



EUROPEAN SUSTAINABILITY REPORTING STANDARDS

FACTSHEET #5

JULY 2023

NEWS FROM BRUSSELS

- EFRAG focuses on guidance for set 1.
- EC proposal (Delegated Acts) includes changes:
 - ✓ Overall standards have been weakened.
 - ✓ For ESRS 2 only the General Disclosures will remain mandatory, whereas the rest will be subject to a materiality assessment.
 - ✓ The phase-in period has become more flexible, especially for companies with <750 employees.
 - ✓ Some disclosures have been made voluntary.
 - ✓ The interoperability with international standards (e.g. ISSB/IFRS) has been improved, likely in response to criticism by the ESAs last consultation round.

**The objective is for the Commission to adopt the delegated act
by 7 August**

DIFFERENT APPROACH TO MATERIALITY

EFRAG ADVICE

ESRS 1	POLLUTION	CIRCULAR ECONOMY	CONSUMERS & END-USERS
ESRS 2	WATER	OWN WORKFORCE	AFFECTED COMMUNITIES
		OWN WORKFORCE	
CLIMATE	BIODIVERSITY	WORKERS IN VALUE CHAIN	BUSINESS CONDUCT



Mandatory



Subject to materiality assessment

CURRENT PROPOSAL

ESRS 1	POLLUTION	CIRCULAR ECONOMY	CONSUMERS & END-USERS
ESRS 2	WATER	OWN WORKFORCE	AFFECTED COMMUNITIES
CLIMATE	BIODIVERSITY	WORKERS IN VALUE CHAIN	BUSINESS CONDUCT

ADDITIONAL PHASE-INS

FOR ALL COMPANIES:

- 1 year phase-in for anticipated financial effects under pollution, water, biodiversity and resource use/circular economy
- 1 year phase-in for certain social indicators (persons with disability, social protection coverage, family leave, etc.)

FOR COMPANIES WITH < 750 EMPLOYEES:

- 1 year phase-in for disclosures under S1 (own workforce)
- 1 year phase-in for scope 3 GHG emissions
- 2 year phase-in for E4 (biodiversity), S2 (value chain workers), S3 (affected communities), and S4 (consumers & end-users)

DISCLOSURES THAT HAVE BEEN MADE VOLUNTARY

CROSS-CUTTING STANDARDS

- Brief explanation if company concludes a topic is not material. Reconciliation of any monetary amount with amounts in financial
- Statements.

ENVIRONMENTAL STANDARDS:

- ESRS E2-E5: classification of each action according to a layer of the mitigation hierarchy. • ESRS E4: biodiversity transition plan.
- ESRS E4: compatibility of business model and strategy with "planetary boundaries".
- ESRS E4: metrics on invasive alien species, impact drivers of land-use change, and ecosystem extent and condition.
- ESRS E4: land-use based on life-cycle assessment.

SOCIAL STANDARDS:

- ESRS S1: Certain disclosures and metrics regarding non-employees:
 - Breakdown of number of non-employees by category and type of work performed
 - Collective bargaining coverage Whether paid adequate wage
 - Social protection coverage
 - Cases of work-related ill-health
 - Number of days lost of injuries, accidents, fatalities
- ESRS S1: for employees not covered by collective bargaining agreements, whether their working conditions are determined by reference to agreements which apply to its other employees or undertakings.
- ESRS S1: for employees not covered by social protection, breakdown by country and type of employee.
- ESRS S1: breakdown by employee category regarding participation in training.

GOVERNANCE STANDARD ESRS G1:

- Number and nature of confirmed incidents of bribery or corruption
- Details of public legal cases brought against the undertaking for bribery and corruption
- Actions taken to support "vulnerable suppliers"

ADJUSTMENTS FOR MORE COHERENCE WITH INTERNATIONAL FRAMEWORKS

EU

ESRS 2

Breakdown of revenue by ESRS sector: new provision to say that company may omit information if based in a Member State that allows for the omission of turnover by categories of activity and by geographical markets under article 18 of the Accounting Directive.

ESRS E2

Pollution metrics: simplification of approach, to align with requirements on companies under the European Pollutant Release and Transfer Register (E-PRTR).

ESRS S1

Remuneration metrics: datapoints modified to align with Pay Transparency Directive and Shareholder Rights Directive.

ESRS G1

Policy on protection of whistle-blowers: new provision to say that companies subject to EU Whistle-blower Directive can comply simply by stating that they are subject to that Directive.

INTERNATIONAL

ISSB

All climate related definitions in IFRS S2 and ESRS E1 are now aligned, with exception of that of carbon credits.

Several changes to be fully aligned on financial materiality:

- Changes to the concept of financial materiality in ESRS 1(para 49)
- Using "anticipated" instead of "potential" financial effects in ESRS 2 paragraph 48 (plus aligned throughout E standards)
- Defining "current" financial effects (ESRS 2 para 48).

TIMELINE

2023/2024



Delegated Acts
Consultation deadline



Adoption of
ESRS Set 1



EFRAG Guideline on
value chain & data list



EFRAG Guideline on
Materiality assessment



First effective date
ESRS Set 1

**THE DELEGATED ACTS
CONSULTATION- ECIIA'S
REACTION**

ECIIA welcomes the opportunity to comment on the Draft Delegated Act on the first set of ESRS

Main comments on:

1. The need of an alignment with International reporting Standards
2. The development of a simplified on-line reporting tool for less complex organisations
3. The need for guidance about materiality assessment
4. The need for guidance about the value chain boundaries
5. The lack of coherence with other European Regulations (eg SFRD...)
6. The need for “assurance standards” before the current plan (2026 for limited assurance and 2028 for reasonable assurance)
7. The need for a strong governance model for ESG risks and opportunities

**BRIEF COMPARISON
ISSB (IFRS S1 & S2)
AND ESRS DRAFTS**

	ISSB (IFRS S1 & IFRS S2)	ESRS
EFFECTIVE DATE	From 2024 (first reports in 2025) companies have the flexibility to limit their disclosures to climate-related risks and opportunities when applying IFRS S1 and IFRS S2 in the first year	From 2024 for EU large PIEs and large non-EU companies listed on a EU market and then progressively other entities
SCOPE	The Standards use terminology suitable for profit-oriented entities, including public sector businesses entities	Around 49.000 corporates
COVERAGE	General requirements (IFRS S1) and Climate disclosure provisions (IFRS S2)	The ESRS covers the full range of environmental, social and governance topics in a total of 12 ESRS
INTENDED TO ANSWER THE NEEDS OF...	Investors, creditors and lenders	A broader group of stakeholders including investors, customers, suppliers, employees, local communities and regulators

**BRIEF COMPARISON
ISSB (IFRS S1 & S2)
AND ESRS DRAFTS**

	ISSB (IFRS S1 & IFRS S2)	ESRS
MATERIALITY APPROACH	Financial materiality	Double materiality (financial materiality and impact materiality)
MATERIALITY ASSESSMENT	IFRS S1 and S2's disclosures are entirely dependent on the outcome of the materiality assessment	ESRS Materiality assessment by ESRS 1 & 2 compulsory, rest is based on Materiality assessment
ARCHITECTURE OF THE STANDARDS	Both use the Task-force on climate-related financial disclosures (TCFD) framework structure	
SECTOR-SPECIFIC DISCLOSURES	Sector-specific requirements already exist under the ISSB standards	Sector-specific ESRS will be developed from 2024
ASSURANCE/AUDIT	Whether ISSB standards disclosures are subject to assurance will be left to adopting jurisdictions and regulatory agencies	Mandatory assurance/audit with limited assurance first and then reasonable assurance

The overlapping elements of the two standards display a high level of correspondence, and their alignment is sufficient to ensure that compliance with the ESRS guarantees compliance with ISSB standards



**INTERNAL
AUDIT ROLES**



ASSURANCE CHAIN

Internal Assurance providers

External Assurance providers

1st & 2nd line

Audit design & effectiveness of governance, risk management and controls for achieving ESG objectives, including strategy, culture, processes, systems, data and reporting

Provide assurance relying on IA work



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