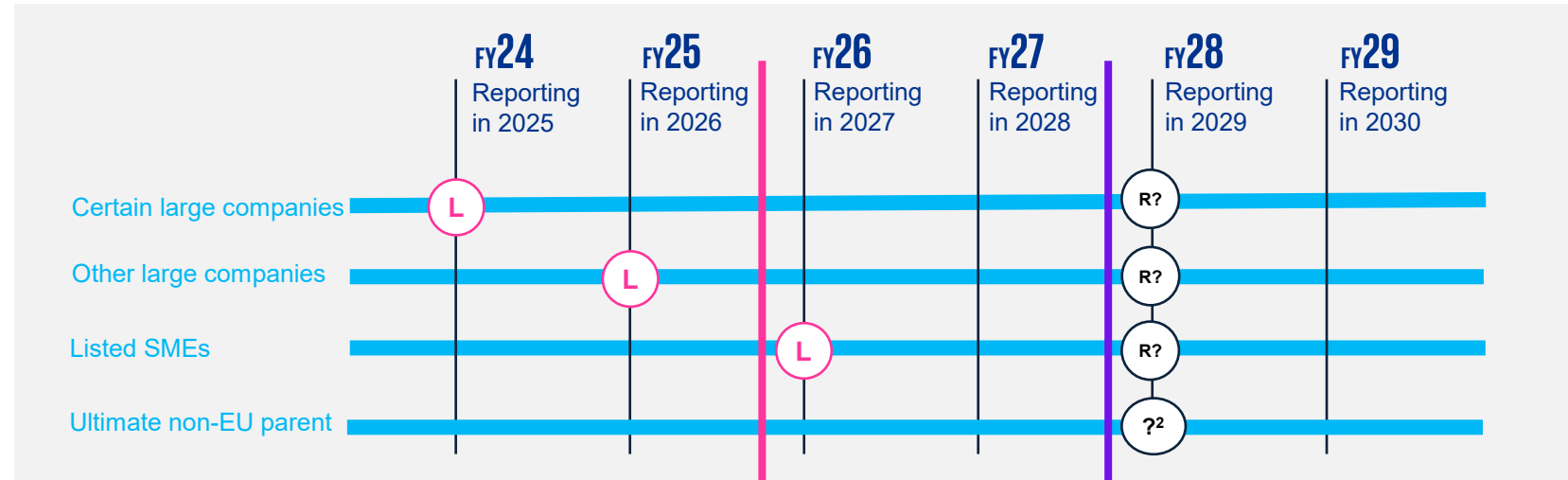
Source: EFRAG's Cover Letter and *Cost-benefit analysis of the First Set of draft ESRs*

17 What about assurance?

The CSRD requires assurance across all topics.

- Limited assurance from the date of initial reporting.
- Ambition to move to reasonable assurance at a future date.

Member states may choose to allow assurance over sustainability reporting to be separate from the financial statement audit – i.e. by a separate auditor or independent assurance provider.



Limited assurance is a level of assurance at an acceptable level that, based on professional judgement, is meaningful for the intended users. It results in a negative conclusion (i.e. 'nothing has come to our attention to indicate that the information is materially misstated').

Expressing reasonable assurance requires the assurance provider to obtain sufficient appropriate evidence to conclude that the sustainability-related information is prepared, in all material respects, in accordance with the applicable reporting criteria (positive conclusion).

L Limited assurance¹ required

R? Reasonable assurance¹ subject to feasibility assessment

- 1 Read more about [ESG Assurance in Audit](#). The assurance requirements will have no bearing on a company's responsibility to report accurate information from the first reporting year – e.g. limited assurance does not mean limited reporting.
- 2 Assurance will be based on jurisdictional requirements of the third country parent or that of a member state. In the absence of an assurance opinion, the company would need to issue a statement indicating this.

18 What do you need to do now?

1 Understand the impact

- Understand when, where and how the CSRD scoping requirements will impact your company and wider group.
- Understand how the ESRS requirements differ from your current reporting.

2 Determine what is material

- Understand the scope and breadth of your value chain.
- Undertake a double materiality assessment to determine which topics are relevant to report on, following the processes set out in the ESRSs.
- Decide what information is material about those topics from an impact and financial perspective.

3 Assess maturity

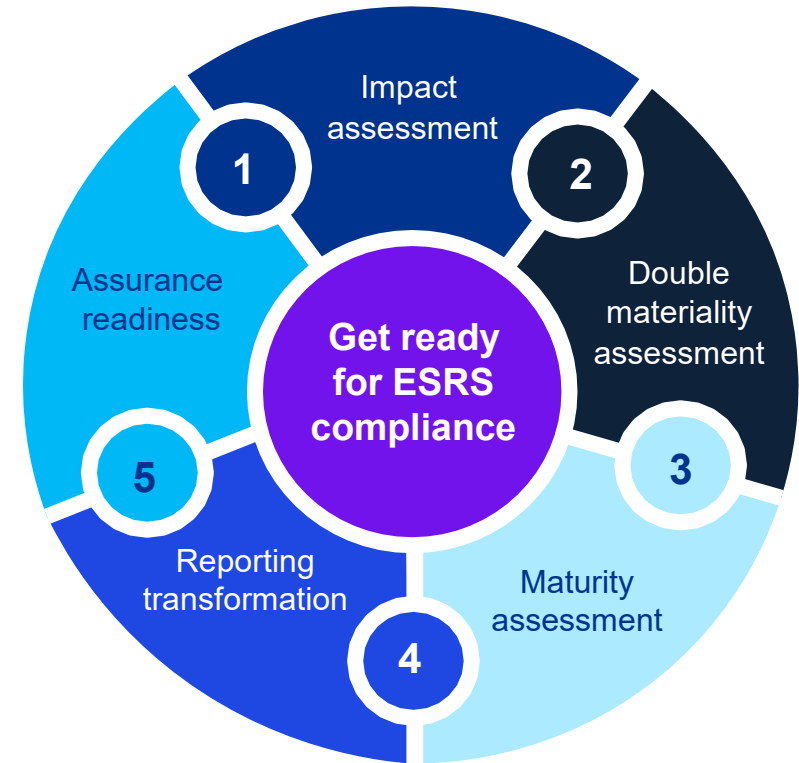
- Assess the maturity of processes, the control environment, data model and policies.
- Understand the current distribution of roles, available knowledge and capacity.

4 Transform reporting

- Design the future state of your reporting – including designing the most efficient reporting structure to meet group and individual company needs.
- Develop and deploy your target operating model, including training as well as support for change management.

5 Get ready for assurance

- Assess the control environment, data quality and availability of sufficient documentation to support assurance.
- Rectify issues ahead of the formal assurance process.



Abbreviations and key terms

CSRD

The EU's adopted Corporate Sustainability Reporting Directive, amending and significantly expanding the existing requirements for sustainability reporting in the EU under the NFRD

EC

European Commission

EFRAG

European Financial Reporting Advisory Group, which is mandated by the European Commission responsible for developing ESRs

ESRS

European Sustainability Reporting Standards as published by the EC as of 31 July 2023

EU Taxonomy

The EU's framework to facilitate sustainable investment (Regulation (EU) 2020/852)

GRI

Global Reporting Initiative

ISSB

International Sustainability Standards Board

NFRD

The EU's Non-Financial Reporting Directive (Directive 2014/95/EU)

SFDR

The EU's Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088)

TCFD

Task Force on Climate-related Financial Disclosures

Keeping in touch



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With thanks to our additional contributors
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Read the global [KPMG Impact Plan](#)

Whether you are new to sustainability reporting or a current user, you can find digestible summaries of recent developments and more detailed guidance on the current requirements.

Ready for ESG reporting?

Insights, high-level guidance
and detailed analysis



ESRs | Sustainability reporting resource centre

Practical guidance on the
ESRs



ISSB | Sustainability reporting resource centre

Tracking the development of
IFRS® Sustainability
Disclosure Standards



ESG reporting

US resources for
financial reporting
professionals



ISSB priorities

Understanding the
future focus



ESG reporting

Impact of EU ESG
reporting on US companies



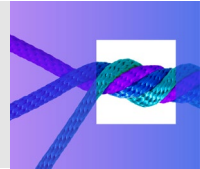
First Impressions – IFRS S1 and IFRS S2

Insights and illustrative
examples



Comparing sustainability reporting requirements

Comparing requirements from
the ISSB, EU and US





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