

European Sustainability Reporting Standards (ESRS)

EFRAG exposure drafts out for public consultation

What you need to know

1. The EU Corporate Sustainability Reporting Directive (CSRD) proposal provisions include the mandate to report sustainability information under the reporting framework of the ESRS.
2. The affected companies amount to an estimate of 49,000 compiled of both large and listed companies (except listed micro-companies).
3. Under the European Commission's (EC) CSRD proposal, the provisions apply to fiscal years starting on or after 1 January 2023. However, a postponement is being discussed in the ongoing negotiations between the EC, the European Parliament (EP) and the Council of the EU.
4. Sustainability information reported must be verified by a third party with limited assurance.
5. Main components brought by CSRD and ESRS include double materiality; inclusion of prospective information; information about the upstream and downstream value chain; and the concept of sustainability due diligence. The latter is closely related to the upcoming Corporate Sustainability Due Diligence Directive (CS3D) by the EU that aims to foster sustainable and responsible corporate behaviour throughout global value chains.
6. Sustainability information can influence stakeholder decisions. Two main groups of stakeholders are considered in the ESRS: affected stakeholders and users of sustainability reporting.
7. The exposure drafts (EDs) on the ESRS were released on 29 April 2022 and the public consultation period is open until 8 August 2022.
8. The EDs consider the various scopes of Green House Gas (GHG) emissions (i.e., scope 1, 2 and 3).
9. The EDs take account of existing European law and initiatives as well as European and international sustainability reporting initiatives.
10. Negotiations between the EC, the EP and the Council of the EU are currently taking place and can lead to further changes in the proposal.

Background

On 21 April 2021, the EC issued a legislative proposal for the CSRD that would require companies within its scope to report in accordance with ESRS adopted by the EC as delegated acts. The European Financial Reporting Advisory Group (EFRAG) has been appointed as technical advisor to the EC, responsible for providing the ESRS. During the period January – March 2022, EFRAG released various working papers on the ESRS which were recently superseded by the exposure drafts on the ESRS. The effective date in the original CSRD proposal by the EC is 1 January 2024 for the 2023 financial year, but a postponement is being discussed in the ongoing negotiations between the EC, the EP and the Council of the EU.

Introduction to the exposure drafts

On 29 April 2022, the EFRAG Sustainability Reporting Board (SRB) for ESRS launched a public consultation on the EDs. The consultation period runs until 8 August 2022.

These EDs are the first set of standards that follow the CSRD proposal and cover environmental, social and governance matters. These 13 standards include both cross-cutting and topical standards. In addition, the standards architecture foresees the publication of sector-specific standards and standards for small and medium-sized enterprises (SMEs) that are not yet included in the public consultation.

The ESRS EDs are hyperlinked and can be accessed by clicking on each tile.

Already published			Coming later
Cross-cutting standards			Sector specific standards (coming later)
ESRS 1 General principles			
ESRS 2 General, strategy, governance and materiality assessment disclosure requirements			SMEs proportionate standards (coming later)
Topical sector-agnostic standards			
Environment	Social	Governance	
ESRS E1 Climate change	ESRS S1 Own workers	ESRS G1 Governance, risk management and internal control	
ESRS E2 Pollution	ESRS S2 Workers in the value chain		
ESRS E3 Water and marine resources	ESRS S3 Affected communities	ESRS G2 Business conduct	
ESRS E4 Biodiversity and ecosystems	ESRS S4 Consumers and end-users		
ESRS E5 Resource use and circular economy			

Overview of the exposure drafts

The overall architecture of the EDs is designed to ensure that sustainability information is reported in a carefully articulated manner and is based on the following 3x3 structure:

Three reporting areas

1. Strategy, including:
 - a. Strategy and business model in relation to sustainability
 - b. Governance and organisation in relation to sustainability
 - c. Materiality assessment of its sustainability-related impacts, risks and opportunities
2. Implementation measures, covering policies, targets, actions and action plans, allocation of resources
3. Performance metrics

The reporting areas strategy and business model, governance and organisation and materiality assessment are covered by cross-cutting standards since they address several or all topics.

Three topics

1. Environmental
2. Social
3. Governance

Three disclosure layers

1. Sector-agnostic
2. Sector-specific
3. Entity-specific

The current EDs only consider the cross-cutting and sector-agnostic standards. Sector-specific and SME-proportionate standards are still being developed and will be submitted for a separate public consultation as soon as possible. A company shall present the sustainability information required under the ESRS in its management report.

Cross-cutting standards

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

ESRS 1 prescribes the mandatory concepts and principles to be applied when preparing sustainability statements under the CSRD. A company should disclose all material information about its sustainability-related impacts, risks and opportunities in accordance with the applicable ESRS. Under the ESRS, there are requirements to report standardized disclosures that apply to all entities (sector-agnostic standards) and those that apply to entities doing business in one or several specific sectors (sector-specific standards).

Sustainability information can influence stakeholder decisions if it has predictive value, confirmatory value or both. Stakeholders are those who can affect or be affected by the company's decisions and actions. The company needs to identify its two main groups of stakeholders:

- ▶ **Affected stakeholders:** individuals or groups that have interests that are or could be affected – positively or negatively – by the company's activities and through its value chain;

Users of sustainability reporting: stakeholders with an interest in the undertaking, which includes:

- (i) existing and potential investors, lenders and other creditors (including asset managers, credit institutions, insurance companies), and
- (ii) business partners of the companies, trade unions and social partners, civil society organisations and non-governmental organisations.

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

ESRS 2 sets out the disclosure requirements of sustainability reporting that are cross-cutting. This includes general characteristics of the company and an overview of the company's business but also specific disclosures on compliance such as approximations in relation to value chain and boundaries, estimation uncertainty, changes in preparation and presentation, and prior period errors. Additionally, disclosures about strategy, governance, and the materiality assessment of sustainability impact, risks and opportunity are covered by ESRS 2.

Topical standards

The topical standards include disclosure requirements covering environmental, social and governance matters. These requirements are sector-agnostic. They aim to enable users of the company's sustainability statements to understand the company's impact on these dimensions, the company's material risks and opportunities related to these areas, and ultimately their impact on the company's ability to create enterprise value.

Topical standards prescribe disclosure requirements that cover (i) policies, targets, action plans and resources as well as (ii) performance measurement in relation to specific topics. These requirements should be applied in addition to cross-cutting standards.

- ▶ **Environment** draft topical standards (ESRS E1-E5) outline disclosure requirements for companies to report on matters related to climate change, pollution, water and marine resources, biodiversity and ecosystems, and resource use and circular economy. In addition to these general objectives the draft environmental standards aim to enable users of sustainability statements to understand the plans and capacity of a company to adapt its business model and operations in line with the transition to a sustainable economy, and how it contributes to the various environmental objectives of the European Green Deal, as well as to other EU strategic and regulatory frameworks in this context.
- ▶ **Social** draft topical standards (ESRS S1-S4) provide a framework for entities to report on topics related to their own workforce, the workers in their value chains, the communities impacted by their operations and the consumers and end-users of their products or services.
- ▶ **Governance** draft topical standards (ESRS G1-G2) set out disclosure requirements that seek to enhance users' understanding of a company's governance structure, its internal control and risk management system; the company's strategy and approach, and the processes, procedures and performance in relation to their business conduct.

Affected companies, timelines, assurance and reporting period

► **Who are the affected companies?** The CSRD provisions apply to all large and listed companies (except listed micro-companies) meeting at least two of the three following criteria:¹

- a. Balance sheet total of more than EUR 20m
- b. Net turnover of more than EUR 40m
- c. Average number of employees during the financial year of more than 250

SMEs are expected to be given three more years to comply with the CSRD.

An estimated 49,000 companies in the EU will be required to publish sustainability information under ESRS.

► **When do companies have the obligation to report sustainability information according to the ESRS?** The proposed CSRD shall apply for financial years starting on or after 1 January 2023, but based on the latest communication of the Council of the European Union, deadlines for implementation by companies (EU refers to undertakings) are proposed to change to:

- 1 January 2024 for undertakings already subject to the Non-Financial Reporting Directive (reporting in 2025 on 2024 data)
- 1 January 2025 for large undertakings not currently subject to the Non-Financial Reporting Directive (reporting in 2026 on 2025 data)
- 1 January 2026 for listed small and medium-sized enterprises, as well as for small and noncomplex credit institutions and for captive insurance undertakings (reporting in 2027 on 2026 data)

► **Is assurance mandatory?** Assurance of the sustainability reporting is proposed to be mandatory at the limited assurance level, planning a transition to reasonable assurance in the upcoming years.

► **What is the period covered by the sustainability reporting?** The sustainability reporting period should be aligned to the reporting period used for the financial statements.

Consultation process

The current public consultation is organised by the EU to receive feedback from constituents on three key aspects of the EDs:

1. The relevance of (i) the proposed architecture, (ii) the implementation of the CSRD principles and (iii) the overall content of each ED;
2. The possible options for prioritising and phasing-in the implementation of the ESRS; and
3. The adequacy of each disclosure requirement mandated by each ED standard.

As such, the public consultation survey is organised in three corresponding sections that can be accessed and answered independently:

- Overall substance of the EDs
- ESRS implementation prioritisation and phasing-in
- Adequacy of disclosure requirements

The public consultation period is open until 8 August 2022.

¹ Including following companies regardless of their legal form: (a) insurance undertakings within the meaning of Article 2(1) of Council Directive 91/674/EEC; (b) credit institutions as defined in Article 4(1), point (1), of Regulation (EU) No 575/2013 of the European Parliament and of the Council

Other initiatives on sustainability reporting

The sustainability disclosures in the EU will not only be determined by the final CSRD and ESRS, but also by the EU Taxonomy Regulation and the upcoming Corporate Sustainability Due Diligence Directive. Moreover, there are other relevant sustainability reporting initiatives developing internationally:

1. IFRS-ISSB: The International Sustainability Standards Board (ISSB) published two exposure drafts of the IFRS Sustainability Disclosure Standards on [general sustainability-related disclosure requirements](#) and [climate-related disclosure requirements](#). The public consultation period is due on 29 July 2022. The EFRAG has publicly shared a draft [reconciliation table](#) between the IFRS Sustainability Disclosure Standards and ESRS information requirements. For further information see the EY publication "[ISSB publishes first two EDs on sustainability disclosure requirements.](#)"
2. The Securities and Exchange Commission (SEC): The SEC released a set of [proposed rules on climate-related disclosures](#). These rules are open for consultation until 17 June 2022. For further information see the EY publication "[To the Point – SEC proposes enhancing and standardizing climate-related disclosures.](#)"

How we see it

We very much welcome the work of the EU to create a set of standards for sustainability disclosures aimed at increasing quality and comparability of sustainability information reported by EU entities. We commend the project task force on ESRS for developing these standards in such a short period of time. We also welcome the European Commission and EFRAG joining the ISSB Working Group discussing the compatibility of jurisdictional initiatives with the global baseline set by the ISSB. Users as well as preparers of sustainability information under ESRS will benefit from international comparability and consistency.

The set of ESRS will be complemented by sector-specific standards and the SME-proportionate standards. Since the reporting framework is broad and will evolve over time, it will have a very significant impact on companies. We encourage stakeholders to comment on the EDs, and reporting companies to start preparing as early as possible for the implementation of these standards and related procedures as this is not just a reporting exercise.

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