

# European Sustainability Reporting Standards

INTRODUCTION AND REPORTING PRINCIPLES

SME/SMP OUTREACH

8 July 2022

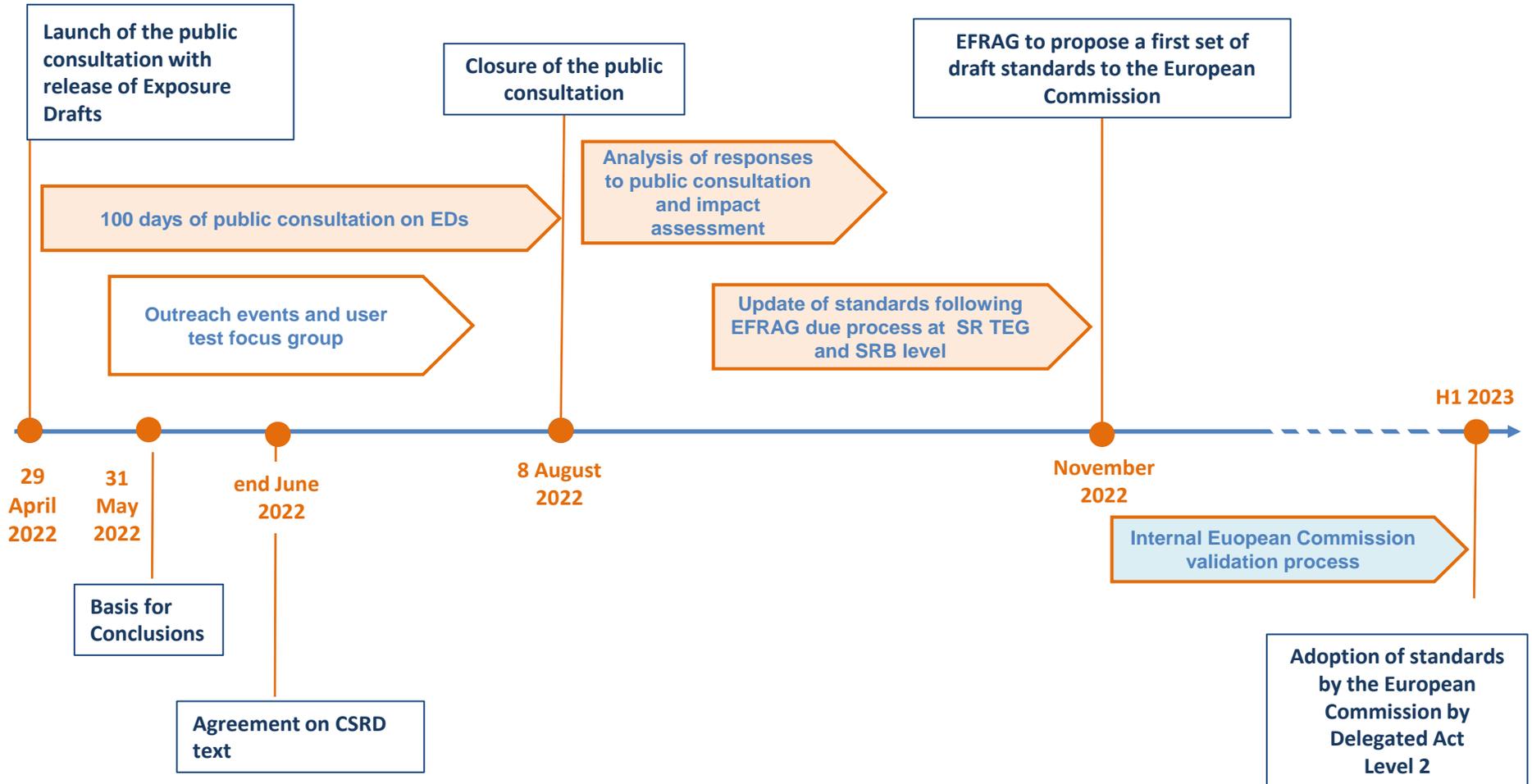


# DISCLAIMER

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The Exposure Drafts have been prepared solely by the EFRAG PTF-ESRS and submitted to public consultation by EFRAG SRB to inform the upcoming standard-setting steps. They, therefore, do not reflect the EFRAG SRB's position at this stage, nor the position of the European Union or European Commission DG Financial Stability, Financial Services and Capital Markets Union (DG FISMA), nor the position of organisations with which the EFRAG PTF-ESRS has cooperated.

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



## The seven key features of the EDs

1. 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))
2. They take account of European and international sustainability reporting initiatives
3. The overall architecture of Exposure Drafts is designed to ensure that sustainability information is reported in a carefully articulated manner (see next slide)
4. They address sustainability matters as per Article 19b of the CSRD proposal
5. They are a first step in a journey towards a faithful representation of sustainability performance (SME standard(s) and sector-specific standards in the 2<sup>nd</sup> set)
6. The public consultation will help to finetune relevance and comparability as well as explore ESRS implementation prioritisation / phasing-in options
7. **They will be adjusted to meet the requirements of the final CSRD**

# 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**

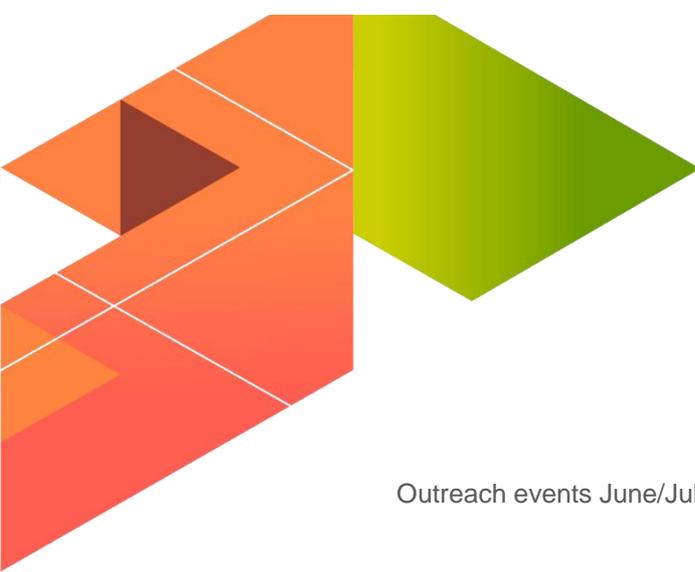
- 1. Information quality (in particular: relevance and sector-agnostic comparability)**
- 2. Coherence with EU policy objectives (content and timing)**
- 3. Compatibility with international initiatives**
- 4. Exercise of judgement to foster proportionate implementation**
- 5. Balanced combination of 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**

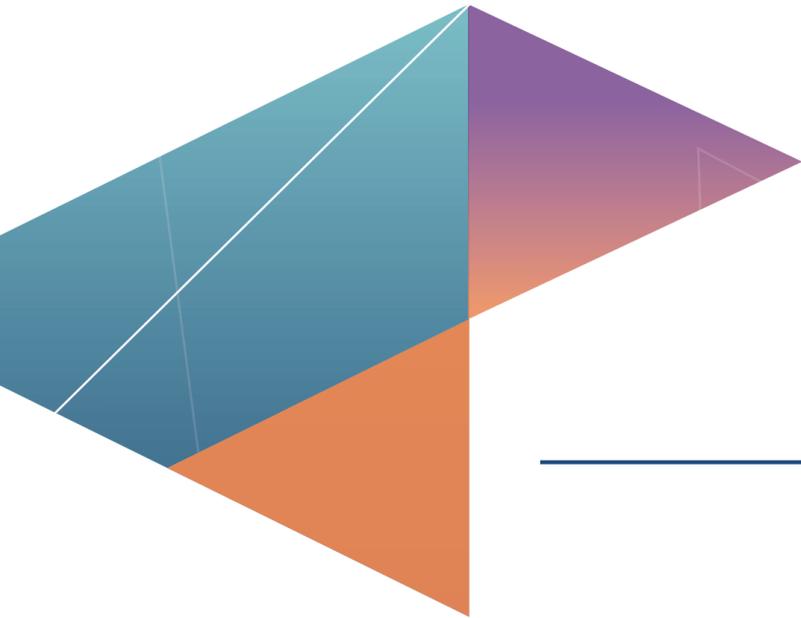


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## **Environmental reporting standards**

E1 Climate change

E2 Pollution

E3 Water and marine resources

E4 Biodiversity and ecosystems

E5 Resource use and circular economy

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# 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)

DR E1-1: **Transition plan** for climate change mitigation

CSRD CSDDD ISSB US SEC\*

AG on ESRS 2-SBM4: **Resilience** of strategy and business model

CSRD ISSB US SEC

AG on ESRS 2-GOV 4: Climate-related **remuneration**

ISSB

AG on ESRS 2-GOV 4: Internal **carbon pricing** schemes

ISSB US SEC

AG on ESRS 2-IRO 1 and 2: material climate-related **impacts, risks and opportunities**

CSRD ISSB\* US SEC\*

\*only financial materiality

### IMPLEMENTATION

DR E1-2: **Policies** implemented to manage climate change mitigation and adaptation

CSRD

DR E1-3: Measurable **targets** for climate change mitigation and adaptation

CSRD ISSB US SEC

DR E1-4: Climate change mitigation and adaptation **action plans and resources**

CSRD\* ISSB\* Taxo\*

\* only selected requirements

### PERFORMANCE MEASURES

#### Energy

E1-5: Energy **consumption & mix** SFDR

E1-6: Energy **intensity** per revenue SFDR

#### GHG emissions / removals

E1-7: **Scope 1** GHG emissions SFDR ISSB US SEC

E1-8: **Scope 2** GHG emissions SFDR ISSB US SEC

E1-9: **Scope 3** GHG emissions SFDR ISSB US SEC

E1-10: **Total** GHG emissions

E1-11: **GHG intensity** per net turnover SFDR ISSB US SEC

E1-12: **GHG removals** CSRD\*

E1-13: **Carbon credits** CSRD\* ISSB US SEC

Optional E1-14: **Avoided GHG emissions** from products and services

#### Financial effects

E1-15: Financial effects from **physical risks** ISSB US SEC

E1-16: Financial effects from **transition risks** ISSB US SEC

Optional E1-17: Financial **opportunities** Taxo\*\* ISSB US SEC

\* in recital 41

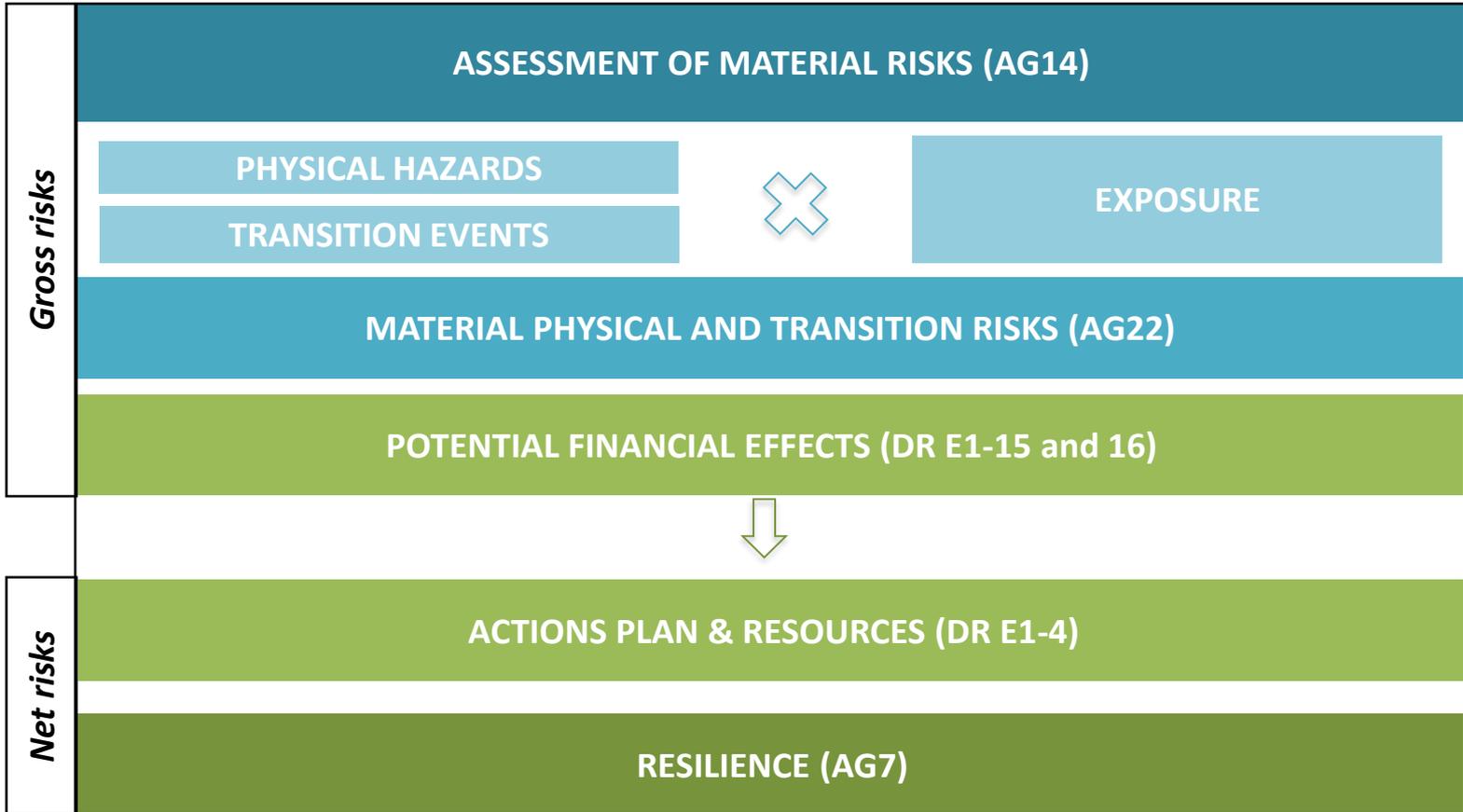
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# E1 Climate change: Disclosure Requirements

## Strategy, Governance and materiality assessment

FOCUS

ESRS E1 – Focus on Gross VS Net risks



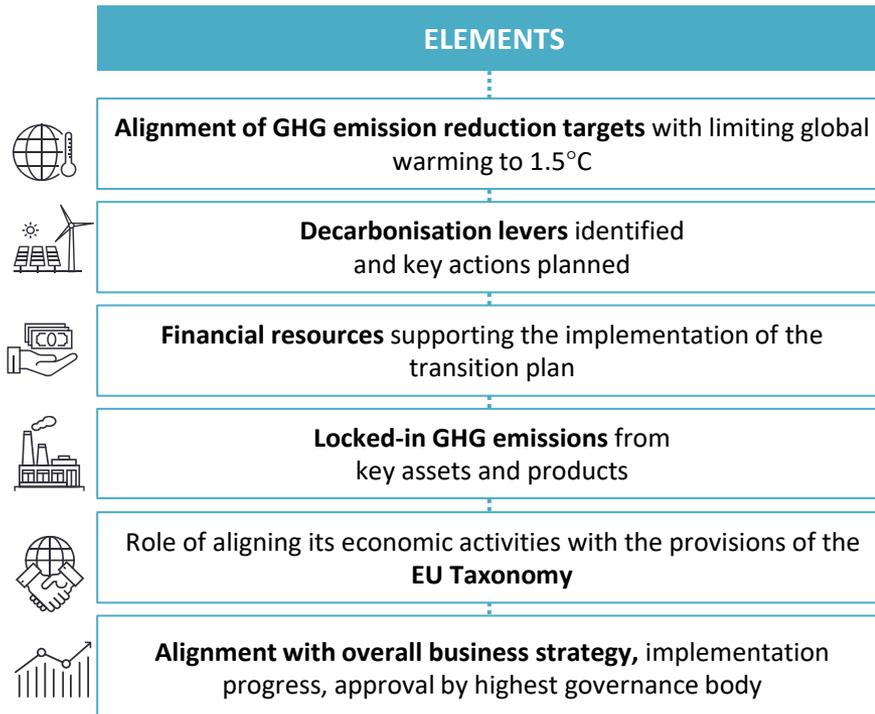
# E1 Climate change: Disclosure Requirements

## Strategy, Governance and materiality assessment

FOCUS

ESRS E1 – Focus on Transition Plan

### DR E1-1 Transition plan for climate change mitigation



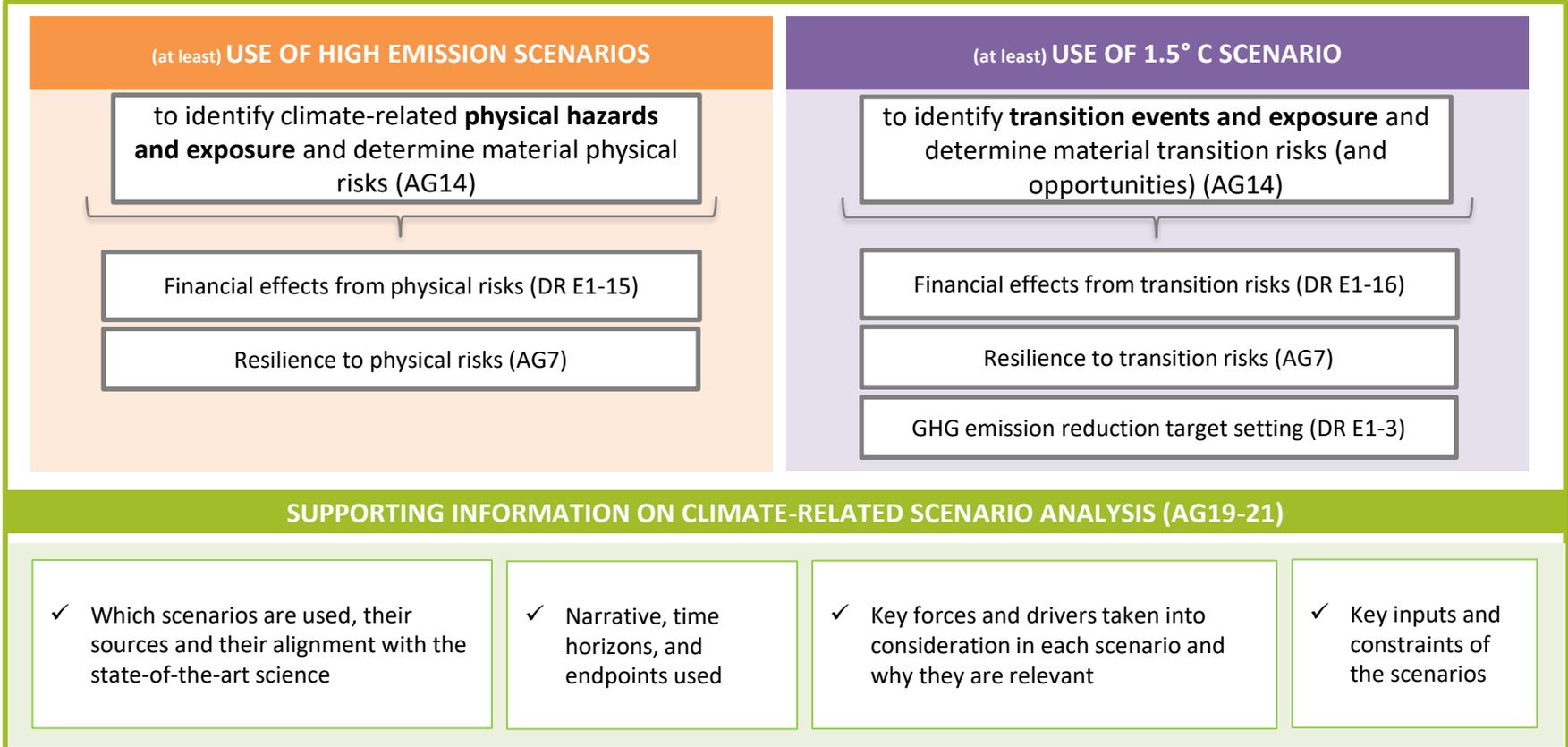
*“...the undertaking is expected to provide a high-level explanation on how it will adjust its strategy and business model to ensure compatibility with the transition to a climate-neutral economy and with limiting of global warming to 1.5°C in line with the Paris Agreement ... and shall, where applicable, 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



## 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**

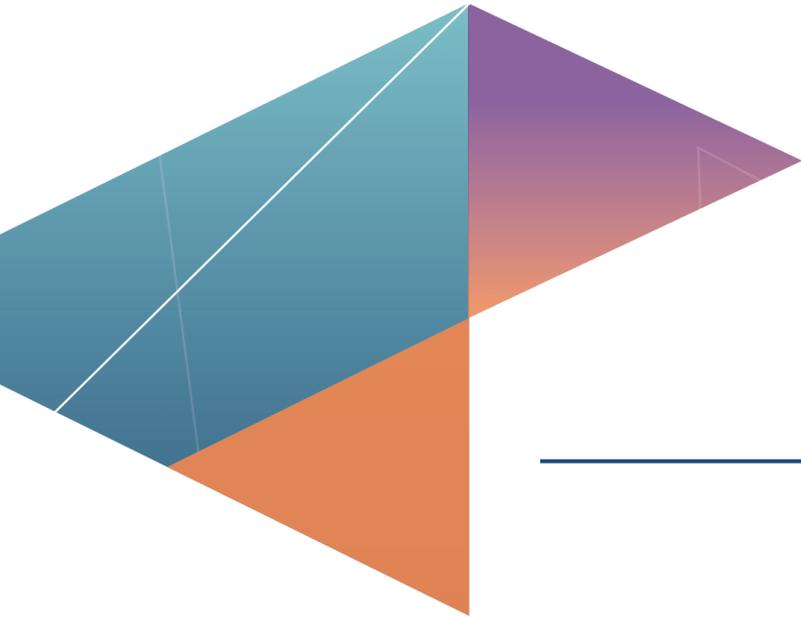
- Circular economy is a restorative system in which waste and pollution are eliminated and resource use is minimised through systemic design, maintaining and improving the value of products and components and achieving a circular flow of resources, while regenerating natural ecosystems
- The goal is 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.

# Exposure Drafts ESRS Set 1

PRESENTATION FOR OUTREACH EVENTS

June/July 2022





## **Social:**

S1 Own workforce

S2 Workers in the value chain

S3 Affected communities

S4 Consumers and end-users

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## 7.1 [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;

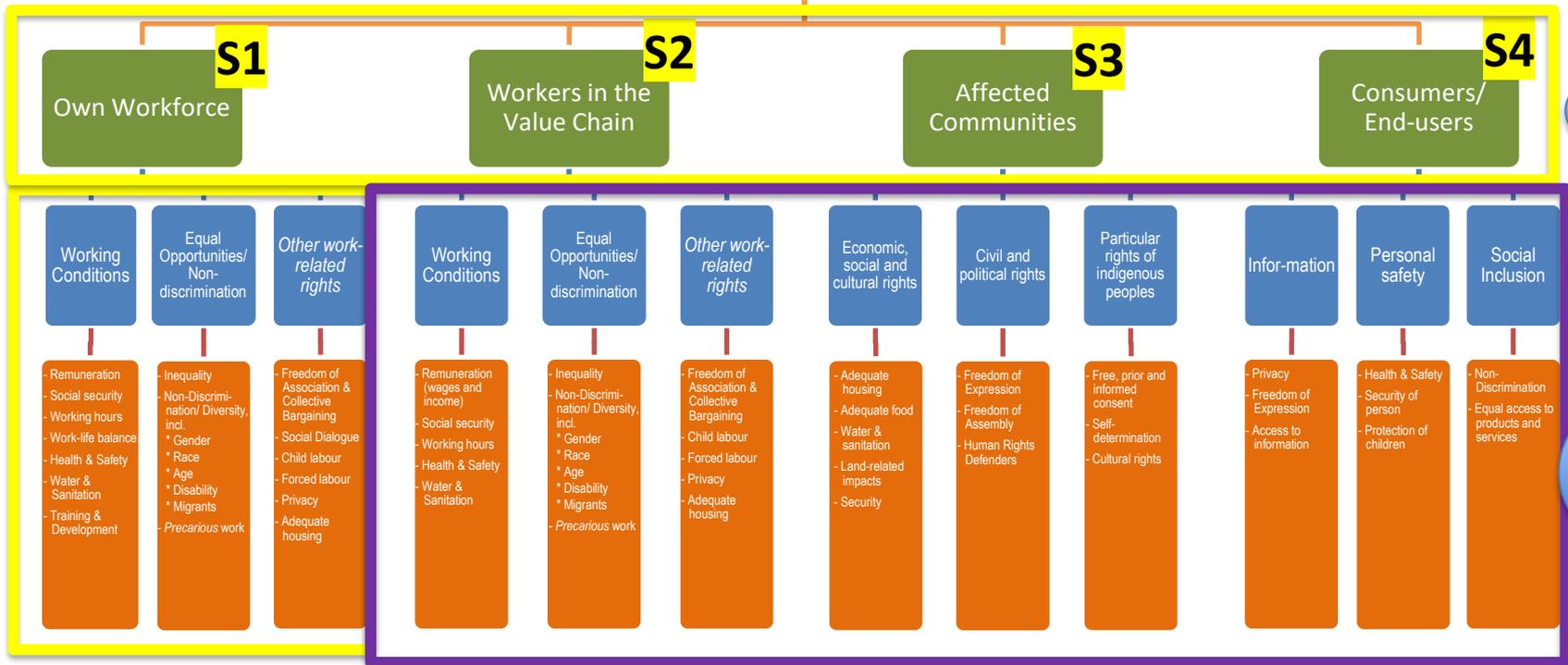
#### (iii) Respect for the human rights

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.”

## 7.2 Social standards: Structure of the social pillar

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

# Social



Topic

Sub-Topic

Sub-Sub-Topic

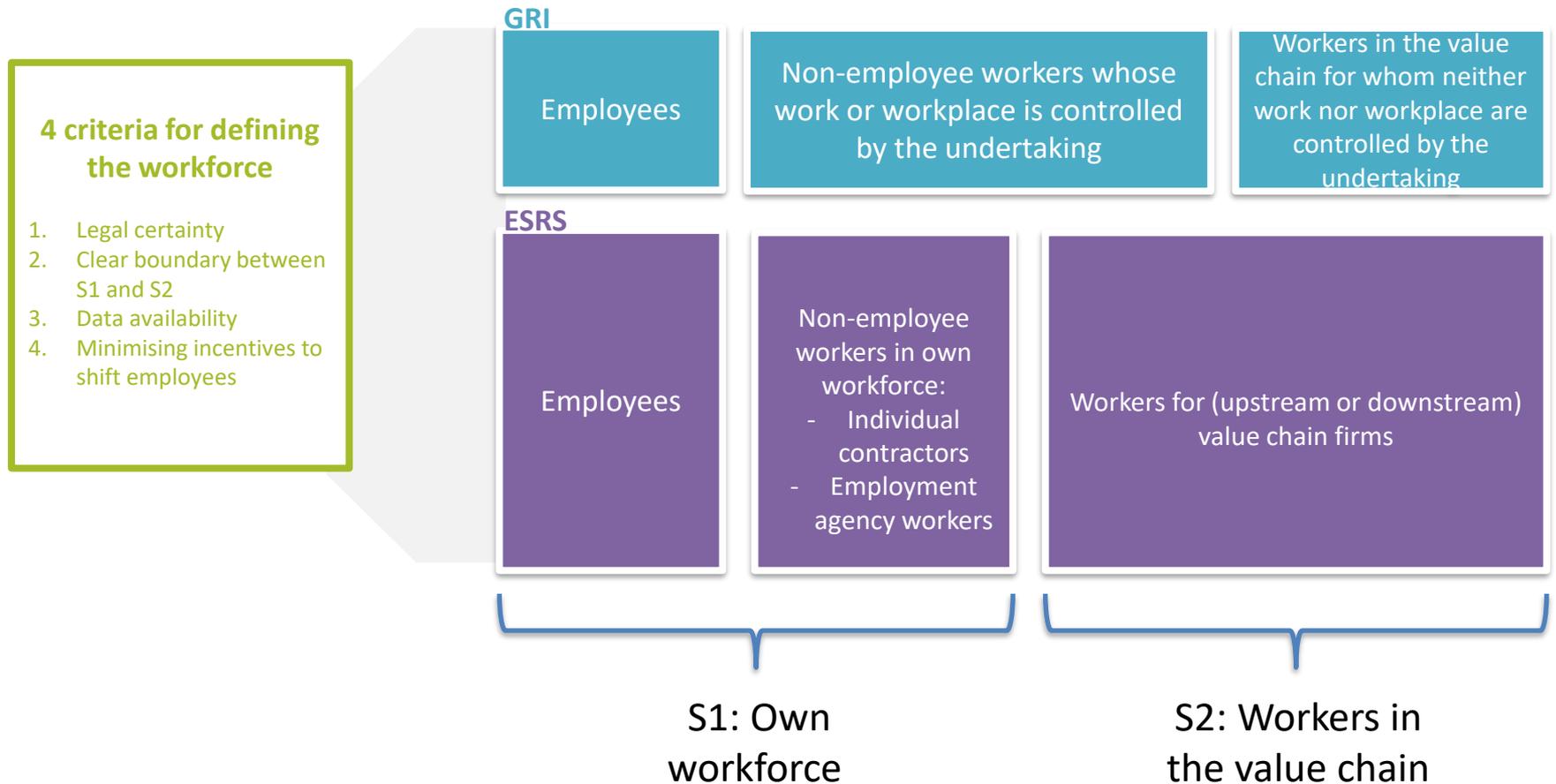
Specific issues / matters

19/07/2022

Standards developed in first set

Standards/disclosures to be developed in second set

## 7.3 Social standards: Definition of workforce



# 7.4 S1 Own workforce: Overview (II/IV)

Standard Architecture



<sup>1</sup> *Optional Disclosure Requirement*

## 7.5 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



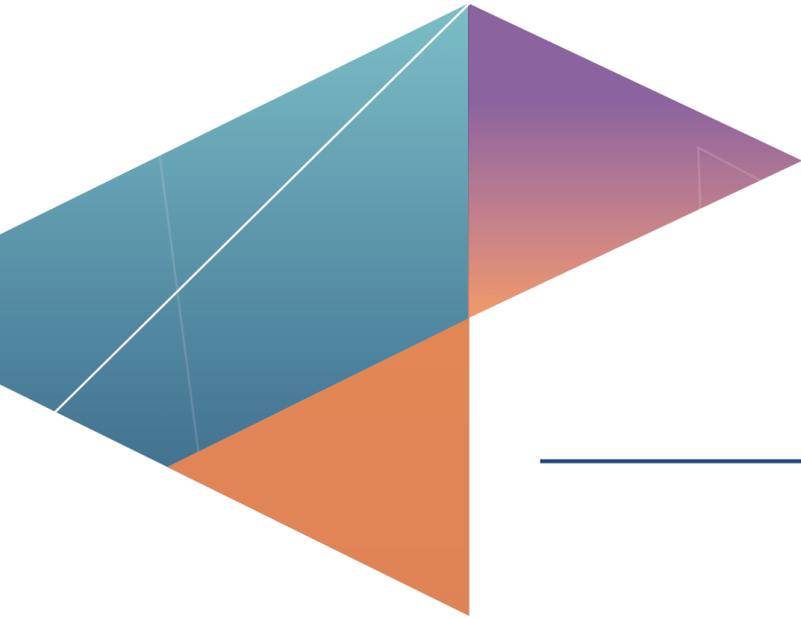
2. ESRS S1 DRs 1, 2, 5 and 6: **integrate and act** by developing policies, setting targets and taking action



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**



# **Social:** Appendix

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# S1 Own workforce: Overview (I/II)

## 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 

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)** 

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

**IMPLEMENTATION**

DR S1-1: **Policies**, targets, action plans and resources    

DR S1-2: **Processes** for engaging with own workers and workers’ representatives about impacts    

DR S1-3: Channels for own workers and workers’ representatives to raise concerns  

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

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

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

 **OECD** - Organization for Economic Co-operation and Development

 **SASB** – Sustainability Accounting Standards Board

 **GRI** – Global Reporting Initiative

 **ILO** – International Labour Organization

 **UNGP** – United Nations Global Compact

 **EPFR** – European Pillar of Social Rights

 **SFDR** – Sustainable Finance Disclosure Regulation

## 7.4 S1 Own workforce: Overview (I/II)

### Reference frameworks

PERFORMANCE MEASURES	
<u>General</u>	
DR S1-7: Characteristics of the Undertaking's <b>Employees</b>	GRI
DR S1-8: Characteristics of <b>non-employee workers</b> in the undertaking's own workforce	GRI
<u>Working Conditions</u>	
DR S1-9: <b>Training and Skills</b> Development indicators	GRI
DR S1-10: <b>Coverage</b> of the health and safety management system	ILO, OECD, GRI
DR S1-11: <b>Performance</b> of the health and safety management system	SFDR, ILO, GRI
DR S1-12: Working <b>Hours</b> <b>OPTIONAL</b>	ILO, EPSR
DR S1-13: Work-Life <b>Balance</b> indicators	ILO, EPSR
DR S1-14: <b>Fair</b> remuneration	EPSR, GRI
DR S1-15: <b>Social security</b> eligibility coverage	EPSR
<u>Equal Opportunities</u>	
DR S1-16: <b>Pay gap</b> between women and men	EPSR, GRI, SFDR
DR S1-17: Annual total <b>compensation ratio</b>	EPSR, GRI, SFDR
DR S1-18: <b>Discrimination</b> incidents related to equal opportunities	EPSR, GRI, SFDR
DR S1-19: Employment of persons with <b>disabilities</b>	EPSR, GRI
DR S1-20: Differences in the <b>provision of benefits</b> to employees with different employment contract types	EPSR, GRI
<u>Other Work-related Rights</u>	
DR S1-21: <b>Grievances</b> and other work-related rights	GRI
DR S1-22: <b>Collective bargaining</b> coverage	SASB, GRI, ILO
DR S1-23: Work <b>stoppages</b>	SASB, ILO
DR S1-24: Social <b>dialogue</b>	SFDR, GRI, ILO
DR S1-25: Identified cases of <b>severe human rights issues</b> and incidents	ILO
DR S1-26: <b>Privacy</b> at work	ILO

# 7.5 S2-4 Workers in the value chain / Affected communities / Consumers and end-users: Overview

## 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**

SFDR

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

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)

## IMPLEMENTATION

DR S2-1: **Policies, targets, action plans and resources** GRI OECD UNGP SFDR

DR S2-2: **Processes for engaging** with own workers and workers' representatives about impacts GRI OECD UNGP

DR S2-3: **Channels** for own workers and workers' representatives to raise concerns SFDR UNGP

DR S2-4: **Targets** related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities GRI UNGP

DR S2-5: **Taking action** on material impacts on own workforce and effectiveness of those actions GRI OECD UNGP

DR S2-6: **Approaches to mitigating** material risks and pursuing material opportunities related to own workforce OECD UNGP

## PERFORMANCE MEASURES

### First set:

Focus on developing the disclosures that can be expected of **all entities** under the scope of the CSRD. These standards provide **high-level disclosures** regarding an undertaking's impacts on value chain workers / affected communities / consumers and end users and related risks and opportunities, when viewed in general across an undertaking's operations and upstream and downstream value chain.

### Subsequent standards:

Subsequent standards are expected to expand on these standards by providing more detailed disclosures in relation to the sub-topics and specific issues that would be identified as material through the **sector-specific** or **entity-specific** materiality determination, which will include actions to address specific impacts and risks, along with related targets and performance measures to cater for the diversity in value chains.

### SFDR/CSDDD structural alignment

Initiatives from the Platform for Sustainable Finance (incl. announced guidance on the Minimum Safeguards), as well as the proposal for an EU Corporate Sustainability Due Diligence Directive, were taken into consideration to ensure that the structure of the reporting would be compatible with upcoming developments in this area.