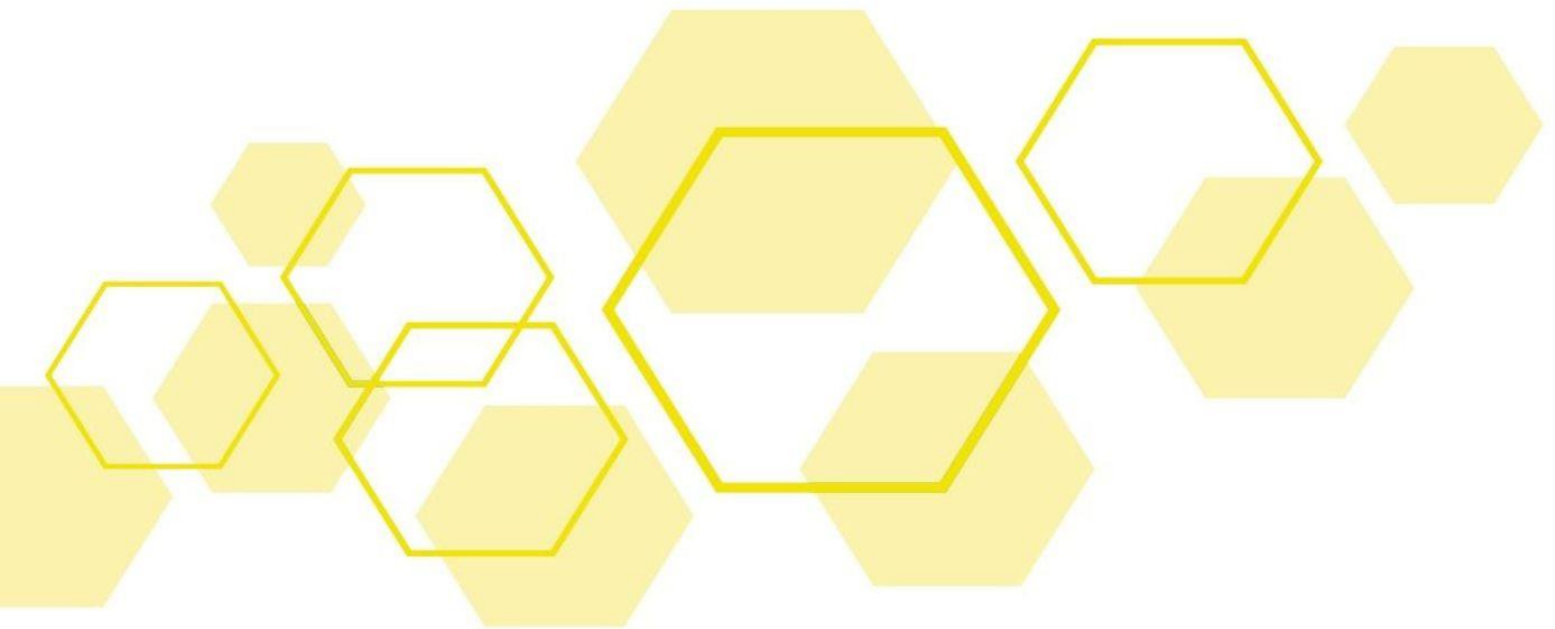


DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS

ESRS 2

General disclosures

Basis for conclusions



This Basis for conclusions (March 2023) relate to the draft ESRS issued in November 2022.

DISCLAIMER

This Basis for Conclusions accompanies but is not part of the Draft ESRS 2 *General disclosures*. It summarises the considerations of the EFRAG SRB and the references to other standard setting initiatives or regulations used in developing the proposed contents of the [draft] Standard.

It does not reflect the position of the European Union or European Commission DG Financial Stability, Financial Services and Capital Markets Union (DG FISMA).

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Objective

- BC1. The objective of the [draft] ESRS 2 *General disclosures* is to cover sustainability disclosure requirements that are of a general nature, i.e., that apply to all undertakings regardless of their sector of activity (i.e., sector agnostic) and apply across sustainability topics (i.e., cross-cutting). The objective is to avoid having the need to address these requirements multiple times under topical or sector-specific standards and therefore to foster a comprehensive understanding of sustainability-related cross-cutting information. This approach is aligned with the comprehensive approach of the Corporate Sustainability Reporting Directive (CSRD) regarding sustainability matters to be covered.
- BC2. Chapters 2 to 5 cover the reporting areas identified in Article 19a (stand-alone undertakings) and Article 29a (consolidated undertakings) of the CSRD presented in the following order to be aligned with International Sustainability Standards Board (ISSB) and the Task-Force on Climate-related Financial Disclosures (TCFD) presentations:
- (a) Governance (chapter 2);
 - (b) Strategy (chapter 3);
 - (c) Impact, risk and opportunity management (chapter 4); and
 - (d) Metrics and targets (chapter 5).
- BC3. EFRAG SRB, based on the outcome of the public consultation and to avoid risk of duplication of reporting for some undertakings, has decided to:
- (a) systematically align [draft] ESRS 2 structure and wording with the ED IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and the structure of the TCFD recommendations. Detailed comparison of IFRS S1 and [draft] ESRS 1 and ESRS 2 is available in Appendix V of the set 1 package and is not included in the basis for conclusions;
 - (b) have [draft] standards compatible with Global Reporting Initiative (GRI) universal standards.

Context of the [draft] standard

- BC4. The general approach adopted to the preparation of draft ESRS is described in the Explanatory note released jointly with the draft ESRS in November 2022. It takes account of the initiatives and legislation listed in article 29 b of the CSRD. [Draft] ESRS 2 was developed notably through the following steps:
- (a) by first complying with and incorporating the requirements of the CSRD (text dated 21 June 2022 and then approved by the European Parliament on 10 November 2022);
 - (b) where necessary, drawing from the principles and requirements of the existing Non-financial Reporting Directive (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 Sustainable Finance Disclosure Regulation (SFDR), in particular with regards to key performance indicators concerning principal adverse impacts;

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- (d) analysing the current international frameworks as recital 43 of the CSRD clarifies that “In order to minimise disruption for undertakings that already report sustainability information, sustainability reporting standards should take account of existing standards and frameworks for sustainability reporting and accounting where appropriate. Such existing standards and frameworks 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, the Carbon Disclosure Standards Board, and CDP, formerly known as the Carbon Disclosure Project. Union standards should take account of any sustainability reporting standards developed under the auspices of International Financial Reporting Standards Foundation. To avoid unnecessary regulatory fragmentation that could have negative consequences for undertakings operating globally, Union sustainability reporting standards should contribute to the process of convergence of sustainability reporting standards at global level, by supporting the work of the International Sustainability Standards Board (ISSB). Union sustainability reporting standards should reduce the risk of inconsistent reporting requirements for undertakings that operate globally by integrating the content of global baseline standards to be developed by the ISSB, to the extent that the content of those baseline standards is consistent with the Union’s legal framework and the objectives of the Green Deal.”
- (e) analysing the current internationally recognised principles and frameworks on responsible business conduct, corporate social responsibility and sustainable developments frameworks, as recital (45) of the CSRD stipulates that sustainability reporting standards should take account of such principles. In addition, recital (31) 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”.

BC5. As a consequence, guidance from and coherence with all these existing standards and frameworks have been sought. The alignment has been especially made, both in terms of structure and content (using same wording as much as possible when there were similar concepts and disclosure requirements) with [Draft] IFRS S1 of the ISSB published in March 2022, which contains requirements, principles and disclosures.

Interactions with existing regulations and frameworks

BC6. Interactions with CSRD, EU regulations and other international sustainability frameworks are summarised in the following table¹:

[draft] ESRS 2 DR	Required by CSRD	SFDR and other EU legislations	References to OECD guidelines and UN guiding Principles	References to other reporting frameworks²
BP-1	19a (3), 29a (3)		UN GP B1	CDSB REQ-08 IIRC 1.11-1.16
BP-2	See Basis for conclusions in [draft] ESRS 1 and table below in BC10 for interactions between [draft] ESRS 1 and [draft] ESRS 2			
	Statement of compliance CDP W2.2, [Draft] IFRS S1 91-92, IAS 1.16, GRI 1 – Requirement 7, GRI 2-1, 2-2, 2-3, 2-5			
GOV-1	Art. 19a (2) (c) and Art. 29b (2) (c) (i)	Regulation (EU) 2019/2088 as reflecting an additional	UN GP A2.1	CDP C1.1, C1.2, C15.1, F4.1, F4.2, W6.2, W6.3, CDSB REQ-01

¹ References to IFRS S1 have not been included. Refer to Appendix V of the set 1 package for the comparison of IFRS S1 with ESRS 1 and ESRS 2.

² ESRS 2 has also been aligned with the ED IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*. Detailed comparison is available in Appendix V of the set 1 package.

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[draft] ESRS 2 DR	Required by CSRD	SFDR and other EU legislations	References to OECD guidelines and UN guiding Principles	References to other reporting frameworks2
		indicator related to principal adverse impacts set out by indicator #13 in Table 1 of Annex 1 of the related Delegated Regulation with regard to disclosures rules on sustainable investments (respectively “Board gender diversity”)		GRI 2-9, 2-10, 12, 2-13, 2-17 IIRC 1.20, 4.8 and 4.9 TCFD Governance (a), (b)
GOV-2	Art. 19a (2) (c), (e)	n/a	UN GP A1, A2.2 OECD DD 1.2 (a,b,d), 3.1 (a), 3.2 (a), 4.1 (a), 5.1 (a)	CDP C1.1, F4.1, W6.2 CDSB REQ-01 GRI 2-12, 2-14, 2-16, 3-3 IIRC 4.8 and 4.9 OECD DD 1.2 (d) TCFD Governance (a)
GOV-3	Art. 19a (2) (a) (v) (implementation of strategy) and Art. 19a (2) (e)	n/a	UN GP A2.4 OECD DD 1.2 (g)	CDP C1.3, C11.1, F4.3, W6.4, CDSB REQ-02 GRI 2-18, 2-19 IIRC 4.8 and 4.9 TCFD Governance (b) and Metrics and targets (a)
GOV-4	Art. 19a (2) (f) (i)	Regulation (EU) 2019/2088 related to principal adverse impacts as set out by indicator #10 in Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments (“Lack of due diligence”)	UN GP A2.4	CDSB REQ-01 SFDR Table 3 10 (Lack of due diligence)

[Draft] ESRS 2 General disclosures

[draft] ESRS 2 DR	Required by CSRD	SFDR and other EU legislations	References to OECD guidelines and UN guiding Principles	References to other reporting frameworks2
GOV-5	Art. 29b (c) (ii)			GRI 2-14
SBM-1	Art. 19a (2) (f) (ii)	SFDR Table 1, indicators 4 (Exposure to companies active in the fossil fuel sector) and 14 (Exposure to controversial weapons) and Table 2 indicator 9 (Investment in companies producing chemicals)	UN GP C2.2, C2.3	GRI 2-6, 2-7, GRI 201-1 IIRC 2.4-2, 2.20-2.29, 4.16-4.17 TCFD Strategy (b)
SBM-2	Art. 19a (2) (a) (iv)	n/a	UN GP C2.3	IIRC 3.10-3.16 GRI 2-29
SBM-3	Art. 19a (2) (a) (v) Art. 19a (2) (f) (ii) Art. 19a (2) (g)	SFDR Table 3 12 (Operations and suppliers at significant risk of incidents of child labour), and 13 (Operations and suppliers at significant risk of incidents of forced or compulsory labour)	UN GP C3	CDP C2.1, C2.2, C2.3, C2.4, C3.3, F2.1, F3.1, F3.2, W2.1, W3.3, W4.1, W4.2, W4.3 IIRC 3.24-3.27, 3.34-3.35, 4.23-4.26, 4.29 CDSB REQ-03,04 SASB CF p 9, S (Accounting Metrics) GRI 3-3-a, 3-3-b TCFD Strategy (b), (c)
IRO-1	Art. 19a (2) (f) (i) Art. 19a (2) (last paragraph)	n/a		CDP C2.1, C2.2, F3.1, F3.2, W4.1, CDSB P1, REQ-03 GRI 3-1 IIRC 3.18-3.23 and 4.42 SASB CF p 9, S (Accounting Metrics) TCFD Strategy (a) and TCFD Risk management (a)
IRO-2	Art. 19a (2) (g) Recital 28	n/a		

Interaction with [draft] ESRS 1 General requirements

- BC7. As stated in the Basis for conclusions on [draft] ESRS 1 (see ESRS 1 paragraph **BC7**), [Draft] ESRS 1 and [draft] ESRS 2 do interact significantly. Some requirements in [draft] ESRS 1 directly correspond to or trigger disclosures that are stipulated in [draft] ESRS 2.
- BC8. EFRAG SRB has considered whether it would be better to have one or two standards. Some EFRAG SRB members preferred to have only one standard. However, EFRAG SRB finally decided to have two standards to clearly separate the requirements for sustainability reporting as covered by [draft] ESRS 1 from [draft] ESRS 2 as the requirements are applicable for all the disclosures existing in [draft] ESRS and not only for those of [draft] ESRS 2. EFRAG SRB believes that the references in [draft] ESRS 1 to Disclosure Requirements in [draft] ESRS 2 and vice versa provide an adequate linkage for preparers between a requirement and a related disclosure. (see ESRS 1 paragraph **BC9**).
- BC9. As a consequence of the above split, former disclosure principles related to standardisation on information in topical standards related to policies, actions and targets have been relocated to [draft] ESRS 2 and renamed 'Disclosure Content'.
- BC10. As the disclosure requirements should be read in conjunction with the related general requirements in [draft] ESRS 1, this interaction is illustrated in the following table.

Disclosure Requirement in [draft] ESRS 2	Corresponding sections or chapters in [draft] ESRS 1
BP-1 – General basis for preparation of the sustainability statements	1.1, 5.1, 7.6, 7.7
BP-2 Disclosures in relation to specific circumstances:	
Time horizons	Chapter 6
Value chain estimation	Chapter 5
Sources of estimation and outcome uncertainty	7.2
Changes in preparation or presentation of sustainability information	7.4
Reporting errors in prior periods	7.5
Disclosures stemming from local legislation or generally accepted sustainability reporting pronouncements	8.2
Incorporation by reference	9.1
GOV-4 – Statement on due diligence	Chapter 4
SBM-1 – Market position, strategy, business model(s) and value chain	Chapter 5
IRO-1 – Description of the processes to identify and assess material impacts, risks and opportunities	Chapter 3
IRO-2 – Disclosure requirements in ESRS covered by the undertaking's sustainability statements	Chapter 3
DC-P, DC-A, DC-M and DC-T: Disclosure content on policies, actions, metrics and targets	1.5

Disclosure Requirements

Disclosure Requirement BP-1 - General basis for preparation of the sustainability statements

- BC11. As the management report already contains all legal and general information related to the undertaking, EFRAG SRB decided to limit, in this Disclosure Requirement, specific information related to the sustainability statements (to avoid double reporting). This Disclosure Requirement gathers all information related to the scope of the sustainability information: individual undertaking or group, application of exemptions if any, same perimeter or not as financial statements, how information related to the value chain is integrated and if the option to omit information related to intellectual property has been taken.
- BC12. The SRB considered whether it was appropriate to ask for a confirmation that the scope of consolidation is the same as for the financial statements, as the general requirement in ESRS 1 (paragraph 66) is to use the same scope. Nevertheless, the SRB decided to include an explicit requirement to confirm that the scope is the same, in order to promote transparency.

Disclosure Requirement BP-2 – Disclosures in relation to specific circumstances

- BC13. EFRAG SRB decided to regroup in one dedicated Disclosure Requirement all cases for which a specific disclosure is required. The disclosures are inspired by practices and principles used in financial reporting and incorporate the equivalent disclosures in IFRS S1 ED.
- BC14. These disclosures cover options, assumptions or changes in sustainability statements occurred during the reporting period such as: time horizons, value chain estimation, sources of estimation and outcome uncertainty, changes in preparation of the data or presentation of the data, errors in previous period.
- BC15. As there are different types of disclosures in this Disclosure Requirement to reflect specific situations, EFRAG SRB decided to grant flexibility on the best place where to present this information in the sustainability statements.
- BC16. EFRAG SRB also considered that it is relevant to disclose information on the use of other reporting pronouncements for sustainability reporting compared to [draft] ESRS, if any.
- BC17. In order to make the sustainability statements more understandable and to avoid undue repetitions, EFRAG SRB agreed that undertakings can use incorporation of information by references. In this case, a list of the references is considered useful and has to be disclosed.

Changes to the architecture and streamlining of ESRS 2

- BC18. One of the recurring comments in the public consultation on draft ESRS 2 ED was the use of an architecture not aligned with the structure of IFRS S1 ED (which in turn is aligned with the TCFD). The SRB decided to restructure ESRS 2 in order to align the content with the four content areas of IFRS S1: Governance, Strategy, (Impact), risk and opportunity management, Metrics and targets. This resulted in the need to split the content of the implementation section (comprising a package of policies, targets, actions and resources), in order to move the targets to the Metrics and targets section. The same architecture has been also used in the 10 topical standards.
- BC19. The following themes characterised the consultation outcome for ESRS 2 ED:
- (a) there were redundancies within ESRS 2 and with other ESRS standards;
 - (b) cost/benefit concerns and the need to reduce the granularity of the required disclosure and, in general, the number of disclosure requirements to what is explicitly required by the CSRD text;
 - (c) need to streamline the language in the standard;

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- (d) need for more application guidance, notably on materiality assessment;
 - (e) call for alignment with the content of IFRS S1 ED.
- BC20. The SRB added several datapoints, in order to incorporate all the contents of IFRS S1 ED.
- BC21. In order to respond to the feedback received, the SRB decided to simplify the following Disclosure Requirements:
- (a) GR1 General characteristics of the sustainability reporting has been streamlined and partly deleted according to the final CSRD (no more presentation options);
 - (b) GR10 on general statement of compliance has been eliminated as ESRS application is mandatory and sustainability statements are audited;
 - (c) references to the rebuttable presumption have been eliminated;
 - (d) The two GR remaining disclosure requirements have been renamed BP (Basis for preparation).
- BC22. The following DRs have been merged in order to reduce the redundancies and streamline the standard:
- (a) The section containing the GR DRs has been streamlined and the content of the 10 initial DRs is now reorganised in only 2 DRs;
 - (b) SBM 1 Overview and business model, GR2 Sectors of activity, GR3 key features of the value chain and GR4 Key drivers of the value creation have been transferred to new SBM1 Strategy, Business Model(s), market position and value chains;
 - (c) GOV 2 and 3 have been merged in new GOV 2 Information provided to and sustainability matters addressed by the undertaking's administrative, management and supervisory bodies.
 - (d) GOV 1 and the new GOV 5 have been completed by elements coming from former ESRS G1;
 - (e) IRO 2, IRO 3, SBM 3 and SBM 4 have been merged into SBM 3 Material impacts, risks and opportunities and their interaction with strategy and business model(s);
 - (f) Content of IRO 1 and of its Application Guidance have been transferred to ESRS 1 to enhance the guidance on materiality assessment.
- BC23. Compared to the content of ESRS 2 ED, quantitative and qualitative datapoints have been significantly deleted or simplified, in particular on Governance (nomination criteria, organizational structure, number of significant positions/commitments of the members of the administrative management and supervisory bodies, key decision of those bodies in relation to sustainability matters in the period) and Strategy (breakdown of revenues by significant country, breakdown of employees by countries replaced by geographies). Qualitative datapoints and Application Requirements have also in general been streamlined.
- BC24. The new IRO 2 Summary of material information covered by the undertaking's sustainability statements has been introduced, which includes the disclosure requirements necessary to provide transparency on the outcome of the materiality assessment, following the removal of the rebuttable presumption.

Governance

- BC25. The final CSRD text limits the Governance factors covered in the ESRS G1 ED to governance of sustainability matters instead of general governance. As a consequence, when relevant ESRS G1 ED requirements have been included in ESRS 2.
- BC26. Information on roles and responsibilities of the administrative, management and supervisory bodies in relation to sustainability information is specifically required by the CSRD. This is also standard information in all existing sustainability frameworks.

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- BC27. Most of the feedback received from the consultation encouraged to centralise all general information related to governance in [draft] ESRS 2 in order to avoid duplication and to ease the undertaking's reading. EFRAG SRB followed this recommendation.
- BC28. A proposal to enlarge the scope of required information to other categories of employees was discussed but was rejected by the EFRAG SRB as this information is going beyond what is required in the CSRD.

Disclosure Requirement GOV-1 – The role of the administrative, management and supervisory bodies

- BC29. This Disclosure Requirement is designed to facilitate a description of the formal role and composition of the governance bodies (generic term to cover all undertakings' status in the European Union). Such information is needed to demonstrate how much attention the governance bodies devote to sustainability matters. It further specifies datapoints concerning the administrative, management and supervisory bodies' composition, the nomination and selection of its individual members and their expertise (or access to the expertise) on material sustainability topics. Such information enables the understanding of the governance bodies' ability to provide effective oversight on sustainability matters.
- BC30. The relevance to include specific datapoints related to training on sustainability matters to the governance bodies has been discussed by EFRAG SRB members and has been rejected. The SRB considered that training per se does not guarantee a certain level of expertise. The reference to training has been kept in AR 4 as an example.
- BC31. The datapoints: board's gender diversity and the percentage of independent board members are mandatory as they pertain to other EU regulations.
- BC32. The combined content of this GOV 1 and GOV 2 incorporates all the datapoints in paragraph 13 of IFRS S1 ED.

Disclosure Requirement GOV-2 – Information provided to and sustainability matters addressed by the undertaking's administrative, management and supervisory bodies

- BC33. This Disclosure Requirement addresses the process and frequency by which the administrative, management and supervisory bodies are informed about material impacts, risks and opportunities. The disclosure of such a process complements the information provided under the previous Disclosure Requirement in enabling users to understand whether the governance bodies have access to information necessary for the exercise of their role with respect to sustainability matters. This provides information on the undertaking's governance and organisation from a procedural point of view.
- BC34. The disclosure of sustainability issues which are individually discussed by the governance bodies facilitates the users' assessment of whether the undertaking's governance bodies' engagement in sustainability matters is appropriate, taking into account the description of material impacts, risks, opportunities and their implication for the undertaking's business model and strategy. It also provides insight regarding the prioritisation of sustainability matters by the undertaking's leadership.
- BC35. As a consequence, EFRAG SRB estimated that a list of all material impacts, risks and opportunities discussed by the governance bodies is useful information to be disclosed.

Disclosure Requirement GOV-3 - Integration of sustainability-related performance in incentive schemes

- BC36. The disclosure of a link between incentive schemes and the implementation of the undertaking's sustainability strategy and targets, as well as the management of the undertaking's impacts, risks and opportunities is generally considered as a key feature demonstrating the undertaking's efforts towards ensuring that sustainability matters receive appropriate attention from individual members of the administrative, management and supervisory bodies.

[Draft] ESRS 2 General disclosures

- BC37. This disclosure also complements information under Disclosure Requirement GOV-1 and provides transparency of information in that it enables users to understand the correlation between:
- (a) the administrative, management and supervisory bodies' assigned role and responsibility in relation to sustainability matters and their share of the incentive subject to the sustainability-related performance; and
 - (b) the financial and non-financial (sustainability-related) performance criteria used to determine the incentive.

Disclosure Requirement GOV-4 - Statement on sustainability due diligence

- BC38. As due diligence is generally recognised as a pivotal concept in relation to adverse impacts, as requested in the CSRD and based on [draft] ESRS 1 chapter 4 (see also ESRS 1 Chapter 4 of Basis for conclusions), EFRAG SRB decided to require from undertakings a general assessment on how the core elements of due diligence are embedded in its governance and management processes and to dedicate a disclosure requirement to be included in the sustainability statements. A specific format is proposed in the Application Requirements on Disclosure Requirement GOV-4.

Disclosure Requirement GOV-5 - Risk management and internal controls over sustainability reporting

- BC39. EFRAG SRB acknowledged that information about an undertaking's internal control processes improves the credibility and reliability of sustainability reporting and supports users' understanding of how the undertaking is exposed and how effectively it manages its material sustainability impacts, risks and opportunities. This information is explicitly required by the CSRD.
- BC40. Disclosures on the establishment of rigorous, independent, and effective internal control systems are key to understand the undertaking's design of processes to various aspects. These include minimisation of risk and the protection of assets, ensuring accuracy of records, promoting operational efficiency, and encouraging adherence to policies, rules, regulations, and law. This includes the internal control system over the sustainability reporting process and if there is any review and approval process over reporting in place under the responsibility of the governance bodies.
- BC41. For stakeholders, the disclosure provides useful information to evaluate the level of the achievement of operational objectives, such as the effectiveness and efficiency of operations and compliance with applicable laws and regulations.
- BC42. A corresponding requirement in GRI covering internal controls in general has not been identified. However, GRI 2-14 requires disclosures of the role of the highest governance body in sustainability reporting and in this respect this disclosure requirement is consistent with GRI 2-14. The Accounting Directive covers the same, but only with reference to financial reporting.
- BC43. The SRB clarified in AR 10 that this DR focuses exclusively on the risks arising from the sustainability reporting process and does not require to expand to the other risks to which the undertaking is exposed.

Strategy

- BC44. Most of the feedback received from the consultation proposed to gather description of the key characteristics of the undertaking (its value creation and its value chain) with the description of its strategy and business model(s) and its relation with material impacts, risks and opportunities.

Disclosure Requirement SBM-1 – Market position, strategy, business model(s) and value chain

- BC45. The [draft] ESRS proposes a high-level description of the market position of the undertaking, the elements of its strategy that relate to or impact sustainability matters, its business model(s) and its value chain. Following the CSRD structure, EFRAG SRB decided to keep Strategy and Business model(s) 'bundled'. In this regard, in academic literature and company best practices the boundaries between the two are not always clear. Therefore, keeping them bundled avoids confusion about the attribution of specific aspects to either strategy or business model and allows for flexibility for the undertaking to link disclosures to its entity-specific circumstances.
- BC46. While keeping the elements of business model and strategy bundled, it is assumed that business model is focusing on what is the basic economic system of the undertaking, the way it operates and how it creates value for its stakeholders. In addition, a business strategy outlines the (high-level) direction of travel and plans to achieve its vision and to set the objectives of the undertaking, which guide the decision-making processes within the undertaking to help achieve its goals. The business model is fundamental to understand the strategy.
- BC47. The CSRD requires that the undertaking should provide a description of the adverse impacts connected to its products and services. To understand the exposure of the undertaking to impacts, risks and opportunities, users need to be informed not only about products and services but also about the significant markets and customers groups, sectors and country of operations. A qualitative information is requested in relation to these elements. EFRAG SRB considered the following:
- (a) Information about markets has to be based on facts and circumstances specific to the undertaking and its business approach, therefore, a definition of markets has not been provided.
 - (b) sectors are defined in coherence with ESRS sector classification,
 - (c) a breakdown of total revenue by sector is essential to understand how exposed the undertaking is to sustainability impacts, risks and opportunities.
- BC48. The opportunity to mandate the use of ESRS sector classification was discussed, including the burden that it may trigger as this is not an information that it is currently monitored by undertakings. Nevertheless, the SRB confirmed the use of the ESRS sector classification for this DR, as it is essential in order to prepare the application of the future draft sector ESRS and foster comparability. The undertaking is expected to use the future draft sector ESRS corresponding to its significant sectors of operation as determined in SBM-1.
- BC49. Next to a quantitative threshold of 10% of the revenues, a sector may be significant when it is connected with material actual impacts or material potential negative impacts. This criterion has been added in order to take into account that material impacts may arise irrespective of how significant is the undertaking's turnover in that sector. The same criteria are applied to determine significant groups of products and/or services offered, of markets and/or customer groups served.
- BC50. Paragraph 38 (c) requires to disclose a list of the additional ESRS sectors beyond the ones reflected under paragraph 38 (b), in which the undertaking develops significant activities (to be determined using the same criteria used for 38 (b)), or in which the undertaking is or may be connected to material impacts. This requirement aims at capturing activities that are performed but do not originate revenues in the consolidated financial statements, as they are eliminated in the consolidation procedures. These are the activities pertaining to intercompany transactions, that may trigger exposure to material impacts irrespective of the fact that they do not result in transactions with third parties outside the group.

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- BC51. As sector-specific ESRS will only be published after the first set of ESRS is published, sector-related information and guidelines may evolve, or new information or guidelines may be developed. The ESRS sector classification system will be exposed for comments in 2023. Therefore, the EFRAG SRB decided to postpone the disclosures included in paragraphs to the reporting period beginning January 1, 2025 or later (see [draft] ESRS 1 Appendix D: List of phased-in Disclosure Requirements).
- BC52. Information by geography has been limited by EFRAG SRB to headcount as EFRAG SRB considered that adding more geographical information will unduly increase the reporting burden. Although the requirement for geographical information in the disclosure itself is limited, geographical information may also be needed for the description of the business model and value chain (paragraph 39) as well as in other disclosures in ESRS 2 (especially those linked to the materiality assessment process and its outcomes) and topical standards.
- BC53. The information requested in paragraph 39 (c) does not require an extensive and detailed illustration of each and every component of the undertaking's value chain. The level of granularity of this disclosure has to allow for an understanding of where and how in the value chain material impacts, risks and opportunities arise. The content of such disclosure and its level of granularity has to be consistent with the process and outcome of the materiality assessment and with the definition of the value chain (see [Draft] ESRS 1 chapter 5).

Disclosure Requirement SBM-2 – Interests and views of stakeholders

- BC54. The purpose of this DR is to provide an understanding of how stakeholders' interests and views are considered for the undertaking's determination of its strategy and business model(s) and their evolution. Interactions between stakeholders and the undertaking impact deeply on how sustainability matters are considered by the undertaking. This implies information on:
- (a) the stakeholders themselves and how their interests have been taken into account;
 - (b) the relevant processes put in place by the undertaking for proper update and follow-up of the interests and views of stakeholders.
- BC55. Some respondents to the public consultation expressed the view that, when engagement with shareholders occur, an explanation of the process and the outcome should be part of the disclosure requirement. After the consultation, the SRB also decided to make clearer that the disclosure should not imply any kind of behaviour as it is up to the undertaking to take into consideration the views and interest of stakeholder to shape its strategy and business model(s). In particular, this DR is not requiring an undertaking to adjust its strategy or its business model to reflect interest and views of its stakeholders.
- BC56. GRI 2-29 Approach to stakeholder engagement covers similar requirements. This Disclosure Requirement, compared to GRI 2-29, focuses specifically on how the views of the stakeholders inform the strategy and business model of the undertaking. It is also one of the steps to be considered under due diligence processes.

Disclosure Requirement SBM-3 – Material Impacts, risks and opportunities and their interaction with strategy and business model(s)

- BC57. This disclosure combines two main contents: it corresponds to the outcome of the materiality assessment and illustrates how the material impacts, risks and opportunities interact with the undertaking's strategy and business model.
- BC58. As explained in [draft] ESRS 1 section 1.3 *Topical ESRS* and section 1.4 *Entity-specific disclosures*, the SRB decided to introduce disclosure requirements on a sector-agnostic and a sector-specific level combined with specific disclosures considering the undertaking's facts and circumstances. These disclosures are normally based on the undertaking's materiality assessment of its impacts, risks and opportunities. Therefore, the material impacts, risks and opportunities resulting from the undertaking's materiality assessment, together with a brief description of them, was considered essential information for users of sustainability statements.

[Draft] ESRS 2 General disclosures

- BC59. The impacts, risks and opportunities to be included are all the material impacts, risks and opportunities, irrespective of whether the undertaking has undertaken (or plans to undertake) actions to address them.
- BC60. In addition, this Disclosure Requirement requires the undertaking to provide:
- (a) how actual and potential material impacts related to sustainability matters originate from or are connected to the undertaking's strategy and business model(s);
 - (b) how actual risks and opportunities relate to the undertaking, specifying which risks and opportunities could have financial effects and the reasonably expected time horizon;
 - (c) the effects of material impacts, risks and opportunities on its strategy and decision-making, including how they impact the undertaking's strategy and business model(s);
 - (d) the financial effects of material risks and opportunities, and
 - (e) the overall resilience of the undertaking's strategy and business model(s) regarding its material impacts, risks and opportunities.
- BC61. This DR results from CSRD article 19a (2) (a) as an element of the "brief description of the undertaking's business model and strategy, including (...) (iii) the plans of the undertaking (...) to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5°C in line with the Paris agreement (...)" and article 19a (2), (f) "the principal actual or potential adverse impacts connected with the undertaking's own operations and with its value chain" and (g) "a description of principal risks to the undertaking related to sustainability matters, including a description of the undertaking's principal dependencies on those matters, and how the undertaking manages those risks".
- BC62. GRI 2-22 Statement of sustainable development covers similar disclosures. Similarly, [Draft] IFRS S1 (paragraphs 14 and 15), as well as the TCFD recommendations, have a substantially disclosure objective that is substantially equivalent to these two disclosure requirements of [Draft] ESRS 2, with the difference that they do not cover the dimension of material impacts, but only material risks and opportunities.
- BC63. This DR incorporates the datapoints in IFRS S1 ED paragraph 15 on Strategy.
- BC64. EFRAG SRB considered that the undertaking should decide whether impacts, risks and opportunities and their related disclosures are disclosed along with the undertaking's general information or under the corresponding [draft] topical ESRS. This allows the entity to present the information in the manner that best suits its own circumstances. However, EFRAG SRB acknowledged the importance of the disclosures included in the general information part and the role they play in facilitating the understanding of the sustainability statements. Thus, they decided to require an overview of the material impact, risks and opportunities if the information in paragraph 46 is disclosed under the corresponding [draft] topical ESRS.

Impact, risk and opportunity management

Disclosure Requirement IRO-1- Description of the processes to identify and assess material impacts, risks and opportunities

- BC65. CSRD Art. 19a (2) (g) specifies the requirement for undertakings to disclose "a description of the principal risks to the undertaking related to sustainability matters, including a description of the undertaking's principal dependencies on those matters, and how the undertaking manages those risks".

[Draft] ESRS 2 General disclosures

- BC66. Similarly, international reporting standards and frameworks which are based on financial materiality only (such as IFRS) include similar requirements and recommendations on materiality determination as regards the undertaking's impacts, risks and opportunities. As an example, [Draft] IFRS S1 paragraphs 51 to 55 set requirements for identifying sustainability-related risks and opportunities and disclosures. Paragraph 51 requires an entity to refer to IFRS Sustainability Disclosure Standards, including identified disclosure topics, as a source of the possible material sustainability-related risks and opportunities and prioritisation of the impacts. The description of the process remains similar whatever the approach of materiality (single or double materiality).
- BC67. An undertaking describes in this Disclosure Requirement its process of identification of impacts, risks and opportunities based on requirements set in [draft] ESRS 1 chapter 3 *Double materiality as the basis for sustainability disclosures* and chapter 4 *Sustainability due diligence* (see also ESRS 1 Chapter 3 of Basis for Conclusions), including how they prioritise the negative or positive impacts of their sustainability matters.
- BC68. The description of the organisation put in place and the resources dedicated to the assessment will enable the user of sustainability statements to assess the thoroughness of the assessment process in relation to the undertaking's industry, size and other relevant parameter. For the two elements of double materiality, it was then considered necessary to have a description of the assessment and identification process with respect to impact materiality (including the elements of due diligence and the involvement of and engagement with stakeholders and experts) as well as financial materiality, combined with an explanation how the undertaking has determined which of the identified impacts, risks and opportunities are material.
- BC69. In addition, EFRAG SRB decided to require (as it is in IFRS S1) explanations of changes compared to the previous period in order to issue more contextual information for a better understanding.

Disclosure Requirement IRO-1 – Disclosure Requirements in ESRS covered by the undertaking's sustainability statements

- BC70. EFRAG SRB has considered necessary to have as resulting from the undertaking's materiality assessment process:
- (a) a list of Disclosure Requirements complied with; which can be presented in a way to allow digitisation;
 - (b) if applicable, a brief explanation of the reasons why a [draft] topical ESRS is assessed not to be material for the undertaking.
- BC71. Many respondents to the public consultation requested the removal of the rebuttable presumption. To respond to their concerns, EFRAG SRB decided to change the approach to materiality (see ESRS 1 BC55). However, they decided to require a brief explanation when a [draft] topical ESRS is assessed not to be material for the undertaking. This allows users of sustainability statements to understand why an entire topic (for instance water and marine resources or pollution) is not material for the undertaking.
- BC72. EFRAG SRB considered whether an explicit approach should be adopted, requiring to disclose the list of DRs or datapoints omitted. Due to cost/benefit considerations, the EFRAG SRB decided to limit the disclosure to require a list of the DRs that are finally included in the sustainability statements.
- BC73. Reporting on opportunities, EFRAG SRB discussed whether opportunities should have the same prominence as impacts and risks or whether a voluntary approach should be adopted, for example where the undertaking may report on opportunities only if they are pursued. EFRAG SRB decided to maintain the opportunities as one of the reporting contents (next to impacts and risks). However, to respond to the concerns about the reliability of disclosing quantitative measures of opportunities and about the perceived risks associated to disclosing opportunities (e.g. as they entail forward-looking statements) paragraph 57 has introduced some elements to consider when defining what to disclose on opportunities.

Disclosure Content – Policies DC-P – Policies adopted to manage material sustainability matters

- BC74. Disclosing policies is specifically required by CSRD Art. 19a (2) (d) 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. This Disclosure Content lists minimum information to be disclosed on policies implemented to handle each material sustainability matter.
- BC75. The datapoint 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.
- BC76. The topical ESRS may provide specific disclosure requirements, including additional specifications which should be considered on a case-by-case basis.
- BC77. The role of the disclosure contents in draft ESRS 2 is to support the provision of relevant, complete and comparable information whenever the undertaking either as required by a topical ESRS or on an entity-specific basis, has to report respectively on policies, actions, targets and metrics.

Disclosure Content – Actions DC-A – Actions and resources in relation to material sustainability matters

- BC78. CSRD Art. 19a (2) (f) (iii) refers to "any actions taken by the undertaking to prevent, mitigate, remediate or bring an end to actual or potential adverse impacts, and the result of such actions". Other international reporting standards and frameworks also focus on "actions". CSRD recitals 31 and 45 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).
- BC79. To facilitate performance tracking, the requirement for disclosures related to key actions aligns with those of targets with regards to the time horizons for intended completion and the expected outcomes of each key action. In order to avoid reporting burden and support the provision of material information, EFRAG SRB agreed to limit the focus of the disclosures to only key actions. The assessment of the key actions is done by the undertaking.
- BC80. This Disclosure Content further requires disclosure in case implemented key actions require significant resources (in terms of Opex or Capex). The CSRD requires to disclose actions taken to identify and monitor principal actual or potential adverse impacts and any actions taken to prevent, mitigate, remediate or bring an end, actual or potential adverse impacts, and the result of such actions (19a (2) (f) (ii) and (iii)). EFRAG SRB considered that such information enables users to assess the level of commitment of the undertaking and robustness of its actions, and thus the likelihood that the policy objectives and targets would be met. To avoid unnecessary onerous disclosures and foster the provision of material information, the requirement to disclose resource allocation allows flexibility.

Metrics and Targets

Disclosure Content – Metrics DC-M – Metrics in relation to material sustainability matters

- BC81. The usage of metrics is needed to enable users to understand how an undertaking measures and monitors its key actions with regard to its significant sustainability-related impacts, risks and opportunities. EFRAG SRB considered that it is a tool for stakeholders to understand the progress and performance in relation to those issues.
- BC82. Disclosures related to each metric are same as the ones requested by IFRS S1.

Disclosure Content – Targets DC-T – Tracking effectiveness of policies and actions through targets

- BC83. Disclosing the undertaking's targets related to sustainability matters and its progress towards achieving those targets is explicitly required by CSRD Art. 19a (2) (b). Disclosure of targets with the corresponding metrics against the sustainability matters enables users' understanding of the undertaking's plans and overall effectiveness in the implementation of the sustainability-related policies. Consequently, all [draft] ESRS refer to targets or objectives, with different levels of focus and granularity. This Disclosure Content sets minimum information to be disclosed for each target.
- BC84. Due to the fact that many environmental matters are assessed through scientific evidence, EFRAG SRB decided that undertakings shall disclose whether the undertaking's targets related to environmental matters are based on conclusive scientific evidence (in line with the CSRD Art.19a (2) (b)).
- BC85. Recognising that setting targets may not always be feasible or necessary, this Disclosure Content enables the undertaking to comply with its provisions by stating that the undertaking has not adopted targets and whether targets will be adopted or stating the reasons why it does not have such plans.



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