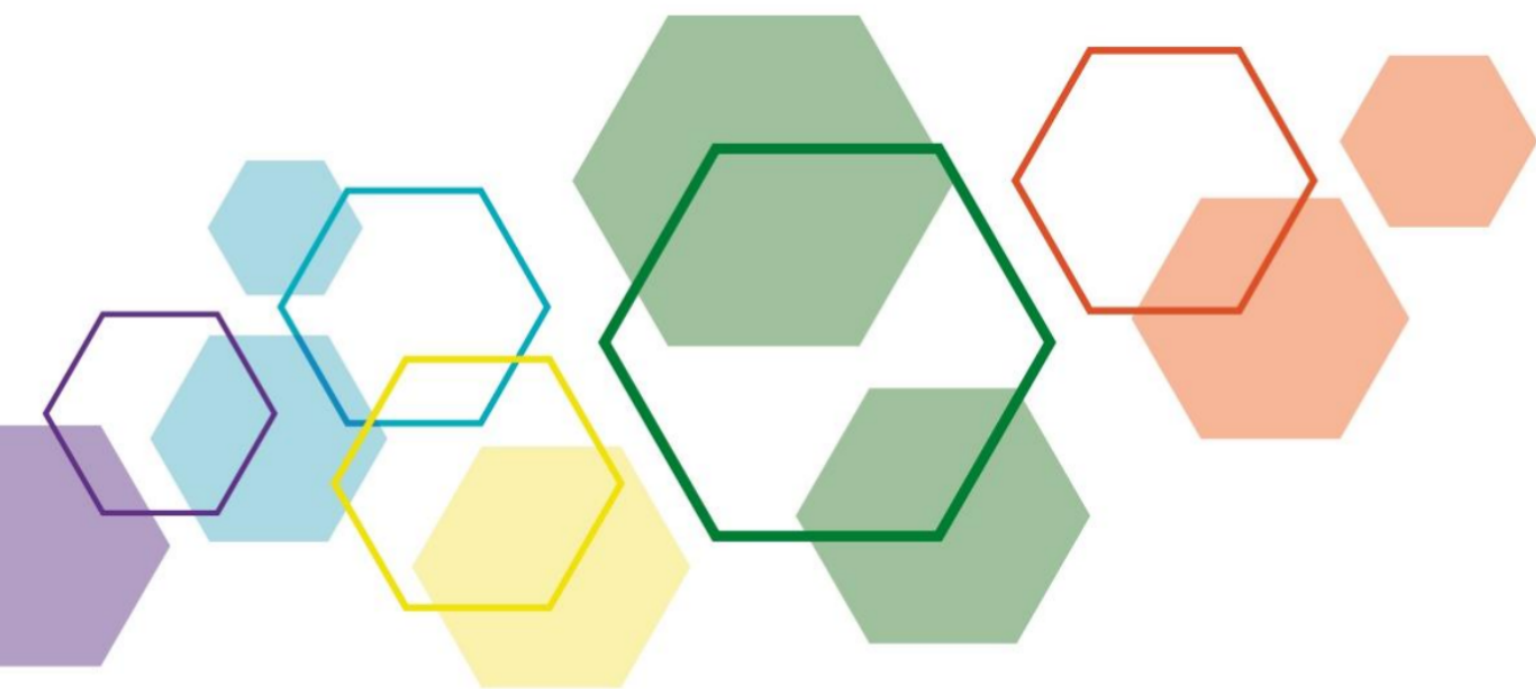


# DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS

---

## Due process note



November 2022

## **Contents**

	1
1. Executive summary	3
2. EFRAG due process from the public consultation to the issuance of the [Draft] Standards	5
3. Illustration of the changes to draft ESRS 1 General principles and to the general architecture of draft ESRS	14
4. Illustration of the changes to draft ESRS 2 General disclosures	19
5. Illustration of the changes to draft ESRS E1 Climate change	21
6. Illustration of the changes to draft ESRS E2 Pollution, draft E3 Water and marine resources, and draft E5 Resource use and circular economy	24
7. Illustration of the changes to draft ESRS E4 Biodiversity and ecosystems	27
8. Illustration of the changes to draft ESRS S1 Own workforce	29
9. Illustration of the changes to draft ESRS S2 Workers in the value chain, ESRS S2 Affected communities and ESRS S4 Consumers and end users	30
10. Illustration of the changes to draft ESRS G1 Business conduct and to the Exposure Draft ESRS G1 Governance, risk management and internal control	31
Annex 1: Decision tree leading to simplifications	33
Annex 2: Motivations provided by BusinessEurope for the abstention	34

## **1. Executive summary**

- 1 The first set of draft European Sustainability Reporting Standards (“ESRS”) have been delivered to the European Commission on 22<sup>nd</sup> November 2022. They are the result of a re-deliberation process conducted by the EFRAG Sustainability Reporting Board (SRB) reflecting the outcome of the public consultation that took place from end of April to August 8<sup>th</sup> 2022 on the 13 ESRS Exposure Drafts (“EDs”), developed by the EFRAG Project Task Force (“PTF”).
- 2 The EFRAG SRB was appointed on 1<sup>st</sup> March 2022 and supervised the preparation of the questionnaire supporting the public consultation. EFRAG SRB members were involved in a series of outreach events, where stakeholders from different backgrounds and countries provided their comments. Public educational joint meetings of the EFRAG SRB and the EFRAG Sustainability Reporting TEG (EFRAG SR TEG) took place before the summer on each of the EDs. The EFRAG SRB had preliminary discussions on the content of the EDs in July and, starting from August, assessed the results of the public consultation, supported by the EFRAG SR TEG.
- 3 Using the results and comments from the public consultation, each Disclosure Requirement (DR) in the EDs has been assessed, considering:
  - (a) The relevance of the resulting information in the context of the required content of the CSRD text;
  - (b) Its applicability at sector agnostic level, corresponding to its likelihood to be material across all sectors; and
  - (c) Its cost/benefit profile and the availability of mature methodologies for the quantification of metrics.
- 4 This note explains in detail the steps of this process and how the comments from the public consultation have been addressed. The EFRAG SRB consideration of the cost/benefit profile of the [draft] Standards is reported in the Cover Letter to the Cost Benefit Analysis report.
- 5 The process resulted in achieving a significant reduction of the number and granularity of the disclosure requirements (DR) and, consequently, of the expected reporting burden, compared to the proposals in the EDs. The key elements of this simplification are:
  - (a) the rebuttable presumption has been replaced by a materiality assessment, combined with a set of mandatory disclosures (datapoints mandated by other EU legislations, ESRS 2 General Disclosure, ESRS E1 Climate change and, for undertakings with more than 250 employees, some DRs in ESRS S1 Workers in the value chain);
  - (b) the number of DRs has been reduced from 136 to 82 (-40%) and the number of datapoints has been substantially halved. Some of the contents that have been eliminated may be considered in future sector-specific standards. Other contents have been eliminated as assessed to have lesser priority. In some cases, datapoints have been retained as voluntary, to encourage good practices, but they do not contribute to create additional burden for all the undertakings in the scope of the CSRD. To be noted that the SRB incorporated to the maximum extent possible the content of the Exposure Drafts IFRS S1 and IFRS S2 and this resulted in new datapoints included in the ESRS. The significant reduction in data points has been achieved, despite the inclusion of these additional data points.

*Due process note – First set of draft ESRS*

- (c) one of the two EDs on Governance has been eliminated, following the indication of the final CSRD text to refocus the governance disclosure on the sustainability matters (and not on general governance);
  - (d) the approach to value chain has been re-focused. Incorporation of value chain information is not required for each disclosure. On the contrary, the undertaking is now required to extend the information about the reporting undertaking provided in the sustainability statements to include value chain information only when specific provisions in the topical standards require to do so in the preparation of a specific disclosure and, in general, limited to impacts, risk or opportunity that are material. In addition, the inclusion of value chain information may be postponed by three years, except for datapoints mandated by other EU regulation, ESRS 2 General Disclosure and ESRS E1 Climate change (for the latter two limited to value chain in-house information);
  - (e) flexibility has been introduced in the definition of time horizons and in the structure for the presentation of the sustainability statements;
  - (f) the undertaking may incorporate information by reference to a list of other reports (the list includes additional documents compared to those in the EDs);
  - (g) an option has been introduced to omit specific pieces of information corresponding to intellectual property, know-how or the results of innovation; and
  - (h) the application date of twelve DRs has been postponed between one and three years from the preparation of the first reporting using [draft] ESRS.
- 6 The SRB approved the [draft] ESRS on the 15<sup>th</sup> November 2022. The approval was consensual for ESRS E1, ESRS E2, ESRS E3, ESRS E4, ESRS E5, ESRS S3, ESRS G1. The representative of BusinessEurope abstained from the approval of the other five standards. The Annex 2 to this document presents the motivation that BusinessEurope has provided to justify this abstention.
- 7 The following SRB members approved all the standards:
- *Kerstin Lopatta* *National Organisations Chapter (Germany) SRB Acting Chair*
  - *Wim Bartels* *European Stakeholders Chapter (Accountancy Europe)*
  - *Tegwen Le Berthe* *European Stakeholders Chapter (Asset managers)*
  - *Marcello Bianchi* *National Organisations Chapter (Italy)*
  - *Simon Braaksma* *National Organisations Chapter (Netherlands)*
  - *Monika Brom* *National Organisations Chapter (Austria)*
  - *Patrick de Cambourg* *National Organisations Chapter (France)*
  - *Begoña Giner* *Civil Society Chapter, Academics (Spanish)*
  - *Filip Gregor* *Civil Society Chapter, NGOs (Czech)*
  - *Kristian Koktvedgaard* *National Organisations Chapter (Denmark)*
  - *Salvador Marin* *European Stakeholders Chapter (Business SMEs/SMPs)*
  - *Grégoire de Montchalin* *European Stakeholders Chapter (Insurance)*
  - *Carlos Moreno* *National Organisations Chapter (Spain)*
  - *Isabelle Schoemann* *Civil Society Chapter, Trade Unions (French)*
  - *Charlotte Söderlund* *National Organisations Chapter (Sweden)*
  - *Annina Tanhuanpää* *European Stakeholders Chapter (Banking)*
  - *Luc Vansteenkiste* *European Stakeholders Chapter (Business Listed)*
  - *David Vermijs* *Civil Society Chapter, NGOs (Dutch).*

- 8 In line with EFRAG due process and as specified in the voting rules in the EFRAG Internal Rules (Art 36), the EFRAG SRB operates by consensus. If consensus cannot be reached qualified majority applies whereby EFRAG SRB members that disagree with the qualified majority view are required to have their reasons for the dissent recorded and explained whereby the name (s) of the dissenting EFRAG SRB member (s) are mentioned. Dissenting views should relate to important elements of the draft ESRS and should be so important that the dissenting EFRAG SRB member cannot accept the draft ESRS as a whole or a substantial part of it. Abstention was agreed to require as well to explain the reasons in a similar way as for dissenting.
- 9 The EFRAG SRB notes that the time available for the standard setting process, from the end of the consultation to the delivery of the draft standards, as well as the timing available for public consultation, were unprecedentedly challenging, reflecting the timeline imposed by the CSRD and the European Commission. This was also one of the recurring comments in the consultation. In this regard, the EFRAG SRB is committed to pursue a process of progressive enhancement of the content of the standards, in the next standard setting cycles and compatible with the work program to be agreed with the European Commission and the three year's review envisaged in the CSRD.
- 10 The EFRAG SRB confirms its availability to support the European Commission in any possible future mechanism of interpretation of the standards, that would support their implementation and address the questions that will arise in practice.
- 11 Section 2 of this document refers to the drafts approved by the SRB on 15<sup>th</sup> November 2022. The changes introduced by the SRB to the drafts approved by the SR TEG are described in section 2. Sections from 3 onward refer to the drafts approved by the SR TEG on the 25 October 2022. The changes introduced by the SR TEG to the EDs are described by section from 3 onward of this note and they were approved by the SRB, except for the additional changes introduced by the SRB.

## **2. EFRAG due process from the public consultation to the issuance of the [Draft] Standards**

### *Process*

- 12 EFRAG ran a public consultation on 13 draft ESRS Exposure Drafts (EDs) from the end of April 2022 to the 8th of August 2022. The comments received are available at the [following link](#):
- 13 Meetings of the EFRAG SR TEG and EFRAG SRB that are technical in nature are held in public. The related agenda papers are made available on the EFRAG website.
- 14 EFRAG also ran sixteen outreach events with various stakeholder groups and in different countries from May to July 2022.
- 15 Public educational joint meetings of the EFRAG SRB and the EFRAG Sustainability Reporting TEG took place before the summer on each of the EDs.
- 16 The EFRAG SR TEG members provided their own comments on the questions in Survey 1 and Survey 2 of the public consultation. The outcome of this feedback was discussed by the EFRAG SRB in July 2022 which included a preliminary indication of how to address the key and emerging issues noted.
- 17 EFRAG outsourced the analysis of comments received in the public consultation to an external consultant. This analysis started on the 10<sup>th</sup> of August 2022. The EFRAG Secretariat, the EFRAG SR TEG and the EFRAG SRB members received on 10<sup>th</sup> of August 2022 the full database of comments received in the survey (approx. 500 respondents for a total of approx. 700 submissions of Survey 1 and/or Survey 2)

and on the 20<sup>th</sup> of August 2022 the database of quantitative statistics developed by the consultant (including number of respondents that support/did not support or did not express an opinion on the draft standards). The statistical analysis of the responses can be found [here](#).

- 18 EFRAG SR TEG began to assess the output of the public consultation in the second half of September. To assist with this assessment, the EFRAG Secretariat prepared a package of Agenda Papers to support the review, analysis and subsequent decision making process. The package included for each draft standard the following documents (which are accessible as Agenda Papers of the EFRAG SR TEG and the EFRAG SRB meetings where they were discussed):
  - (a) Template 1: assessment of comments received, identification of the consequential changes to the drafts, comments not taken onboard (or reflected in updates) and rationale for exclusion. This template includes the recurring themes identified in the consultation;
  - (b) Template 2: assessment of each DR in the ED, identification of the simplifications that would address constituent's comments;
  - (c) Issue Papers: for issues that triggered more intense technical discussions and/or required specific research to support decision making and proposed re-drafting, issues papers were prepared to support the discussion (e.g. value chain, sustainability due diligence, materiality approach, financial effects, etc.).
- 19 The EFRAG SRB asked the EFRAG SR TEG to perform a detailed assessment of the content of the 13 EDs, in order to achieve a significant reduction in the reporting burden and, in this way, respond to the feedback of the consultation that a significant streamlining was needed, while respecting the required content in the CSRD. For each DR (and where relevant the appropriate datapoint) SR TEG assessed whether it was necessary in order to implement the provisions of the CSRD, the relevance of the information resulting from it, its sector-agnostic nature, its cost/benefits balance (including to cover value chain information), the availability of mature methodologies for the calculation of the respective metrics. The decision tree in Annex 1 to this paper illustrates the analytical process. The EFRAG SR TEG has provided its technical advice on the identified possible reduction of DRs/datapoints that would not compromise the quality of the standards.
- 20 On the 25<sup>th</sup> of October 2022 the EFRAG SR TEG approved the updated EDs, subject to editorial changes, to recommend to the EFRAG SRB for issuance on the 25<sup>th</sup> of October 2022 the 12 draft ESRS resulting from this process. The details of the EFRAG SR TEG approval can be found as Agenda Paper for the EFRAG SRB meeting on the 27<sup>th</sup> October 2022.
- 21 The EFRAG SRB reassessed during October the results of this process and identified additional possibilities of streamlining the draft standards, as described below.
- 22 The EFRAG SRB approved the 12 draft ESRS in its meeting of 15<sup>th</sup> of November 2022 by consensus with one EFRAG SRB member abstaining.
- 23 The considerations of the EFRAG SRB on the cost/benefit balance of the draft ESRS are presented in the Cover Letter to the Cost/Benefit Analysis report prepared by CEPS/Milieu.

#### *Changes due to the revised CSRD text*

- 24 The EDs were prepared considering the content of the Proposals of the European Commission amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting ("CSRD"). On 21<sup>st</sup> June 2022, the Council and European Parliament reached a provisional political agreement on the CSRD and a revised text was

issued, reflecting the amendments agreed in the negotiation process. On the 10th November the European Parliament adopted the final version of the CSRD. The draft ESRS have been updated for this final CSRD text. The changes made to the draft ESRS to reflect the amendments are also illustrated below.

*Changes made by the EFRAG SRB to the draft ESRS approved by the SR TEG*

- 25 Following EFRAG Due Process Procedures, the EFRAG SRB is responsible for the technical content of the advice delivered to the EC. In this role, the EFRAG SRB is advised by the EFRAG SR TEG. The EFRAG SR TEG delivered on the 25th October 2022 the recommended content of the 12 draft ESRS, taking into account the strategic directions received by the EFRAG SRB in September 2022. The drafts approved by the EFRAG SR TEG are accessible in the running order of the [EFRAG 25/27th October 2022 meeting](#).
- 26 The EFRAG SRB was kept regularly informed on the outcome of the EFRAG SR TEG tentative decisions. For the following issues, the EFRAG SRB invited the EFRAG SR TEG to reconsider its tentative decision:
- (a) the list of mandatory datapoints (as part of the approach to materiality);
  - (b) the disclosure to be provided when information prescribed by ESRS is omitted (including the requirement to disclose the reasons for omitting an entire ESRS and the requirement to include a list of the omitted DRs);
  - (c) the definition of time horizons (ESRS 1).
- 27 On the definition of time horizons the EFRAG SR TEG followed the EFRAG SRB direction. On the approach to materiality, the EFRAG SR TEG confirmed its initial orientation to:
- (a) require reporting on the reasons for omitting an entire ESRS, but agreed with the direction of the EFRAG SRB not to include a list of the omitted DRs. Instead, a list of the DRs finally included following the undertaking's materiality assessment was required;
  - (b) require a short list of additional mandatory datapoints on top of those mandated by other EU regulations.
- 28 The changes from the EDs to the draft ESRS approved by the EFRAG SR TEG for recommendation to the EFRAG SRB are described in the sections 3 to 10 of this document.
- 29 The paragraphs below illustrates the changes made by the EFRAG SRB to the draft ESRS as approved by the EFRAG SR TEG on the 25th of October 2022. Please note that the numbering of the DRs in this section is referred to the numbering in the EDs.

*ESRS 1*

- 30 Approach to materiality (illustrated in Appendix F of the draft ESRS 1): The EFRAG SRB confirmed the overall approach as approved by the EFRAG SR TEG. However, it clarified more in detail when DRs and/or datapoints may be omitted (no omissions for DRs related to IRO management and targets, no omissions in ESRS E1 and ESRS 2) and restricted the possibility to omit a datapoint only to circumstances where the undertaking can still meet the objective of the DR, despite omitting such information). It also decided to modify the area of mandatory items (to be reported irrespective of materiality):
- (a) to include the DRs in ESRS S1 Own workforce from S1-1 to S1-8 (adding to the 3 DRs already mandatory in the drafts approved by the EFRAG SR TEG, the DRs IRO management and DRs on targets), but to restrict their mandatory nature only to undertakings with 250 employees;

*Due process note – First set of draft ESRS*

- (b) to exclude E5-4/E5-5 Circular economy: qualitative info on: resources inflow/outflow;
  - (c) to exclude G2-9 Political engagement and G2-10 Payment practices;
  - (d) to move ESRS S1-14 Fair remuneration and ESRS S1-15 – Social security from mandatory items to items subject to materiality assessment but requiring a reinforced transparency (i.e. when omitted the undertaking shall report that all the employees are covered by fair wage/social security).
- 31 Criteria for impact and financial materiality. Following the decision of the ISSB to discontinue the term 'significant' as a reference to materiality of risks and opportunities and in order to enhance the alignment with impact materiality assessment in GRI, the threshold for material impacts, risks and opportunities for reporting is now linked to the concept of them having respectively material effects on people and the environment and material financial effects. In the context of impact materiality, the threshold is further linked to the 'most material' criterion used in other pronouncements.
- 32 The language on financial materiality has been adjusted to come closer to the IFRS S1 language.
- 33 The overall approach to value chain information is confirmed. However, the wording has been reinforced to clarify the focus on material impacts, risks and opportunities.
- 34 The reference to the Member States option in the CSRD to omit prejudicial information has been replaced by a new option to omit information on intellectual property, know-how or result of innovations. The wording of this option uses language from the Trade Secrets Directive.
- 35 The possible sources of incorporation by reference has been broadened to also include EU Eco-Management and Audit Scheme ("EMAS") , with reinforced conditions for the incorporation (same basis for preparation of ESRS information, including scope of consolidation and treatment of value chain information).

*ESRS 2*

- 36 Structure and index adjusted to mirror TCFD/IFRS four pillars, targets moved at the end, together with metrics. This triggered as well the change of the title for the 'Policies, targets, action plans and resources' section in all the drafts, to be 'Impact, risk and opportunity management' (IRO management).
- 37 GOV 1: Elimination of the datapoint: number of significant positions and commitments, and the nature of the commitments of members of the administrative, management and supervisory bodies (AMSB).
- 38 GOV 2: Elimination of the datapoint: key decisions made by the AMSB to address material IROs and of the specifications of which matters triggered initiatives to adjust the undertaking's strategy and business model.
- 39 SBM 1: this is now the result of the merger of three DRs (Market position, Strategy and Business Model and Value Chains). Elimination of the datapoint: breakdown of revenues by significant country.
- 40 Rationalisation and streamlining of content and language in SBM and IRO.
- 41 Reporting on opportunities: provided new guidance on what the reporting on opportunities should contain.

*ESRS E1*

- 42 Moved climate-related requirements on resilience, IRO identification and governance from Application Guidance/requirements to the main body of the standard.



*Due process note – First set of draft ESRS*

- 43 Moved SFDR energy and GHG emission intensity per revenue in Energy and GHG emissions disclosure requirements.
- 44 Merged removals and carbon credits in one DR with net zero targets.
- 45 Presented internal carbon pricing as a separate DR.
- 46 Moved Targets requirements to Metrics and targets.
- 47 Added 4 EBA datapoints namely E1-1 (if the company is in Paris aligned benchmark) and E1-9 on potential financial effects (disaggregation by chronic and acute risk, location of significant assets and breakdown of real estate assets by energy performance).
- 48 Added exposure to coal, oil and gas related-activities in terms of revenue and CapEx.
- 49 Deleted phase-in provisions on potential financial effects as these are addressed in ESRS1.
- 50 Clarified that current/past financial effects are a requirement under ESRS 2.
- 51 Modified language on potential financial effects on opportunities.
- 52 Added language on reporting boundary and refined language on disaggregation and disclosure of Scope 1 and 2 emissions by consolidated accounting group (parent and subsidiaries) and unconsolidated investees (associates, joint ventures, other joint arrangements (joint operations) and unconsolidated subsidiaries (investment entities).
- 53 Clarified in the main body that scenario analysis is included in how the resilience analysis is conducted and in its results.
- 54 Clarified that ISO requirement may be referred to when determining GHG emissions if the undertaking already uses ISO14064, provided it complies with E1 by adding any missing datapoints.
- 55 Amended the language in the Application requirements on reference values for targets to make it clear that an ongoing monitoring of the latest reference material will be necessary and pointed to the acceptable sources of guidance.

*ESRS E2*

- 56 “Interactions with other ESRS”: clarification of boundaries across E standards.
- 57 Elimination of the paragraph on “General, Strategy, Governance and Materiality assessment”
- 58 DR E2-3 (targets): additional datapoint on whether legal requirements has taken into account in the consideration of ecological thresholds.
- 59 DR E2-4: elimination from the main body of the unit to measure the emissions.
- 60 DR E2-6 (financial effects):
  - (a) elimination of reference to “dependencies” in the DR
  - (b) additional content on “financial effects arising from opportunities” [quantification not required if it would result in disclosure that does not meet the qualitative characteristics of information]
  - (c) elimination of transition provision requirement (moved to ESRS 1).
- 61 Appendix A: introduction of the following terms:
  - (a) “ecological threshold;”
  - (b) “installation” and “site;”
  - (c) “substances of concern;” and

*Due process note – First set of draft ESRS*

(d) “substances of Very High Concern (SVHCs).”

62 AR: alignments across E standards.

63 Deleted phase-in provisions on potential financial effects as these are addressed in ESRS1

*ESRS E3*

64 With reference to the interactions with other ESRS, the boundaries across E standards have been clarified.

65 Elimination of the paragraph on “General, Strategy, Governance and Materiality assessment”

66 DR E3-3 (targets):

(a) additional data point on targets relate to “the management of material impacts, risks and opportunities related to areas at water risk, including improvement of the water quality;”

(b) additional data point on whether legal requirements has taken into account in the consideration of ecological thresholds

67 DR E3-4 (water consumption): replaced “or” with “and” in: “total water recycled and reused in m3” to be stick to SFDR KPI

68 DR E3-5 (financial effects):

(a) elimination of reference to “dependencies” in the DR and elimination of transition provision

(b) additional content on “financial effects arising from opportunities” [quantification not required if it would result in disclosure that does not meet the qualitative characteristics of information]

(c) elimination of transition provision requirement.

69 AR: alignments across E standards

70 Deleted phase-in provisions on potential financial effects as these are addressed in ESRS 1.

*ESRS E4*

71 E4-1 Transition plan on biodiversity and ecosystems: scope was specified for sectors listed in ESRS SEC1 that were identified by TNFD as priority sectors.

72 E4-5 par. 40: LCA on land-use now mandatory for priority sectors material impacts on land-use change and the status of ecosystems. Datapoint on EMAS was moved into AR and fully aligned with EMAS.

73 E4-5: SFDR-datapoint to report the share of non-vegetated surface area compared to the total surface area was removed.

74 In E4-5 clarification that boundaries for par. 43 to 46 is drawn around own operations.

75 E4-6 on Financial effects was aligned across environmental standards.

76 Appendix A: Amended a number of definitions (mitigation hierarchy; planetary boundaries; No net loss or net gain), added others (physical risks; transition risks) and deleted (biodiversity offsetting as now part of mitigation hierarchy; ecosystem preservation, genetic resources; local and indigenous knowledge) some.

77 IRO 1 par. 23 (d) (iii) was toned down to not require reporting of exact coordinates of sites.

78 IRO 1 AR 4: Added freshwater-use change as sub-sub-topic, as requested by TNFD.

- 79 IRO 1 AR 9 (d): Categories of opportunities aligned with TNFD.
- 80 E4-5 AR 38: Additional AR with reference to UN SEEA EA added.
- 81 Deleted phase-in provisions on potential financial effects as these are addressed in ESRS 1.

*ESRS E5*

- 82 “Interactions with other ESRS”: clarification of boundaries across E standards.
- 83 Elimination of the paragraph on “General, Strategy, Governance and Materiality assessment”
- 84 DR E5-3 (targets):
  - (a) elimination of data point related to “outflows and waste (including in production, use phase and at end of functional life);”
  - (b) improvement of the wording on “waste treatment” [the waste management, including preparation for proper treatment];
  - (c) additional data point on whether legal requirements has taken into account in the consideration of ecological thresholds
- 85 DR E5-5 (resource outflows): additional data points on “waste streams” and “materials that are present in the waste “ (see par. 39);
- 86 DR E5-6 (financial effects):
  - (a) elimination of reference to “dependencies” in the DR
  - (b) additional content on “financial effects arising from opportunities” [quantification not required if it would result in disclosure that does not meet the qualitative characteristics of information]
  - (c) elimination of transition provision requirement
- 87 Appendix A: introduction of the following terms:
  - (a) “business as usual”
  - (b) Hazardous waste [new wording];
  - (c) Waste management
- 88 AR:
  - (a) alignments across E standards
  - (b) more guidance on E5-3 (AR 19 and AR 21)
- 89 Deleted phase-in provisions on potential financial effects as these are addressed in ESRS 1.

*ESRS S1*

- 90 Scope. Adding back privacy and housing from the April ED.
- 91 Additions to the list of mandatory Disclosure Requirements: Disclosure requirements S1-1 to S1-5 and S1-9 Diversity for undertakings with 250 employees or more.
- 92 Architecture of Disclosure Requirements. Increase of the number of Disclosure Requirements by 1 as diversity and people with disabilities has been split.
- 93 S1-1 Policies. A number of new datapoints (approx. 10) for diversity policies to be mandatory . Reduction of datapoints as list of international instruments that policies were to be aligned reduced to only UNGP, UNGC and OECD.

*Due process note – First set of draft ESRS*

- 94 S1-6 Characteristics of the undertaking's employees. Reduction of datapoints/breakdowns of full time by gender and by region and part-time by gender and by region. No further option to use other methodology that differs from FTE or headcount.
- 95 S1-8 Collective Bargaining. Reduction of 2 datapoints on c) regarding operations outside EEA.
- 96 S1-9 Diversity indicators. Reduction of datapoints as ethnicity was not included in set 1 as a KPI.
- 97 S1-10 Adequate wages. Additional datapoint from the April ED on percentage of own workforce paid below the adequate wage, broken down for employees and non-employees.
- 98 S1-11 Social protection. Reduction of quantitative datapoints on lack of social protection coverage.
- 99 S1-12 Persons with disabilities. Reduction of datapoint on the breakdown by gender.

*ESRS S2/ S3/ S4 (Mainly editorial changes)*

- 100 Objective - Specification of the scope of the standards/IROs covered by the standards (paras 1, 4 and 5).
- 101 DR2 and DR3 - Clarification/simplification of disclosure requirements
- 102 S3 Glossary - Definitions - Inclusion of missing definition on Free, Prior and Informed Consent in relation to the rights of indigenous people
- 103 S3 Application requirements - New paras covering IROs in relation to affected communities connected to environmental IROs.

*ESRS G1*

- 104 ESRS G1-2 Management of relationships with suppliers: added a requirement for a description of policies/practices to prevent late payments to SMEs.
- 105 Streamlined paragraph 17 under ESRS G1-3 Prevention and detection of corruption/bribery to align with wording in social standards.
- 106 Aligned requirements on training in paragraph 18 with those in GRI and deleted voluntary information around the information programme with own workforce and management.
- 107 ESRS G1-5 Political influence and lobbying activities: updated the wording to that of the new CSRD. Financial information about spending on lobbying activities now voluntary and additional granular information similarly deleted.
- 108 ESRS G1-6 Payment practices: Split of SME information deleted and while the standard payment terms requirement was simplified, this still includes the requirement to provide such information by main category of suppliers.

*Consideration of re-exposing the [drafts] for comments*

- 109 One of the questions that have been considered by the EFRAG Secretariat and the EFRAG SR TEG is whether the changes from the Exposure Drafts require a re-exposure before being included in the final drafts.
- 110 In this regard, EFRAG due process procedures address the re-exposure as follows:
  - (a) *5.30 Decisions to re-expose are taken by the EFRAG SRB, in consultation with the EFRAG SR TEG. In doing so, the EFRAG SRB considers whether the revised proposals include any fundamental changes on which respondents have not had the opportunity to comment because they were neither contemplated nor discussed in the basis for conclusions accompanying the exposure draft. The EFRAG SRB also considers whether it will learn anything new by re-exposing the proposals.*

(b) *5.31 If EFRAG SRB is satisfied that the revised proposals respond to the feedback received and that it is unlikely that re-exposure will reveal any new concerns, it proceeds to finalise the proposed requirements. Once discussions have been finalised, the final draft standard (or draft amendment) will be submitted for approval by the EFRAG SRB.*

- 111 Considering the above, the need to re-expose would only apply if there were any fundamental changes that do not address comments received in the public consultation.
- 112 Several changes have been made in order to reflect the updated CSRD text issued in November 2022. For these changes, the question whether a re-exposure is appropriate does not apply, as they derive directly from level one regulation and should simply be reflected in the draft standards.
- 113 The changes other than those needed to align to the new CSRD have been made to address concerns received in the public consultation.
- 114 In this context, the EFRAG SRB has considered as part of its deliberations on the drafts whether any change to the draft would result in an approach that would be significantly 'new,' i.e. not subject to exposure as part of the public consultation. On this basis, it was considered not appropriate to include guidance on value chain for financial institutions before consulting on their specific content. Similarly, it was considered not appropriate to include datapoints on ethnicity without consulting specifically on them.
- 115 In conclusion, there are no elements that would lead to consider that a re-exposure is needed.

*Additional items considered by the EFRAG SRB that did not result in changes to the draft standards but trigger more research and consultation in the next phase*

- 116 During its deliberations the EFRAG SRB considered the possible inclusion of a phase-in provision that would allow financial market participants (banks, insurers, asset managers) to postpone the inclusion of downstream value chain until the effective date of the future ESRS draft sector standards, in order to avoid double counting of the impact metrics and pending the establishment of a clear methodology. Considering the complexity of the topic and the need to have a public consultation on the approach to the value chain for financial market participants, the EFRAG SRB finally decided not to include this phase-in provision. The EFRAG SRB consider this as an area of priorities for research and public consultation in the next months/next sets of standards.
- 117 EFRAG SR TEG recommended to the EFRAG SRB to decide whether to include a datapoint on ethnicity in draft ESRS S1 and its nature (voluntary/mandatory), not expressing a technical advice in the approval of ESRS S1. EFRAG SR TEG suggested as well to the EFRAG SRB to have technical discussions, involving experts of this specific matter, and to consider the necessity to have a public consultation before including it in the draft standards, if feasible already in time for the adoption in June 2023. This datapoint was not included in the ED given that the topic of diversity has been emphasized in the last text of the CSRD released only at the end of June. In a previous preparatory EFRAG SR TEG discussion, members were split, with an equal number supporting this datapoint to be optional and required. Due to limits imposed by the GDPR (data privacy regulation), EFRAG SR TEG members acknowledged that this datapoint could be based on voluntary surveys, where only employees that are willing to disclose this information would do so.
- 118 The EFRAG SRB discussed the possibility and opportunity to include this datapoint and more broadly the coverage of the topic of ethnicity in the first set of draft ESRS. It was noted that the inclusion of this datapoint in time for June 2023 is not compatible with the need to run a public consultation. The EFRAG SRB recognises

the importance of non-discrimination, diversity and equality at the workplace, whereby ethnicity is an aspect of diversity and that diversity was included in the final text of the CSRD. The EFRAG SRB notes that specific datapoints on ethnicity were not consulted on in the EDs on the First Set of draft ESRS and there is a need for proper definition and need for quality data serving comparability. The EFRAG SRB finally decided to cover in the draft ESRS to be released in November 2022, the requirement to describe policies, action plans, targets and resources in relation to ethnicity as one of the dimensions of diversity. The EFRAG SRB also decided not to include quantitative disclosures on racial and ethnic origin at this stage, but to undertake more research including obtaining the input of experts, noting that the deadline of November is not compatible with the depth of analysis that the subject deserves. As such, ethnicity is a priority topic for EFRAG and consultation in the coming months.

- 119 The EFRAG SRB discussed the challenges of disclosing quantitative data on financial effects arising from opportunities. The absence of a common practice is the main reason to justify the three-years phase-in foreseen in the environmental standards for this datapoint (one year for climate considering that the topic is more mature). The EFRAG SRB considered in particular whether the provision of data on opportunities shall be limited to opportunities that are factored into the business plans or for which business decisions to pursue the opportunity do exist at the reporting date, so that the management is able to elaborate reliable forward looking-estimates. Pending a specific public consultation on a framework to disclose on quantitative data on opportunities, the EFRAG SRB agreed to amend the environmental standards, in order to clarify that the disclosure of such quantitative data is required only provided that the resulting disclosure meets the qualitative characteristics of quality (ESRS 1 Appendix C, including reliability). The EFRAG SRB agreed that this is an area that deserves more research and public consultation in the coming months.
- 120 The EFRAG SRB decided to amend ESRS 1 to clarify the threshold for impact materiality, including a reference to the 'most significant' impacts, a threshold used in GRI standards. The EFRAG SRB agreed to undertake further research in the coming months on the implementation of the impact materiality, to support the correct interpretation of the threshold and to support preparers in the implementation of the impact materiality.

### **3. Illustration of the changes to draft ESRS 1 General principles and to the general architecture of draft ESRS**

#### *Outcome of the public consultation*

- 121 A general message from the public consultation is that the application of all the DRs in the EDs at the same time would be an excessive challenge. For stakeholders that numerically represented most of the respondents, the EDs were excessively detailed, their content exceeded the CSRD requests in many instances, there was a need to reduce complexity and granularity and to reconsider the allocation of some DRs between sector agnostic and sector specific level. However, the need for sufficient lead time was a general concern, shared by also those categories of respondents (numerically a minority) that considered that the EDs draft ESRS were overall striking the right balance between the need to make significant progress in improving the quality of sustainability information and meeting the growing needs of users and other stakeholders.
- 122 Another general message was the request to closely align the content of ESRS to international sustainability reporting standards, namely IFRS and GRI, as also emphasized by the final CSRD text that the ESRS should integrate the content of global baseline standards to be developed by the ISSB, to the extent that the content of the ISSB baseline standards is consistent with the EU's legal framework and the objectives of the European Green Deal.

- 123 Another recurring message in the consultation was the need to reconsider the general approach to materiality and the use of the rebuttable presumption. Views were split on the role of judgement in the materiality assessment, i.e. whether companies are best placed to know which information is material, as opposed to whether ESRS should mandate a list of requirements valid in all circumstances. Other criticisms on the rebuttable presumption included that it is contrary to the current materiality assessment practices, as the starting point should be the outcome of the undertaking's materiality assessment, and the perceived cost to justify and disclose the reasons for omitting disclosure prescribed by ESRS. The rebuttable presumption is seen in this context as conducive of a checklist mentality and encouraging the inclusion of immaterial information.
- 124 Concerns were expressed on the burden to report on material impacts, risks and opportunities in the value chain. These concerns relate to the cost of generating data, to data not being available, and the so-called "trickle down" effect for small- and medium sized undertakings that need to fulfil data needs of those undertakings reporting under the CSRD. Such concerns also reflect the need to clarify when undertakings are expected in practice to include value chain information and the use of approximations.
- 125 Frequent comments related to the necessity to enhance the alignment of the language with the international instruments of sustainability due diligence, including OECD and UNGP guidelines.
- 126 A number of comments reveal also that the interaction between topical standards and ESRS 2 General disclosures (previously called General, strategy, governance and materiality requirements) is not fully understood, as well as the application of the Disclosure Principles in ESRS 1 on a cross-cutting basis.
- 127 Finally, other frequent concerns relate to the impossibility to omit commercially sensitive information and the alignment with the forthcoming CSDDD directive.

*Changes due to the final CSRD text*

- 128 The final CSRD text leads to the following amendments in ESRS 1 General principles (now called 'General requirements'):
- 129 Stronger alignment with ISSB and GRI (see below);
- (a) Recital 29 and 46 and article 19 (a) 3 aim at protecting small and medium enterprises (SMEs) from the trickled down effect (production of sustainability data to face requests from their clients when they are in their value chain). The final CSRD specifies that in the first three-years of application when the undertaking cannot obtain the necessary information from value chain entities, it shall explain the efforts made to obtain the information, the reasons why it could not be obtained and the plans to obtain it. Such specification has been incorporated in ESRS 1. The final CSRD introduces as well a form of 'cap,' i.e. ESRS shall not specify disclosures that would require undertakings to obtain information from SMEs in their value chain that exceeds the information to be disclosed according to the future ESRS for listed SMEs. EFRAG will issue for consultation such ESRS for listed SMEs in the first half of 2023 and it expects to finalise it by the end of 2023. The first set of ESRS will be amended to reflect the cap as soon as the ESRS for listed SME is finalised. Pending the finalisation of this standard, in ESRS 1 a phase-in transition provision has been introduced that limits the inclusion of value chain information in the first three years of application. This transition provision responds as well to the operational challenges of large undertakings in implementing the requirements that result in inclusion of value chain information. At the same time, as part of the decision making on the outcome of the public consultation, the EFRAG SRB has systematically considered each DR in the draft standards from the angle of proportionality and relevance

and has realised a significant simplification of the standards, as described below.

- (b) Elimination of the two options provided in the ED for the structure of sustainability statements, as the final CSRD has clarified that the ESRS reporting has to be presented in a dedicated section of the management report (see below);
- (c) Subsidiary exemption, which resulted in a specific provision in ESRS 1 to support the identification of where significant differences exist between the material sustainability impacts, risks and opportunity of the group and an individual subsidiary; and
- (d) Sustainability due diligence wording track, prevent and bring to an end has been introduced.

*Changes due to the result of the consultation*

- 130 A general review of the standard has led to streamline its structure and language. In addition, Chapter 1 explaining the “architecture” of ESRS has been streamlined.
- 131 The “CSRD concepts” of chapter 2 of the ED (a) Characteristics of information quality, (b) Double materiality as the basis for sustainability disclosures, (c) Boundaries and value chain, (d) Time horizon, and (e) Sustainability due diligence under the CSRD have been elevated to separate chapters (chapter 2 to 6) to give them more and appropriate prominence.
- 132 Chapter 3 Disclosure Principles on implementation of the ED have been moved to ESRS 2 General Principles to become cross-cutting required content (ESRS 2 CCR 1 On policies adopted to manage material sustainability matters and ESRS 2 CCR 2 Actions and resources in relation to policies and targets as part of the chapter 4 Management of impacts, risks and opportunities and ESRS 2 CCR 3 On targets, progress and tracking effectiveness as part of chapter 5 Metrics and targets). The new section 1.5 Cross-cutting Disclosure Requirements for policies, action plans and targets explains how the Cross-cutting Disclosure Requirements relate to the reporting areas.
- 133 The EFRAG SRB has confirmed the approach taken in the EDs to respond to the need to create the data infrastructure necessary for the proper implementation of some European legislative initiatives involving financial institutions (SFDR, Pillar III, Benchmark Disclosure). Appendix D of ESRS 2 has been introduced to facilitate the identification of the datapoints emanating from these legislations, that are to be reported irrespective of the outcome of the undertaking’s materiality assessment.
- 134 The rebuttable presumption for the materiality has been replaced by an approach based on the undertaking’s materiality assessment, supported by the matters and disclosures covered in ESRS. Exceptions to this general approach are ESRS 2 Disclosure requirements (same as in the ED) and ESRS E1 Climate change that are applicable irrespective of the outcome of the undertaking’s materiality assessment, responding respectively to the need to promote full consistency in the reporting of basic general disclosures and to the European Green Deal ambitions.
- 135 When reporting on a material matter according to the metrics section of the relevant ESRS, information prescribed by a DR or a datapoint of a Disclosure may be omitted, if assessed that such information is not material. The DRs / datapoints cannot be omitted when applying requirements related to impact, risk and opportunity management and to targets. However, if for example, for a material topic a policy does not exist and accordingly no targets or actions can be reported, the undertaking shall disclose that fact so fulfil the DRs. A justification for the omitted information is required only when an entire ESRS has been omitted. A list of the reported DRs is required, but undertakings are not required to disclose the list of omitted DRs or datapoints. Appendix G of ESRS 1 and Appendix E of ESRS 2



further illustrate the materiality regime applicable to the different DRs in different ESRS.

- 136 Additional paragraphs of Application Requirements have been included in ESRS 1 to support the materiality assessment, both for impact and financial materiality.
- 137 Sustainability due diligence is now defined on the basis of the CSRD (Recital 27). It has been reconfirmed that sustainability due diligence does not mandate any behaviour for undertakings and the former Appendix C Explanations on sustainability due diligence in the ED has been deleted. Chapter 4 Sustainability due diligence includes, for each of the elements of sustainability due diligence, a reference to the international instruments and explains which Disclosure Requirements address the respective elements of sustainability due diligence.
- 138 The general approach to value chain has been re-focused on the specific value chain provisions in the topical standards (where they exist) and in general on material value chain information.' Chapter 5 of ESRS 1 now gives more prominence to the 'impact and risk-basis' integration of value chain information. Integration of value chain information is not required for all datapoints but only when material information on material impacts, risks or opportunities could be omitted if value chain information are not included. It has been clarified that associates and joint ventures are treated as the other entities in the value chain. ESRS 1 acknowledges that to obtain value chain information is challenging, in particular when the undertaking does not have the authority to introduce and implement its operating policies over the activities of its value chain and its relationships. When the undertaking cannot obtain the necessary information after reasonable efforts (previously 'every reasonable efforts') the undertaking shall estimate the information to be reported about its upstream and downstream value chain, by using sector-average data and other proxies. This specific provision is not changed from the ED, but the text avoids the use of the word 'approximation' that had triggered a number of questions on the quality of the resulting estimation. The extent to which value chain information are necessary when reporting on policies, actions and targets and when reporting on metrics has also been clarified.
- 139 The following changes have been made to align with IFRS and GRI:
  - (a) The scope of consolidation is the same as for financial reporting (for value chain information see above);
  - (b) Impacts, risks and opportunities comprise positive and negative sustainability-related impacts and sustainability-related financial risks and opportunities;
  - (c) The reporting areas have been fully aligned with IFRS S1 and TCFD as explained in section 1.2 being now (a) Governance, (b) Strategy, (c) Impact, risk and opportunity management ('IRO management'), and (d) Metrics and targets also resulting in corresponding changes in ESRS 2 and topical standards;
  - (d) The detailed description of Chapter 2 Qualitative characteristics of information has been moved to a new Appendix C similar to the positioning in IFRS S1 and its content has been entirely aligned to reflect the text in IFRS S1 ED. This is except for changes needed from impact materiality perspective and the concept of 'timeliness' under IFRS S1 which does not form part of CSRD. ;
  - (e) The stakeholder definition now explicitly refer to investors, creditors and lenders that are primary users of general purpose financial statements;
  - (f) Paragraph 45 and 46 of ESRS 1 have been clarified, to avoid the possible interpretation of a divergent approach to financial materiality. Paragraph 46 explicitly incorporates the IFRS S1 financial materiality concept;

- (g) Language of the guidance on impact materiality has been aligned with the international instruments of sustainability due diligence across all the standards;
  - (h) Terminology alignment on materiality:
    - (i) for impact materiality, a sustainability matter is material from an impact perspective when it pertains to the undertaking's material (previously 'significant') actual or potential, positive or negative impacts on people or the environment over the short-, medium- or long term. This promotes alignment with GRI, in conjunction with the reference to 'most significant' when defining appropriate thresholds; and
    - (ii) for financial materiality, a sustainability matter is material from a financial perspective if it triggers or may trigger material financial effects (previously 'significant'). This promotes alignment with the latest ISSB tentative decisions.
  - (i) Flexibility has been introduced in the definition of time horizons, to enhance interoperability with IFRS S1, where the definition is entirely left to the undertaking's judgement. ESRS 1 has been amended to mandate a definition of short period in all cases (the same period adopted by the undertaking in its financial statements for current assets and liabilities, to promote connectivity with financial statements) and, at the same time, allow for medium and long term to deviate from the predefined time horizons, in the circumstances where the use of such predefined definitions would result in non-relevant information;
  - (j) The preparation and presentation of sustainability information in chapter 7 (in the ED chapter 4) has been further aligned with IFRS S1. IFRS S1 requirements and Disclosure Requirements are in one standard, while in ESRS the requirements are in ESRS 1 and the Disclosure Requirements in ESRS 2, thus concentrating cross-cutting disclosure requirements in one standard; and
  - (k) The concept of connected information from IFRS S1 has been integrated (section 9.2).
- 140 To enhance the understandability of the architecture, all the remaining requirements "to disclose" in the ESRS 1 ED have been moved from to ESRS 2 (see the Basis for preparation section, Disclosure Requirements BP-1 and BP-2) and the standards have been renamed to:
- (i) ESRS 1 General Requirements and
  - (ii) ESRS 2 General Disclosures.
- 141 The following simplifications have been implemented:
- (a) the more prescriptive requirements in chapter 6 of the ED (now chapter 8) on the grouping and ordering of the blocks of the Sustainability statement (by respective ESRS standards and in the order of the ESRS numbering) have been dropped;
  - (b) the incorporation by reference in chapter 9 has been made available not only to other parts of the management report as in the ED (section 5.1) but also to the financial statements, the corporate governance report, the remuneration report and Pillar 3 disclosures and in the future the same regime would apply to Solvency II reporting of the insurers. The requirements for incorporation by reference have been more clearly specified, to respond to specific concerns raised in the consultation;
  - (c) as the possibilities for incorporation by reference have been expanded the former section on cohesiveness, incorporation by reference, and specific EU regulations of section 5.1 of the ED has been deleted; and

- (d) reconciliations and reference to the financial statements as required by section 9.2 Connectivity with financial statements are now limited to data points above a certain threshold for significant information.
- 142 To respond to the concerns that ESRS would result in divulging commercially sensitive information, an option has been introduced to omit specific pieces of information corresponding to intellectual property, know-how or the results of innovation, provided that certain criteria are met.
- 143 The following phase-in provisions have been included:
- (a) Transitional provisions for chapter 5 Value chain was added to consider the new provision of the CSRD on value chain and the recurring message from the public consultation that reporting on the value chain is burdensome especially in the first years; and
  - (b) list of disclosure requirements that are phased-in to year 2 or subsequent years.
- 144 Across all the standards, while keeping unchanged the level of authority of Appendix B (same authority as the main body of the standard), the appendix has been renamed 'Application Requirements,' as the old denomination 'Guidance' had been incorrectly understood to have the status of non-mandatory recommendations. At the same time, all the paragraphs that prescribed additional 'shall' datapoints in the Application Requirements have been incorporated in the main body of the draft standard, so to offer a clear and complete picture of the required information. The Application Requirement presents now mandatory methodological guidance and additional voluntary datapoints, that aims at promoting better practices while not imposing the burden of additional mandatory datapoints to all the undertakings in scope of the CSRD. These are split into two categories: additional voluntary datapoints ('the undertaking may report') and one where the undertaking has to consider the detailed content when deciding which detailed information to include when responding to a datapoint prescribed by a DR ('the undertaking shall consider'). Consistently, the ESRS 2 topical specifications (i.e. paragraphs that set additional requirements in topical standards related to the application of cross-cutting disclosure requirements of ESRS 2) have been moved from the Application Requirements to the main body of the topical standard and their title identifies them as linked to ESRS 2 (i.e. they are not considered as additional topical DRs). A new appendix has been introduced in ESRS 2 (Appendix C) to help undertakings navigate these ESRS 2 topical specifications.

#### **4. Illustration of the changes to draft ESRS 2 General disclosures**

##### *Outcome of the public consultation*

- 145 The following themes characterised the consultation outcome for draft ESRS 2 General requirements (now called ESRS 2 General disclosures):
- (a) ESRS2 structure is overall too complex and there are redundancies within ESRS 2 and with other ESRS standards;
  - (b) need to align architecture, concepts and terminology with ESRS S1 (and TCFD);
  - (c) cost/benefit concerns and the need to reduce the granularity of the required disclosure and, in general, the number of disclosure requirements to what is explicitly required by the CSRD text;
  - (d) need to streamline the language in the standard;
  - (e) need for more application guidance, notably on materiality assessment.

##### *Changes due to the final CSRD text*

- 146 The final CSRD text limits the Governance factors covered in the G1 ED to governance of sustainability matters instead of general governance. The remaining requirements of G1 ED, as described below in the section dedicated to ESRS G1 and the ESRS G1 ED, have been included in ESRS 2.

*Changes due to the result of the consultation*

- 147 A number of datapoints have been added, in order to incorporate all the contents of the Exposure Draft IFRS S1;
- 148 The following Disclosure Requirements have been simplified:
- (a) GR1 General characteristics of the sustainability reporting has been streamlined and partly deleted according to the final CSRD (no more presentation options);
  - (b) GR10 on general statement of compliance has been eliminated as ESRS application is mandatory and sustainability statements are audited;
  - (c) references to the rebuttable presumption have been eliminated;
  - (d) The two GR remaining disclosure requirements have been renamed BP (Basis for preparation).
- 149 The following DRs have been merged in order to reduce the redundancies and streamline the standard:
- (a) The section containing the GR DRs has been streamlined and the content of the 10 initial DRs is now reorganised in only 2 DRs;
  - (b) SBM 1 Overview and business model, GR2 Sectors of activity, GR3 key features of the value chain and GR4 Key drivers of the value creation have been transferred to new SBM1 Strategy, Business Model(s), market position and value chains;
  - (c) GOV 2 and 3 have been merged in new GOV 2 Information provided to and sustainability matters addressed by the undertaking's administrative, management and supervisory bodies.
  - (d) GOV 1 and the new GOV 5 have been completed by elements coming from former ESRS G1;
  - (e) IRO 2, IRO 3, SBM 3 and SBM 4 have been merged into SBM 3 Material impacts, risks and opportunities and their interaction with strategy and business model(s);
  - (f) Content of IRO 1 and of its Application Guidance have been transferred to ESRS 1 to enhance the guidance on materiality assessment.
- 150 The following simplifications have been included:
- (a) The structure of the chapters of ESRS 2 has been modified in order to align with the four pillars of TCFD: 1. Basis for preparation; 2. Governance; 3. Strategy; 4. Management of impacts, risks and opportunities. A fifth chapter related to Metrics and targets has been added in order to align with IFRS S1;
  - (b) Quantitative and qualitative datapoints have been significantly deleted or simplified, in particular on Governance (nomination criteria, organisational structure, number of significant positions/commitments of the members of the administrative management and supervisory bodies, key decision of those bodies in relation to sustainability matters in the period) and Strategy (breakdown of revenues by significant country, breakdown of employees by countries replaced by geographies) an qualitative datapoints and Application Requirements have in general been streamlined.

- 151 The new IRO 2 Summary of material information covered by the undertaking's sustainability statements has been introduced, which includes the disclosure requirements necessary to provide transparency on the outcome of the materiality assessment, following the removal of the rebuttable presumption.

## **5. Illustration of the changes to draft ESRS E1 Climate change**

### *Outcome of the public consultation*

- 152 There was good overall support for the proposed ESRS E1 Climate change requirements. There were also various opportunities for improvement identified, particularly on the need for clarification and simplification of the requirements. In addition, some disclosure requirements could be moved to the sector-specific standards.
- 153 On the transition plan, socioeconomic impacts (i.e. just transition) should be better covered within the ESRS, and these should be addressed in the ESRS social standards. The requirements on policies, targets, action plans and resources were considered too granular, and it was recommended that these should allow more flexibility.
- 154 On performance measurement, the objective of the proposal to present the Scope 3 greenhouse gas emissions under five categories was not fully understood by stakeholders and this has become an optional disclosure. There was a call for explicit requirements on the reporting boundary. Finally, due to the immaturity of reporting and challenges in methodology and data availability, more guidance and a phase-in approach was requested for the requirements to disclose the potential financial effects of material physical and transition risks and climate-related opportunities. Users also pointed to several needed additional disclosures including on the location of assets that are vulnerable to physical risk.

### *Changes due to the final CSRD text*

- 155 ESRS E1 becoming mandatory, as Scope 1 and 2 and Scope 3 (where relevant) were added in CSRD.
- 156 An explanation has been added of the undertaking's plans for future Taxonomy alignment (Green revenues, green CapEx and CapEx plans as well as, if applicable, exposure to coal, oil and gas-related activities (Current revenue and CapEx linked to fossil-related activities)).

### *Changes due to the result of the consultation*

- 157 The following Disclosure Requirements (DRs) have been deleted as they were more relevant for specific sectors (energy and GHG-intensive sectors):
- (a) E1-1 Transition plan: quantitative locked-in emissions;
  - (b) E1-5 Energy consumption and mix: breakdown of non-renewable energy;
  - (c) E1-14 Avoided GHG emissions.
- 158 The following paragraphs describe DRs that have been moved or merged to reduce the redundancies, streamline the standard and to better align with the TCFD recommendations and IFRS S2 architecture as called for by several respondents to the public consultation.
- 159 The following DRs related to ERS2 were under the Application Guidance in the ED and have been moved to the main body to be closer to the IFRS S2 organisation of content under its Governance and Strategy sections:
- (a) GOV 3 on incentives based on GHG emission reduction targets;
  - (b) SBM 4 on resilience of strategy and business model;

- (c) IRO 1 on description of process to identify and assess climate-related impacts, risks and opportunities (including scenario analysis requirements).
- 160 To align with the IFRS S2 architecture, the ED's "Performance measurement" section has been renamed "Metrics and Targets" and "Implementation - Policies, Targets, Action Plans and Resources (i.e., PTAPR)" has been renamed "Management of impacts, risks and opportunities". The Metrics and Targets section includes:
- (a) DR E1-4 (former E1-3) Targets related to climate change and mitigation- This DR was formerly under the Implementation - Policies, Targets, Action plans and Resources section in the ED and has been renumbered from E1-3 to E 1-4; Consequentially, the DR on Action plans and resources in relation to climate change mitigation and adaptation policies and targets under PTAPR that was DR E1-4 in the ED has been renumbered as E1-3;
  - (b) DR E1-8 Internal carbon pricing – the content of this DR was under the Application Guidance in the ED and has been moved to the main body under this DR.
- 161 Other changes made to the DRs under the 'Metrics and targets' section to reduce redundancies in their wording and presentation are:
- (a) Two ED DRs (E1-5 Energy consumption and mix and E1-6 Energy intensity based on net turnover in ED ) have been merged into a single DR E1-5 Energy consumption and mix;
  - (b) Five ED DRs (E1-7 Scope 1 GHG emissions, E1-8 Scope 2 GHG emissions, E1-9 Scope 3 GHG emissions, E1-10 Total GHG emissions and E1-11 GHG per net turnover) have been merged into a single DR (E1-6 – Gross Scope 1, 2, 3 and Total GHG emissions);
  - (c) Two ED DRs (E1-12 GHG removals in own operations and the value chain, and E1-13 GHG mitigation projects financed through carbon credits) have been merged into a single DR (E1-7 GHG removals and GHG mitigation projects financed through carbon credits);
  - (d) Three ED DRs (E1-15 Potential financial effects from material physical risks, DR E1-16 Potential financial effects from material transition risks, and DR E1-17 Potential financial effects from climate-related opportunities) have been merged into a single DR (E1-9 Potential financial effects from material physical and transition risk and climate-related opportunities).
- 162 The following clarifications and simplifications in the disclosure DRs have been made:
- (a) E1-1 on transition plans to answer public consultation comments on how to translate the requirement in practice:
    - (i) Clarification that transition plan (as well as policies, actions & resources, targets, removals & carbon credits) are to be disclosed only if they have been developed; and
    - (ii) Clarification that alignment with 1.5°C only means a comparison with a 1.5°C pathway.
  - (b) E1-3 and E1-4: Reduced granularity of decarbonisation levers and resources (only significant CapEx and OpEx amounts) following public consultation demand to reduce the reporting burden (i.e., cost-benefit considerations);
  - (c) E1-6 on GHG emissions: In the main body, the draft standard adds language clarifying the application of the reporting boundary in respect of the GHG emissions from associates, joint ventures, unconsolidated subsidiaries and

contractual arrangements where the undertaking has the authority to introduce and implement its operating policies over the activities and relationships has been added to E1. Several respondents mentioned that the ED was lacking in this aspect and called for explicit related guidance in draft ESRS E1;

- (d) E1 -7: Reduced granularity of removals and carbon credits details and direct link to net-zero targets and climate neutrality claims to meet public consultation expectations regarding proportionate disclosure requirements (removals and carbon credits are secondary requirements compared to GHG emissions and should not be more detailed than the GHG emissions themselves) and to remove net zero-targets and climate neutrality claims from the disclosure requirement on Targets to avoid greenwashing and clearly state that these claims are only related to removals and carbon credits;
- (e) E1-9 on potential financial effects:
  - (i) To clarify the alignment with the IFRS S2 distinction of current/past financial effects versus anticipated financial effects, under the potential financial effects requirements, it has been clarified that potential financial effects information is outside the scope of accounting requirements and this disclosure in addition to the disclosure of current/past financial effects of climate-related risks and opportunities that are required under ESRS 2 SBM Paragraph 48;
  - (ii) Furthermore, Appendix A defines the term potential financial effects which may be a broader notion (i.e., includes more information) than the term anticipated financial effects applied in IFRS S2;
  - (iii) Several respondents questioned how material physical and transition risks are defined. In the Application Requirements, it is clarified that the determination of material physical and transition risk is part of and stems from the undertaking's assessment of its impacts, risks and opportunities. The Application Requirements details how this assessment is to be done; and
  - (iv) The ED required a statement of consistency illustrating the consistency of data and assumptions made to assess the potential financial effects in sustainability reporting with corresponding assumptions used in the financial statements. This has been simplified requiring the entity to ensure consistency and to only disclose inconsistencies. Of note, a national standard setter respondent had expressed concern about the potential redundancy of a statement of consistency due to Article 34 of the Accounting Directive.

163 The following additional datapoints/topics/breakdown have been included:

- (a) E1-1 on transition plan for climate change mitigation
  - (i) Disclosure of exposure to fossil activities (revenues and CapEx) as required by final CSRD text; and
  - (ii) disclosure of whether or not the undertaking is excluded from Paris-aligned benchmarks as required by the EBA Pillar 3 ITS.
- (b) E1-2 on policies related to climate change mitigation and adaptation- A list of climate policy areas (mitigation, adaptation, energy efficiency, energy mix, other) to ensure consistency with the content of the metrics part and with the other E standards;
- (c) E 1-6 on GHG emissions
  - (i) As noted under clarifications, the main body confirms that undertakings shall ensure consistency with ESRS 1 requirements in the application of

reporting boundaries. ESRS E1 has added language clarifying the application of the reporting boundary in respect of the GHG emissions from associates, joint ventures, unconsolidated subsidiaries and unaffiliated activities where the undertaking has the ability to contractually control the operations. As noted, several respondents mentioned the need for such explicit guidance on this aspect; and

- (ii) a disaggregation of reported Scopes 1 and 2 to align with IFRS S2, and allow the comparability of GHG emissions of the consolidated accounting group was added. Several users called for this disclosure.

- 164 E 1-9 Potential financial effects from material physical and transition risks: The following EBA datapoints were added: a) the disaggregation of monetary amounts at material physical risk by acute and chronic risk; b) disclosure of the location of significant assets at material physical risk, and c) the real estate asset distribution by energy efficiency classes as part of the transition risk disclosures. The disclosure of the location of significant assets at material physical was also supported by user respondents.
- 165 The following phase-in requirements have been included under E1-9 due to the immaturity of reporting and data and methodology challenges faced by several undertakings: A one-year deferral of adoption is allowed, and three years of qualitative information is allowed instead of quantitative information on potential financial effects of material physical and transition risk. The call for the phase-in requirements was made by several stakeholders including preparers and professional associations.

## **6. Illustration of the changes to draft ESRS E2 Pollution, draft E3 Water and marine resources, and draft E5 Resource use and circular economy**

### *Outcome of the public consultation*

- 166 There was good overall support for the draft ESRS E2, E3 and E5 requirements at sector-agnostic level though some questioned whether some datapoints were rather sector-specific. In all three draft standards, various opportunities for improvement was identified, particularly clarification (such as area at water risk), simplification of the requirements and harmonisation of concepts. Many respondents queried the lack of clarity on the importance of site information in draft ESRS E2 and the possibility of moving the DR on emissions to water from the draft ESRS E3 to this standard.
- 167 The requirements on policies, targets, action plans and resources were considered to be too granular and too prescriptive. Recommendations included harmonisation of this section across the environmental standards as well as improving the flexibility by reducing the level of granularity and prescriptiveness of the requirements.
- 168 On performance measurement, many were concerned that the ESRS E2 datapoints were sector-specific such as the DR on substances of control and most harmful substances. However, others considered this DR as particularly critical.
- 169 For the performance measurement section in ESRS E3, the proposals were to limit requirements to the SFDR PAI and own operations to avoid unnecessary granularity and burden.
- 170 On performance measurement in draft ESRS E5, the outcome was to avoid unnecessarily granularity and burden by refocusing indicators.
- 171 Finally, due to the immaturity of reporting and challenges in methodology and data availability, more guidance and a phase-in approach was requested for Disclosure Requirements about the potential financial effects of all three standards.

### *Changes to ESRS E2 due to the result of the consultation*



- 172 The amended draft aims at closer alignment with existing EU legislation, including aligning Pollution of air, water and soil to SFDR PAI, converging more with existing regulations (REACH and CLP) for substances of concern and deleting the life-cycle assessment mention in order to avoid unnecessarily granularity and burden.
- 173 The following DRs have been merged in order to reduce the redundancies and streamline the draft standard: DR E2-6 Pollution-related incidents and deposit impacts was deleted and merged with E2-7 while keeping the relevant content on the following items:
- (a) description of majors incidents and deposits;
  - (b) provisions for rehabilitation where relevant.
- 174 The following simplifications have been included:
- (a) streamline of the content of DR E2-2 and E2-3 and focus on key information in order to reduce the level of granularity and complexity of the requirements;
  - (b) shift of the mandatory disclosure requirements related to to the Industrial Emission Directive (IED) and relevant Best Available Techniques Reference Documents (BREFs) to the Application Requirement as voluntary disclosures; and
  - (c) elimination of unnecessary reminder of Article 8 of Regulation (EU) 2020/852 (Taxonomy Regulation) in order to avoid duplication of information.
- 175 The following additional datapoints/topics/breakdown have been included:
- (a) disclosures at level of site locations - where emissions of water, soil and air pollutants occur - were strengthened in application requirements;
  - (b) new paragraphs on ecological thresholds and on mitigation hierarchy were introduced respectively in the DR E2-2 (Targets) and DR E2-3 (Action Plans). Such additional requirements were deemed significant in order to provide contextual information on targets disclosure;
  - (c) disclosure on emissions to water was moved from draft ESRS E3 to draft ESRS E2 because the pollution of water is better placed in this topical standard;
  - (d) disclosure on microplastics generated or used by the undertaking was kept even though note SFDR in consideration of the material negative impact on the environment; and
  - (e) the definitions in Appendix A were improved in order to be, where possible, as much as possible consistent with EU legislations.
- 176 The following phase-in provisions have been included under E2-6 due to the immaturity of reporting and data and methodology challenges faced by several undertakings, three years of qualitative information is allowed instead of quantitative information on potential financial effects of pollution. The call for the phase-in requirements was made by several stakeholders including preparers and professional associations.

*Changes due to the result of the consultation ESRS E3*

- 177 The following DR has been deleted as they were more relevant for specific sectors: DR E3-6 Marine resources related performance: the DR was deleted because the disclosure on performance metrics was not considered mature enough to be required at sector-agnostic level. The concept of marine resources and its materiality assessment was kept in draft ESRS E3 in order to be consistent with Art. 29 b, 2 a), iii of the CSRD and with Art. 12 of the Taxonomy regulation.
- 178 The following DR has been merged in order to reduce the redundancies and streamline the standard: DR E3-5 Water intensity performance: The DR was

deleted, but the key metric required by SFDR (water consumption intensity ratio) was moved into E3-4. Instead, water intensity ratios on water withdrawal and water discharge were deleted.

179 The following simplifications have been included:

- (a) Policies, Targets, Action Plan and Resources<sup>1</sup> (PTAPR): (DR E3-1, DR E3-2, DR E3-3): the 3 DRs were revised in order to take onboards the main outcomes of public consultation. Concerns were expressed on the lack of maturity of the water withdrawal and water discharge concepts, without enough focus on water consumption and on areas at water risk, including high-water stress. Thus, the main changes consist of the:
  - (i) downgrade of the DRs related to water withdrawal and water discharge as voluntary disclosures in the Application Requirement;
  - (ii) strengthening of the DR on water consumption, water and marine resources usage and on the related information on area at water risk;
  - (iii) harmonisation across E standards and ESRS 2 changes.
- (b) DR E3-4: the content of the DRs was revised in order to be consistent with the update version of PTAPR and to be restrict its content to the relevant SFDR indicator. In particular, the performance metric on water consumption remains as mandatory DR with. Performance metrics on water withdrawals and water discharges were eliminated. In addition the disclosure on emissions to water required by (ex) AG 24 was moved to draft ESRS E2 as topical standard for pollution.

180 The following additional datapoints/topics/breakdown have been included:

- (a) additional data points along the standard on water consumptions on area at material water risk (PTAPR and metrics);
- (b) new paragraphs on ecological thresholds and on mitigation hierarchy were introduced in the DR E3-3 (targets). Such additional requirements were deemed significant in order to provide contextual information on targets disclosure.

181 The following phased-in provisions have been included under E 3-6 due to the immaturity of reporting and data and methodology challenges faced by several undertakings: 3 years of qualitative information is allowed instead of quantitative information on potential financial effects of water and marine resources. The call for the phase-in requirements was made by several stakeholders including preparers and professional associations.

#### *Changes to ESRS E5 due to the result of the consultation*

182 No DRs were deleted, but the following DRs have been merged in order to reduce the redundancies and streamline the draft standard:

- (a) DR E5-6 Waste was merged into DR E5-5 Resource outflows.
- (b) DR E5-7 Resource optimisation was merged into resource outflows and financial effects partially and deleted for other parts as to simplify the overall structure of the standard.

---

<sup>1</sup> Please note that following the SRB decision to align with the TCFD architecture, the PTAPR chapter of the draft standards has been allocated to *Impact, risk and opportunity management* (Policies and Actions) and to *Metrics and Targets* (Targets).

- (c) DR E5-8 Circularity support was merged into materiality assessment and DR E5-3 on action plans and resources as to simplify the overall structure of the standard.
- 183 The following simplifications have been included:
- (a) PTAPR (DR E5-1, DR E5-2, DR E5-3) and materiality assessment: the three DRs were revised as a result of the feedback from the public consultation. Thus, the main changes consist of harmonisation across E standards, ESRS 2 changes and providing additional guidance, while introducing link with the LEAP approach in the materiality assessment.
  - (b) DR E5-4 and DR E5-4:
    - (i) weight and percentages of inflows and outflows were reworded to limit disclosure requirements of quantitative information on weight and percentage to certain sectors as identified within the EU Circular economy action plan, qualitative information was proposed instead for other undertakings.
    - (ii) concepts were clarified for further alignment with international frameworks and EU legislation.
- 184 The following additional datapoints/topics/breakdown have been included: new paragraphs on ecological thresholds and on mitigation hierarchy were introduced in the DR E5-3 (targets). Such additional requirements were deemed significant in order to provide contextual information on targets disclosure.
- 185 The following phased-in provisions have been included under E 5-6 due to the immaturity of reporting and data and methodology challenges faced by several undertakings – three years of qualitative information is allowed instead of quantitative information on potential financial effects of water and marine resources. The call for the phase-in requirements was made by several stakeholders including preparers and professional associations.

## **7. Illustration of the changes to draft ESRS E4 Biodiversity and ecosystems**

### *Outcome of the public consultation*

- 186 Feedback from a range of stakeholder groups, including preparers, business associations, financial institutions and auditors indicated that the combined application of the disclosure requirements in the ED draft ESRS E4 appear very comprehensive at the sector-agnostic level and would be challenging to comply with, especially because biodiversity and ecosystems is a relatively nascent topic for preparers.
- 187 Despite this, many respondents expressed positive assessment on the general objectives and the importance of the disclosures related to Biodiversity and ecosystem. Rating agencies and non-governmental organisations were generally also in favour of the content of the standard even requesting additional datapoints. All stakeholder groups pointed out that some definitions were unclear or missing. Furthermore, while alignment to the Convention for Biological Diversity (CBD) was greeted, preparers and business associations in particular raised concerns on the inclusion of targets linked to the Post-2020 Global Biodiversity Framework that is still under negotiation.
- 188 Similarly, a significant number of preparers and business associations requested greater alignment with the framework developed by the Taskforce for Nature-related Financial Disclosures (TNFD). According to respondents this alignment would also need to be reflected in clearer interactions between draft ESRS E2, E3, E4 and E5.
- 189 Another concern raised was the difficulty to define biodiversity-friendly production and consumption and hence possibly open the possibility to greenwashing. The

concern of missing definitions was shared across stakeholder groups, while in particular non-governmental organisations flagged concern over greenwashing. Responses from a number of stakeholder categories, especially preparers and business associations, also highlighted that the scope of reporting, as regards whether all levels of the value chain are included, should be limited, due to missing data and to not overburden preparers.

*Changes due to the result of the consultation*

190 The following DRs have been deleted:

- (a) E4-7 Response metrics was deleted because it is already covered by reporting on policies, action plans and resources, and targets. It was confirmed that in ESRS 2 within the General Principles on reporting on policies, action plans and resources, as well as targets, undertakings shall also specify the progress they make over time;
- (b) E4-8 Biodiversity-friendly consumption and production metrics: The DR was removed due to the difficulty of defining what biodiversity-friendly consumption and production really is. The DR may be added to a future Governance-standard on responsible production and consumption. In sector-specific standards specific types of certificates may be referred to.

191 The following DRs have been merged in order to reduce the redundancies and streamline the standard:

- (a) E4-9 Biodiversity offsets: The DR was deleted, but the key content moved into E4-1 Transition plans on biodiversity and ecosystems, E4-3 Action plans and resources in relation to biodiversity and ecosystems-related policies and targets, and E4-4 Targets related to biodiversity and ecosystems. The concept of biodiversity offsets is contested and controversial. It needs to be clear whether biodiversity offsets are used by the undertaking in achieving its transition plan, action plans and targets. However, the concept should not be highlighted at the level of a DR;
- (b) E4-5 Pressure metrics and E 4-6 Impact metrics have been merged into E4-5 Pressure and impact metrics on biodiversity and ecosystems, as recommended by GRI.

192 The following simplifications have been included:

- (a) The number of DRs has been reduced from 10 to 6;
- (b) The text of the DRs has been streamlined and simplified and the materiality assessment restructured and largely aligned with the Locate, Evaluate, Assess and Prepare framework of TNFD;
- (c) For E 4-1 Transition plan, the scope of application has been reduced to priority sectors defined by TNFD;
- (d) E4-6 Financial effects has been aligned across environmental standards with phase-in provisions;
- (e) Several datapoints were modified to reduce granularity and address the operational difficulties emerged in the consultation. Requirement to disclose exact coordinates were removed and replaced by less granular data; and
- (f) Where relevant, it was clarified whether the DR or datapoint refers to operations or includes the related value chain.

193 The following additional datapoints/topics/breakdown have been included:

- (a) A new SFDR datapoints was introduced in par 41;
- (b) In addition to this a new datapoint on a Life Cycle Assessment of land use was introduced to mirror Scope 3 emissions reporting in draft ESRS E1.

- 194 The following phase-in provisions have been included: for DR E4-6 The undertaking may comply with ESRS E4-6 reporting qualitative disclosures only for the first three years of preparation of its sustainability statements.

## **8. Illustration of the changes to draft ESRS S1 Own workforce**

### *Outcome of the public consultation*

- 195 Overall draft ESRS S1 enjoyed a high level of support, particularly in the evaluation of how well it reflected CSRD requirements and in the sector-agnostic nature of the proposed disclosure requirements. However, support from preparers was significantly lower than from users, specific concerns being the costs of data gathering and the granularity of reporting, especially for first-time reporters. On the other hand, it should be noted that many users supported a higher level of granularity (e.g. full country-by-country reporting) and/or the addition of data points and/or disclosure requirements for social issues affecting own workforce.

### *Changes due to the final CSRD text*

- 196 Data points were added through an expansion of Old S1-19 – Employment of persons with disabilities into New S1-15 – Diversity indicators, with the addition of the data points “gender distribution in top management” and “the distribution of employees by age group.”

### *Changes due to the result of the consultation*

- 197 The following DRs have been deleted: DR S1-12 – Working hours (moved to sector specific), and DR S1-23 Work stoppages and DR S1-26 Privacy at work (both recommended for consideration at a later time).
- 198 The following DRs have been merged in order to reduce the redundancies and streamline the standard:
- (a) Old S1-5 and S1-6 (Taking action on material impacts on own workforce and effectiveness of those actions and Approaches to mitigating material risks and pursuing material opportunities related to own workforce) were merged into new S1-4 Taking action on material impacts on own workforce, and approaches to mitigating material risks and pursuing material opportunities related to own workforce, and effectiveness of those actions and approaches;
  - (b) Old S1-10 and S1-11 (Coverage of the health and safety management system and Performance of the health and safety management system) were merged into: new S1-9 – Health and safety indicators;
  - (c) Old S1-15 and S1-20 (Social Security eligibility coverage and Differences in the provision of benefits to employees with different employment contract types) – merged into: new S1-12 Social protection;
  - (d) Old S1-18 and S1-21 and S1-25 (Discrimination incidents related to equal opportunities and Grievances and complaints related to other work-related rights and Identified cases of severe human rights issues and incidents) merged into: new S1-14 Work-related incidents and complaints and severe cases of human rights issues and incidents;
  - (e) Old S1-22 and S1-24 (Collective bargaining coverage and Social dialogue) merged into: new S1-16 Collective bargaining coverage and social dialogue.
- 199 The following simplifications have been included:
- (a) New S1-6 Characteristics of the undertaking’s employees: i) reduction in granularity from countries to regions for breakdowns, ii) reporting on full and part-time employees changed from mandatory to voluntary;
  - (b) New S1-8 Removal of a data point on costs of training; reporting on non-employee workers moved from mandatory to voluntary;

- (c) New S1-10 Work-life balance – removed data point on retention rate of persons with family-related leave;
  - (d) New S1-11 Adequate wages and S1-12 Social Protection - Provision allowing undertakings to simply report that all of their workers receive an adequate wage or have access to social protection;
  - (e) New S1-13 Pay gap – deleted data point on percentage change in pay ratio from mandatory to voluntary;
  - (f) New S1-14 Work-related incidents and complaints and severe cases of human rights issues and incidents – four data points moved from mandatory to voluntary;
  - (g) New S1-15 Diversity indicators – gender breakdown for persons with disabilities moved from mandatory to voluntary; and
  - (h) New S1-16 Collective bargaining coverage and social dialogue – data points removed on i) social dialogue and restructuring events, ii) worker representatives in boards (duplication with Governance standard), iii) contractual clauses for advance notice of operational changes outside of the EEA. Granularity reductions: provision introduced allowing undertakings to report coverage rates by band (e.g. 10-19%, 20-39%), collective bargaining rate outside of EEA may be reported by region instead of country.
- 200 The following additional datapoints/topics/breakdown have been included: In addition to the data points mentioned in paragraph 41 above, a data point on employee turnover was added to S1-6 and a mandatory gender breakdown added to one of the datapoints in S1-8 – Training and skills development indicators;
- 201 The following phase-in provisions have been included, in all cases a one-year delay:
- (a) For non-employee workers - S1-7 Characteristics of non-employee workers in own workforce; S1-11 Adequate wages; S1-12 Social protection and S1-16 Collective bargaining and social dialogue)
  - (b) For non-EEA workers (S1-16 Collective bargaining and social dialogue);
  - (c) For gender breakdowns (S1-6 Characteristics of the undertaking's employees); and
  - (d) For employee categories (S1-8 Training and skills development).

## **9. Illustration of the changes to draft ESRS S2 Workers in the value chain, ESRS S2 Affected communities and ESRS S4 Consumers and end users**

### *Outcome of the public consultation*

- 202 In relation to draft ESRS S2, S3 and S4, feedback from a range of respondents, including preparers, business associations, financial institutions and auditors, indicated challenges in relation to: scope of the standards, complexity and granularity of DRs, challenges associated with collecting data from the value chain, comparability of information, and assurability of disclosure requirements.
- 203 At the same time, other respondents expressed support for the approach and structure of the social standards; respondents such as non-governmental organisations, trade unions, consumer organisations, and rating agencies, asking e.g. instead for further detail, specifications and increased alignment of the social standards with international instruments, as well as for the need to prioritise the standards in the case of phase-in options being adopted.
- 204 Other feedback received related to the need to further clarify a) that the standards are impact and risk-based (i.e. driven by the undertakings' IRO assessment as per ESRS 2), and b) definitions of value chain workers, affected communities and consumers end-users to be further clarified with more examples.

- 205 The draft standards have been updated in order to address the concerns raised, as explained in the following sections of this document.
- 206 Please find below a summarised presentation of the feedback received both across the standards, as well as for each individual standard.
- 207 The feedback received was common across the three draft standards and it has been summarised below:
- (a) To deprioritise and phase-in draft ESRS S2-S4, but at the same time, need to prioritise draft social standards;
  - (b) To increase and strengthen alignment with Human Rights Due Diligence and international instruments (ie OCED MNE and UNGPs);
  - (c) Support for the social structure and approach;
  - (d) Excessive number and granularity of DRs;
  - (e) Challenges in terms of comparability with qualitative information as no performance metrics included;
  - (f) Difficulty to obtain information from value chain and trickle-down effect; and
  - (g) Challenges for assurance on qualitative data.

*Changes due to the final CSRD text*

- 208 Specifications on indigenous people (ESRS S3) given the following:
- Art 29(b)2.b.iii: The sustainability reporting standards shall [...] specify the information that undertakings are to disclose about the following social and human rights factors: [...] the UN Declaration on the Rights of Indigenous Peoples [...].*
- 209 More explicit reference to children as vulnerable groups as consumers/end-users given the following:
- Recital 43: The reporting standards should also specify the information that undertakings should disclose with regard to the human rights, fundamental freedoms, democratic principles and standards established in the International Bill of Human Rights and other core UN human rights conventions, [...] including the UN Convention on the Rights of the Child [...].*

*Changes due to the result of the consultation*

- 210 No significant changes as the datapoints only relate to IRO management and Targets and, hence, only to be disclosed when material impacts, risks and opportunities have been identified in the materiality assessment.
- 211 The following DRs have been merged in order to reduce the redundancies and streamline the standard: The DRs of taking action on material impacts and approaches to mitigating material risks and pursuing material opportunities for the draft standards have been merged and the structure simplified.
- 212 A number of simplifications of datapoints from the main body and Appendix B has taken place to streamline the datapoints and translate some of the April ED version into guidance or voluntary datapoints.
- 213 The following additional datapoints/topics/breakdown have been included: The Disclosure Requirement 3 on Channels to raise concerns has been enhanced to cover both channels and remediation processes as further alignment on Human Rights Due Diligence instruments has been sought.

**10. Illustration of the changes to draft ESRS G1 Business conduct and to the Exposure Draft ESRS G1 Governance, risk management and internal control**

*Outcome of the public consultation*

- 214 There were significant concerns about the duplication of information in corporate governance statements of listed entities and the interaction of ESRS 2 Governance provisions with those of the proposed ESRS G1 Governance, risk management and internal control.
- 215 There was relatively good overall support for the proposed ESRS G2 Business conduct. There were concerns about the granularity of requirements and improvements such as clarifications and definitions were proposed. Some requirements were considered to be irrelevant.

*Changes due to the final CSRD text*

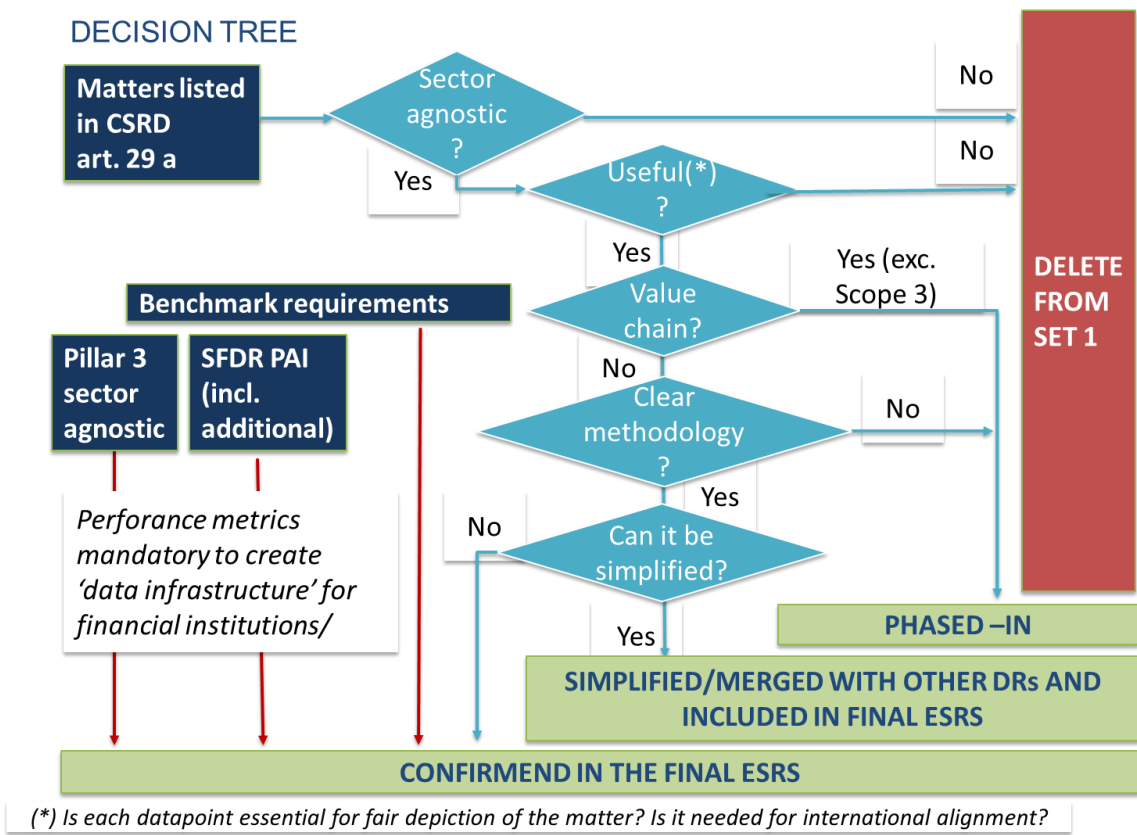
- 216 As CSRD required the governance sections to focus on the composition of the administrative, supervisory and management boards and their role with respect to sustainability matters, several DRs in the ESRS G1 ED were deleted. These are ESRS G1-2 Corporate governance code or policy; G1-3 Nomination process; G1-5 Evaluation process; G1-6 Remuneration policy and G1-10 Meetings and attendance rate.
- 217 G1-7 and G1-8 relating to risk management and internal control were re-focused on the sustainability reporting process in line with changes to CSRD and moved to ESRS GOV-5 Risk management and internal control over sustainability reporting. The remaining DRs were incorporated into ESRS 2 GOV-1 The role of the administrative, management and supervisory bodies. ESRS G1 is therefore now the Business conduct standard (the ESRS G2 ED).
- 218 There were also the following additions in CSRD with respect to the business conduct standard: the protection of whistle-blowers (already included); animal welfare (added under policies in Disclosure Requirement ESRS G1-1) and qualification that payment practices should specifically include late payment to SMEs (for further information see below).

*Changes due to the result of the consultation*

- 219 The following DRs have been deleted:
- (a) ESRS G2-8 on Beneficial ownership, as the EFRAG SRB considered the information to be superfluous in the context of beneficial ownership registers in the EU and a tenuous link to bribery/corruption;
  - (b) ESRS G2-4 and G2-7 on Anti-competitive behaviour, as the CSRD does not specifically refer to the topic; and it therefore have to be considered in sector specific ESRS.
- 220 ESRS G2-5 on Training was included as a subset of prevention in ESRS G1-3 on Prevention and detection of corruption and bribery to reduce redundancies and streamline the standard. Similarly, ESRS G2-2 on Business conduct policies was incorporated with ESRS G1-1 Corporate culture and business conduct policies.
- 221 Throughout the standard, requirements were simplified and definitions and/or application requirements added.
- 222 An additional DR on the relationship with suppliers (ESRS G1-2) has been added to address the topic not covered in the current set of standards. To minimise the burden on preparers, the addition to CSRD with respect to payment practices especially for SMEs was addressed by including the following data points:
- 223 The management of the policies and practices to prevent late payments to SMEs; and
- 224 Information about the alignment of payments to the disclosed standard terms by main category of suppliers.



**Annex 1: Decision tree leading to simplifications**



**Annex 2: Motivations provided by BusinessEurope for the abstention**

**EFRAG Sustainability Reporting Board (SRB) session on 15<sup>th</sup> November 2022: Voting on draft European Sustainability Reporting Standards (ESRS) Abstentions by Stefan Schnell on behalf of BusinessEurope: reasons**

Draft standard	Vote	Reasoning
<b>Cross-cutting standards</b>		
<b>ESRS 1 General requirements</b>	Abstain	<ul style="list-style-type: none"> <li>While the overall simplification of the standards and the removal of the rebuttable presumption is welcomed in favor of materiality-based disclosures, further simplification and clarification work is still to be done, notably to better distinguish mandatory requirements on the one hand from guidance or definitions on the other hand. The standards are currently very difficult to read and understand, even for most experts which risks impeding the rapid adoption of the standards and the provision of quality disclosures to users.</li> <li>Introducing separate mandatory categories of disclosures outside of the scope of companies' materiality assessment risks reducing the usability of disclosures and therefore the success of this new reporting framework. Materiality assessment should be at the very core of reporting to safeguard proportionality and relevance of the reporting.</li> <li>In addition, important concepts in the draft cross-cutting standards such as the definition of 'affected stakeholders' (para. 25) and 'business relationships' (para. 44) remain too broad and would further contribute to reduced readability.</li> </ul>
<b>ESRS 2 General disclosures</b>	Abstain	<ul style="list-style-type: none"> <li>Read in conjunction with the draft ESRS 1 standard, the topics covered in draft ESRS 2 such as the value chain (para. 44) are too broad and could lead to disclosure of business sensitive information, putting European companies in a disadvantaged position against their competitors.</li> <li>In addition, the disclosures related to governance topics remain too granular and add little value to the reporting organisation. It should be further clarified that these requirements do not mandate specific behavioural requirements from reporting companies.</li> </ul>

<b>Social standards</b>		
<b>ESRS S1 Own workforce</b>	Abstain	<ul style="list-style-type: none"> <li>Proposed disclosure requirements in the draft ESRS S1 are overly granular, especially when considering that several topics would be outside of the scope of materiality assessment (e.g. parts of DR S1-6, parts of DR S1-11, parts of DR S1-13) . This contributes to significant reporting burden, especially for first time preparers which do not have the experience in collecting data at such detailed level.</li> <li>A more balanced phase-in of reporting requirements should be found in order to ease the reporting burden for a large number of preparers.</li> <li>In addition, it is important to clarify several concepts which are too complex and contribute to the overall granularity, among others on value chain reporting (para. 16), on non-employees (para. 16a), on compensation indicators (S1-16) and on relation between processes/channels/policies implemented to ensure discrimination is prevented (S1-2, S1-3, new para. 26d).</li> </ul>
<b>ESRS S2 Workers in the value chain</b>	Abstain	<ul style="list-style-type: none"> <li>Similarly to draft ESRS S1 standard, the draft ESRS S2 is excessively granular. The issue of value chain reporting should be first clarified in the cross-cutting standards. In any case, the reporting should not pre-empt upcoming</li> </ul>

*Due process note – First set of draft ESRS*

<b>Social standards</b>		
		regulations being currently negotiated, such as the proposal for CSDDD.
<b>ESRS Consumers and end-users</b>	<b>S4</b> Abstain	<ul style="list-style-type: none"><li>The disclosures on consumers and end-users are better suitable as a sector-specific topic. Requiring the proposed disclosures from all companies, irrespective of their sector of activity, significantly risks raising the reporting burden.</li></ul>