

European Sustainability Reporting Standards

OUTREACH FINANCIAL INSTITUTIONS

22 June 2022

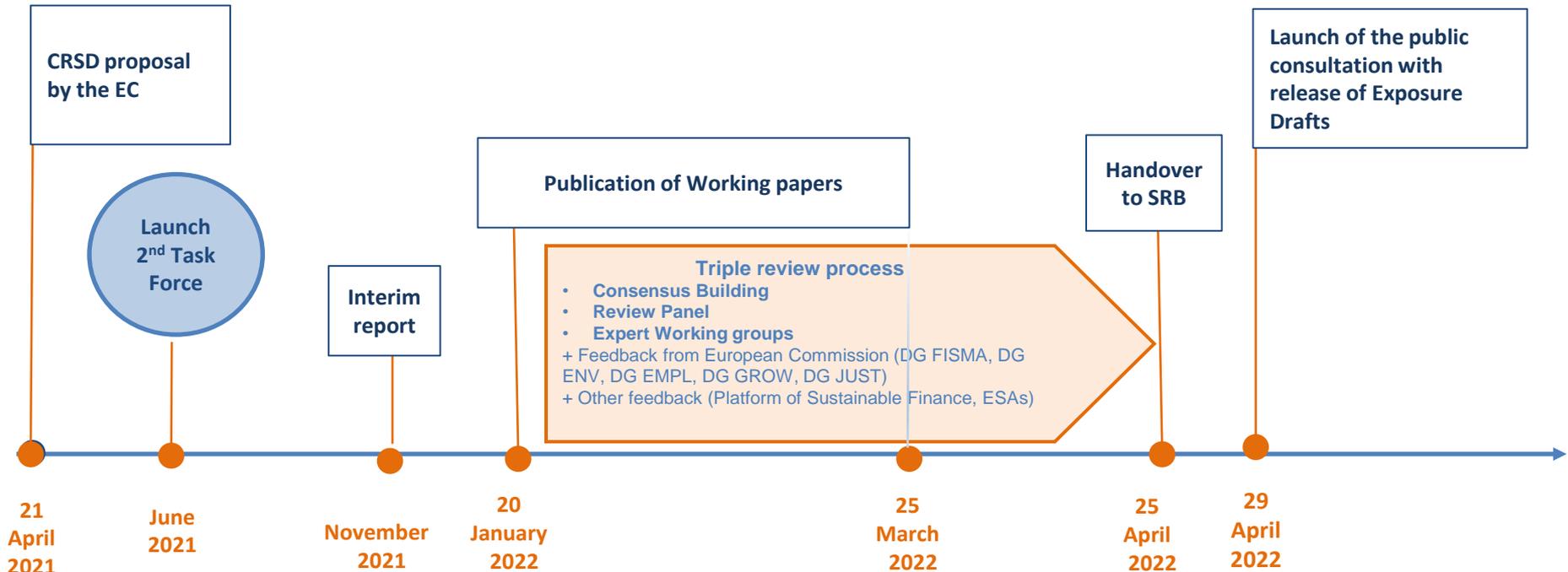


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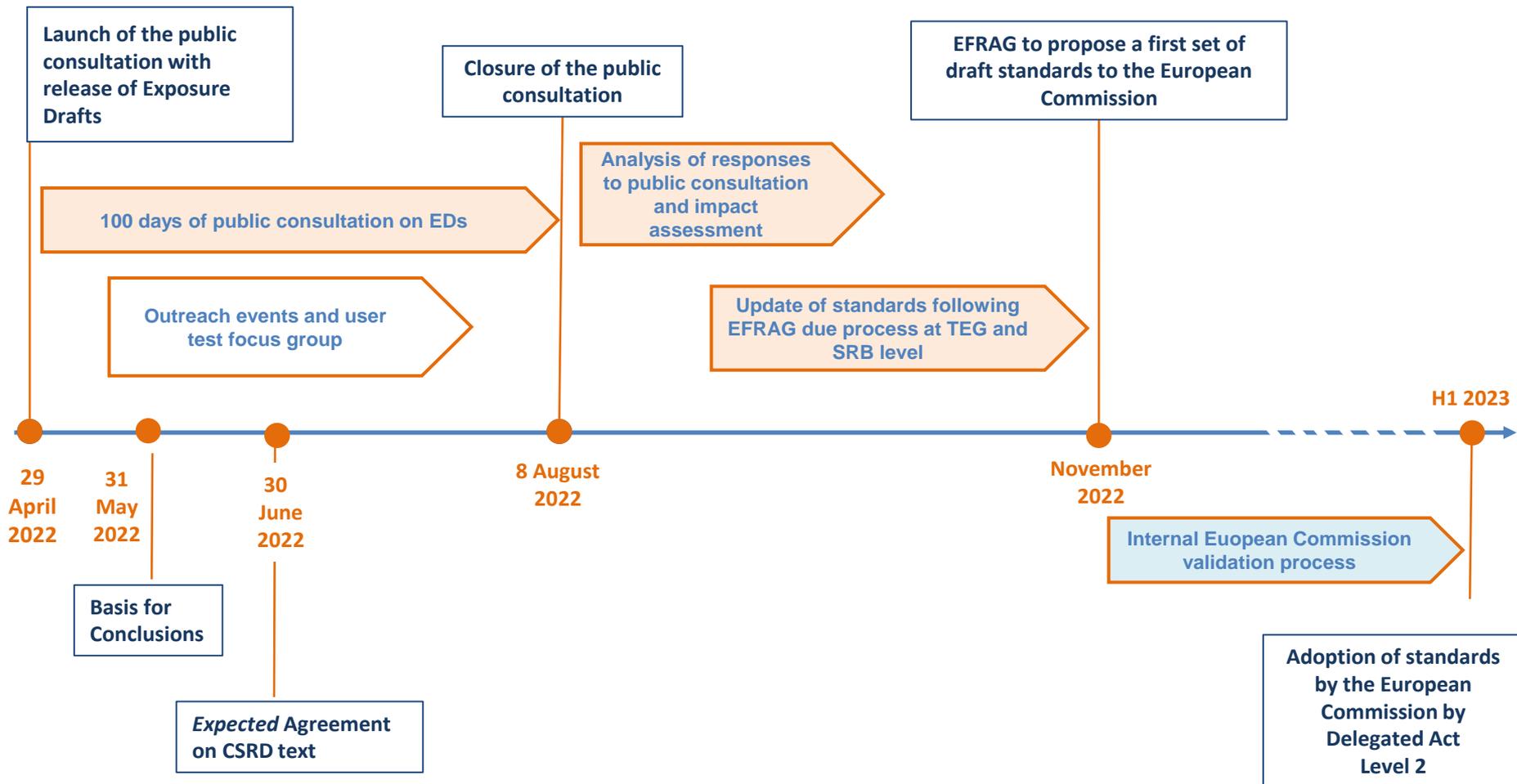
Drafting exposure drafts for a first set of ESRs: 11 months in “project mode”



2nd Task-Force re-launched in June 2021 following mission letter from Commissioner McGuinness received on 12 May 2021 in order to start elaborating standards in project mode (PTF):

- 35 members from 13 different Member States
- Supported by Secretariat members (30 full-time equivalent)
- Input from Expert Working Groups (appointed in November 2021)
- Co-construction with GRI, Shift, WICI + dialogue with the IFRS Foundation (TRWG/ISSB) and
- meeting with the SEC

From EDs to draft standards: 7 months in “institutional mode”



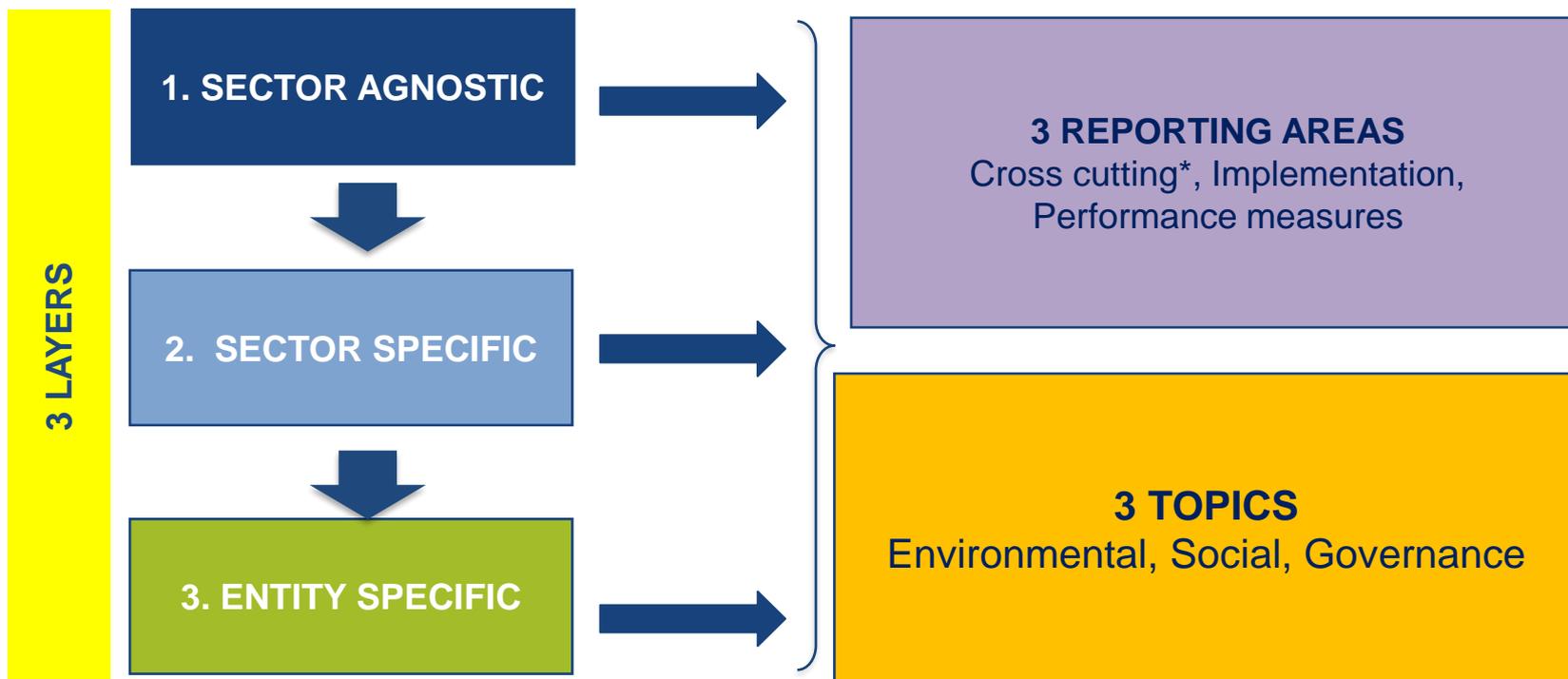
The seven key features of the EDs

1. They may need to be adjusted to meet the requirements of the final CSRD
2. They take account of existing European law and initiatives
 - SFDR, Taxonomy Art. 8
 - A list of European texts (e.g. GHG allowance Directive, the EMAS regulation and European Commission recommendation on the life cycle environmental performance of products and services, see Basis for Conclusions)
 - Recent European initiatives (e.g. a Corporate Sustainability Due Diligence Directive (CSDDD))
3. They take account of European and international sustainability reporting initiatives
4. The overall architecture of Exposure Drafts is designed to ensure that sustainability information is reported in a carefully articulated manner (see next slide)
5. They address sustainability matters as per Article 19b of the CSRD proposal
6. They are a first step in a journey towards a faithful representation of sustainability performance (SME standard(s) and sector-specific standards in the 2nd set)
7. The public consultation will help to finetune relevance and comparability as well as explore ESRS implementation prioritisation / phasing-in options

ESRS Overview: Architecture

An EU comprehensive sustainability reporting

The 'rules of three' approach for the architecture of a mandatory sustainability reporting regime



DOUBLE MATERIALITY : Financial materiality and impact materiality

(*) Cross-cutting standards: General principles and disclosures related to General Requirements, Strategy and Business Model (SBM), Impacts, risks and opportunities (IROSs) and Governance (GOV)

A coherent architecture to implement the CSRD provisions

Cross-cutting

T
O
P
I
C
A
L

Overall umbrella

Cross-cutting disclosures

Environment

Social

Governance



Main success factors of the ESRS

- 1. Information quality (in particular: relevance and sector-agnostic comparability)**
- 2. Coherence with EU policy objectives (content and timing)**
- 3. Compatibility with international initiatives**
- 4. Exercise of judgement to foster proportionate implementation**
- 5. Balanced combination of narrative, semi-quantitative and quantitative information**
- 6. Connectivity to ensure seamless standardised corporate reporting**
- 7. Flexibility in presentation (sustainability statements and incorporation by reference)**

Main challenges of the ESRS

- 1. A real challenge for first time reporters**
- 2. Overall depth of required information (to be fine tuned and/or phased-in)**
- 3. Assessment of material IROs and rebuttable presumption**
- 4. Boundary issues**
- 5. Meeting expectations of all stakeholders**
- 6. Avoiding multiple reportings**

Public consultation as a key element of the standard setting due process

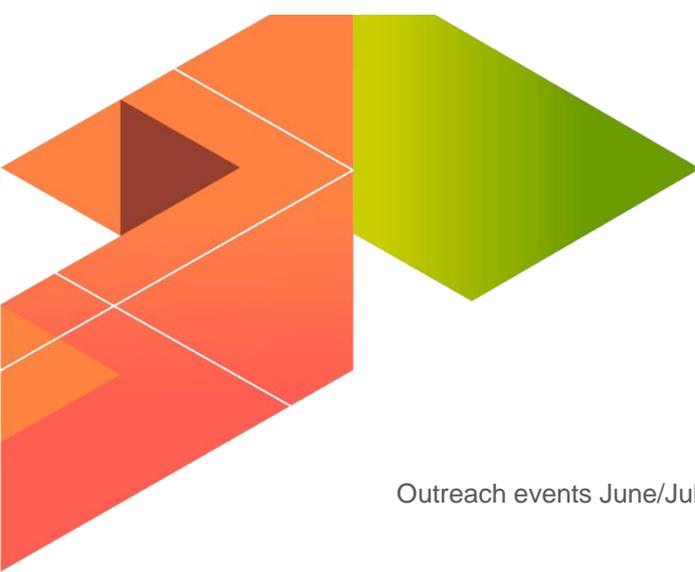
- **Feedback from constituents on three key aspects of the EDs and the survey has followed the same structure :**
 1. The relevance of (i) the proposed architecture, (ii) the implementation of the CSRD principles and (iii) the overall content of each ED
 2. The possible options for prioritising / phasing-in the implementation of the ESRS, and
 3. the adequacy of each disclosure requirement mandated by each ED.
- **Section 3 of the survey on disclosure requirements split as follows:**
 - 3A. Cross Cutting standards
 - 3B. Environmental standards
 - 3C. Social standards
 - 3D. Governance standards
- **Respondents are strongly encouraged to respond to section 1 and 2.**
- **Due to comprehensive nature of section 3, constituents may select the questions and standards to which they provide feedback (no need for complete responses).**

Public consultation as a key element of the standard setting due process

- **Other information included in the public consultation:**
 - Cover note
 - Appendix I: Navigating the ESRS
 - Appendix II: CSRD requirements mapping
 - Appendix III: SFDR PAI mapping
 - Appendix IV: TCFD recommendations and ESRS reconciliation table
 - Appendix V: IFRS Sustainability standards and ESRS reconciliation table
 - Appendix VI: Acronyms and glossary of terms
- **EC survey tool**
- **Not consulting on second set of draft ESRS (SMEs and and sector specific)**
- **Outreaches during consultation period**



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EBA

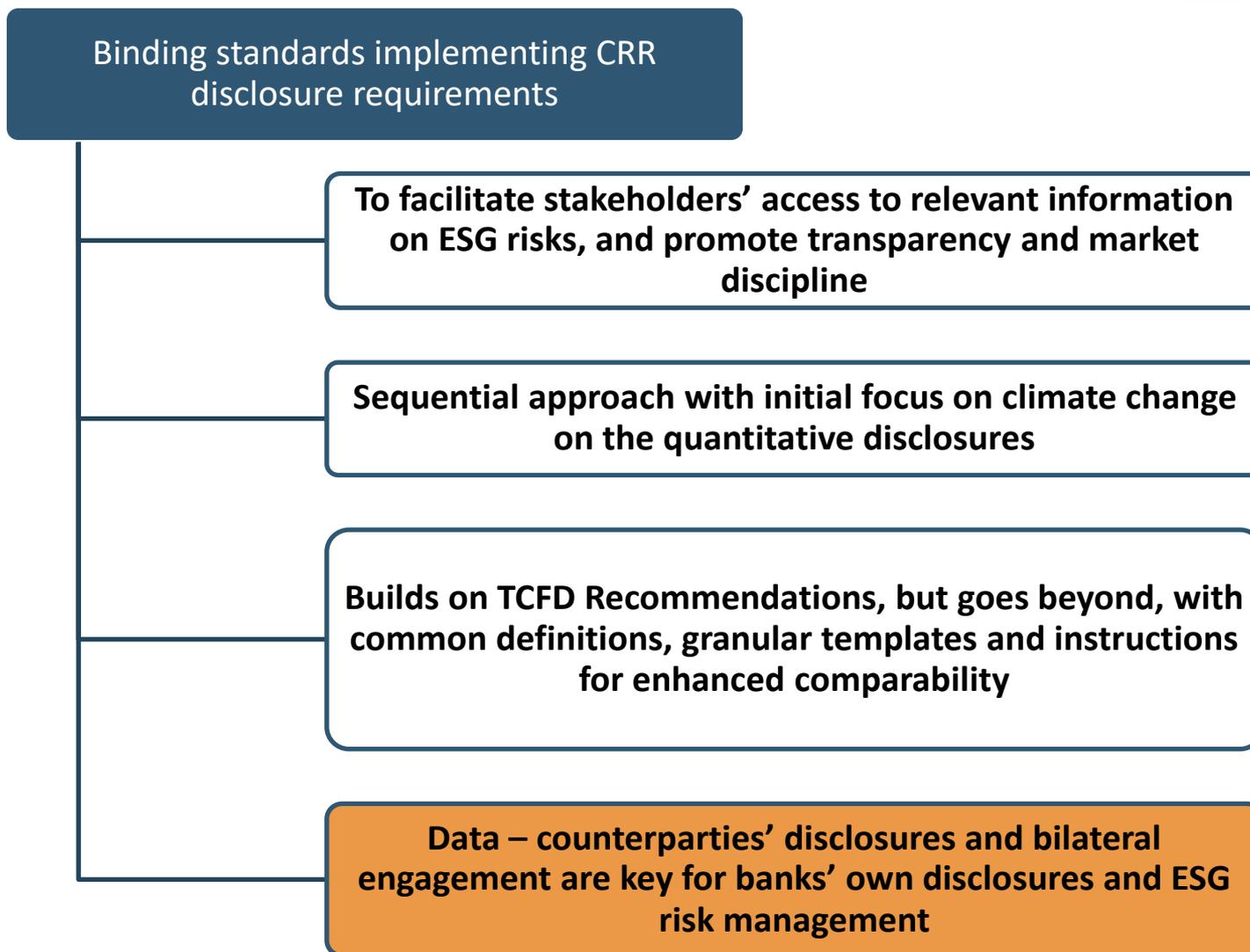
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BANKING
AUTHORITY

Final draft ITS on Pillar 3 disclosures on ESG risks

EFRAG industry outreach – ESRS for financial institutions

22 June 2022

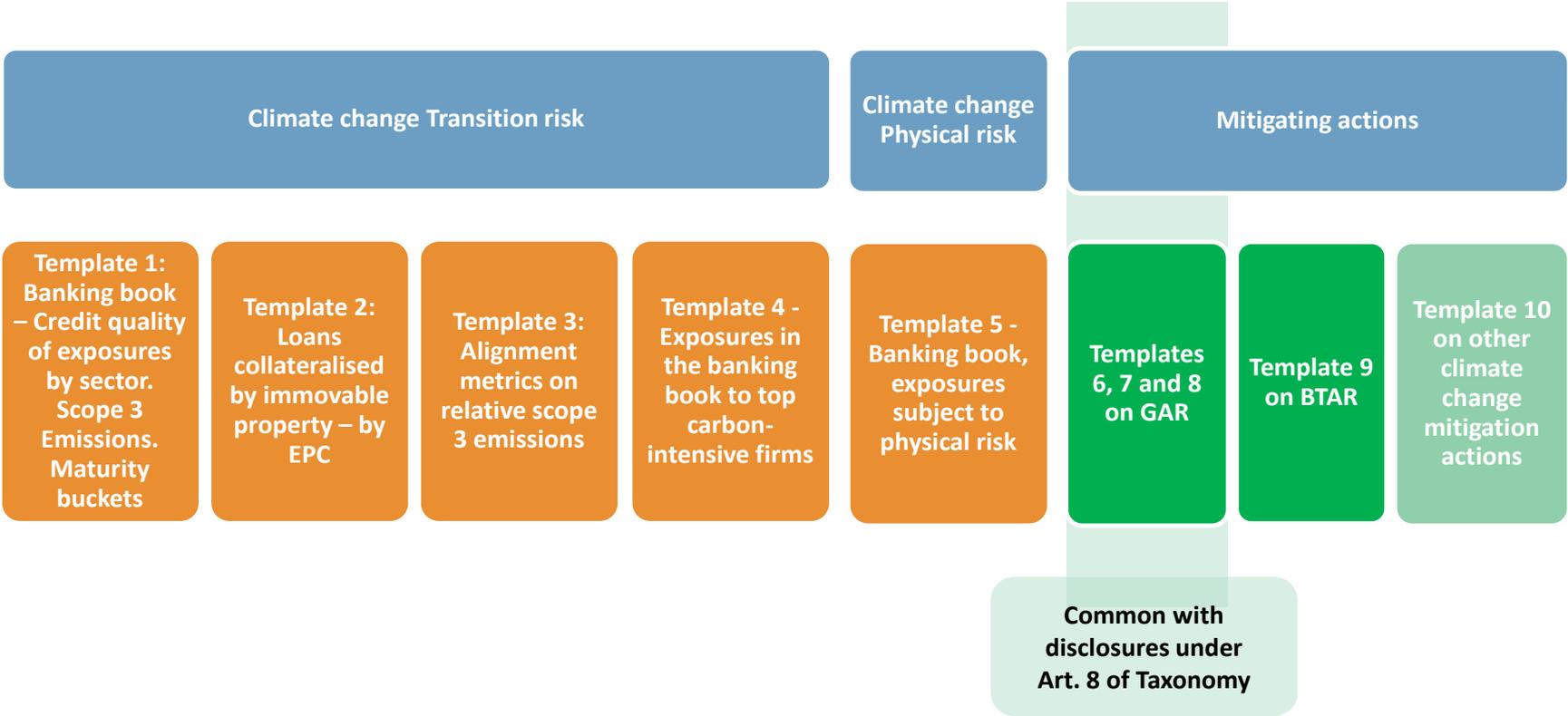
Pillar 3 ITS on ESG risks – key messages



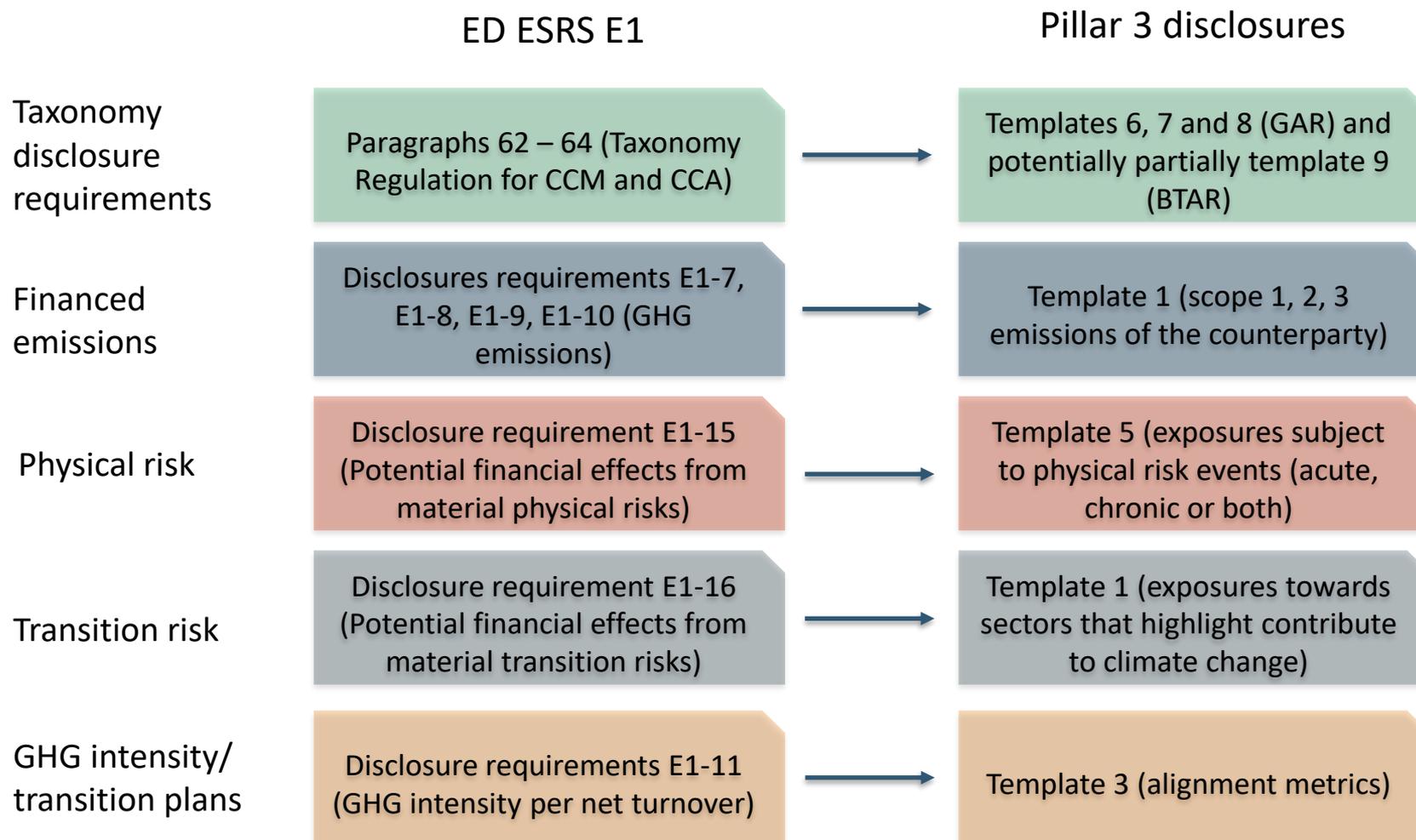
<https://www.eba.europa.eu/eba-publishes-binding-standards-pillar-3-disclosures-esg-risks>

Climate-related quantitative templates

Final draft ITS on Pillar 3 ESG ITS – Disclosure quantitative templates on climate change



Link between Pillar 3 ITS and ESRS EDs – key metrics



Link between Pillar 3 ITS and ESRS EDs – key metrics – cont'd

Sector/subsector	a	i	j
	Gross carrying amount (Mln EUR)	GHG financed emissions (scope 1, scope 2 and scope 3 emissions of the counterparty) (in tons of CO2 equivalent)	Of which Scope 3 financed emissions
1 Exposures towards sectors that highly contribute to climate change*			
2 A - Agriculture, forestry and fishing			
3 B - Mining and quarrying			
4 B.05 - Mining of coal and lignite			
5 B.06 - Extraction of crude petroleum and natural gas			
6 B.07 - Mining of metal ores			
7 B.08 - Other mining and quarrying			
8 B.09 - Mining support service activities			
9 C - Manufacturing			
10 C.10 - Manufacture of food products			
11 C.11 - Manufacture of beverages			
12 C.12 - Manufacture of tobacco products			
13 C.13 - Manufacture of textiles			
14 C.14 - Manufacture of wearing apparel			

Disclosure
requirements E1-7,
E1-8, E1-9 and E1-10.

Link between Pillar 3 ITS and ESRS EDs – key metrics – cont'd

a	b	h	i	j
<div style="border: 1px solid black; padding: 5px; display: inline-block; background-color: #f8d7da;">Geographical breakdown</div> Variable: Geographical area subject to climate change physical risk - acute and chronic events		Gross carrying amount (Mln EUR)		
		of which exposures sensitive to impact from climate change physical events		
		of which exposures sensitive to impact from chronic climate change events	of which exposures sensitive to impact from acute climate change events	of which exposures sensitive to impact both from chronic and acute climate change events
1 A - Agriculture, forestry and fishing				
2 B - Mining and quarrying				
3 C - Manufacturing				
4 D - Electricity, gas, steam and air conditioning supply				
5 E - Water supply; sewerage, waste management and remediation activities				
6 F - Construction				
7 G - Wholesale and retail trade; repair of motor vehicles and motorcycles				
8 H - Transportation and storage				
9 L - Real estate activities				

Disclosure requirements E1-16

Link between Pillar 3 ITS and ESRS EDs – key metrics – cont'd

a	b	c	d	e	f	g
Sector	NACE Sectors (a minima)	Portfolio gross carrying amount (Mn EUR)	Alignment metric**	Year of reference	Distance to IEA NZE2050 in % ***	Target (year of reference + 3 years)
1 Power	Please refer to the list below*					
2 Fossil fuel combustion						
3 Automotive						
4 Aviation						
5 Maritime transport						
6 Cement, clinker and lime production						
7 Iron and steel, coke, and metal ore production						
8 Chemicals						
9 ... potential additions relevant to the business model of the institution						

GHG emissions intensity:
ESRS focus is 'per net turnover' while Pillar 3 covers intensity 'per unit production' in line with IEA NZE2050 targets

Pillar 3 ITS – Qualitative information

Consultation paper on draft Pillar 3 ESG ITS – Disclosure qualitative information ESG risks

Table 1 - Qualitative information on Environmental risk

Table 2 - Qualitative information on Social risk

Table 3 - Qualitative information on Governance risk

Business strategy and processes

Integration of (ESG) factors and risks; objectives, targets and limits to address (ESG) risks in different time horizons and including in terms of EU Taxonomy alignment; policies and procedures relating to engagement with customers

Governance

Role of the management body in relation to (ESG) risk management; integration of (ESG) factors and risks in organisational structure; measures, role of committees, allocation of tasks/responsibilities; lines of reporting and remuneration

Risk management

Integration of (ESG) factors and risks; processes to identify/monitor (ESG) risk sensitive sectors and exposures; tools to identify (ESG) risks on capital and liquidity; data availability and accuracy; limits and controls; stress test and scenario analysis

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Exposure Drafts ESRS 1&2

CROSS-CUTTING STANDARDS

22 June 2022

Piotr Biernacki, Sustainability Reporting TEG member



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Agenda

1. Architecture of ESRS system
2. ESRS 1
3. ESRS 2



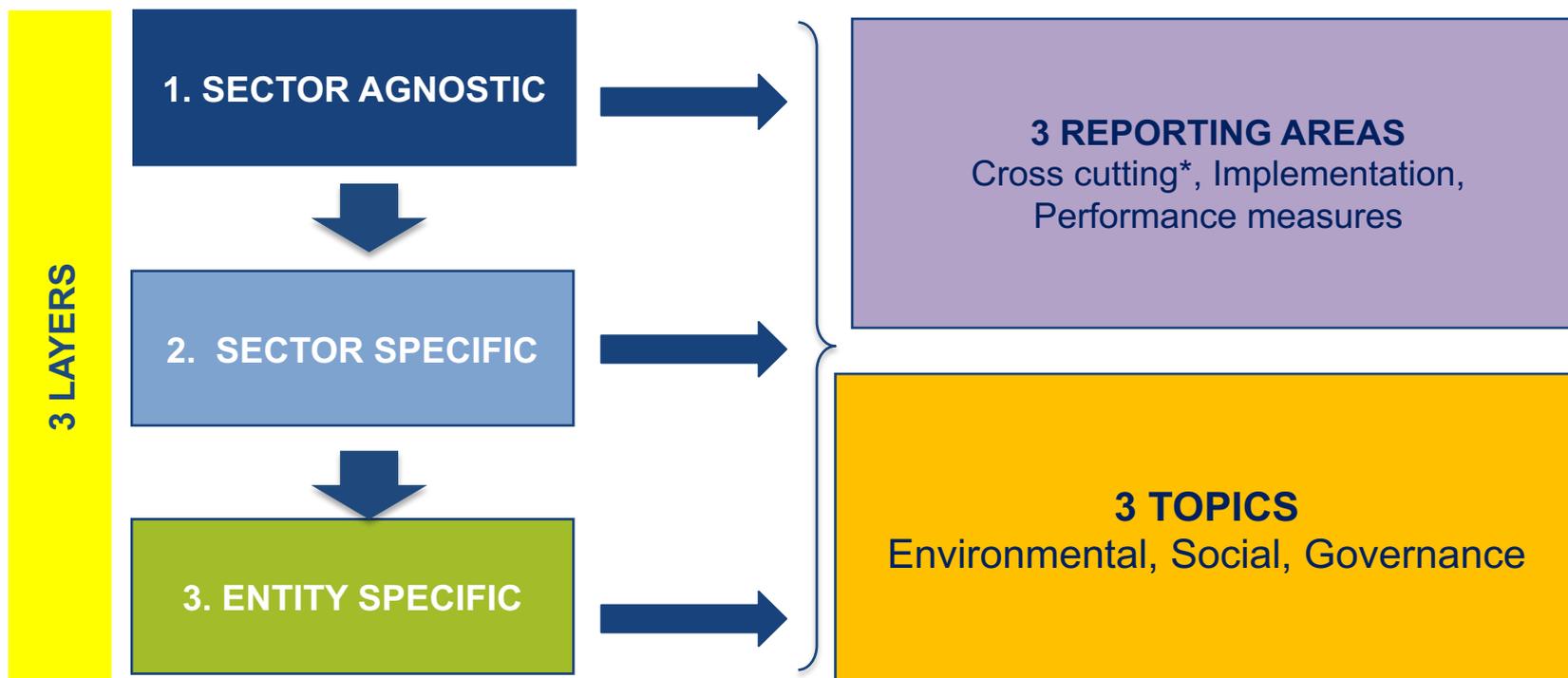


ESRS: Overview of the system's architecture

Architecture of ESRS system

An EU comprehensive sustainability reporting

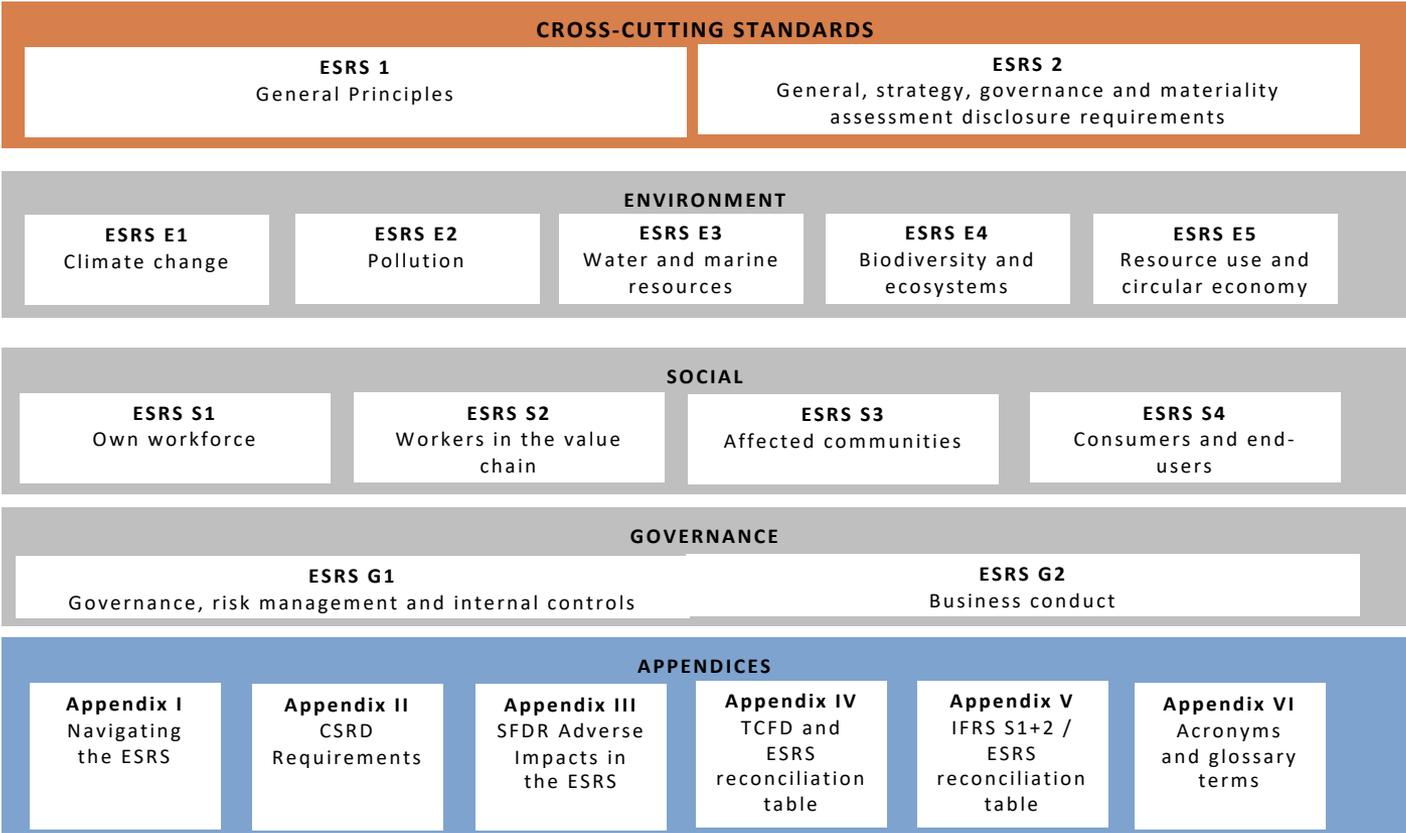
The 'rules of three' approach for the architecture of a mandatory sustainability reporting regime



DOUBLE MATERIALITY : Financial materiality and impact materiality

(*) Cross-cutting standards: General principles and disclosures related to General Requirements, Strategy and Business Model (SBM), Impacts, risks and opportunities (IROs) and Governance (GOV)

Project Task-Force achievements – Overview of deliverables to date on the basis of the CSRD architecture



Set 1 exposure drafts: 13 for public consultation

All Sector Agnostic

Cross-cutting standards

- ESRS 1 General principles
- ESRS 2 General, strategy, governance and materiality assessment

Environment

- ESRS E1 Climate change
- ESRS E2 Pollution
- ESRS E3 Water and marine sources
- ESRS E4 Biodiversity and ecosystems
- ESRS E5 Resource and circular economy

Social

- ESRS S1 Own workforce
- ESRS S2 Workers in the value chain
- ESRS S3 Affected communities
- ESRS S4 Consumers and end users

Governance

- ESRS G1 Governance, risk management and internal control
- ESRS G2 Business conduct

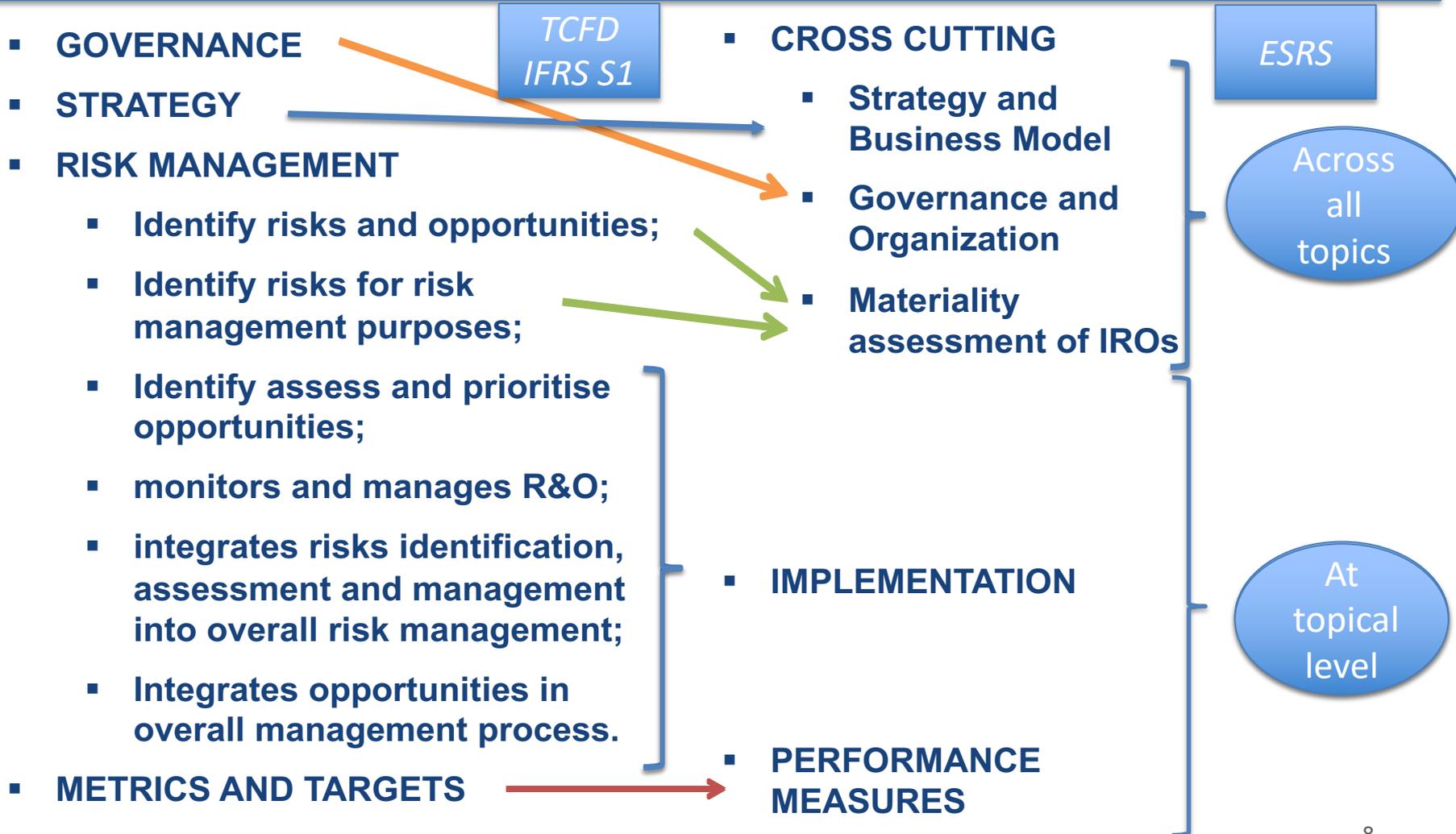
Reporting Areas : Cross-cutting

Reporting Areas : Implementation and Performance measures

3 Reporting topics: Environmental, Social, Governance

Compatibility with TCFD and IFRS S1 core contents

The structure and location of ESRS requirements reflects the need to cover the entire set of topics (not only one topic). Cross-cutting contents are dealt with in a single place, while implementation and performance measures are left at topical level





Cross-cutting:

ESRS 1 General principles

Structure of ESRS 1 General principles



Chapter 1 Reporting under ESRS: implementation of the “rules of three”

(*CSRD information quality*) **High degree of comparability** across undertakings: standardized **sector-agnostic (and sector specific) disclosure requirements are mandated** for all undertakings

1	Reporting under European Sustainability Reporting Standards (ESRS)	1.1	Complying with ESRS
		1.2	Standardised and entity-specific disclosures
		1.3	Sector-agnostic and sector-specific standards
		1.4	Relationship between cross-cutting standards and topical standards
		1.5	Developing entity-specific disclosures

Chapter 2 Applying CSRD concepts: CSRD concepts as « Bedrock » of ESRS

2	Applying CSRD concepts	2.1	Characteristics of information quality
		2.2	Double materiality as the basis for sustainability disclosures
		2.3	Boundaries and value chain
		2.4	Time horizon
		2.5	Due diligence under CSRD

Chapter 6 - Structure of sustainability statements: Three presentation options give flexibility. Incorporation by reference to other sections of MR

<p style="font-size: 2em; margin: 0;">6</p> <p style="margin: 0;">Structure of the sustainability statements</p>	<p style="font-size: 1.5em; margin: 0;">6.1</p>	<p style="text-align: center; margin: 0;">Content of the sustainability statements</p>
	<p>Undertaking <u>shall</u> report all the applicable disclosures required by ESRS within identifiable parts of the management report constituting the ‘Sustainability Statements’.</p> <p>Undertaking <u>may</u> include in its sustainability statements additional disclosures clearly identified and referenced to local legislation or general accepted framework.</p>	
<p style="font-size: 2em; margin: 0;">6</p> <p style="margin: 0;">Structure of the sustainability statements</p>	<p style="font-size: 1.5em; margin: 0;">6.2</p>	<p style="text-align: center; margin: 0;">Structure of the sustainability statements</p>
	<p>Options:</p> <ul style="list-style-type: none"> a) <u>Single separately identifiable section</u> of the management report b) <u>Aggregating the disclosures into four separately identifiable parts</u> of the management report: i) general information; ii) environmental information; iii) social information; and iv) governance information c) <u>Aggregating the disclosures required by each ESRS</u> and reporting them as non-separable blocks in identifiable parts of the management report “on a standard-by-standard basis” 	

Par. 135/146 and AG 33 of ESRS 1: information mandated by ESRS may be incorporated by reference to another section of the MR (if separate, clearly identified as addressing the relevant ESRS disclosure requirement). A list of incorporation by references is required. Incorporation by reference to the financial statements is also allowed.

ESRS Overview : Sustainability statements – as a second pillar of standardised corporate reporting

FOCUS

1. Cross-cutting information

General provisions

- **ESRS 2** General requirements DRs

Strategy and business model

- **ESRS 2** Strategy, Business Model DRs
- **Specific topical DR/AG from topical standards**

Governance and Organisation

- **ESRS 2** – Governance DRs
- **Specific topical DR/AG from topical standards**

Impacts, Risks and Opportunities

- **ESRS 2** - Impacts, Risks & Opportunities DRs
- **Specific topical DR/AG from topical standards**

+ Sustainable Corporate Governance initiative?

2. Environmental information

- **PTAPR related DR from ESRS E1 to E5**
- **Performance DR from ESRS E1 to E5**
- **Additional DR from relevant sector specific standards**
- **Potential additional entity specific information***

Disclosures pursuant to Article 8 of the taxonomy regulation

3. Social information

- **PTAPR related DR from ESRS S1 to S4**
- **Performance DR from ESRS S1 to S4**
- **Additional DR from relevant sector specific standards**
- **Potential additional entity specific information***

4. Governance information

- **PTAPR related DR from ESRS G1 to G2**
- **Performance DR from ESRS G1 to G2**
- **Additional DR from relevant sector specific standards**
- **Potential additional entity specific information***

*Prepared in compliance with ESRS 1 general provisions

NOTE:

DR: Disclosure requirement

AG: Application Guidance

PTAPR: Policies, targets, action plans and resources (Implementation reporting area)

Performance: Performance measures



Cross-cutting:
ESRS 2 General, strategy,
governance and materiality assessment.

Overview of ESRS 2

22 Disclosure requirements

Provides DRs for principles laid out in ESRS 1

Not subject to "rebuttable presumption" = fully mandatory

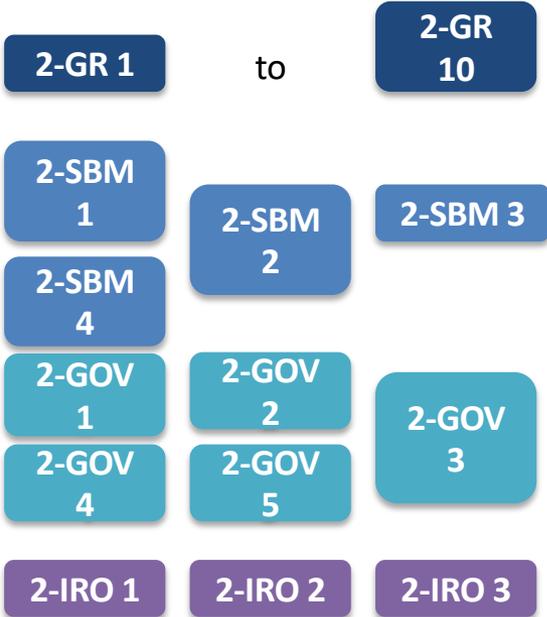
Cross-cutting = provides context for all topical DRs

1st step in sustainability reporting in line with ESRS:
MATERIALITY ASSESSMENT

Objective and Overview: Objective of ESRS 2

To set out the disclosure requirements of the undertaking’s sustainability reporting that are of a cross-cutting nature. They are those:

- A. of a general nature
- B. on the strategy and business model of the undertaking
- C. on its governance in relation to sustainability
- D. on its materiality assessment of sustainability impacts, risks and opportunities



Objective and Overview: Disclosure Requirements of ESRS 2 (I/II)

GENERAL CHARACTERISTICS

- DR 2-GR1: **General characteristics** of the sustainability reporting of the undertaking
- DR 2-GR2: **Sector(s) of activity** ISSB SFDR
- DR 2-GR3: **Key features** of the value chain ISSB TCFD
- DR 2-GR4: **Key drivers** of the value creation ISSB
- DR 2-GR5: **Using approximations** on the disclosure in relation to boundary and value chain
- DR 2-GR6: Disclosing on significant **estimation uncertainty** ISSB
- DR 2-GR7: **Changes** in preparation and presentation ISSB
- DR 2-GR8: Prior period **errors** ISSB
- DR 2-GR9: On other sustainability reporting **pronouncements** ISSB
- DR 2-GR10: General **statement of compliance** ISSB

STRATEGY & BUSINESS MODEL

- DR 2-SBM1: **Overview** of strategy and business model ISSB CSRD
- DR 2-SBM2: Views, interests and expectations of **stakeholders** ISSB CSRD
- DR 2-SBM3: **Interaction of impacts and the undertaking's Strategy** and business model ISSB CSRD
- DR 2-SBM4: **Interaction of risks and opportunities and the undertaking's strategy** and business model TCFD CSRD ISSB

Objective and Overview: Disclosure Requirements of ESRS 2 (II/II)

GOVERNANCE

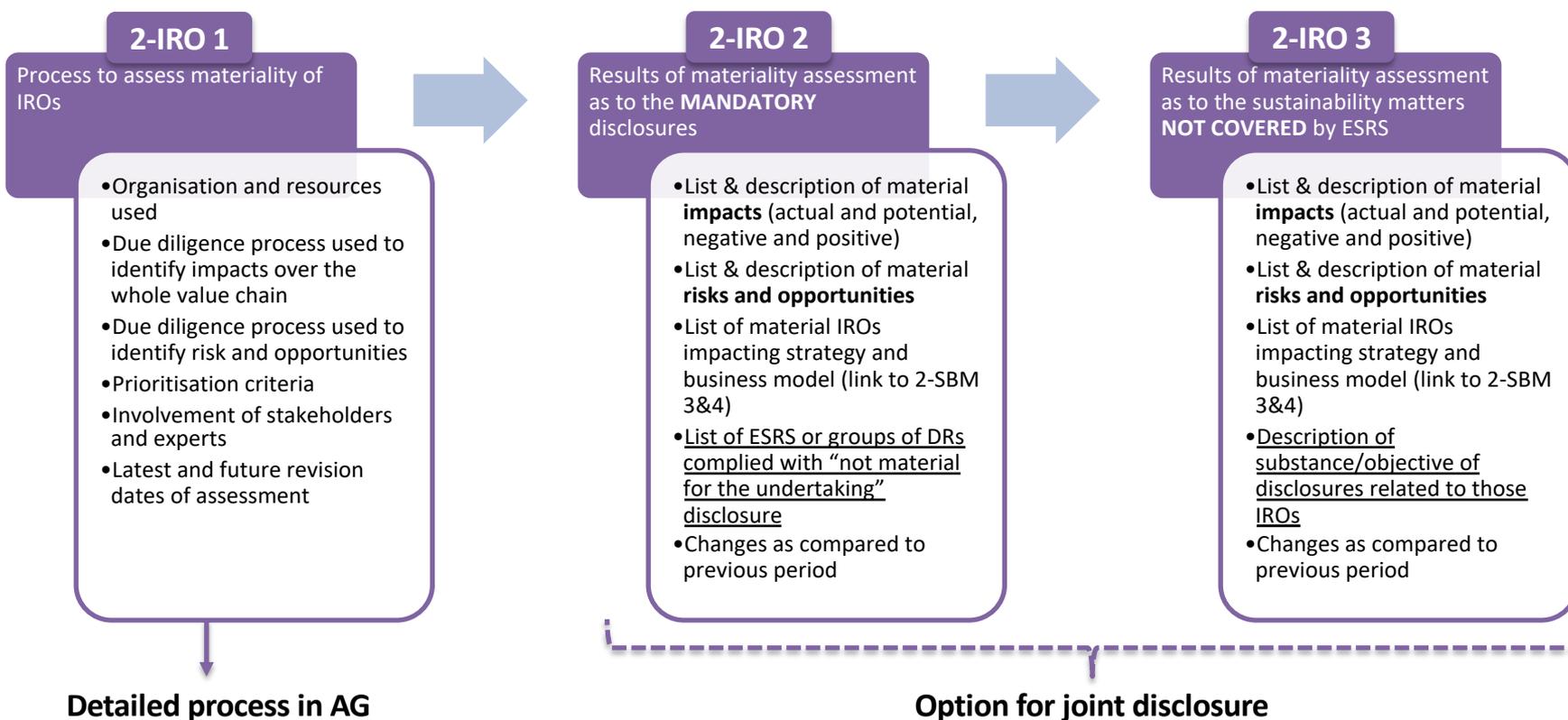
- DR 2-GOV1: **Roles and responsibilities** of the administrative, management and supervisory bodies
 - TCFD
 - ISSB
 - CSRD
- DR 2-GOV2: **Information** of administrative, management and supervisory bodies **about sustainability matters**
 - TCFD
 - ISSB
- DR 2-GOV3: **Sustainability matters addressed** by the undertaking’s administrative, management and supervisory bodies
 - ISSB
- DR 2-GOV4: Integration of sustainability strategies and Performance in **incentive schemes**
 - TCFD
 - ISSB
- DR 2-GOV5: Statement on **due diligence**
 - ISSB
 - SFDR

IMPACTS, RISKS & OPPORTUNITIES

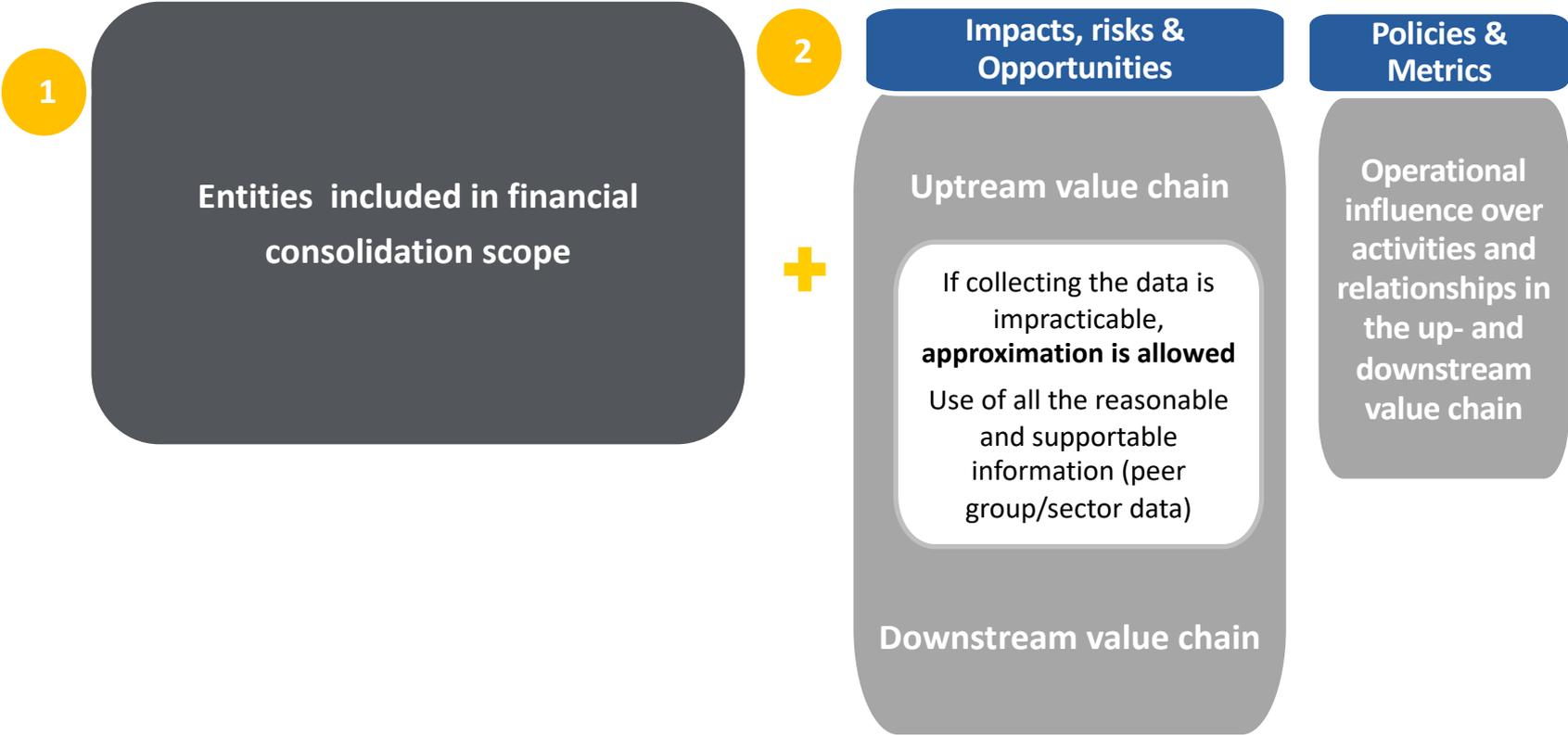
- DR 2-IRO1: **Description of the processes** to identify material sustainability impacts, risks and opportunities
 - ISSB
 - CSRD
 - TCFD
- DR 2-IRO2: **Outcome of the undertaking’s assessment** of material sustainability impacts, risks and opportunities as identified by reference to and in compliance with **sector-agnostic and sector-specific level ESRS**
 - SFDR
 - ISSB
 - CSRD
 - TCFD
- DR 2-IRO3: **Outcome of the undertaking’s assessment** of material sustainability impacts, risks and opportunities that are not covered by an ESRS (**entity-specific level**)
 - SFDR
 - ISSB
 - CSRD
 - TCFD

Focus on DR – IRO 1, 2 and 3

DRs related to Materiality assessment impacts, risks and opportunities in ESRS 2



Boundaries and value chain: Consolidation scope plus up- and down-stream



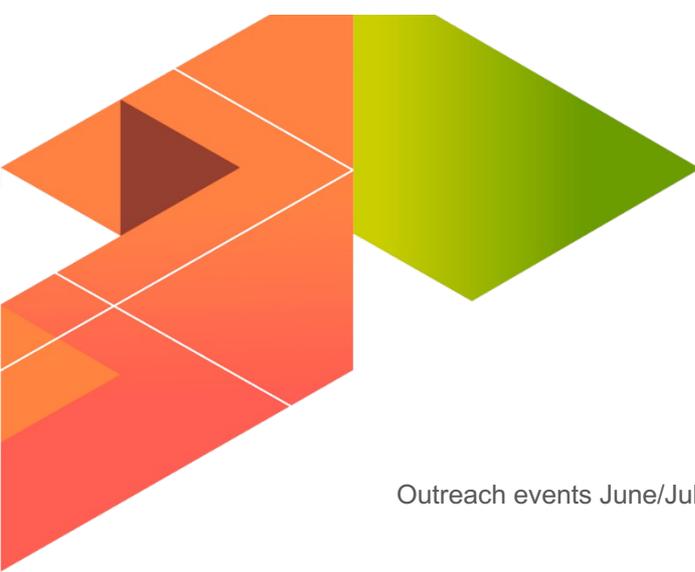
Not all the data need to include value chain information: “Risk-based” approach and link to materiality. The boundary has to be expanded when the integration is necessary to allow a proper understanding of material impacts, risks and opportunities and to produce a set of complete information that meets the qualitative characteristics of information quality.



Q&A

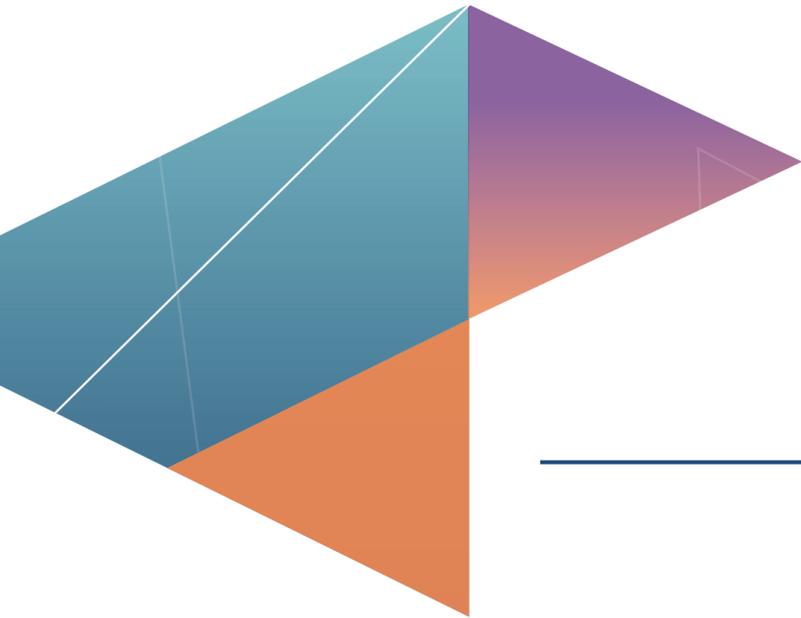


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Panel 2 Environmental reporting standards

E1 Climate change

E2 Pollution

E3 Water and marine resources

E4 Biodiversity and ecosystems

E5 Resource use and circular economy

E1 Climate change: Objective of the ED ESRS E1 for Users

ESRS E1 for FIs as users

Specify Disclosure Requirements (DR) which will enable users of sustainability reporting to understand:

A. How the undertaking affects climate change in terms of positive and negative material actual or potential impacts

B. The undertaking's past, current and future mitigation efforts in line with the Paris Agreement and limiting global warming to 1.5°C

C. The plans and capacity of the undertaking to adapt its business model(s) and operations in line with the transition to sustainable economy and to contribute to limiting global warming to 1.5°C

D. Any other actions taken and the result of such actions to prevent, mitigate or remediate actual or potential adverse impacts

E. The nature, type and extent of the material risks and opportunities related to the undertaking's impacts and dependencies on climate change and how it manages them

F. The effects of climate-related risks and opportunities on the undertaking's development, performance, position over the short, medium and long term and its ability to create enterprise value in the short, medium and long term

E1 Climate change: Disclosure Requirements

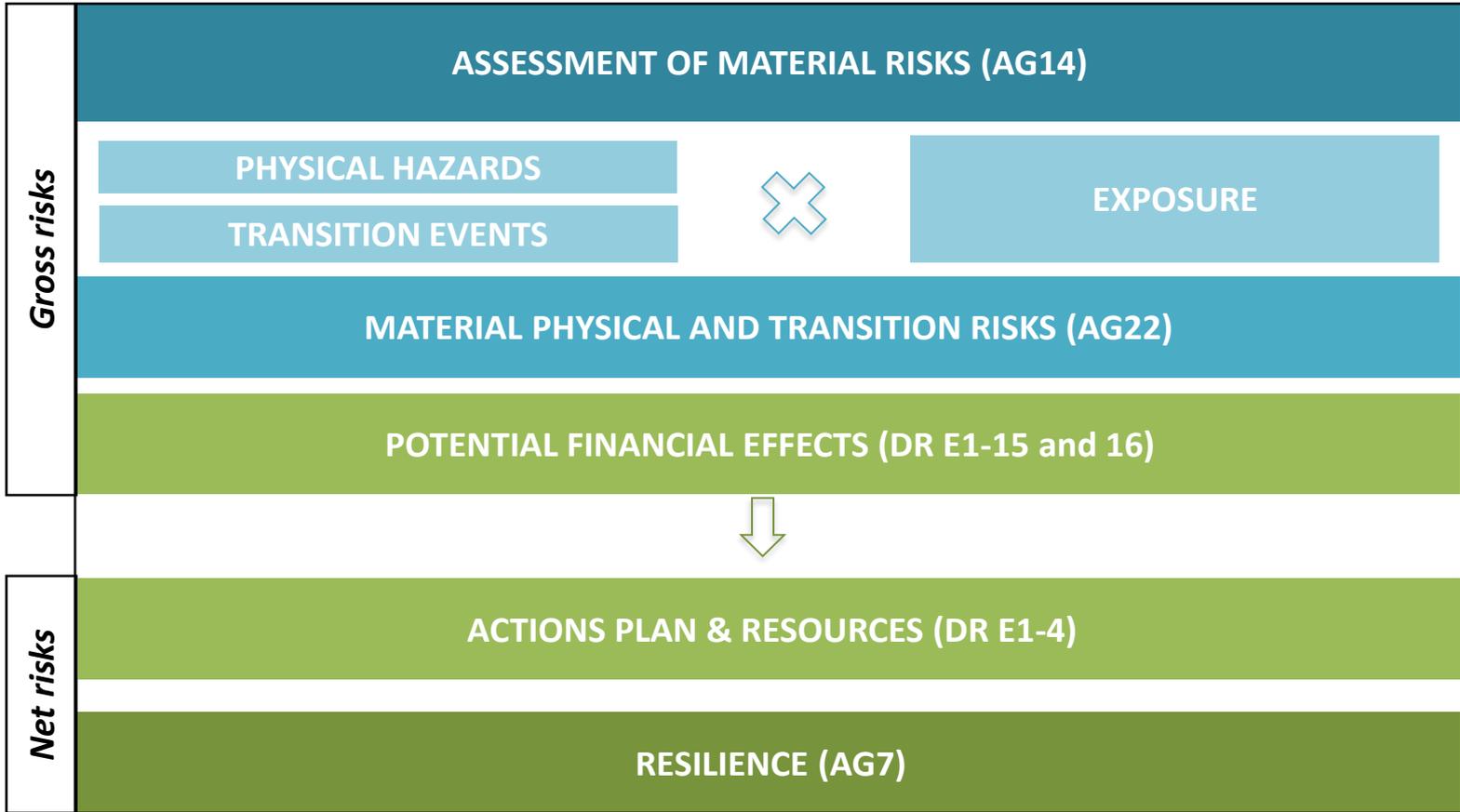
ESRS E1 Disclosure Requirements

STRATEGY (complemented by ESRS 2)	IMPLEMENTATION	PERFORMANCE MEASURES
<p>DR E1-1: Transition plan for climate change mitigation CSRD ISSB CSDDD US SEC*</p> <p>AG on ESRS 2-SBM4: Resilience of strategy and business model CSRD ISSB US SEC</p> <p>AG on ESRS 2-GOV 4: Climate-related remuneration ISSB</p> <p>AG on ESRS 2-GOV 4: Internal carbon pricing schemes ISSB US SEC</p> <p>AG on ESRS 2-IRO 1 and 2: material climate-related impacts, risks and opportunities CSRD ISSB* US SEC*</p> <p><small>*only financial materiality</small></p>	<p>DR E1-2: Policies implemented to manage climate change mitigation and adaptation CSRD</p> <p>DR E1-3: Measurable targets for climate change mitigation and adaptation CSRD ISSB US SEC</p> <p>DR E1-4: Climate change mitigation and adaptation action plans and resources CSRD* ISSB* Taxo*</p> <p><small>* only selected requirements</small></p>	<p>Energy</p> <p>E1-5: Energy consumption & mix SFDR</p> <p>E1-6: Energy intensity per revenue SFDR</p> <p>GHG emissions / removals</p> <p>E1-7: Scope 1 GHG emissions SFDR ISSB US SEC</p> <p>E1-8: Scope 2 GHG emissions SFDR ISSB US SEC</p> <p>E1-9: Scope 3 GHG emissions SFDR ISSB US SEC</p> <p>E1-10: Total GHG emissions</p> <p>E1-11: GHG intensity per net turnover SFDR ISSB US SEC</p> <p>E1-12: GHG removals CSRD*</p> <p>E1-13: Carbon credits CSRD* ISSB US SEC</p> <p>Optional E1-14: Avoided GHG emissions from products and services</p> <p>Financial effects</p> <p>E1-15: Financial effects from physical risks ISSB US SEC</p> <p>E1-16: Financial effects from transition risks ISSB US SEC</p> <p>Optional E1-17: Financial opportunities Taxo** ISSB US SEC</p> <p><small>* in recital 41 ** indirect link</small></p>

E1 Climate change: Disclosure Requirements Strategy, Governance and materiality assessment

FOCUS

ESRS E1 – Focus on Gross VS Net risks

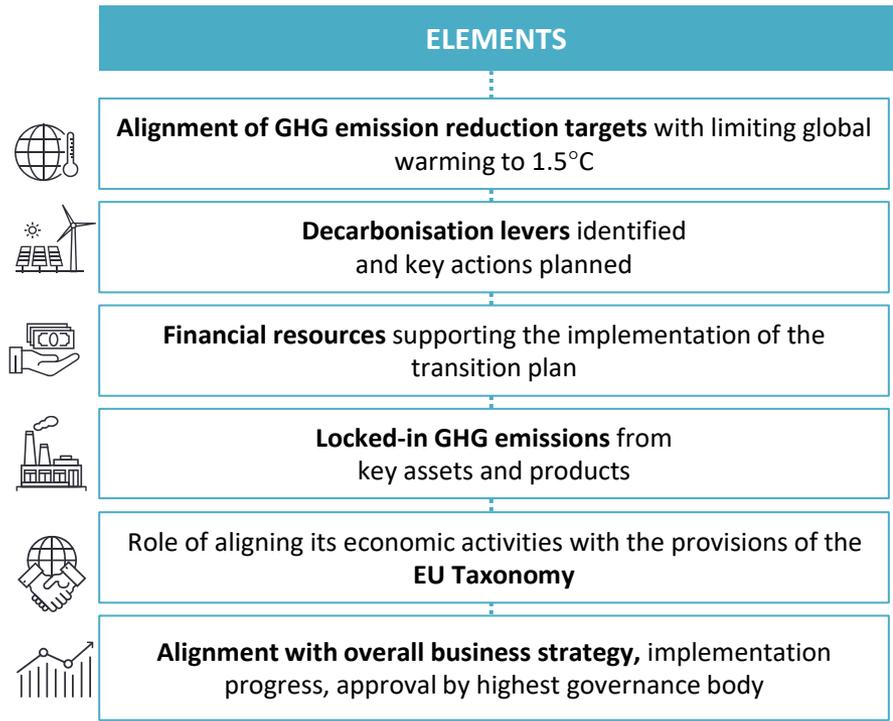


E1 Climate change: Disclosure Requirements

Strategy, Governance and materiality assessment

ESRS E1 – Focus on Transition Plan

DR E1-1 Transition plan for climate change mitigation



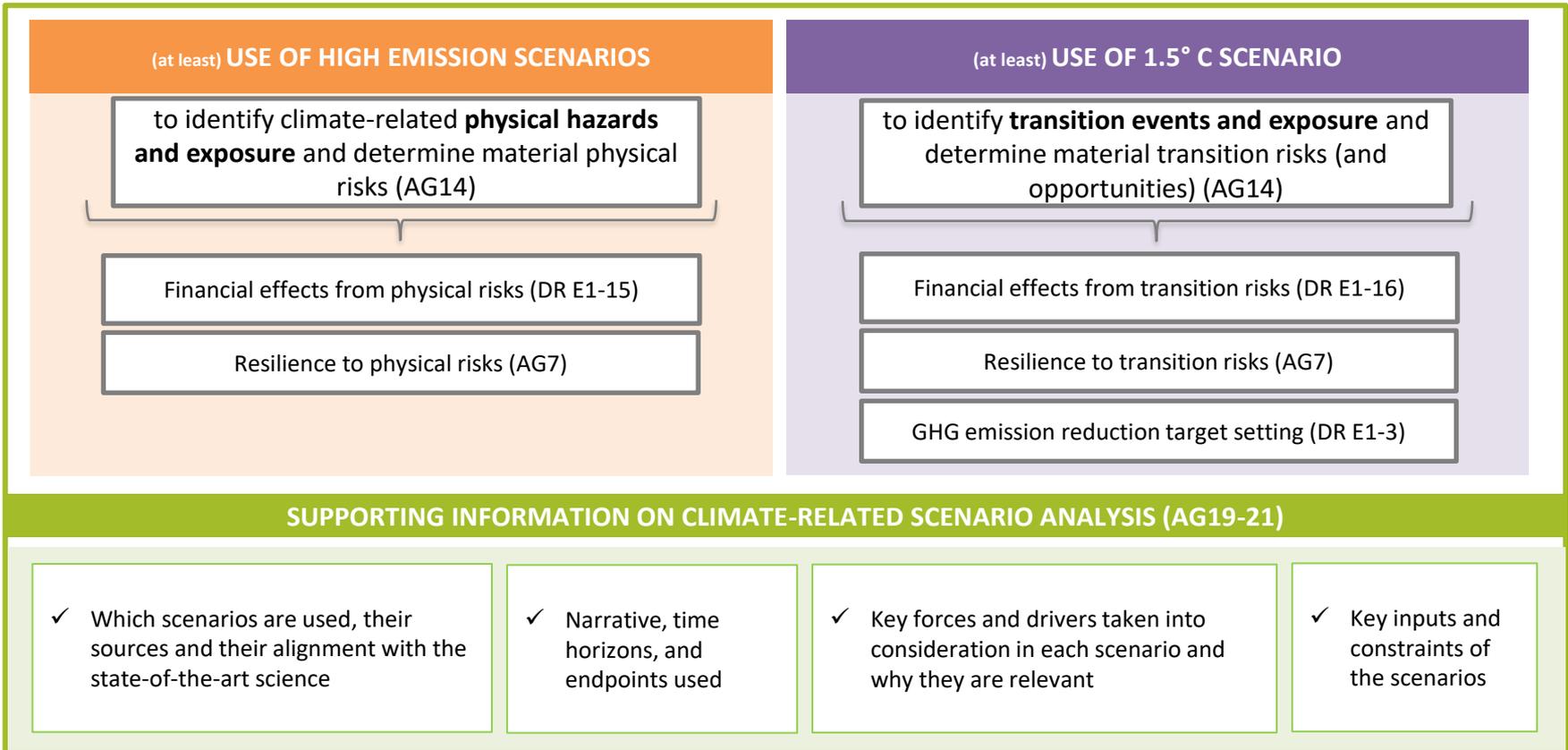
“...the undertaking is expected to provide a high-level explanation on how it will adjust its strategy and business model to ensure compatibility with the transition to a climate-neutral economy and with limiting of global warming to 1.5°C in line with the Paris Agreement ... and shall, where applicable, refer to and contextualise information presented under other disclosures requirements of this [draft] standard.”

E1 Climate change: Disclosure Requirements

Policies, targets, action plans and resources

FOCUS

ESRS E1 – Focus on Scenario Analysis



E1 Climate change: Disclosure Requirements for FIs as preparers

FOCUS

ESRS E1 Disclosure Requirements mapping with Pillar 3 requirements

ED ESRS E1	Application scope specified in the standard
Transition plan in line with limiting global warming to 1.5°C	Whole value chain including financed assets
Policies implemented to manage climate change mitigation and adaptation	Whole value chain including financed assets
Measurable targets for climate change mitigation and adaptation	Whole value chain including financed assets
Climate mitigation and adaptation action plans and allocated resources	Whole value chain including financed assets
Energy consumption & mix	Own operations
Energy intensity per net turnover	Own operations
Scope 1 and scope 2 GHG emissions	Own operations
Scope 3 GHG emissions	Whole value chain including financed emissions (using PCAF)
GHG removals in own operations and the value chain	Whole value chain including financed emissions (optional)
Carbon offsets (mitigation projects financed through carbon credits)	Outside the value chain but can concern offsetting of financed emissions
Avoided GHG emissions from products and services	Optional
GHG intensity per net turnover	Whole value chain
Green ratio in accordance with Article 8 of the Taxonomy Regulation	Financed assets
Potential financial effects from material physical risks	Whole value chain including financed assets
Potential financial effects from material transition risks	Whole value chain including financed assets
Potential financial effects from climate-related opportunity	Whole value chain including financed assets

E2 Pollution: Objective

To specify disclosure requirements which will enable users of the sustainability statements to understand material impacts, actions taken, results of such actions, material risks and opportunities related to pollution.

- Pollution and prevention, control and reduction
 - of air– emissions into air (both indoor and outdoor)
 - of water (including groundwater)
 - of soil (at production site, outside, through use of undertaking’s products and services)
- Production, use and/or distribution and commercialisation of
 - Substances of concerns (having a chronic effect for human health or the environment or substances which hamper recycling for safe and high quality secondary raw materials)
 - Most harmful substances (listed in the EU Chemicals Strategy for Sustainability)
- Enabling activities in support of prevention, control and elimination of pollution (four remaining environmental objectives of the EU Taxonomy Regulation)

E3 Water and marine resources: Objective

To specify disclosure requirements to enable users of the sustainability statements to understand material impacts, actions taken, results of such actions, material risks and opportunities related to water and marine resources

Water

- Undertaking's relationship with water in its upstream and downstream value chain, in terms of dependencies, impacts, risks and opportunities and how it effectively addresses these issues
- Where and how much water is withdrawn, consumed and discharged for the undertaking's activities, products and services
- What are the water-related impacts caused or contributed to by the undertaking
- How the undertaking is exposed to water-related risks (flood risks, water scarcity risks, etc)

Marine resources

- Undertaking's activities which cause or contribute to impacts either through the use of ocean-based resources, discharges and emissions to the environment which end up in the oceans, or activities located in maritime (naval matters) areas

E4 Biodiversity and ecosystems: Objective

To specify disclosure requirements to enable users of the sustainability statements to understand material impacts, actions taken, results of such actions, material risks and opportunities related to biodiversity and ecosystems

- Undertaking's relationship to terrestrial, freshwater and marine habitats, ecosystems and populations of related fauna and flora species, including diversity within species, between species and of ecosystems and their interrelation with many indigenous and local communities
- 'Biological diversity' covers the variability among living organisms from all sources including, inter alia, terrestrial, freshwater, marine and other aquatic ecosystems and the ecological complexes of which they are part of

E5 Resource use and circular economy

To specify disclosure requirements to enable users of the sustainability statements to understand material impacts, actions taken, results of such actions, material risks and opportunities related to resource use and circular economy

- Circular economy is a restorative system in which waste and pollution are eliminated and resource use is minimised through systemic design, maintaining and improving the value of products and components and achieving a circular flow of resources, while regenerating natural ecosystems
- The goal is to retain the value of the resources, products and materials by creating a system with innovative business models that allow for renewability, long life optimal use or re-use, refurbishment, remanufacturing, recycling and biodegradation.
- A circular economy is based on three principles, driven by design: eliminate waste and pollution, keep products and materials in use at their highest value and regenerate ecosystems. It is underpinned by a transition to renewable energy.
- Decoupling economic activity from extraction of natural resources can take place through the implementation of circular strategies to prevent natural resources extraction and intensify circular material use.

Financial institutions - ESRS

PANEL 3: SOCIAL AND GOVERNANCE

22 June 2022

EXPOSURE DRAFT

ESRS S2
Workers in the value chain
April 2022

EXPOSURE DRAFT

ESRS S4
Consumers and end-users
April 2022

EXPOSURE DRAFT

ESRS G2
Business conduct
April 2022

EXPOSURE DRAFT

ESRS S1
Own workforce
April 2022

Open for comments until 8 August 2022

PTF-ESRS

EXPOSURE DRAFT

ESRS S3
Affected communities
April 2022

Open for comments until 8 August 2022

PTF-ESRS

EXPOSURE DRAFT

ESRS G1
Governance, risk management and internal control
April 2022

Open for comments until 8 August 2022

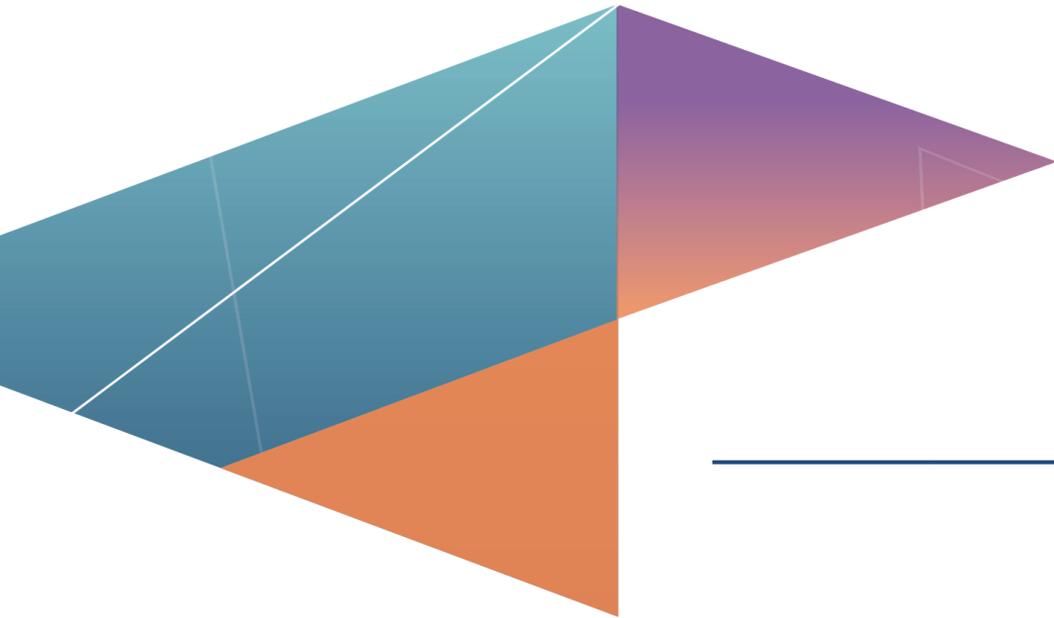
PTF-ESRS

EFRAG

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Social:

S1 Own workforce

S2 Workers in the value chain

S3 Affected communities

S4 Consumers and end-users

1. [draft] CSRD Mandate on Social sustainability matters

Background and methodology

Standard development based on CSRD, Article 19 b (Extract)

“ (b) specify the information that undertakings are to disclose about social factors, including information about:

(i) Equal opportunities

for all, including gender equality and equal pay for equal work, training and skills development, and employment and inclusion of people with disabilities;

(ii) Working conditions

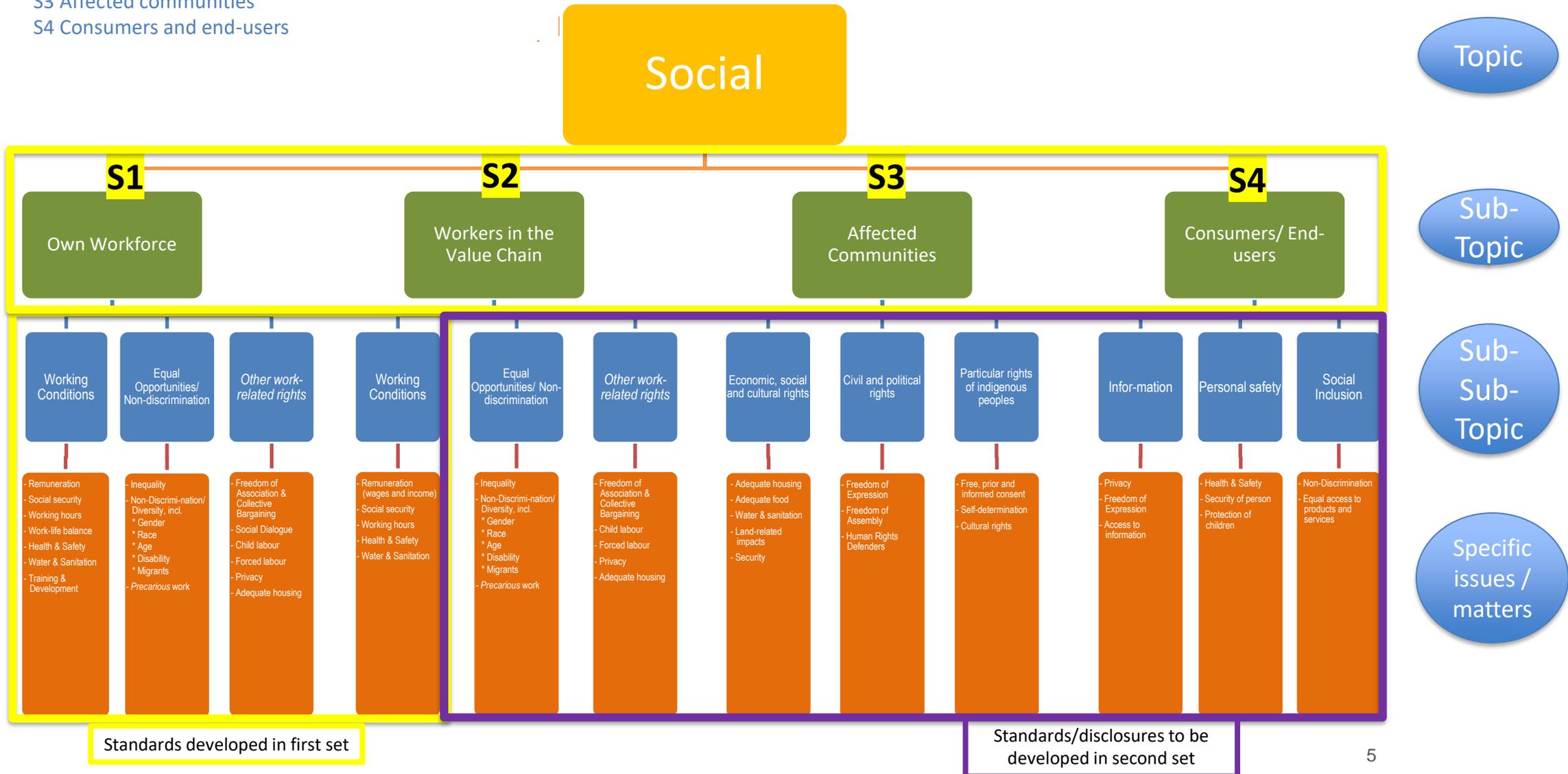
including secure and adaptable employment, wages, social dialogue, collective bargaining and the involvement of workers, work-life balance, and a healthy, safe and well-adapted work environment;

(iii) Respect for the human rights

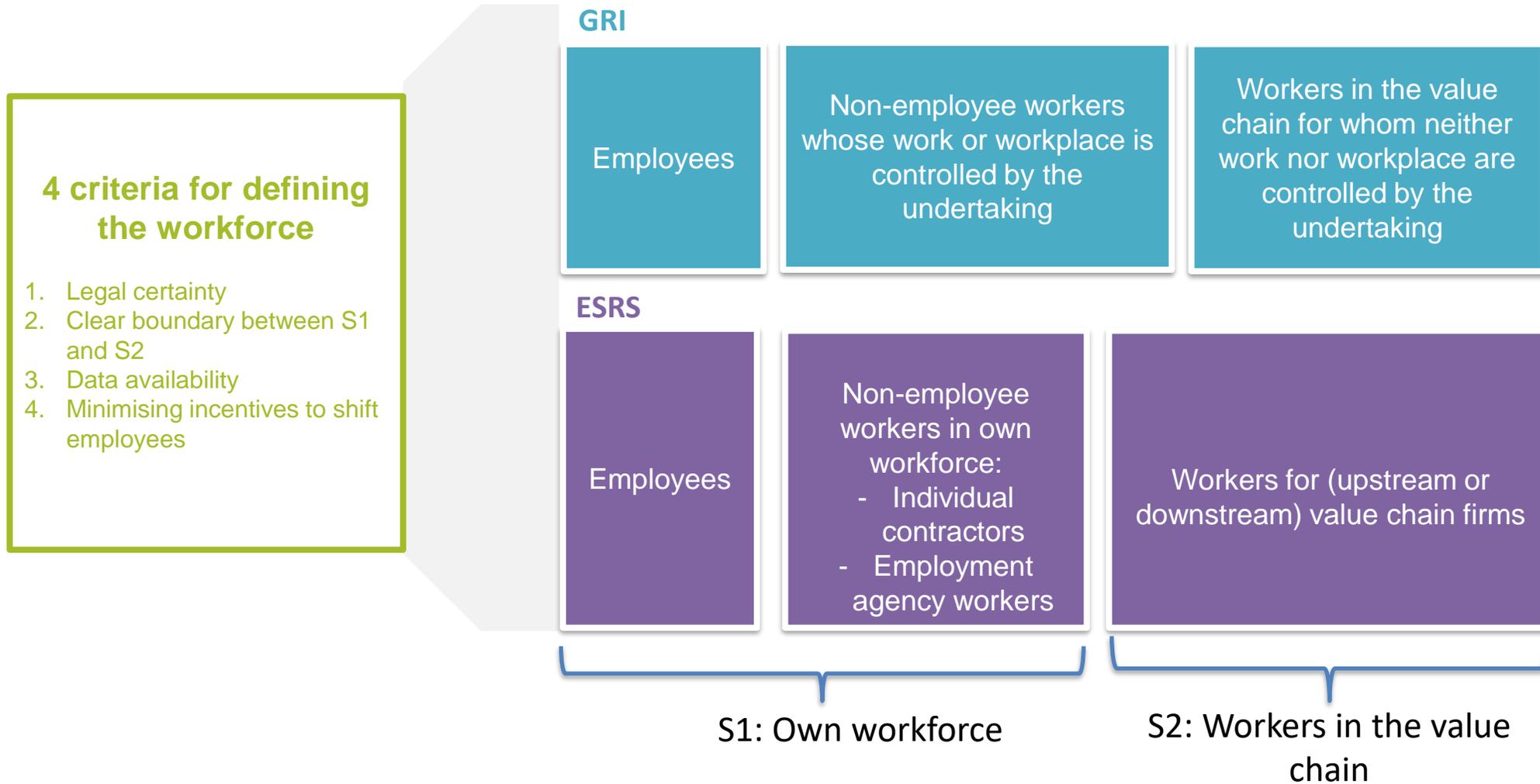
fundamental freedoms, democratic principles and standards established in the International Bill of Human Rights and other core UN human rights conventions, the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work and the ILO fundamental conventions and the Charter of Fundamental Rights of the European Union.”

2. Social standards: Structure of the social pillar

- S1 Own Workforce
- S2 Workers in the value chain
- S3 Affected communities
- S4 Consumers and end-users



3. Social standards: Definition of workforce



4. S1 Social standards - Overview

Reference frameworks

STRATEGY (complemented by ESRS 2)

AG on ESRS 2-SBM2: Interaction between **material impacts, risks and opportunities** and the strategy and business model

AG on ESRS 2-SBM3: Workforce matters on people and the **adaptation** of its **strategy** and **business model(s)** to such material sustainability impacts

AG on ESRS 2-SBM4: Workforce matters that originate from or are connected to the undertaking's strategy and business model(s) and of the adaptation of its strategy and business model(s) to such **material risks and opportunities**

AG on ESRS 2-IRO2: Outcome of the undertaking's assessment of material sustainability impacts, risks and opportunities as identified by reference to and in compliance with **sector-agnostic** and **sector-specific** level ESRS SFDR

AG on ESRS 2-IRO3: Outcome of the undertaking's assessment of material sustainability impacts, risks and opportunities that are not covered by an **ESRS (entity-specific level)** SFDR

ESRS 2-GOV2: Information of **administrative, management and supervisory** bodies about sustainability matters

IMPLEMENTATION

DR S1-1: **Policies**, targets, action plans and resources
OECD
UNGP
SFDR
GRI

DR S1-2: **Processes** for engaging with own workers and workers' representatives about impacts
OECD
UNGP
SFDR
GRI

DR S1-3: Channels for own workers and workers' representatives to raise concerns
SFDR
UNGP

DR S1-4: Targets related to **managing** material negative impacts, **advancing** positive impacts, and managing material risks and opportunities
UNGP
GRI

DR S1-5: Taking action on **material impacts** on own workforce and effectiveness of those actions
OECD
UNGP
GRI

DR S1-6: **Approaches** to mitigating material risks and pursuing material opportunities related to own workforce
SASB
OECD

OECD - Organization for Economic Co-operation and Development

GRI - Global Reporting Initiative

UNGP - United Nations Global Compact

SASB - Sustainability Accounting Standards Board

ILO - International Labour Organization

EPSR - European Pillar of Social Rights

SFDR - Sustainable Finance Disclosure Regulation

5. Social standards: Embedding due diligence

Alignment of social standards with OECD Due Diligence

0. ESRS S1 - DRs 2 and 3: **engage stakeholders** and ESRS 2 DRs (SBM, IROs)



1. ESRS 2 (cross cutting) and AG 3 – 12/13: **assess** impacts, risks and opportunities



2. ESRS S1 DRs 1, 2, 5 and 6: **integrate and act** by developing policies, setting targets and taking action



3. ESRS 1 on targets, progress and tracking effectiveness and ESRS S2 – DR 4: **track** performance

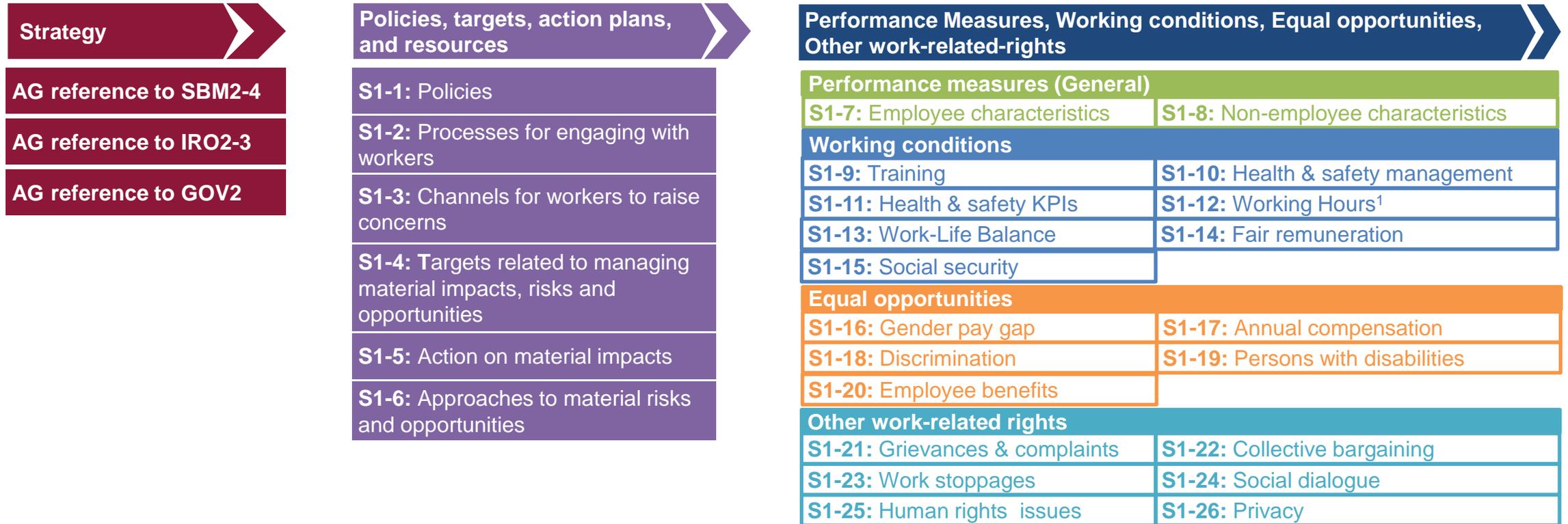


4. The standards in their entirety contribute to the reporting obligation required by the draft CSRD: **communicate**

Approach developed in co-construction with Shift

6. Own workforce: Overview (II/IV)

Standard Architecture



¹ Optional Disclosure Requirement



Governance

Background

GOVERNANCE+

The Governance+ category (G+) is broader than traditionally considered under the concept of 'governance'. The aim is to cover the full spectrum of relevant matters in order to report on sustainability aspects relating to the reporting undertaking itself, including but not limited to governance.

Background

CSRD, Article 19 b (extract)

(c) specify the information that undertakings are to disclose about governance factors, including information about:

- (i)** the business ethics and corporate culture, including anti-corruption and anti-bribery;
- (ii)** the role of the undertaking's administrative, management and supervisory bodies, including with regard to sustainability matters, and their composition;
- (iii)** political engagements of the undertaking, including its lobbying activities;
- (iv)** the management and quality of relationships with business partners, including payment practices;
- (v)** the undertaking's internal control and risk management systems, including in relation to the undertaking's reporting process.

Background

Step 2: Governance in ESRS



ESRS G1 Governance, risk management and internal control

DR ORIGINS AND SUBJECTS COVERED

STRATEGY

DR G1-1: Governance structure GRI Acc Dir

Understanding of the structure of the governance and the distribution of roles and responsibilities throughout the organization

IMPLEMENTATION

DR G1-2: Corporate governance code or policy Acc Dir

DR G1-3: Nomination process GRI

DR G1-4: Diversity policy Acc Dir

DR G1-5: Evaluation process GRI

DR G1-6: Remuneration policy SR Dir GRI

DR G1-7: Risk management GRI

DR G1-8: Internal control GRI

- More detailed description of specific aspects
- General description of the risk management & internal control processes and how they enable the ASMB to exercise their responsibility to oversee the undertaking.

PERFORMANCE MEASURES

DR G1-9: Composition of ASMB SFDR Acc Dir

DR G1-10: Meetings and attendance rate

- Indicators to measure performance of policy objectives defined by previous DRs

ESRS G2 Business conduct

DR ORIGINS AND SUBJECTS COVERED

STRATEGY	IMPLEMENTATION	PERFORMANCE MEASURES
<p>DR 1: Business conduct culture GRI</p>	<p>DR 2: Policies and targets on business conduct SFDR GRI</p> <p>DR 3: Prevention and detection of corruption and bribery GRI</p> <p>DR 4: Anti-competitive behaviour prevention and detection GRI</p>	<p>DR 5: Anti-corruption and anti-bribery training GRI</p> <p>DR 6: Corruption or bribery events SFDR GRI</p> <p>DR 7: Anti-competitive behaviour events GRI</p> <p>DR 8: Beneficial ownership Dir 2015/849 GRI</p> <p>DR 9: Political engagement and lobbying activities GRI</p> <p>DR 10: Payment practices</p>
<p>A description of how business conduct is promoted and integrated into the culture of the undertaking</p>	<ul style="list-style-type: none"> • Description of how the business conduct culture is translated into clearly defined policies, procedures and objectives • Including prevention and detection 	<p>Measuring the achievement of policies and objectives in previous DRs</p> <ul style="list-style-type: none"> • covering anti-corruption/anti-bribery training • current legal proceedings (number, inventory, penalties or fines paid) • lobbying activities and their funding • contractual terms of payment and practices

ESRS G2-10: Payment terms

CONSULTATION: SPECIFIC QUESTION

Payment delays complicate the financial management of undertakings, especially SMEs¹, who rely on predictable flows of cash to operate. According to the relevant EU legislation (Directive 2011/7/EU) a payment is late when the creditor has not received the funds at the expiry of the period negotiated in the contract. And yet, even payments performed within the contractually negotiated period can hide unfair payment practices. Very often businesses accept payment terms longer than they are comfortable with², as such terms may reflect the one party's power compared to the other, such as by virtue of its size or brand.

- 1) Do you consider that the indicators in G2-10 (in isolation or jointly) capture the following sufficiently:
 - a) the extent to which accounts payable or creditors at period end have been outstanding; and
 - b) the fairness of the undertaking's payment practices?If not, please provide your rationale and indicate the sector(s) for which you deem add-ons necessary.
- 2) What alternative indicators would you propose? Please specify whether your proposal(s) are of sector-agnostic or sector-specific nature.
- 3) If you are a preparer, do you currently capture amounts of interest charged on late payments separately in your accounts and what are the costs for disclosing this?

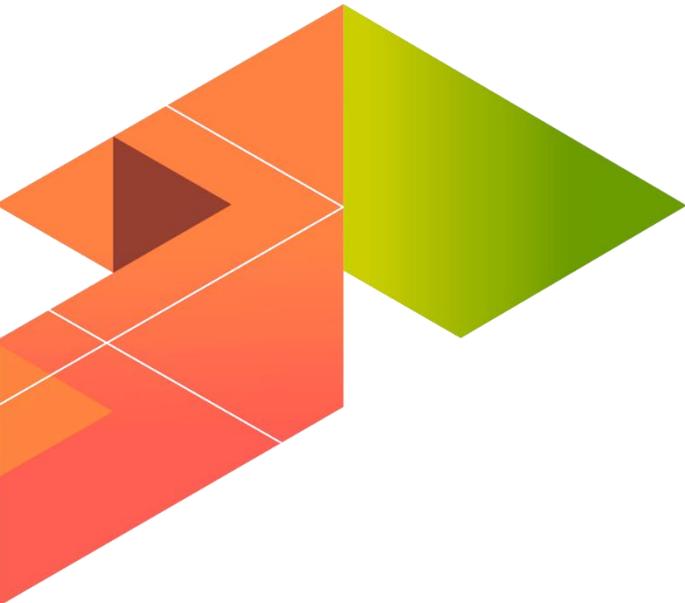
¹ SMEs (Small and Medium-sized enterprises) are defined according to the Commission Recommendation 2003/361/EC https://ec.europa.eu/growth/smes/sme-definition_en

² According to the Intrum European payment Report 2021, on average 49% of businesses in the EU accepted payment terms longer than they are comfortable with out of fear of losing their customers or damaging business relations.



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Thank you



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