EXPOSURE DRAFT

ESRS 1
General principles

Basis for conclusions

May 2022

PTF-ESRS

Project Task Force on European sustainability reporting standards

EFRAG

DISCLAIMER

This Basis for Conclusions accompanies but is not part of the Exposure Draft ESRS 1 General principles. It summarises the considerations of the EFRAG PTF-ESRS and the references to other standard setting initiatives or regulations used in developing the proposed contents of the Exposure Draft.

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Objective

BC1. The objective of the [draft] ESRS 1 General principles is to cover overarching general principles for the preparation and presentation of sustainability statements. The general principles serve as an “umbrella” standard for the application of ESRS. Its role is to provide contents that are valid across all the other ESRS and that constitute conceptual references to foster a robust and consistent application of the disclosure requirements in other ESRS.

BC2. Differently from the other European Sustainability Reporting Standards (ESRS), this [draft] Standard does not set disclosure requirements. If not otherwise noted references to paragraphs refer to this [draft] Standard.

Context and reference table

General approach adopted in developing this [draft] Standard

BC3. The general approach in developing this [draft] Standard covers the following steps which correspond to the framework defined for sustainability reporting standard setting in the European Union:

(a) complying with the requirements of the [draft] CSRD; the [draft] CSRD defines the legislative level prescriptions (level 1) which the ESRS (level 2) must contribute to implement; the topics to be covered by sustainability reporting in particular are clearly defined by the legislative level, so is also the double materiality approach to be retained;

(b) drawing on guidance, where appropriate, from the existing NFRD and its 2017 and 2019 implementation guidelines;

(c) aligning with the needs of financial market participants in accordance with the disclosure requirements specified in the SFDR, in particular with regards to key performance indicators concerning principal adverse impacts;

(d) analysing the current international frameworks as recital 37 of the [draft] CSRD requires that “sustainability reporting standards should take account of existing standards and frameworks for sustainability reporting and accounting where appropriate. These include the Global Reporting Initiative, the Sustainability Accounting Standards Board, the International Integrated Reporting Council, the International Accounting Standards Board, the Task-Force on Climate-related Financial Disclosures (TCFD), the Carbon Disclosure Standards Board, and CDP. Guidance from and coherence with these existing standards and frameworks have been sought;

(e) analysing the current internationally recognised principles and frameworks on responsible business conduct, corporate social responsibility and sustainable developments frameworks, as [recital (39) of the [draft] CSRD] stipulates that sustainability reporting standards should take account of such principles and [recital (27)] highlights the objective of ensuring “consistency with international instruments such as the UN Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidance for Responsible Business Conduct”; and

(f) achieving compatibility with the contents of the [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information, March 2022 of the International Sustainability Standards Board (ISSB).

General architecture of ESRS

BC4. [Draft] CSRD Art. 19a (2) provides a list of information to be covered by ESRS. Many elements of information contained in this list apply to all sustainability subject matters – also identified as either sustainability topics, subtopics or sub-subtopics in the Exposure Drafts – listed in [draft] CSRD Art. 19b.

BC5. Therefore, the architecture of the [draft] ESRS EDs released for consultation on 29 April 2022 is designed to:

(a) cover relevant disclosures addressing sustainability subject matters as required by the [draft] CSRD;

(b) foster maximum comparability across undertakings irrespective of their sectors while ensuring appropriate room for and balance between sector-agnostic, sector-specific and entity-specific information; and

(c) adopt a consequential and logic sequence of disclosure requirements, facilitating the navigation through them.

BC6. Following this approach, standards are organised by categories which complement and interact with each other. There are three categories of standards:

(a) The cross-cutting Standards (ESRS 1 and ESRS 2) cover:

(i) the general provisions applying to sustainability reporting under the [draft] CSRD (ESRS 1). These provisions include *inter alia* the principles to be followed when reporting on *policies, targets, actions and action plans, resources* that relate to sustainability matters that are not covered by a topical Standard (but are material on an entity-specific perspective). These principles set also the general approach that has been followed across all sustainability subject matters in the topical Standards, to ensure consistency on these aspects throughout all ESRS; and

(ii) the general sustainability disclosure requirements (ESRS 2) that relate to how the undertaking complies with ESRS, the way sustainability is embedded in (a) the undertaking's "company-wide" business strategy and business model(s), (b) its governance and (c) how the undertaking identifies and manages its material sustainability impacts, risks and opportunities.

Under [draft] CSRD Art. 19b, these aspects are meant to be transversal to all sustainability subject matters (hence the name "cross-cutting" Standards). The disclosures are designed to describe the interaction between sustainability matters and the undertaking's strategy, governance and materiality assessment. The related disclosure requirements correspond to the governance, strategy and risk management reporting areas retained by the TCFD (for climate-related disclosures only) and the IFRS Sustainability Exposure Drafts (for all identified material risks).

(b) Topical Standards cover a specific sustainability topic or sub-topic – as defined by [draft] CSRD Art. 19b and described in the next section – from a sector-agnostic perspective. They set disclosure requirements related to sustainability impacts, risks and opportunities that are deemed to be material for all undertakings in all sectors. Such disclosure requirements complement those prescribed by the cross-cutting Standards and cover information to be reported:

(i) on the policies, targets, actions and action plans adopted by the undertaking and relative resources on a given sustainability topic or subtopic,

(ii) as well as on the corresponding performance measurement metrics for each sustainability topic or subtopic.

Such targets and performance measurement metrics correspond to the TCFD and IFRS Sustainability Exposure Drafts targets and metrics (fourth and last reporting area).

(c) The ESRS architecture foresees the preparation of sector-specific Standards. Such Standards will prescribe disclosure requirements for the preparation of information relating to sustainability risks, impacts and opportunities that are deemed to be material for all undertakings operating in a given sector. Such disclosure requirements complement those prescribed by the cross-cutting Standards and the topical (sector-agnostic) Standards and specify additional information to be reported on the policies, targets, actions and action plans, resources adopted by the undertaking on a given sustainability subject matter, as well as on the corresponding performance measurement metrics.

BC7. All three categories of Standards are meant to organise the reporting of information in a way that will foster relevance and comparability (across sectors and within sectors) while being reader/user friendly.

Structure of [draft] ESRS 1

BC8. Chapter 1 “Reporting under European Sustainability Reporting Standards (ESRS)” is based on the proposals of Part 3: Elaborating standards from a State-of-the-art Target Sustainability Reporting Architecture of the report “Proposals for a relevant and dynamic EU sustainability reporting standard-setting“ prepared by the Project Task Force on preparatory work for the elaboration of possible EU non-financial reporting standards (PTF-NFRS) and issued in March 2020.

BC9. Chapter 2 “Applying CSRD concepts” derives its content:

(a) regarding characteristics of information quality: from [draft] CSRD Art. 19b (2), that requires that sustainability reporting standards shall require that the information to be reported is understandable, relevant, representative, verifiable, comparable, and represented in a faithful manner;

(b) regarding double materiality as the basis for sustainability disclosures: from [draft] CSRD Art. 19a (1), that requires that undertakings include in the management report information necessary to understand the undertaking’s impacts on sustainability matters, and information necessary to understand how sustainability matters affect the undertaking’s development, performance and position;

(c) regarding boundaries and value chain: from [draft] CSRD Art. 19a (2) (e) and (3), that requires that the principal actual or potential adverse impacts connected with the undertaking’s value chain, including its own operations, products and services, business relationships and supply chain should be captured by the information prepared pursuant to ESRS;

(d) regarding time horizons: from [draft] CSRD Art. 19a (2) and (3), that requires that identifying the information that undertakings have included in the management report shall take account of short-, medium- and long-term horizons and that the information included shall contain forward-looking and retrospective information, and qualitative and quantitative information; and

(e) regarding due diligence under the CSRD: from [draft] CSRD Art. 19a (2) (e) requires a description of the due diligence process implemented about sustainability matters. Chapter 2.5 Due diligence under the gives an overview linking the main aspects of due diligence on objectives and processes as included in the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises and further specified in the OECD Due Diligence Guidance for Responsible Business Conduct with ESRS disclosure requirements.

BC10. Chapter 3 “Disclosure principles on implementation” addresses disclosure principles on implementation. These cover policies, targets, actions and action plans, and resources and directly correspond to the wording of the [draft] CSRD Art. 19a 2(b), (d) and (g), that requires undertakings to disclose information on a description of the targets related to sustainability matters set by the undertaking and of the progress the undertaking has made towards achieving those targets, and a description of the undertaking’s policies in relation to sustainability.

BC11. Chapter 4 “Basis for preparing and presenting sustainability information” comprises a number of general principles for preparation and presentation of information that are needed to describe how sustainability statements are prepared from a general standpoint and under specific situations. The following table summarises how these presentation and preparation principles can be referenced to other sustainability frameworks and financial reporting guidance.

Chapter	**Applicable general / specific**	**International framework references / CSRD**
4.1 General presentation principles	general	[Draft] CSRD Art. 19a (2), GRI 1 – Requirement 7, [draft] IFRS S1 72-78
4.2 Presenting comparative information	general	GRI 1 – Comparability, [draft] IFRS S1 63-65
4.3 Estimating under conditions of uncertainty	general	GRI 1 – Accuracy, [draft] IFRS S1 78-82
4.4 Updating disclosures about events after the end of the reporting period	specific	[Draft] IFRS S1 71
4.5 Changes in preparing or presenting sustainability information	specific	GRI 2-4, GRI – Comparability, [draft] IFRS S1 64-65
4.6 Reporting errors	specific	GRI 2-4, [draft] IFRS S1 94-90
4.7 Adverse impacts and financial risks	specific	[Draft] IFRS S1 26
4.8 Optional disclosures	specific	n/a
4.9 Consolidated reporting and subsidiary exemption	specific	[Draft] CSRD Art. 19a (7)
4.10 Additional reporting in part or in full under other sustainability reporting pronouncements	specific	[Draft] IFRS S1 IG 14-24.

BC12. Chapter 5 “Providing linkage with other parts of corporate reporting” takes account of [draft] CSRD Art. 19a that states that, where appropriate, the information referred to in paragraphs 1 and 2 (contents of the sustainability reporting) shall also contain references to, and additional explanations of, other information included in the management report in accordance with Article 19 and amounts reported in the annual financial statements. Similarly, [draft] CSRD Art. 29a states that the information referred to in paragraphs 1 and 2 (contents of the consolidated sustainability reporting) shall also, where appropriate, include references to, and additional explanations of, other information included in the consolidated management report in accordance with Article 29 of the Directive 2013/34/EU and amounts reported in the consolidated financial statements.

BC13. Chapter 6. “Structure of sustainability statements” provides guidance on the structure of sustainability reporting in accordance with the requirement of [draft] CSRD Art. 19b (1) which stipulates that ESRS “[…] shall specify the structure in which that information shall be reported.”

General principles

BC14. The paragraphs below describe the considerations followed in developing the individual general principles in the [draft] Standard.

Chapter 1. Reporting under European Sustainability Reporting Standards (ESRS)

BC15. Chapter 1 describes the architecture of the ESRS that has been chosen to fulfil the requirements of the CRSD.

Environmental, Social and Governance

BC16. Sustainability reporting shall consider environmental, social and governance factors as stipulated in [draft] CSRD Art. 19b (2) (a), (b) and (c). The ESG classification is probably the most practical and easily accessible approach for users and preparers, as it offers a logical and clear distinction between the three key drivers (and actors) of sustainability matters: Planet (i.e. natural resources and life forms other than human life); People (i.e. human life in all its dimensions, from individuals to communities); and Business (i.e. the reporting entity itself).

BC17. Accordingly, a three-category approach to promote a comprehensive coverage is proposed:

(a) the Environment category (E) includes standards defining how to report on impacts to and risks and opportunities from all environmental factors: climate change, water and marine resources, biodiversity and ecosystems, circular economy, pollution;

(b) the Social category (S) includes standards defining how to report impacts to and risks and opportunities from all people-related factors, over the whole scope of the entity's ecosystem: workforce, value chain workers, affected communities, consumers/end users; and

(c) the Governance category (G) is broader than traditionally considered under the concept of 'governance.' This category is intended to include a full spectrum of relevant matters in order to report on sustainability aspects relating to the reporting entity itself: governance, business and ethics, management of the quality of relationships with stakeholders, organisation and innovation.

Articulation of disclosure requirements in cross-cutting Standards and topical Standards

BC18. As proposed in chapter 1.1 sustainability-related information shall cover the following reporting areas:

Reporting area	[draft] CSRD	International framework references
a) strategy and business model in relation to sustainability;	Art. 19a (2) (a)	[Draft] IFRS S1 14-24 (Strategy) GRI 2-22
b) governance and organisation in relation to sustainability;	Art. 19a (2) (c)	[Draft] IFRS S1 12-13 (Governance) GRI 2-9 to 2-21
c) materiality assessment of its sustainability-related impacts, risks and opportunities;	Art. 19a (2) (a) (ii), (iv) and (f)	[Draft] IFRS S1 16-20 (Sustainability-related risks and opportunities)

		and 25-26 (Risk management) GRI 3-1, 3-2, 3-3-a and 3-3-b
d) implementation measures, covering policies, targets, actions and action plans, allocation of resources; and	Art. 19a (2) (b), (d), (e) (iii)	[Draft] IFRS S1 27-35 (Metrics and targets) GRI 3-3-c, 3-3-d and 3-3-e
e) performance metrics.	Art. 19a (2) (g)	[Draft] IFRS S1 27-35 (Metrics and targets) GRI 3-3-e-ii and GRI Topic and Sector Standards

BC19. The first three reporting areas relate to the undertaking in general. Due to their general nature, these are applicable across all sustainability matters and have therefore been stipulated in cross-cutting Standards. The last two are covered in topical Standards to take into account the specificities of a sustainability matter.

BC20. As the purpose of sustainability reporting is to provide relevant, faithful and comparable information fit for each undertaking's specific situation, the Standards architecture as proposed in chapter 1.2 is organised to have the necessary balance between too much (and possibly irrelevant) information and not enough relevant information. A proportionate approach defines what information is relevant and material at a sector-agnostic, sector-specific and entity-specific level, across all sustainability topics and reporting areas.

BC21. The entity-specific level includes disclosures that are material as a result of the undertaking's double materiality assessment process and not covered, or not sufficiently covered, by the requirements of sector-agnostic or sector-specific Standards.

BC22. The [draft] CSRD intends to contribute to the completion of the Capital Markets Union, by enabling investors and other stakeholders to access comparable sustainability information from investee companies across the EU. As such, overall comparability of reported information between undertakings is a priority. It is made possible when standards prescribe common requirements for all undertakings. However, if pushed too far, this may translate into a heavy burden for reporting entities and might also result in loss of relevance, as not all entities have the same exposure to sustainability impacts, risks and opportunities. Therefore, as described in chapter 1.3, the sector-agnostic level of standards defines disclosures and data points that are deemed to be material across all sectors (sector-agnostic). These sector-agnostic disclosure requirements foster comparability across sectors. Not all sustainability topics are equally relevant across sectors. Relevance is reinforced when standards introduce additional disclosures tailored for a given sector based on its specific sustainability footprint and challenges. In addressing impacts, risks and opportunities that are not (sufficiently) covered by sector-agnostic sustainability information, the second sector-specific level of disclosures should complement this first level and foster comparability within a given sector.

BC23. Topics and sub-topics are sustainability themes on which undertakings should report as described in chapter 1.4. The diversity of sustainability topics and sub-topics, and the heterogeneity of existing related reporting frameworks have led so far to diverse reporting practices which do not facilitate the understandability and comparability of reported information. The need for classification is acknowledged without compromising flexibility. Without proper classification, a report containing numerous identified sustainability matters may be unstructured and difficult to use.

BC24. The purpose of organising a clear and logical classification of sustainability topics (and sub-topics within each topic) is twofold:

(a) It ensures comprehensive coverage of all sustainability topics as required by the legislation and facilitates the identification of relevant information in sustainability reports; and

(b) It defines the list of topical Standards that will have to be produced to ensure comprehensive coverage of all sustainability topics.

Integration at topical level of disclosure requirements in cross cutting Standards

BC25. Generally, it is expected that the reporting areas- strategy and business model, governance and organisation, and materiality assessment of impacts, risks and opportunities are entirely covered on a cross-cutting basis by ESRS 2. However, certain topics related to these reporting areas require expanded disclosure guidance and requirements in addition to those stipulated in ESRS 2. Therefore, it has been decided to have the expanded disclosures in the application guidance of the respective topics because they can best be understood in the context of the topic.

BC26. Entity-specific material sustainability impacts, risks and opportunities are identified in accordance with ESRS. These are developed by the undertaking in accordance with the requirements in chapter 1.5.

BC27. It is expected that entity-specific disclosures can be integrated as an addition to the sector-agnostic and sector-specific disclosures related to the sustainability topics environmental, social and governance (paragraph 6) and that those disclosures can follow a similar reporting area structure (paragraph 7) so that disclosures on entity-specific impacts, risks and opportunities, and mandated disclosures complement each other in a way fostering understandability.

BC28. The concept of entity-specific disclosures is also embedded in [draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information. [Draft] IFRS S1 states: “Applying IFRS Sustainability Disclosure Standards, with additional disclosure, when necessary, is presumed to result in sustainability-related financial disclosures that achieve a fair presentation.” Currently, only a general draft IFRS and a draft IFRS on climate exist. Therefore, it can be expected that all the IFRS disclosures other than those on climate necessary to provide a fair presentation of sustainability matters will be entity-specific to start with and will be determined by the undertaking’s analysis of its significant risks. (This should result in non-standardised disclosures based on [draft] IFRS S1 or disclosures derived from other existing frameworks). Accordingly, entity-specific disclosures should have a much wider scope in IFRS as compared to ESRS. The evolution of this situation will depend upon the respective standard-setting agendas.

Chapter 2 Applying CSRD concepts

2.1 Characteristics of information quality

BC29. The characteristics of information quality are universally accepted in corporate reporting. These have been well developed over time and understood in financial reporting (see inter alia IFRS Conceptual framework 2.4-2.38) and more recently in sustainability reporting. Therefore, those concepts are leveraged for ESRS. Characteristics of information quality are generally categorized into fundamental principles (relevance and faithful representation) and enhancing qualities of information (comparability, verifiability, and understandability). ESRS follow this practice.

BC30. Materiality is an enabling factor of relevance. This is also acknowledged by [draft] IFRS S1 paragraph C8. However, in contrast to the double materiality concept of ESRS (see chapter 2.2), materiality in IFRS sustainability is limited to financial materiality and does not include impact materiality per se. In ESRS S1 impacts, dependencies and relationships are considered as sources of risks or opportunities, as they can affect the undertaking's performance or prospects and the assessment of enterprise value by the primary users, while they are not considered to be as a specific disclosure content in their own right. Accordingly, relevant information under [draft] IFRS S1 in principle may differ from that under ESRS, with the ESRS double materiality principle encompassing the ISSB's financial materiality perspective.

BC31. Timeliness is sometimes mentioned as enhancing qualitative characteristics (e.g. [draft] IFRS S1 C25). It is not explicitly mentioned in ESRS as reporting dates are governed by EU legislation (Directive 2013/34/EU) and are in accordance with the publication requirements for the management report as required by EU respective national legislations.

BC32. Links between the characteristics of information quality under ESRS with the related criteria used by other standards and guidelines are as follows:

General principle	**Required specifically by [draft] CSRD**	**Required by other EU legislation and recommendations**	**Other international framework references**
Characteristics of information quality	[Draft] CSRD Art. 19b (2)	PTF-NFRS (Final Report) page 7	GRI 1 – Reporting principles [Draft] IFRS S1 45-49 IFRS Conceptual framework Chapter 2
Relevance	[Draft] CSRD Art. 19b (2)		[Draft] IFRS S1 C4-C8
Faithful representation	[Draft] CSRD Art. 19b (2)		GRI 1 – Accuracy, Balance and Completeness [Draft] IFRS S1 C9-C15
Comparability	[Draft] CSRD Art. 19b (2)		GRI 1 – Comparability [Draft] IFRS S1 C17-C20
Verifiability	[Draft] CSRD Art. 19b (2)		GRI 1 – Verifiability [Draft] IFRS S1 C21-C24
Understandability	[Draft] CSRD Art. 19b (2)		GRI 1 – Clarity [Draft] IFRS S1 C26-C33

BC33. Other characteristics of information quality have been specially developed for sustainability reporting. They include strategic focus and future orientation; stakeholder inclusiveness; cohesiveness; and connectivity and are covered in other parts of this [Draft] Standard:

(a) strategic focus and future orientation provide insights about the strategy and its links with the value creation in the short-, medium- and long-term;

(b) stakeholder inclusiveness gives information about the relationship with key stakeholders, and how their interests have been taken into account;

(c) cohesiveness of corporate reporting as a whole establishes clear links between the management report, sustainability statements and financial statements. This allows information to be more useful, relevant and cohesive and the management report to be viewed as a single, balanced and coherent set of information properly linked with financial reporting; and

(d) connectivity with financial information provides a holistic view of the combination, interrelatedness and dependencies between all the factors that affect value creation.

2.2 Double materiality as the basis for sustainability disclosures

BC34. [Draft] CSRD Art. 19b (1) states that undertakings shall include in the management report information necessary to understand the undertaking's impacts on sustainability matters (impact materiality), and information necessary to understand how sustainability matters affect the undertaking's development, performance and position (financial materiality). [Draft] CSRD recital 25 elaborates on the double-materiality perspective that was introduced already in the Directive 2013/34/EU. Regarding both perspectives (impact materiality and financial materiality), the recital emphasises that "undertakings should consider each materiality perspective in its own right and should disclose information that is material from both perspectives as well as information that is material from only one perspective."

BC35. Links between the double materiality concept under ESRS with the related concept of other standards and guidelines are as follows:

General principle	**Required specifically by [draft] CSRD**	**Required by other EU legislation and recommendations**	**Other international framework references**
Information materiality		Commission, Directive 2013/34/EU, Art. 6, 1 (j)	GRI 1 – 2.2 Material topics, GRI 3 Material topics [Draft] IFRS S1 56-62 IAS 1.7
Stakeholders	[Draft] CSRD Art. 19b (2 (a) (iv))		GRI 1 – 2.4 Stakeholders
Double materiality	[Draft] CSRD Art. 19b (1)	PTF-NFRS (Final Report) page 8	Not applicable for SASB and IFRS TCFD requiring scope 1 and 2 disclosures independent of a

			materiality assessment
Impact materiality	[Draft] CSRD Art. 19b (1)		GRI 1 – 2.1 Impact, GRI 2.2 Material topics
Financial materiality	[Draft] CSRD Art. 19b (1)		[Draft] IFRS S1 56-62
Relationship between double materiality and mandatory disclosure requirements			GRI 1 – 3. Req. 3 Determine material topics

Information materiality

BC36. Information materiality is a long-standing and well-understood concept in financial and sustainability reporting. The Accounting Directive (2013/34/EU) defines material as "the status of information where its omission or misstatement could reasonably be expected to influence decisions that users make on the basis of the financial statements of the undertaking". Similarly, IAS 1.7 defines material as follows: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." While this definitions are inspired by the same concept used in paragraph 43 for information materiality in relation to ESRS, notable differences exist, which are based on the different materiality principles used and the different target audiences for the determination of what is material (primary users vs. stakeholders):

(a) ESRS use the double materiality concept while other international frameworks focus on financial materiality (IFRS, SASB) or on impact materiality (GRI); and

(b) being based on the double materiality concept, the ESRS information materiality addresses the information needs of a broader group of stakeholders and not just primary users.

Stakeholders

BC37. Financial materiality is focused on investors, which are included in the definition of stakeholders in the group of the users of sustainability reporting (see paragraph 44 (b) (i)). Impact materiality with its "inside-out" perspective is broader and, in addition to investors, includes also other users (business partners of the undertakings, trade unions and social partners, civil society and non-governmental organisations), as well as affected stakeholders, i.e. those that are affected or could be affected by the undertaking's activities, including through its value chain (see chapter 2.3). Along those lines, stakeholders' needs are the combination of the respective information needs of affected stakeholders and users of sustainability reporting, and not just the overlapping needs of the two groups of stakeholders.

BC38. The definition of the group of the stakeholders that have an interest and that can be affected is consistent with the definition used by GRI (GRI 1 Foundation 2021).

BC39. The definition of investors, which is included in the group of users in the definition of paragraph 44 (b) (i), is the same used in [draft] IFRS S1.

Double materiality

BC40. Double materiality requires undertakings to consider both how sustainability issues affect their performance, position, and development (the "outside-in" perspective), and their impact on people and the environment (the "inside-out" perspective). As a consequence, in line with [draft] CSRD Art. 19b (1), information on sustainability matters which is material from one or both of these perspectives ('double materiality') should be included in sustainability reports.

BC41. The undertaking is affected by external factors (outside-in materiality) that influence its position, development and performance. Linkages between impact materiality and financial materiality may evolve with the passage of time. The following paragraphs illustrates this concept:

(a) the undertaking may have limited or no responsibility in terms of climate change and still see its activities heavily affected (currently or potentially) by climate change. The reporting entity needs to adapt its business model to the new conditions. Climate adaptation may trigger adverse (inside-out) impacts, including on people;

(b) as a consequence of its inside-out impact, the undertaking may itself be exposed to significant outside-in effects. In this situation there is a direct incentive for the undertaking to mitigate the inside-out impact. E.g., for a company in agriculture, the consequences of depleting land and biodiversity of a field could directly affect the yield of the crops and hence the financial margin; and

(c) situations in which there is no outside-in effects due to the inside-out impacts may be common. The undertaking focuses on maximising its own financial creation at the expense of damage to environment or society.

BC42. Recital 25 of the [draft] CSRD notes that the two perspectives are often not well understood or applied and suggests clarifying that undertakings should consider each materiality perspective in its own right and should disclose information that is material from both perspectives as well as information that is material from only one perspective.

BC43. As a consequence, [draft] ESRS 1 (paragraph 46) requires considering both perspectives, as well as the interdependencies between the two. In particular, it clarifies that the usual starting point is the assessment of impacts, as they may translate in financial effects in the short-, medium- and long-term.

BC44. The [draft] CSRD Art. 19/29a (2) (e) (ii) requires a description of the principal actual or potential adverse impacts and Art. 19/29 b 2 (f) requires a description of the principal risks. [Draft] ESRS 1 paragraph 48 clarifies that the principal actual or potential adverse impacts, as well as the principal risks, are those identified by the undertaking as material as a result of its materiality assessment of sustainability impacts, risks and opportunities as disclosed pursuant ESRS 2.

BC45. The same paragraphs clarify also that, the terms significant and material as used in ESRS have the same meaning.

BC46. It is worthwhile to note that [draft] IFRS S1 is referring to "material information about all of the significant sustainability-related risks and opportunities". ESRS however use only the term material in relation to impacts, risks and opportunities, as materiality (or non-materiality) of a specific impact, risk and opportunity also make the related disclosure requirements material (or non-material), subject to the rebuttable presumption (see paragraph 57).

Impact materiality

BC47. Paragraphs 49 and 50 define impacts as material when they are connected with significant impacts on people and the environment. This includes impacts directly caused or contributed to by the undertaking and impacts which are otherwise directly linked to the undertaking's upstream and downstream value chain. Directly linked impacts may occur at any tier of the business relationships, provided that they occur as part of the undertaking's value chain. This is consistent with the concept in GRI 3 Material Topics 2021: the organization should consider actual and potential impacts that it causes or contributes to through its activities, as well as actual and potential impacts that are directly linked to its operations, products, or services by its business relationships. It is as well consistent with the concept of obtaining, when appropriate and feasible, relevant information about business relationships beyond contractual relationships (e.g. sub-suppliers beyond "tier 1") in the OECD Due Diligence Guidance For Responsible Business Conduct.

BC48. Paragraph 51 is consistent with the OECD Due Diligence Guidance For Responsible Business Conduct, in prescribing the use of severity and likelihood as attribute for impact materiality. It is also consistent with GRI 1 Foundation 2021 in prescribing that human rights impacts take precedence over its likelihood.

Financial materiality

BC49. Financial materiality in the context of sustainability reporting goes beyond financial materiality in the context of financial reporting as it includes potential financial effects of significant risks or opportunities that are not captured or not yet fully captured by financial reporting at the reporting date and that influence or are likely to influence the future cash flows and therefore the enterprise value of the undertaking in the short-, medium- or long-term.

BC50. Financial materiality in the context of financial reporting as it relates to the balance sheet and the profit and loss statement is restricted to the recognition and measurement of assets (a present economic resource controlled by the entity as a result of past events, IFRS Conceptual Framework 4.3) and liabilities (an obligation, to transfer an economic resource that exists as a result of a past event, IFRS Conceptual Framework 4.26) at the balance-sheet date. Defining financial materiality in the context of sustainability reporting should go beyond the boundaries of the financial statements defined by the related conceptual frameworks, in order to provide meaningful information about environmental, social and governance-related value drivers that have – due to their more medium- or long-term nature - not yet materialised in financial reporting terms. Financial materiality in the context of financial reporting is a subset of financial materiality which is, from a conceptual standpoint, complemented by financial materiality in the context of sustainability reporting. This is also related to the fact that sustainability-related value drivers that are not yet reflected in financial statements will eventually in the short-, medium- or long-term be also reflected in financial statements. As far as information is already reflected in financial reporting it is not necessary to also describe it in sustainability statements, this is why the latter focusses on financial material information that goes beyond what is reflected in financial statements.

BC51. Paragraph 54 illustrates the disclosure areas that are captured by financial materiality in sustainability reporting (beyond what is reflected in financial statements). Such areas may relate to four possible circumstances, as illustrated in the table below:

	Financial effects due to past events	**Financial effects due to future events**
Related to items that meet the definition of assets (liabilities) and are or may be recognised		
Related to factors of value creation that do not meet the definition of assets (liabilities)		

or the recognition criteria (capitals)		

BC52. Paragraph 55 illustrates the concept of dependencies as sources of financial effects (as they represent risks or opportunities).

BC53. Paragraph 56 clarifies that the measurement of financial effects due to sustainability related risks and opportunities is based on probability and magnitude.

Relationship between double materiality and mandatory disclosure requirements

BC54. Considering the relationship of materiality and mandatory disclosure requirements in the context of sustainability reporting two extremes could be envisaged:

(a) no mandatory disclosure requirements from the standard-setter's perspective and determination of disclosures deriving exclusively from the materiality assessment of the undertaking (approach 1); or

(b) mandatory disclosure requirements determined by the standard-setter on a sector-agnostic or sector-specific basis leaving no room for materiality assessment by the undertaking (approach 2).

BC55. [Draft] CSRD recital 32 elaborates why current sustainability reporting (under the Non Financial Sustainability Directive) in the European Union can be more closely associated with approach 1, and therefore lacks comparability and concludes that "there is a need for mandatory common reporting standards to ensure that information is comparable and that all relevant information is disclosed. Building on the double-materiality principle, standards should cover all information that is material to stakeholders. Common reporting standards are also necessary to enable the audit and digitalisation of sustainability reporting and to facilitate its supervision and enforcement." However, exclusively following approach 2 (a) may result in excessive information requirements and, impose an excessive burden on preparers, (b) may reduce or eliminate the importance of the undertaking's materiality assessment with the associated underlying exercise of judgement and responsible decision-making and (c) may as a consequence result in information overload and/or gaps for users and affected stakeholders, and therefore be detrimental to the development of sustainability reporting.

BC56. For these reasons, it has been decided to combine both approaches by:

(a) developing at standard-setter's level the assessment of which mandatory disclosure requirements to prescribe for all sustainability matters at sector agnostic level and at sector-specific level;

(b) requiring undertakings to apply a materiality assessment based on double materiality for those mandatory requirements (see paragraph 57). Under this assessment the undertaking thereby shall consider its specific facts and circumstances combined with explicit thresholds and/or criteria to determine when the disclosures mandated by an entire ESRS or by a group of disclosure requirements are not material for the undertaking based on a rebuttable presumption principle. The rebuttable presumption principle gives the undertaking the possibility, if justified, to not disclose an individual disclosure requirement or an individual datapoint mandated by a disclosure requirement (see paragraph 62); and

(c) requiring the undertaking to determine the entity-specific disclosures that are necessary to give a fair representation of its sustainability-related impacts, risks and opportunities beyond the mandatory sector-agnostic and sector-specific disclosures and in accordance with its unique set of facts and circumstances.

BC57. The "rebuttable-presumption principle" - the statement "not material for the undertaking" (leading to not disclosing certain mandatory individual disclosure requirements or data points) and the determination of entity-specific disclosures are considered necessary and appropriate to manage the amount of mandatory disclosure requirements under ESRS.

BC58. The above two possible approaches were carefully considered when setting the approach that an undertaking has to follow in order to assess which information is material and as such should be included in its sustainability statements. The objective has been to foster comparability, as reflected by the mandatory nature of disclosure requirements under ESRS, and a considered exercise of judgement by the undertaking, allowing for certain disclosure requirements to be determined “not material for the undertaking”.

BC59. Both the above approaches entail the use of judgement. In both cases the governing bodies of the undertaking take the responsibility to assess what is material or not material and to embed the assessment in the undertaking’s governance and internal controls. Both approaches require the availability of reasonable and supportable evidence to corroborate the results of the assessment and, as such, the rebuttable presumption (as designed in this [draft] Standard) is not expected to result in additional efforts or costs compared to a system where materiality has to be assessed without having a pre-defined list of material requirements as a starting point.

BC60. A specific advantage of the approach based upon the use of the rebuttable presumption principle is that it supports a higher level of comparability across different undertakings. Assessing a disclosure as “not material for the undertaking” following a proper assessment process is a valuable information in itself. In addition, as the presumption of materiality has to be rebutted, there is a reasonable and proportionate evidence hurdle to overcome and this is expected to mitigate the risk of relevant information being omitted, compared to the fully entity-specific approach.

BC61. To reduce the operational burden of producing reasonable supportable evidence, substantial flexibility has been added in the proposed approach: instead of having to document that each disclosure requirement or datapoint may be omitted as not material, an undertaking may rebut the presumption at a higher level of aggregation, for all the disclosure requirements in a [draft] ESRS or for a group of disclosure requirements related to a specific aspect covered by an ESRS.

BC62. Compared to an approach where all the disclosure requirements or datapoints have to be covered in all cases (and there is no rebuttable presumption), the proposed approach limits the risk of a ‘tick-the-box’ mentality, as it requires to exercise judgement in assessing which information is not material and can be omitted. It also fosters an environment of responsible decision-making and transparency.

BC63. The rebuttable presumption is not applicable to ESRS 2 Disclosure Requirements SBM, GOV and IRO as those disclosures being a fundamental basis for sustainability reporting are considered material for all undertakings.

2.3 Boundaries and value chain

Reporting boundary

BC64. There is general agreement that sustainability reporting goes beyond the boundary of operations under the control of the reporting entity itself (which is the traditional boundary defined for financial reporting). The upstream and downstream value chain should therefore also be covered since major impacts of the activities carried out by a reporting entity may occur in the value chain as well as through manufacturing, delivering or distributing products and services.

BC65. The following paragraphs of the [draft] CSRD are relevant as reference:

(a) [draft] CSRD Art. 19a (3) sets that, where appropriate, the information referred to in paragraphs 1 (i.e., information included in the management report that is deemed necessary to understand the undertaking’s impacts on sustainability matters, and information necessary to understand how sustainability matters affect the undertaking’s development, performance and position) and 2 (i.e., particular sustainability reporting requirements) shall contain information about the undertaking's value chain, including the undertaking's own operations, products and services, its business relationships and its supply chain;

(b) [draft] CSRD Art. 19a (2) (e) (ii) requires the undertaking to report the principal actual or potential adverse impacts connected with the undertaking's value chain, including its own operations, its products and services, its business relationships and its supply chain; and

(c) according to [draft] CSRD Art. 29a the content of the consolidated sustainability reporting refers to the 'group'. Article 2 of Directive 2013/34/EU specifies that 'group' means a parent undertaking and all its subsidiary undertakings. [Draft] CSRD Art. 29a mirrors the requirements with respect to value chain of Art 19a for the group of the parent undertaking.

BC66. When it comes to the financial materiality aspects of sustainability information, existing reporting frameworks (i.e. TCFD for climate-related risks) also reflect that this is not constrained to matters within the reporting entity's control, but that it extends to its value chain (for instance in relation 'scope 2' and 'scope 3' indirect greenhouse gas emissions).

BC67. Under international standards on responsible business referred to by the [draft] CSRD (notably the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises), an undertaking's responsibility regarding impacts on people and the environment is not based on the extent of its 'control' over an activity as defined for financial reporting. Rather, its responsibility is a function of the existence of an (actual or potential) adverse human rights or environmental impact that is linked to its operations, products or services either through its activities or through its business relationships (including its upstream and downstream value chain). Its control or influence is then one determinant of what can reasonably be done to mitigate the impact, with the expectation that the undertaking will take steps to increase its influence wherever possible to effect change.

BC68. Not all the data to be reported need to include the information beyond the boundary of financial reporting. The assessment of materiality is also considered a key driver for expanding the boundary: paragraph 64 requires to expand the boundary when the integration is necessary to allow a proper understanding of material impacts, risks and opportunities and to produce a set of complete information that meets the qualitative characteristics of information quality. In this sense, the requirement to expand the boundary can be considered compatible with the use of 'risk-based' approaches based upon materiality.

Use of all the reasonable and supportable information including peer group or sector data

BC69. The integration of information about the undertaking's value chain in the reporting boundary requires the existence of appropriate reporting channels between the undertaking and its suppliers (upstream value chain) and the availability of information about its customers, products and services (downstream value chain). Implementing such reporting channels, including enhancing the data quality to the level necessary to attain the characteristics of information quality (see chapter 2.1), may require time and significant efforts. Paragraph 67 acknowledges that in some cases collecting the necessary information may be impracticable (i.e. the undertaking cannot collect the necessary information after making every reasonable effort). To take that into account undertakings are allowed to approximate missing information.

BC70. The approximation should be based on all reasonable and supportable evidence and the use of peer group or sector data is explicitly allowed. As the use of approximations may have an impact on the quality of the reported information, users need to be informed about the perimeter of information that is based on approximations.

BC71. Users are also interested in knowing whether the undertaking has undertaken or plans to undertake actions in order to reduce in the future the use of approximations and, as a result, enhance the quality of the reported information (see Disclosure Requirement 2-GR 5).

Operational influence over activities and relationships in the upstream and downstream value chain

BC72. It is acknowledged that the level of influence of an undertaking over its upstream or downstream value chain might differ, impacting its ability to receive sufficient sustainability-related data and/or the reliability of sustainability information on its impacts, dependencies, risks and opportunities. However, the level of operational influence should not influence the degree of an undertaking's reporting on its value chain. This is also linked to the use of approximations when it is impracticable to collect relevant data.

Level of disaggregation

BC73. When companies disclose sustainability information solely in aggregated terms, i.e., at the level of the group and of the parent company, sustainability information from different categories of subsidiaries and associated companies is consolidated in the sustainability report, as well as information related to different activities, operating sites or tiers in their value chain (upstream and downstream). Elements of relevant information might get lost as a consequence.

BC74. In the case of sustainability reporting, topics that are considered and disclosed at group level may not provide sufficient insight when the impact or dependency itself occurs at a specific level, such as one or more subsidiaries, business areas, sites, suppliers or specific assets, or in consideration of the law, regulation and prevailing business practices of specific countries where subsidiaries, business areas, sites, suppliers or specific assets are located. The undertaking is then expected to inform about the specific location(s) where impact, risks and opportunities occur.

BC75. Links between the reporting boundary concept under ESRS with the related concept of other standards and guidelines are as follows:

General principle	Required specifically by [draft] CSRD	Required by other EU legislation and recommendations	Other international framework references
Boundaries and value chain	[Draft] CSRD Art. 19a (3)	Commission, Directive 2013/34/EU, Art. 6, 1 (j) PTF-NFRS (Final Report) page 7	GRI 1 – 5.1 Aligning sustainability reporting with other reporting, GRI 2-2, GRI 2-4 on changes of reporting boundaries, GRI 1 – on level of disaggregation [Draft] IFRS S1 37-41

2.4 Time horizon

Reporting period

BC76. Adopting consistent reporting periods between sustainability reporting and financial statements contributes to creating high-quality corporate reporting and facilitating the understanding of the connections between the sustainability and financial reporting dimensions. This is in line with [draft] IFRS S1 42 and 66.

Linking past, present and future

BC77. Linking past, present and future, e.g. by presenting sustainability information in the same format, units and time intervals supports the comparison of past, present and future data.

Reporting progresses against the base year

BC78. The definition of the base year is derived from GRI 305 (2016): “Base year is a historical date (such as year) against which a measurement is tracked over time.”

BC79. Financial reporting standards generally require undertakings to report the past year and one year as prior period comparative. In non-financial information, a longer time-period is often considered to be necessary since the related topics are of a longer-term nature. For instance, ten years of sustainability data on an undertaking’s emission is more insightful for stakeholders than ten years of financial reporting data for financial reporting users.

BC80. Providing information over a longer time period (both retrospective and forward-looking) may increase the volume and may decrease the comprehensibility of a report. A way to overcome this issue in relation to climate is the base-year concept, as can be found in the GHG protocol. The undertaking reports its progress against the base year figures to provide meaningful insight into its development over a longer period in an aggregated manner, thereby avoiding including too many details for all the years between the base year and the current year.

Definition of short-, medium- and long-term for reporting purposes

BC81. [Draft] CSRD Art. 19a (2) specifies that companies should report qualitative and quantitative information, forward-looking and retrospective information, and information that covers short-, medium- and long-term time horizons as appropriate. In particular, reference should be made to the following:

(a) [Draft] CSRD Art. 19a (2): “Undertakings shall report the process carried out to identify the information that they have included in the management report in accordance with paragraph 1 (content of the sustainability reporting) and in this process they shall take account of short-, medium- and long-term horizons.”

(b) [Draft] CSRD Art. 19a (3): “The information referred to in paragraphs 1 and 2 (content of the sustainability reporting) shall contain forward-looking and retrospective information, and qualitative and quantitative information.”

(c) [Draft] CSRD Art. 29a (3): “The information referred to in paragraphs 1 and 2 (content of the consolidated sustainability reporting) shall contain forward-looking information and information about past performance, and qualitative and quantitative information. This information shall take into account short, medium and long-term time horizons, where appropriate.”

BC82. The adoption of conventional mandatory time intervals for short-, medium- and long-term allows users of sustainability reports to compare the information presented across entities.

BC83. The adoption of a definition of short term as a one-year interval facilitates the understanding of the linkages between sustainability and financial reporting. This is because a one-year horizon is generally used for budgeting purposes, is used in financial reporting to distinguish current versus non-current assets and liabilities and is used to assess the undertaking’s going concern assumption.

BC84. Other international framework references also work with short-, medium- and long-term time horizons without defining them (International Integrated Reporting Framework [IIRC], Task Force on Climate-Related Disclosures [TCFD]) because such time-horizon boundaries are dependent upon the industry, economic sector and the considered sustainability matter, topic or sub-topic. To achieve a high degree of comparability of sustainability information it was decided to set conventional time horizons for reporting purposes for short-, medium- and long-term but acknowledging that – depending on the sustainability matter and sector concerned – other time horizons within the long-term horizon might be useful and therefore prevail at topical level.

BC85. The use of these predefined time intervals for reporting purposes does not limit the ability of an undertaking, if it considers it to be necessary, to further sub-divide the conventional interval in more granular intervals.

BC86. Links between the time horizon concept under ESRS with the related concept of other standards and guidelines are as follows:

General principle	Required specifically by [draft] CSRD	Required by other EU legislation and recommendations	Other international framework references
Time horizon	[Draft] CSRD Art. 19a (2), 3 and Art. 29a (3)	Commission, Directive 2013/34/EU, Art. 6, 1 (j) Commission, Guideline on non-financial reporting, chapter 3.4 (Strategic and forward-looking) PTF-NFRS (Final Report) page 7 (retrospective and forward-looking information)	[Draft] IFRS S1 66 (same reporting period as financial statements), 16 and 18 (duration of time horizons), and paragraph 32 (use of a base period) GRI 1 – Completeness and 5.1 Aligning sustainability reporting with other reporting

2.5 Due diligence under the CSRD

BC87. [Draft] CSRD Art. 19a (2) (e) specifies the requirement for undertakings to disclose: "a description of: (i) the due diligence process implemented with regard to sustainability matters; (ii) the principal actual or potential adverse impacts connected with the undertaking's value chain, including its own operations, its products and services, its business relationships and its supply chain; (iii) any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts".

BC88. [Draft] CSRD recital (27) stipulates that "To ensure consistency with international instruments such as the UN Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidance for Responsible Business Conduct, the due diligence disclosure requirements should be specified in greater detail than is the case in Article 19a (1), point (b), and Article 29a (1), point (b) of Directive 2013/34/EU." The need for alignment with the above instruments is further confirmed in [draft] CSRD recital (39). It must be borne in mind that these international instruments establish guidelines and recommendations.

BC89. Moreover, [draft] CSRD recital (35) of the [draft] CSRD specifies that "Sustainability reporting standards should be coherent with other Union legislation. […] Other relevant Union legislation, including […] requirements laid down in Union law for undertakings as regards directors' duties and due diligence, should also be taken into account". Such requirements are also covered by the [draft] EU Corporate Sustainability Due Diligence Directive (CSDDD) issued in April 2022, which establishes a corporate due diligence duty based on the UN Guiding Principles on Business and Human Rights, the OECD Guidelines on Multinational Enterprises and the OECD

Due Diligence Guidance for Responsible Business Conduct. However, at the time of issuance of this [draft] Standard, the CSDDD legislative process is underway. It was therefore decided not to anticipate its final provisions and to base the ED's provisions related to information on due diligence upon the [draft] CSRD provisions exclusively. Amendments will have to be considered in due course depending upon the outcome of the legislative process.

BC90. The UN Guiding Principles on Business and Human Rights provide in principle 15 that "[i]n order to meet their responsibility to respect human rights, business enterprises should have in place policies and processes appropriate to their size and circumstances, including:

(a) a policy commitment to meet their responsibility to respect human rights;

(b) a human rights due diligence process to identify, prevent, mitigate and account for how they address their impacts on human rights; and

(c) processes to enable the remediation of any adverse human rights impacts they cause or to which they contribute."

BC91. The OECD Due Diligence Guidance for Responsible Business Conduct integrates these three categories in a 6-step due diligence process, which includes:

(a) embed responsible business conduct into policies and management systems;

(b) identify and assess actual and potential adverse impacts associated with the enterprise's operations, products or services;

(c) cease, prevent or mitigate adverse impacts;

(d) track implementation and results;

(e) communicate how impacts are addressed; and

(f) provide for or cooperate in remediation when appropriate.

BC92. In ESRS, the disclosure requirements that are related to individual elements or steps of due diligence are provided in different sections of [draft] ESRS 1 and ESRS 2 as well as in different [draft] topical ESRS. For this reason, chapter 2.5. provides an overview of the location of the disclosure requirements alongside an explanation of their correspondence to the main aspects or steps of due diligence. The location and categorisation of the due diligence disclosures is determined by the architecture of the ESRS and, since due diligence is a pervasive concept, it was decided to provide users with a location table of the disclosures related to due diligence together with a summarised statement of the undertaking's level of compliance rather than with a self-standing report on due diligence.

Embedding due diligence in governance and organisation

BC93. Embedding due diligence in governance and organisation corresponds to step 1 of due diligence as specified in Section II, Chapter 1 of the OECD Due Diligence Guidance for Responsible Business Conduct, which stipulates that policies on responsible business conduct should be embedded into undertakings' oversight bodies (art. 1,2). It further corresponds to principle 16 of the UN Guiding Principles on Business and Human Rights, which explains how business enterprises should embed their responsibility to respect human rights in their governance and organisation.

Engaging with stakeholders

BC94. OECD Due Diligence Guidance for Responsible Business Conduct and UN Guiding Principles on Business and Human Rights express expectations that undertakings engage stakeholders, in particular those who may be adversely impacted, throughout the entire due diligence process. Chapter 2.5. therefore, merely clarifies that in line with this expectation, ESRS requires disclosures on stakeholder engagement as part of disclosures on individual elements of due diligence, rather than in a stand-alone section.

Identifying and assessing adverse impacts; taking action; and tracking effectiveness and communicating

BC95. These three categories correspond to steps 2, 3 and 4 of the OECD Due Diligence Guidance for Responsible Business Conduct, as well as to the three constituent elements of due diligence in UN Guiding Principles, which are outlined in principles 17 – 22.

BC96. In ESRS, the disclosure requirements concerning the provision of remedy are specified together with the disclosures on prevention and remediation, because – from a disclosure perspective – all three represent a form of action.

BC97. Communicating is a key step of an undertaking's due-diligence process. This is partly covered by the undertaking's annual public reporting, and partly by disclosure requirements concerning individual elements of due diligence. As such, a separate ESRS category on communication is neither required nor would it be relevant.

BC98. For ease of reference the following table provides a linkage between the main aspects of due diligence with the related concept of other standards and guidelines in one place noticing that the respective disclosure requirements are given in the parts of ESRS that deals with the content of the main aspects as described in chapter 2.5:

General principle	**Required specifically by [draft] CSRD**	**Required by other EU legislation and recommendations**	**Other international framework references**
Due diligence	[Draft] CSRD Art. 19a (2) (e)	[Draft] CSDD Directive Art. 4 (Directive of the European Parliament and of the Council on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937)	UN GP Principle 17 et seq. (Human rights due diligence) GRI 1 – 2.3 Due diligence [Draft] IFRS S1 12-13
Embedding due diligence in governance and organisation	[Draft] CSRD Art. 19a (2) (c)	[Draft] CSDD Directive Art. 5	UN GP Principle 16 (Policy commitment / embedding responsibility to respect human rights) OECD DD Sect. II, Chapter 1 GRI 2-23, 2-24
Engaging with stakeholders	[Draft] CSRD Art. 19a (2) (a) (iv)	[Draft] CSDD Directive Art. 6, 7 and 8	UN GP Principle 18 (b) (Involvement of stakeholders)

			OECD DD Sect. I GRI 2-29, GRI 3-1, GRI 3-3-f
Identifying and assessing adverse impacts	[Draft] CSRD Art. 19a (2) (e) (i) and (ii)	[Draft] CSDD Directive Art. 6	UN GP Principle 18 (identify and assess adverse human rights) OECD DD Sect. II, Chapter 2 GRI 3-3-d-i
Taking action	[Draft] CSRD Art. 19a (2) (e) (iii)	[Draft] CSDD Directive Art. 7 and 8	UN GP Principle 19 (Prevent and mitigate adverse human rights impacts, and taking appropriate action) and Principle 22 (Remediation) OECD DD Sect. II, Chapter 3 GRI 2-25, GRI 3-3-d-ii
Tracking effectiveness and communicating	[Draft] CSRD Art. 19a (2) (e) (i)	[Draft] CSDD Directive Art. 10 and 11	UN GP Principle 20 (Tracking effectiveness) and Principle 21 (Communication) OECD DD Sect. II, Chapter 4 GRI 3-3-e

Chapter 3 - Disclosure principles on implementation

BC99. The objective of chapter 3 is to define standard disclosure principles for the description by the undertaking of the reporting area (see paragraph 7) of implementation, more specifically its policies, targets, actions, action plans, and resources in reporting on sustainability matters, when mandated by other ESRS. The purpose is to establish a common reference base for all ESRS and therefore to avoid diverging content in respect of the implementation measures defined under the various topical ESRS. It was noted that the objective follows the explicit requirement stipulated in [draft] CSRD Art. 19a (2) (b), (d) and (e) (iii). These principles support also the provision of relevant information on implementation when reporting on sustainability matters not covered by a topical ESRS (and reported on an entity-specific basis).

BC100. Links between the disclosure principles on implementation with the disclosure principles used by other standards and guidelines are as follows:

General principle	Required specifically by [draft] CSRD	Required by other EU legislation and recommendations	Other international framework references
Disclosure Principle 1-1 – On policies adopted to manage material sustainability matters	[Draft] CSRD Art. 19a (d)	Commission, Directive 2013/34/EU (17)	CDSB Req-02 [Draft] IFRS S1 25 and 26 GRI 2-24, GRI 3-3 and GRI 3-2 c OECD DD Guidelines Chapter I UN GP
Disclosure Principle 1-2 – On targets, progress and tracking effectiveness	[Draft] CSRD Art. 19a (2) (b)	[Draft] CSDD Directive Art. 10	CDSB REQ-02, REQ-05 [Draft] IFRS S1 25 to 35 and 99 to 102 GRI 3-3 and GRI 3-2 e OECD DD 4.1 (a) UN GP Principle 20 (Tracking effectiveness)
Disclosure Principle 1-3 – Actions, action plans and resources in relation to policies and targets	[Draft] CSRD Art. 19a (2) (e) (iii)	[Draft] CSDD Directive Art. 3, 4, 7, 8	[Draft] IFRS S1 25 to 35 and 103 to 106 GRI 3-3 and GRI 3-2 d OECD DD 3.1 (a, c), 3.2 (a, b) UN GP Principle 19 (Prevent and mitigate adverse human rights impacts, and taking appropriate action)

Disclosure Principle 1-1 – On policies adopted to manage material sustainability matters

BC101. Disclosing policies as required by Disclosure Principle 1-1 is specifically required by [draft] CSRD Art. 19a (2) (d), existing NFRD and the EU non-binding Guidelines and is necessary for users to understand how the undertaking's strategy with regards to sustainability topics is implemented from an operational point of view.

BC102. The data point related to the consideration of stakeholder's interests is based on the UN Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidance for Responsible Business Conduct, which address the engagement of stakeholders throughout the due diligence process. These international frameworks stipulate that the undertaking's due diligence process should consider the concerns of potentially affected stakeholders including at the stage of determination of appropriate actions to address those impacts and tracking the effectiveness of the undertaking's response. The extent and nature of the engagement with stakeholders should correspond to the nature and severity of the impacts and the undertaking's relation to those impacts.

BC103. The topical ESRS may provide more specific disclosure requirements, including additional specifications which should be considered material and thus included in the undertaking's disclosure of policies, targets, action plans, and resources. For this reason, Disclosure Principle 1-1 also makes reference to such topical Standards.

Disclosure Principle 1-2 – On targets, progress and tracking effectiveness

BC104. Disclosing the undertaking's targets related to sustainability matters and its progress towards achieving those targets is explicitly required by [draft] CSRD Art. 19a (2) (b). Disclosure of targets and performance against them enables users' understanding of the undertaking's plans and overall effectiveness in the implementation of sustainability-related policies. Consequently, all ESRS refer to targets or objectives, with different levels of focus and granularity.

BC105. Recognising that setting targets may not always be feasible or necessary, Disclosure Principle 1-2 allows for the undertaking to comply with its provisions by stating that the undertaking has not adopted targets, by explaining its plans and/or stating the reasons why it does not have such plans.

BC106. In line with GRI Universal Standard 3-3-e, UN Guiding Principles on Business and Human Rights, Principle 20 and para 4.1 of the OECD Due Diligence Guidance for Responsible Business Conduct, which provide for tracking effectiveness (based on appropriate qualitative and quantitative indicators) of the business enterprise's response to adverse impacts in order to verify that they are being addressed, Disclosure Principle 1- 2 provides for an option to report on progress in terms of results for people and the environment in cases where an undertaking has not set a specific target. Such an option is equally applicable to risks and opportunities.

Disclosure Principle 1-3 – Actions, action plans and resources in relation to policies and targets

BC107. [Draft] CSRD Art. 19a (2) (e) (iii) refers "to actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts". Other international reporting standards and frameworks also focus on "actions". [Draft] CSRD recitals 27 and 39 stipulate the need for alignment with international instruments such as the UN Guiding Principles on Business and Human Rights (UNGPs) and the OECD Due Diligence Guidance for Responsible Business Conduct (OECD DD Guidance).

BC108. To facilitate performance tracking, the requirement for disclosures related to action plans aligns with those of targets as regards the time horizons for intended completion and the expected outcomes of each action.

BC109. The Disclosure Principle 1-3 further requires disclosure of resources allocated to a given action plan. Although not specifically required by any of the provisions of the [draft] CSRD, such information allows for the assessment by users of the level of commitment of the undertaking and robustness of the action plan, and thus the likelihood that the policy objectives and targets will be met. The information on resource allocation is important in case of complex, resource-intensive action plans that involve major investments in technology, R&D or facilities (e.g., in the context of climate transition plans in high-impact sectors). However, it is less relevant where the management of the underlying impact, risk and opportunity requires only modest investment and where the causal connection between the amount of resources and effectiveness of the management is not clear or left to regular management decisions. To avoid unnecessary onerous disclosures, the requirement to disclose resource allocation allows flexibility.

BC110. The concept of transition plans is considered key under many sustainability reporting initiatives. This [draft] Standard therefore offers a definition of the scope and perimeter of what should be considered as transition plan. From a general standpoint the definition is intended to cover major action plans related either to a public policy objective or to a significant business transformation decided by the undertaking.

BC111. The usage of metrics and targets is needed to enable users to understand how an undertaking measures and monitors its actions, action plans and resources in regard to its significant sustainability-related risks and opportunities. Stakeholders need information to understand the progress and performance in relation to those issues.

Chapter 4 – Basis for preparing and presenting sustainability information

BC112. This chapter provides the preparation and presentation principles applying generally i.e., that require consideration each time sustainability statements are prepared as well as under specific situations, i.e., that require consideration only when those specific situations arise. These principles are largely inspired by long lasting practices in financial reporting. The principles for preparing and presenting sustainability information of chapter 4 can be compared to the [draft] CSRD, other EU legislation and recommendations, and other international frameworks as follows:

General principle	Required specifically by [draft] CSRD	Required by other EU legislation and recommendations	Other international framework references
4.1 General presentation principles	[Draft] CSRD Art. 19a (1), Art. 29a (1) and Art. 19d	Commission, Directive 2013/34/EU, Art. 19a (1)	[Draft] IFRS S1 72-78 GRI 1 – Requirement 7
4.2 Presenting comparative information	[Draft] CSRD Art. 19a (3) requiring retrospective information	Commission, Directive 2013/34/EU, Art. 9 (5)	[Draft] IFRS S1 63-65 GRI 1 – Comparability
4.3 Estimating under conditions of uncertainty	[Draft] CSRD Art. 19b (2) requiring information to be verifiable and to be presented in a faithful manner	Commission, Directive 2013/34/EU recital (22)	[Draft] IFRS S1 79-83, 89; IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, paragraph 32-40 GRI 1 – Accuracy
4.4 Updating disclosures about events after the end of the reporting period	[Draft] CSRD Art. 19b (2) requiring information to be relevant and representative	Commission, Directive 2013/34/EU recital (22)	IAS 10 Events after the Reporting Period, 8-11 [Draft] IFRS S1 71

4.5 Changes in preparing or presenting sustainability information	[Draft] CSRD Art. 19b (2) requiring information to be comparable	Commission, Directive 2013/34/EU, Art. 6 (1) (b)	[Draft] IFRS S1 64-65, C19; IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, paragraph 13-27 GRI 2-4, GRI – Comparability
4.6 Reporting errors in prior periods	[Draft] CSRD Art. 19b (2) requiring information to be presented in a faithful manner		[Draft] IFRS S1 84-90; IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, paragraph 5, 41-48 GRI 2-4
4.7 Adverse impacts and financial risks	[Draft] CSRD Art. 19a (2) (e) (ii)-(iii), Art. 29a (2) (e) (ii)-(iii)	Commission, Guideline on non-financial reporting, chapter 3.1	[Draft] IFRS S1 42-44 and BC55-56 including the concept of adverse impacts and financial risks in the term “connected information” GRI 3-3
4.9 Consolidated reporting and subsidiary exemption	[Draft] CSRD Art. 29a (1)		IFRS, General Requirements for Disclosure of Sustainability-related Financial Information Prototype (2021), paragraph Appendix B

4.1 General presentation principles

BC113. [Draft] CSRD Art. 19a (1) and [draft] CSRD Art. 29a (1) require that sustainability statements are included in the (consolidated) management report. Paragraph 108 (a) establishes the presentation principle that establishes the necessary distinction between the standardised information resulting from complying with ESRS and other parts of the management report in order to comply with the characteristic of understandability. Paragraph 108 (b) provides that the structure used for sustainability reporting should be accessible for both human and machine-readable formats. Machine-readable formats are required by [draft] CSRD Art. 19d Single electronic reporting format.

BC114. [Draft] IFRS S1 requires sustainability disclosure to be presented as part of the entity’s general purpose financial reporting. Subject to any regulation or requirement that apply to an entity, for IFRS S1, there would be various possible locations within its general-purpose financial reporting in which the entity could disclose sustainability-related financial information. The [draft] CSRD is more prescriptive as it establishes the management report as the disclosure location.

4.2 Presenting comparative information

BC115. Presenting current year figures and comparative information is a generally accepted principle in financial and sustainability reporting (Commission, Directive 2013/34/EU, Art. 9 (5), IAS 1 paragraph 38-38D, [draft] IFRS S1 63-65, GRI 1 Comparability): the consensus is that information related to the current period shall at least be compared to the corresponding information related to the previous period. Sustainability matters may require also mid-term and long-term time horizons. Accordingly, sector-agnostic topical (or sector-specific) Standards may require more than one comparative period and base-year disclosures to capture historical trends and developments as well as forward-looking information (see chapter 2.4).

4.3 Estimating under conditions of uncertainty

BC116. Measurement uncertainties are inherent to financial reporting information, which is by design primarily retrospective, and even more so to sustainability reporting, which requires retrospective and forward-looking information. Sometimes it might be necessary to make approximations because information is not available, e.g., in the value chain (see chapter 2.3). Also, cost-benefit considerations might make it necessary to use estimates to be efficient.

BC117. Explanations about possible future events that have significant sustainability impacts, or trigger significant financial risks or opportunities are helpful for the user to better understand uncertainties and should meet the characteristics of information quality of relevance, faithful representation, and verifiability (see chapter 2.1).

BC118. An estimate may need revision if changes occur in the circumstance on which the estimate was based or because new information has emerged or if the undertaking has gained more experience in estimating effects. It is proposed that all significant changes of estimates, similar to correction of errors (see chapter 4.6), are not only reflected in the current period but, if they relate to the previous periods, also in that previous periods. This is different on how changes of estimates are treated in financial reporting but in line with [draft] IFRS S1 (see [draft] IFRS S1 BC82-83). The proposal is based on the assumption that retrospective restatement provides more relevant information, and that sustainability reporting is generally not part of a double-entry model.

4.4 Updating disclosures about events after the end of the reporting period

BC119. Accounting for events after the balance sheet date is subject to a fundamental and well-established approach in financial reporting. This approach is similarly applicable to sustainability reporting. It therefore has been added as a general principle for ESRS.

BC120. Two types of events after the reporting period are distinguished, namely “adjusting events after the reporting period” and “non-adjusting events after the reporting period”. The former is referred to in paragraph 115; and the latter in paragraph 116.

4.5 Changes in preparing or presenting sustainability information

BC121. A fundamental characteristic of information quality is comparability which is fostered by consistency over time. Comparability is also widely accepted in financial reporting. Therefore, any change form one year to another is restricted to situations when the new way to prepare or present allows to provide more useful information. To achieve comparability in situations of change of preparation or presentation data related to the comparative period should be restated accordingly, unless impracticable.

BC122. The following definition in IAS 8 is helpful as a useful practice reference when determining what is impracticable: “Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

(a) the effects of the retrospective application or retrospective restatement are not determinable;

(b) the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or

(c) the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:

(i) provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognized, measured or disclosed; and

(ii) would have been available when the financial statements for that prior period were authorized for issue from other information."

4.6 Reporting errors in prior periods

BC123. Financial reporting has established principles on how to consider errors in financial reporting (IAS 8) requiring retrospective restatement. These principles have also been considered in the [draft] IFRS S1 84-90. [Draft] CSRD and Directive 2013/34/EU have no specific provision on how to treat errors but from the characteristics of information quality of faithful representation (see chapter 2.1) it can be derived that they need to be corrected retrospectively with appropriate explanations. Furthermore, as the international principles on reporting errors in prior periods are widely accepted, they have been reflected in this chapter.

BC124. For impracticability of requirements, see paragraph BC122.

4.7 Adverse impacts and financial risks

BC125. Actions put in place to manage impacts, risks or opportunities on a sustainability matter may result in material adverse impacts or financial effects in relation to another sustainability matter. These interdependencies shall be considered when making sustainability disclosures in order to give a proper depiction of the matter. An example is the implementation of transition plans to address climate change that may result in adverse impacts on employment levels for a business line.

BC126. Impacts and financial effects may be positive or negative (adverse). At best, actions or action plans have a positive impact/result in a financial opportunity for the undertaking and have no negative impact/no financial risk. However, a positive impact/opportunity based on actions of the undertaking may also trigger a material negative (adverse) impact/risk (and vice versa). It was decided that impacts, risks or opportunities should be disclosed within the respective sustainability matter to which they relate. As the positive impact/financial opportunity and the negative (adverse) impact/financial risk may be related to different sustainability matters and, a cross-reference is needed.

4.8 Optional disclosures

BC127. Disclosures on certain aspects of sustainability matters might not be developed enough or it might be too burdensome to collect and generate specific information for that certain aspect. Therefore, ESRS may leave the disclosures of such matters as optional. If, however, such sustainability matters are disclosed by an undertaking, it shall follow the prescription related to these optional disclosures so as to meet the characteristics of information quality (see chapter 2.1) and to achieve comparability with other undertakings that make similar disclosures.

4.9 Consolidated reporting and subsidiary exemption

BC128. [Draft] CSRD Art. 29a (1) stipulates: "Parent undertakings of a large group shall include in the consolidated management report, the information necessary to understand the group's impacts on sustainability matters, and information necessary to understand how sustainability matters affect the group's development, performance and position."

BC129. Undertakings may be vertically integrated. Inter-company activities are consolidated so they do not appear anymore in consolidated reporting. Nevertheless, inter-company activities might relate to material sustainability impacts, risks and opportunities and it is therefore necessary to disclose sustainability information also in respect of inter-company activities beyond the ones reflected by the turnover of the undertaking, in order to provide a complete depiction of the impacts, risks and opportunities of the undertaking.

BC130. Sustainability reporting of a group should be "regardless of its legal group structure" as mentioned in paragraph 128. This is justified, in order to produce identical sustainability reporting for (i) an undertaking that only consists of one legal entity and therefore its consolidated reporting is identical to its individual reporting as compared to (ii) an undertaking that is structured as a group with many subsidiaries that runs exactly the same business as the one mentioned under (i).

4.10 Additional reporting in part or in full under other sustainability reporting pronouncements

BC131. Currently, multiple sustainability reporting frameworks or standards other than ESRS exist. Stakeholders and users of sustainability reporting may be used to or expect sustainability information that is consistent or compatible with these other frameworks or standards. As such, in addition to producing ESRS sustainability statements (that are mandatory) undertakings may want to report in accordance with frameworks other than ESRS, for example as this would allow to continue their past reporting practices, or to present the same information prepared by a group of peers.

BC132. In order to accommodate these circumstances, paragraph 130 allows to disclose additional information on a voluntary basis to meet those information needs, as long as it does not obscure information provided under ESRS (see paragraph 40). In addition, paragraph 147 clarifies that such voluntary additional disclosures shall be clearly identified with an appropriate reference to the related legislation, pronouncement or guidance and shall complement ESRS disclosure requirements. Information that does not contradict the principles and disclosure requirements stipulated by ESRS, can therefore be considered complementary to ESRS disclosure requirements and located in the sustainability statements.

Chapter 5 – Providing linkage with other parts of corporate reporting

BC133. The provisions for providing linkage with other parts of corporate reporting of chapter 5 compare with the [draft] CSRD, other EU legislation and recommendations, and other international frameworks as follows:

General principle	**Required specifically by [draft] CSRD**	**Required by other EU legislation and recommendations**	**Other international framework references**
5.1 General cohesiveness	[Draft] CSRD Art. 19a (3) and Art. 29a (3) and recitals (30) and (36)	Commission, Guideline on non-financial reporting, chapter 3.6 PTF-NFRS (Final Report) page 8	[Draft] IFRS S1 7(b), 42-44; [draft] IFRS S1 75-78 on incorporation by reference / included by cross-reference
5.2 Connectivity with financial statements	[Draft] CSRD 19a (3) and Art. 29a (3)	PTF-NFRS (Final Report) page 8	[Draft] IFRS S1 7(b), 42-44, C19-20

	and recitals (30) and (36)		

5.1 General cohesiveness

BC134. [Draft] CSRD Art. 19a (3) states: "Where appropriate, the information referred to in paragraphs 1 and 2 (contents of the sustainability reporting) shall also contain references to, and additional explanations of, other information included in the management report in accordance with Article 19 and amounts reported in the annual financial statements."

BC135. [Draft] CSRD recital (36) states: "Sustainability reporting standards […] should also take account of other reporting requirements in Directive 2013/34/EU not directly related to sustainability, with the aim of providing the users of the reported information with a better understanding of the development, performance, position and impact of the undertaking, by maximising the links between the sustainability information and other information reported in accordance with Directive 2013/34/EU."

BC136. There has been criticism with respect to lack of consistency between reported sustainability information and the rest of the information disclosed in the management report. It was therefore decided to have specific provisions in this regard.

BC137. To avoid duplication of information that is provided in other parts of the management report the principle of incorporation by reference can be used. Incorporation of information mandated by ESRS in a section of the management report other than the one(s) dedicated to the sustainability statements is allowed provided that the information incorporated by reference do constitute a separate element of information clearly identified in the other section of the management report as addressing the relevant mandated disclosure requirement element. This limitation is deemed necessary to allow for the sustainability statements to keep their integrity, completeness and usability. Incorporation by reference to other sources outside the management report, in fact, exposes to risks of incomplete information, as the relevant document has to be available to users in the same terms (level of management's liability, timing, location, hyperlinks effectively functioning, level of assurance) of the sustainability statements. In order to foster completeness and understandability of the sustainability statements as a structured package of information, in addition, this [draft] Standard clarifies that without the information incorporated by reference, the sustainability statements are considered incomplete. With the same objective, this [draft] Standard requires to disclose a list of the disclosure requirements of the ESRS (or the specific datapoints mandated by a disclosure requirement) that have been incorporated by reference. The purpose of this requirement is to reinforce the understandability and completeness of sustainability statements as a comprehensive package of information. This allows for information to be more useful, relevant and cohesive and the management report to be viewed as a single, balanced and coherent set of information.

5.2 Connectivity with financial statements

BC138. All dimensions of corporate reporting need to be interconnected under an integrated approach. Sustainability reporting and financial reporting are currently not formally connected, leaving potential gaps, overlaps and a lack of coherence. If sustainability reporting and financial reporting are to be placed on an equal footing under an identical timing requirement, connectivity becomes essential. The undertaking shall identify "anchor points" to create connectivity to financial reporting together with the necessary reconciliations or cross-references. Connectivity between anchor points may be direct, when a monetary sustainability disclosure is derived from accounting data, and may be indirect when sustainability disclosures need to be consistent with financial statements, but cannot be reconciled with monetary amounts presented in financial statements.

BC139. Direct anchor points that relate to amounts directly presented in financial statements shall be linked with references. Indirect information that is an aggregation or a part of a monetary amount or quantitative data presented in the undertaking's financial statements might not be linked that easily. In order not to overburden undertakings with mandatory reconciliations, it was decided to require a simple explanation of the connectivity including a reference to the line item and/or to the relevant paragraphs of the financial statements where the corresponding information can be found. Detailed reconciliation is optional in these cases. Examples how amounts relate to most relevant amounts in financial statements are (i) "the undertaking had revenue of XX million CU with circular products …" or (ii) "to reduce the amount of CO2 emissions the undertaking had capital expenditures to acquire property, plant and equipment of YY million CU that …".

BC140. For indirect connectivity (i.e. when a link cannot be made either directly or indirectly (including through a reconciliation) paragraph 140 and 141 require, where needed, to disclose a consistency statement (at level of single data point) to illustrate the consistency of data and assumptions used, and qualitative information included in its sustainability report, with the corresponding data, assumptions and qualitative information included in the financial statements (including a reference to the relevant line item/paragraph of a footnote of the financial statements). When the data, assumptions and qualitative information are not consistent, the undertaking shall state that fact and explain the reason. For example, the inclusion of such consistency statement is needed when it is necessary to provide an understanding of how the data and assumptions used to measure a material financial effect of a sustainability risk relate to data and assumptions used to develop material estimates in the financial statements.

Chapter 6 – Structure of the sustainability statements

BC141. [Draft] CSRD Art. 19a (1) mandates that sustainability reporting is included in the management report and eliminates the prior option in the Non-Financial Reporting Directive (2014/95/UE) to publish a separate report. [Draft] CSRD recital (50) highlights the objectives to:

(a) enhance the availability of information that connects financial and sustainability matter information;

(b) facilitate discoverability and accessibility for users; and

(c) strengthen the reliability of sustainability information.

BC142. [Draft] CSRD Art. 19b (1) provides that "European sustainability standards […] where relevant shall specify the structure in which that information shall be reported".

BC143. It was considered that, in parallel to the structure of financial reporting which is based upon financial statements, standardised sustainability information should preferably be reported in a separate and clearly identifiable section of the management report named "sustainability statements". The stated objectives for such presentation were to:

(a) enhance comparability across undertakings;

(b) ease access to information and avoid fragmentation;

(c) distinguish the standardised part of the management report from other unstandardized narrative or quantitative reporting which expresses the views of governance and management on the performance and developments of the business from a general perspective; and

(d) highlight the interconnections between the various dimensions, namely financial and sustainability information, of corporate information.

BC144. In addition, the presentation of sustainability reporting should facilitate the performance of assurance engagements and the related communication of assurance reports. [Draft] CSRD

Art. 26a (1) states: "Member States shall require statutory auditors and audit firms to carry out the assurance of sustainability reporting in compliance with assurance standards adopted by the Commission" and [draft] CSRD Art. 34 (a) (ii) requires the statutory auditor or an independent assurance services provider to express an opinion based on a limited assurance engagement.

BC145. The level of assurance underpinning sustainability reporting could therefore be different than for other information in the management report covered by Article 34 of the Accounting Directive (2013/34/UE).

BC146. Article 34 of the Accounting Directive provides that statutory auditors shall express an opinion on whether the management report is consistent with the financial statements for the same reporting year and whether the management report has been prepared in accordance with the applicable regulatory requirements.

BC147. It was therefore concluded that the presentation requirements should allow users to identify sustainability reporting and clearly distinguish it from other information with different levels of assurance.

BC148. Finally, it was considered that ensuring consistency between the general presentation of sustainability information within the management report and the structure used in the European Sustainability Reporting Taxonomy of disclosure requirements would facilitate the mark-up of sustainability reporting disclosures ("tagging") in accordance with Commission Delegated Regulation 2019/815 on the specification of the single electronic reporting format.

6.1 Content of sustainability statements

BC149. Having determined that sustainability information should preferably be reported within a single structured and identifiable section of the management report, it was considered what sustainability information should be included in that section. Consistent with the mandate given by the European Commission, it was determined that, as a minimum, the single section should include the disclosures required by ESRS Standards as well as entity specific sustainability information as required by chapter 1.5.

BC150. It was further noted that Article 8 of Regulation 2020/852 on the establishment of a framework to facilitate sustainable investment provides that undertakings within the scope of article 19a and 29a of the Accounting Directive shall include in their non-financial statement information on how and to what extent their activities are associated with economic activities that qualify as environmentally sustainable. It was observed that the [draft] CSRD would remove the reference to the non-financial statement in paragraph 19a of directive 2013/34/UE but noted that after the adoption of the [draft] CSRD, article 8 would still refer to the reporting requirements in article 19a of directive 2013/34/UE and therefore article 8 disclosures should be reported alongside other sustainability-related disclosures as required by that Article. It was concluded that undertakings should report the disclosures pursuant to article 8 of regulation 2020/852 alongside the disclosure requirements in ESRS Standards.

BC151. It was also considered that the disclosure requirements set out in the Sustainable Finance Disclosure Regulation (2019/2088) and in article 434 of regulation 575/2013 on prudential requirements for credit institutions and investment firms. However, it was noted that requiring or allowing financial market participants and banks to report the required disclosures as part of the management report would not relieve them from the obligation to publish separate reports and might raise consistency and comparability issue with the disclosures required by ESRS.

BC152. Finally, it was observed that undertakings might be subject to national sustainability reporting disclosure requirements or might already report sustainability information according to generally accepted sustainability frameworks. It was decided to clarify that such disclosures may be reported in the sustainability statements provided that they meet the characteristics of information quality as outlined in chapter 2.1.

6.2 Structure of sustainability statements

Presentation of disclosures required by sector-agnostic ESRS

BC153. Consistent with the objectives set out in BC143, it was considered as the preferred option to require standardised sustainability information to be reported in a separate and clearly identifiable section of the management report which would be presented as 'Sustainability Statements'. However, as highlighted in BC142, it was also noted that [draft] CSRD Art. 19b (1) was indicative of the willingness to allow for flexibility in the presentation of sustainability information within the management report.

BC154. The scope of the [draft] CSRD covers both undertakings already reporting sustainability information in accordance with the Non-Financial Reporting Directive (2014/95/UE) and large undertakings that were previously not subject to sustainability disclosure requirements. For the former, the requirement to report sustainability information within a single section of the management report might significantly differ from current reporting practices and be burdensome. On the other hand, for the latter, it was observed that providing more detailed provisions about how to present the standardised disclosures within a single section of the management report might facilitate the implementation of ESRS. It was therefore decided to allow three reporting options to undertakings.

First option: single section in the management report

BC155. The first option mandates undertakings to report the disclosures required by sector agnostic ESRS within a single identifiable section of the management report using a standardised structure reflecting the overall architecture of ESRS. It was observed that the disclosures in the management report should preferably be presented in a standardised way to allow users that are knowledgeable about ESRS to navigate easily across the reports published by different undertakings. It was therefore decided to highlight that the first option was the preferred option.

BC156. With regards to the structure of the sustainability statements, it was decided that undertakings should report first the disclosures required by the cross-cutting Standard ESRS 2 as it is transversal and provides contextual information relevant to all the sustainability matters defined in the [draft] CSRD. In order to ensure consistency and comparability, it was also decided to require undertakings to report the required disclosures in the order defined by the standards. Furthermore, to help users navigate and identify specific pieces of standardised sustainability information, the structure of the sustainability statements should be apparent in the management report. It was therefore decided that each disclosure requirement shall be explicitly identified in the sustainability statement through a standardised header.

BC157. For the topical sector-agnostic disclosure requirements about "policies, targets, actions plan, allocated resources and performance metrics", it was observed that the ESRS classification of sustainability topics and sub-topics would provide a systematic and consistent basis for undertakings to report on their material impacts, risks and opportunities. It was concluded that undertakings should group together their disclosures by topics and sub-topics and present them in accordance with the standardised classification.

BC158. The application guidance of sector-agnostic topical Standards includes disclosure requirements relating to the implementation of the cross-cutting Standards. Such requirements are intended to complement the cross-cutting disclosures in ESRS 2 to ease the operational implementation by undertakings and foster comparability. For instance, appendix B of ESRS E1 Climate includes climate-related application guidance that the undertaking shall follow when disclosing information under ESRS 2 about the resilience of the strategy and business model to climate related risks (DR 2 – SBM4), the process to determine material climate-related impacts risks and opportunities (DR 2 – IRO 1 and 2), and the climate-related incentive schemes (DR 2 – GOV4). It was decided that such disclosures shall be reported alongside the cross-cutting disclosures that they complement applying the presentation guidance in the topical Standards. It was therefore clarified that the presentation requirement in the topical Standard would prevail over the general presentation requirement in [draft] ESRS 1.

BC159. Some stakeholders argued that the proposed structure of the sustainability statements could be a step backward from current practice providing integrated reports and might prevent them from integrating financial and sustainability information within the management report in a meaningful way. It was noted that the prescribed structure of the sustainability statements could be maintained while granting additional flexibility to preparers by allowing undertakings to make adequate cross-references between the sustainability statements and other parts of the management report. The undertaking would be required to apply the prescribed structure of the sustainability statements and unambiguously identify each disclosure requirement in ESRS through a standardised header but would be allowed to incorporate the required pieces of information by reference to another section of the management report. It was decided to grant the option to comply with ESRS disclosure requirements through incorporation by reference to another section of the management report, provided that the reference disclosure constitutes a separate element of information clearly identified in the other section of the management report. However, it was decided to forbid cross-references to reports or documents other than the management report in order to ensure that all required disclosures be made available within a single legal document easily and timely accessible to the users of sustainability information.

Second option: aggregation of disclosures on an ESRS by ESRS basis

BC160. It was considered necessary to strike a balance between the need for flexibility and the objectives required in BC143. The practice of European undertakings applying GRI standards to report an index allowing users to identify where the disclosures required by the GRI framework appear in their reports was noted. It was however concluded this approach could lead to excessive fragmentation of disclosures within the management report thus impairing understandability. Therefore, it was decided to provide a minimum aggregation requirement of sustainability-related disclosures to ensure consistency in reporting practices

BC161. The aggregation at a disclosure requirement level would be similar to the GRI index. This approach was therefore discarded. It was then considered requiring undertakings to group their disclosures at the level of each sector-agnostic ESRS. It was noted that this leads to a reasonable number and could allow undertakings to integrate sustainability information with the other mandatory disclosures requirements arising from the Accounting Directive. It was concluded that undertakings should aggregate the disclosures arising from ESRS by standard and report them as non-separable blocks and along with a location table to allow users to identify where the blocks appear.

Third option: aggregation of disclosures into four separately identifiable parts

BC162. While permitting the option to aggregate disclosures by standards for the presentation of sustainability disclosure requirements in the management report, a significant number of undertakings may wish to further aggregate standardised sustainability disclosures to reflect the generally accepted classification of sustainability information across the cross-cutting, E,S and G dimensions. To ensure consistency and comparability in the presentation of sustainability information, it was decided to encourage undertakings to adopt a four-section presentation format should they decide not to opt for a single section of the management report. Such a presentation also implies a location table to comply with the concept of integrity of the financial statements.

Presentation of disclosure required by sector-specific ESRS

BC163. It was concluded that sector-specific Standards should adopt a structure consistent with the classification of topics and sub-topics used when developing sector-agnostic Standards as it does provide for a comprehensive depiction (sector-agnostic and sector-specific) of each sustainability matter.

Presentation of entity-specific disclosures required by ESRS Standards

BC164. ESRS standardised disclosures may not cover all material sustainability impacts, risks and opportunities of an undertaking considering its specific facts and circumstances. The undertaking shall therefore determine, where appropriate, entity-specific disclosures. Such disclosures can generally be related to a topic or sub-topic covered by ESRS. It was therefore concluded that undertakings should exercise judgment and report such disclosures in that part of the report dedicated to the most relevant sector-agnostic disclosures after the sector-agnostic and sector-specific disclosures.

Presentation of the disclosures pursuant to article 8 of the Taxonomy regulation (2020/852)

BC165. Regulation 2021/2178 from the European Commission provides detailed presentation requirements for article 8 disclosures including mandatory standardised reporting templates. While article 8 of regulation 2021/2178 suggests that contextual information that complements the taxonomy's key performance indicators may be reported in different sections of the management report, it was observed that such information should preferably be reported alongside the indicators in order to enhance understandability. It was therefore decided that undertakings should report article 8 disclosure within a dedicated identifiable part of the sustainability statements.

BC166. It was further considered where this identifiable part should be reported in the sustainability statements. It was observed that the classification system used in the taxonomy of sustainable activities relies on three key principle whereby an economic activity should:

(a) contribute significantly to achieving at least one of the six environmental objectives set out in regulation 2020/852;

(b) not significantly harm the other environmental objectives; and

(c) be carried out in compliance with minimum safeguards especially with regards to social and human rights.

BC167. It was noted that the third criterion considered social and human rights but that most disclosure requirement set out in regulation 2021/2178 focused on the environmental objectives of the taxonomy. As a consequence, it was concluded that the article 8 disclosure should be reported as a separate part of the sustainability statement immediately after the topical section on environment.

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