

# EU Newsletter

# Sustainability Reporting

#6 – February 2023



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At the end of 2022, we saw the achievement of two significant and symbolic milestones in the direction of the EU Green Deal:

- In November, the publication by EFRAG of the first set of 12 draft European Sustainability Reporting Standards (ESRS) to the European Commission. The final standards are expected in June 2023 following adoption by the European Commission.
- In December, the publication in the EU Official Journal of the Corporate Sustainability Reporting Directive (CSRD).

This new regulation will have widespread implications, as this will impact not only European entities but also non-European groups which have operations in the EU. Even though this regulation is “only” about reporting, it is designed to be a catalyst for change.

Hence, we can observe an increased level of awareness of all stakeholders globally and a steep acceleration of reporting and transformation projects.

This issue provides an overview of the content of those standards.

But stay tuned - this first set of sector-agnostic standards will be followed by three other sets expected over the upcoming years. They will address sector-specific requirements, of which four are to be published this year, in addition to a standard specific to SMEs.

Enjoy your reading.

# Summary

## I. Draft European Sustainability Reporting Standards

- [Background](#)
- [Cross-cutting standards](#)
- [Topical standards \(environment, social and governance\)](#)
- [Key comments from the opinion letters of the ESMA, EBA, EIOPA and ECB](#)
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- [Publication of Taxonomy Regulation FAQs](#)
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**Draft European Sustainability Reporting Standards**

Regulatory update

# Draft European Sustainability Reporting Standards



## Background

EFRAG has been given the mandate to develop the ESRS that will specify the content of the corporate sustainability reporting requirements. This is according to the Corporate Sustainability Reporting Directive (CSRD) published in the EU Official Journal on 16 December 2022 ([here](#)).

In November 2022, EFRAG delivered a first set of 12 draft European Sustainability Reporting

Standards (ESRS) to the European Commission ([here](#)).

This first set of standards is sector-agnostic and includes two cross-cutting standards, applying to all sustainability matters, and ten topical standards covering environment, social and governance (see illustration below).

### EFRAG's advice package consists of the following

#### 12 draft ESRS (sector-agnostic standards)

Cross-cutting Standards		Environment	Social	Governance
ESRS 1	General requirements	ESRS E1	ESRS S1	ESRS G1
ESRS 2	General disclosures	ESRS E2	ESRS S2	
		ESRS E3	ESRS S3	
		ESRS E4	ESRS S4	
		ESRS E5		

#### Additional material

- Cover letter**
- Due process note**
- Explanatory note**, including its **Annex**, of how draft ESRS take account of the initiatives and legislation
- Cover Letter on the Cost-benefit analysis**
- Appendix I** – Disclosure Requirements index
- Appendix II** – CSRD requirements for the development of sustainability reporting standards and their coverage by the draft ESRS
- Appendix III** – Datapoints in accordance with EU laws in the ESRS
- Appendix IV** – TCFD Recommendations and ESRS reconciliation table
- Appendix V** – IFRS Sustainability Standards and ESRS reconciliation table
- Appendix VI** – Acronyms and glossary of terms

12 standards

~350 pages

>80 DRs

>1000 Datapoints\*

~20 templates

\* Based on EFRAG's communication

The advice package from EFRAG includes the cover letter, appendices and basis for conclusions (not yet published). This additional material has no authoritative status as it is not part of the standards.

The first set of standards shall be adopted as Delegated Acts by the European Commission before 30 June 2023. This will be followed by a scrutiny period by the European Parliament and

the Council. If no objections are raised, the ESRS will be directly applicable to companies within the scope of the CSRD (our fifth edition of the EU Newsletter Sustainability Reporting [here](#) provides a comprehensive insight into the scope of the CSRD). In the intervening period, the European Commission will consult several EU authorities, such as ESMA (European Securities and Markets Authority) and expert groups.

## Main changes compared to the ESRS exposure drafts

There were concerns expressed during the public consultation on the ESRS exposure drafts (EDs) ending in August 2022. This led to structural and content-related changes to the standards. Below is an overview of the changes that resulted in the first set of 12 draft ESRS.



### Reduced Standards

12 instead of 13 Standards (ED ESRS G1 deleted)



### Revised materiality approach

Rebuttable presumption has been removed  
Mandatory disclosures were introduced  
Double materiality assessment still has to be made  
Specific methodology introduced by EFRAG



### Clarification of the relevance of stakeholders for the materiality assessment

Relevance of stakeholders depending on topics  
→ ex: nature is a silent stakeholder to be considered



### Introduction of phase-in provisions

Reporting of value chain information, financial effects and other aspects like social requirements or breakdown of total revenue by significant ESRS sector can be postponed up to three years



### Revised architecture and enhanced international interoperability

Changes in structure to align with TCFD and ISSB EFRAG (4 pillars): key concepts, definitions and DRs in the cross-cutting and climate standards more aligned with proposals by ISSB



### Simplification of the content

Streamlining: approx. -40% of DR's / -50% of datapoints  
Redundancies removed, finer definitions, and disclosure requirements and sub-topics merged or reorganised within the draft standards



### Metrics

Few new metrics have been added while other metrics have been deleted or rendered optional  
Majority of metrics in topical standards not required for value chain apart scope 3 for climate

The re-deliberation process conducted by EFRAG significantly reduced the number and granularity of the disclosure requirements (DR). Phase-in provisions also provided reliefs, and the expected reporting burden should be lower than the proposals in the EDs. However, a significant part of the reduction is due to the merging and restructuring of sub-topics, DRs and datapoints. For example, the four separate DRs on GHG emissions included in the climate change ED were merged into one DR in the climate change standard (E1-6 - Gross Scopes 1, 2, 3 and Total

GHG emissions). Despite the significant reduction and simplifications in reporting requirements and datapoints, the number of pages has only decreased by 11%. The ESRS still require comprehensive and detailed sustainability disclosures.

*For more information on the main changes compared to the ESRS EDs, read our fifth edition of the EU Sustainability Reporting Newsletter [here](#).*

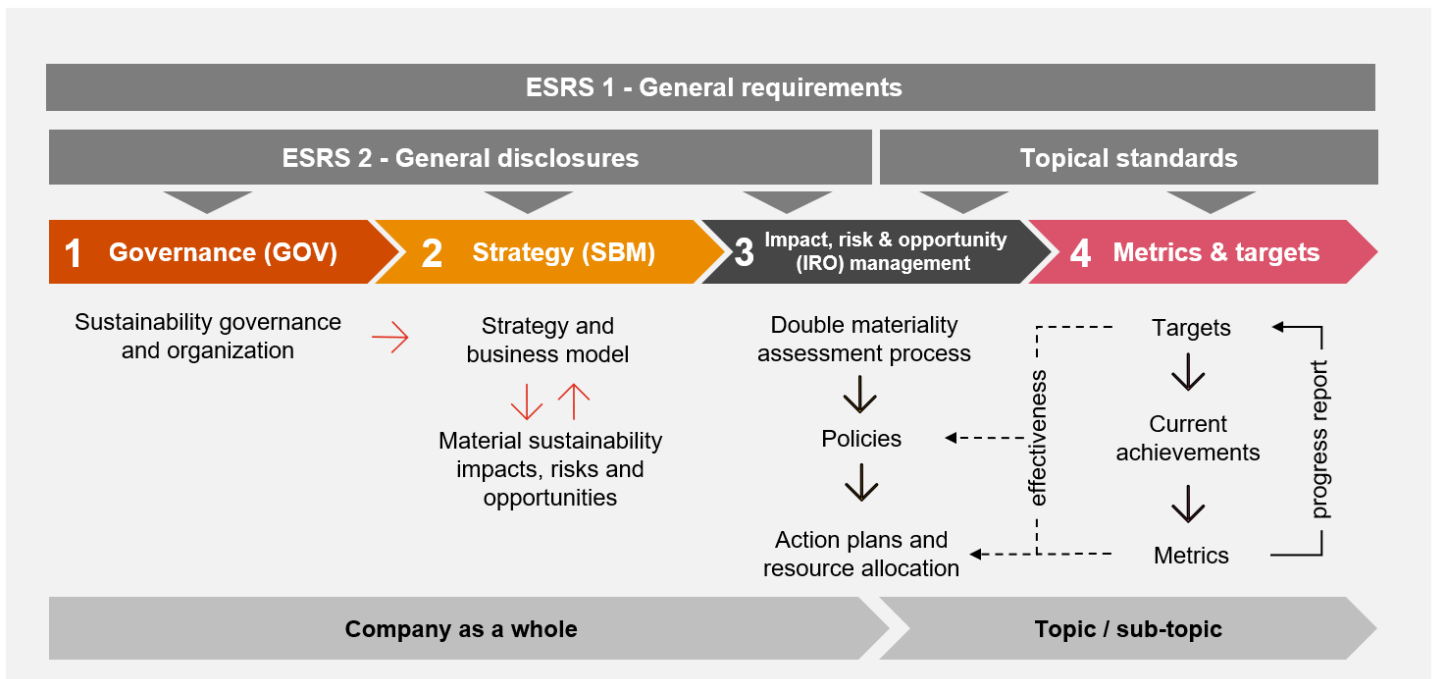
# Cross-cutting standards

## Overall architecture and interaction of standards

There are two cross-cutting standards:

- ESRS 1 General requirements providing general guidance on the conceptual requirements of the CSRD and laying a foundation of general reporting principles.
- ESRS 2 General disclosures providing DRs on general reporting issues, governance, strategy and business model and the double materiality assessment process of sustainability impacts, risks and opportunities.

The two cross-cutting standards define the basic architecture of future sustainability reporting, general reporting principles and transversal disclosures. They apply to all companies across all sustainability matters and interact with the topical standards for the Environment, Social and Governance (ESG) (see illustration below).



The previous three pillar structure of the ESRS EDs has been replaced by a new four pillar structure to enhance international interoperability: Governance, Strategy, Impact, risk and opportunity (IRO) management, and Metrics and targets. This is similar to the architecture of the TCFD and ISSB. All topical standards have been changed to mirror the new four pillar structure.

The first three reporting pillars ‘Governance’, ‘Strategy’ and ‘Impact, risk & opportunity (IRO) management’ are covered by ESRS 2 General disclosures. These should be assessed for the company as a whole. Each topical standard covers the policies and actions in the third reporting pillar

‘Impact, risk & opportunity (IRO) management’ and fourth reporting pillar ‘Metrics & targets’ on a topic/subtopic level. In addition, the topical standards refer back to ESRS 2 by providing additional focused DRs for the first three reporting pillars from a topical standpoint.

For example, ESRS E1 contains a topic-specific DR related to ESRS 2 and the Governance pillar (ESRS 2 GOV-3) requires the company to disclose whether the performance in incentive schemes of members of the administrative, management and supervisory bodies has been assessed against the GHG emission reduction targets.

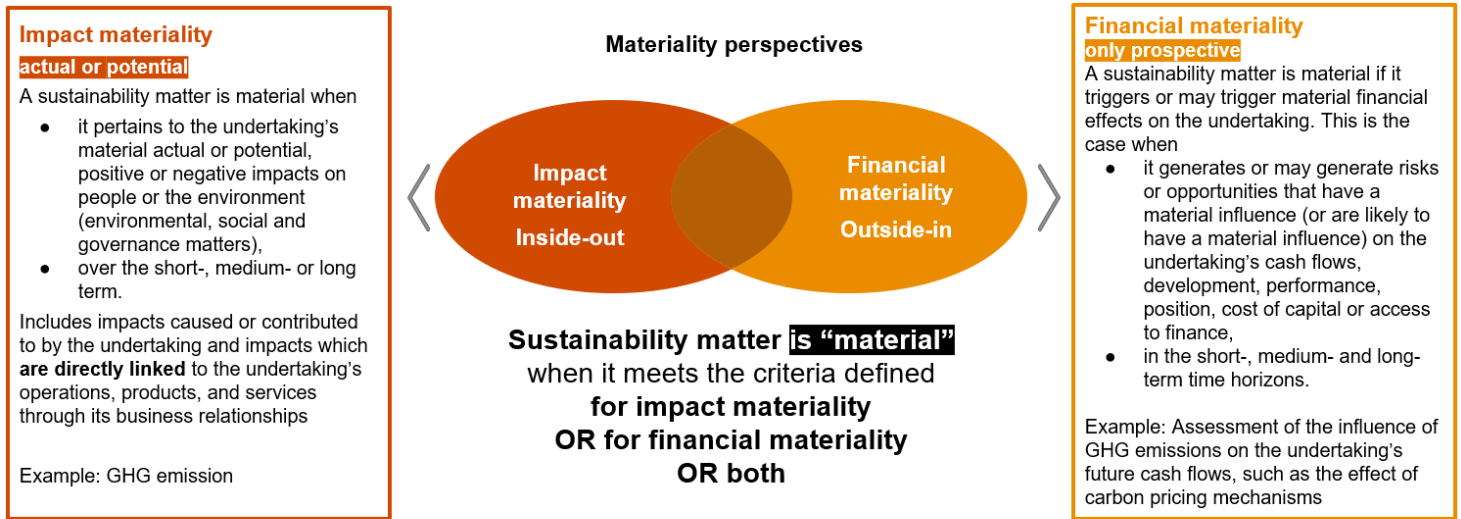
## ESRS 1 General requirements

ESRS 1 contains no DRs and sets out the general requirements that companies shall comply with when preparing and presenting sustainability-related information under the CSRD. This includes generally accepted reporting principles such as presenting comparative information, estimating under conditions of uncertainty and reporting errors

in prior periods. Furthermore, ESRS 1 provides guidance on the application of the fundamental concepts of the CSRD like double materiality, reporting boundaries and value chain, as well as on the transitional provisions. Below are selected aspects in more depth.

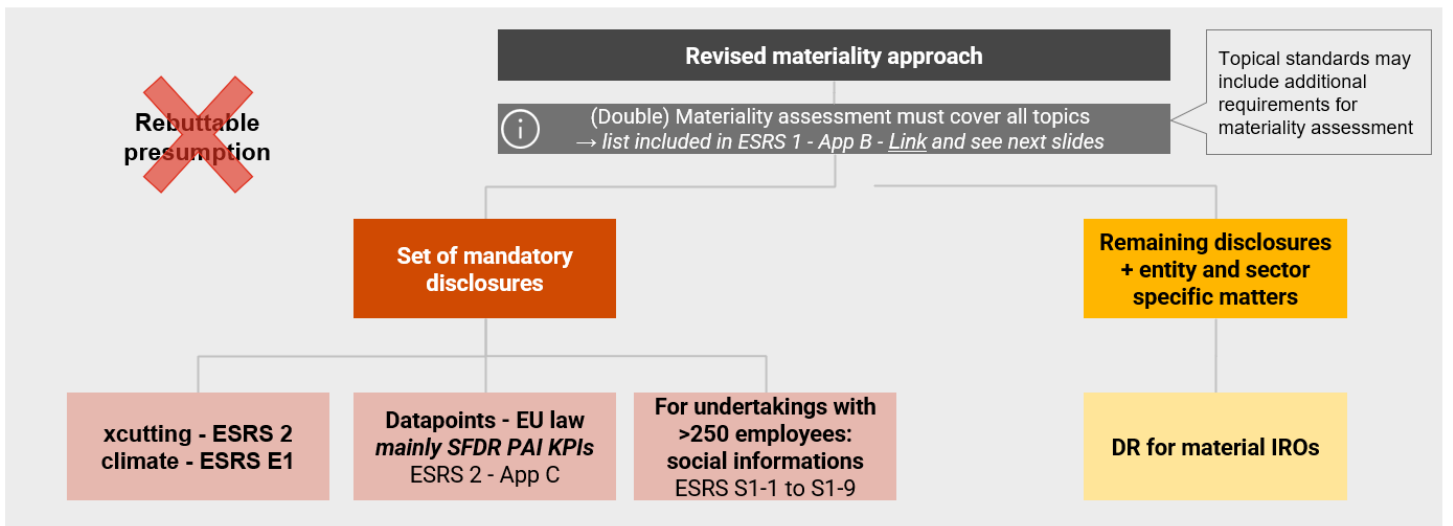
### Double materiality

The central CSRD concept is double materiality. This remains unchanged compared to the ESRS EDs. A sustainability matter is considered ‘material’ when it meets the criteria defined for impact materiality or for financial materiality or both, as illustrated below.



Consideration of impact on all affected stakeholders → individual + investors + business partners + NGOs...

### Revised materiality approach



**Different levels of materiality:**

**Materiality of matters**



**Materiality of information**



**Draft European Sustainability Reporting Standards**

**Regulatory update**

The ‘rebuttable presumption’ has been removed compared to the ESRS EDs. This is when all DRs are presumed material unless the company has reasonable and supportable evidence to rebut this.

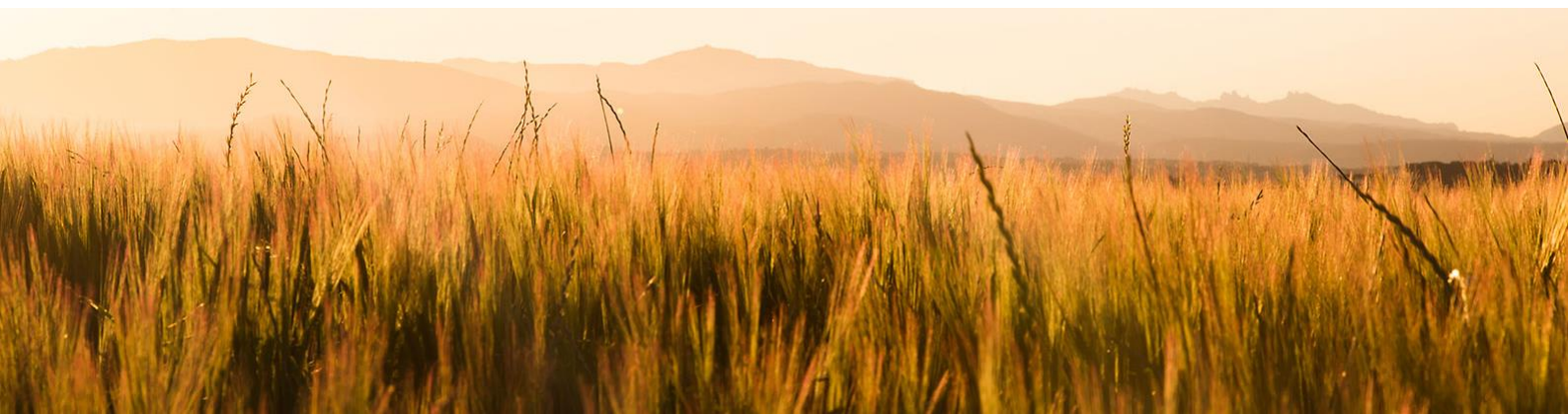
A materiality assessment must still be prepared but with a reduced scope since mandatory disclosures have been introduced. The mandatory disclosures that are to be reported irrespective of the outcome of the materiality assessment encompass:

- The entire cross-cutting standard ESRS 2 General disclosures and the entire topical standard ESRS E1 Climate change.
- Mandatory disclosures in cross-cutting and topical standards that emanate from relevant EU legislation, in particular the Sustainable Finance Disclosure Regulation (SFDR) (see ESRS 2, Appendix C).
- For companies with 250 or more employees, the DRs S1-1 to S1-9 in ESRS S1 Own workforce.

EFRAG provides guidance on how to do a materiality assessment:

- There is a mandatory list of topics to go through (see in E, S and G sections the list of mandatory topics)
- The revised materiality approach has a list of sustainability matters to be included in the company’s materiality assessment (ESRS 1, Appendix B). See what needs to be included in the materiality assessment of the environmental, social and governance matters below.

Environment			
ESRS	Topic	Sub-topic	Sub-sub-topic
ESRS E1	Climate change	<ul style="list-style-type: none"> <li>• Climate change adaptation</li> <li>• Climate change mitigation</li> <li>• Energy</li> </ul>	<div style="background-color: #f08080; padding: 2px; border: 1px solid #f08080;"> <span style="color: white; font-weight: bold;">ⓘ</span> ESRS E1 shall be included irrespective of the outcome of the materiality assessment                     </div>
ESRS E2	Pollution	<ul style="list-style-type: none"> <li>• Pollution of air</li> <li>• Pollution of water</li> <li>• Pollution of soil</li> </ul>	<ul style="list-style-type: none"> <li>• Pollution of living organisms and food resources</li> <li>• Substances of concern</li> <li>• Substances of very high concern</li> </ul>
ESRS E3	Water and marine resources	<ul style="list-style-type: none"> <li>• Water withdrawals</li> <li>• Water consumption</li> <li>• Water use</li> </ul>	<ul style="list-style-type: none"> <li>• Water discharges in water bodies and in the oceans</li> <li>• Habitat degradation and intensity of pressure on marine resources</li> </ul>
ESRS E4	Biodiversity and ecosystems	<ul style="list-style-type: none"> <li>• Direct impact drivers of biodiversity loss</li> </ul>	<ul style="list-style-type: none"> <li>• Climate Change</li> <li>• Land-use change</li> <li>• Direct exploitation</li> <li>• Invasive alien species</li> <li>• Pollution</li> <li>• Others</li> </ul>
		<ul style="list-style-type: none"> <li>• Impacts on the state of species</li> </ul>	<ul style="list-style-type: none"> <li>Examples: • Species population size</li> <li>• Species global extinction risk</li> </ul>
		<ul style="list-style-type: none"> <li>• Impacts on the extent and condition of ecosystems</li> </ul>	<ul style="list-style-type: none"> <li>Examples: • Land degradation</li> <li>• Desertification</li> <li>• Soil sealing</li> </ul>
ESRS E5	Resource use and circular economy	<ul style="list-style-type: none"> <li>• Resources inflows, including resource use</li> <li>• Resource outflows related to products and services</li> <li>• Waste</li> </ul>	



**Draft European Sustainability Reporting Standards**

**Regulatory update**

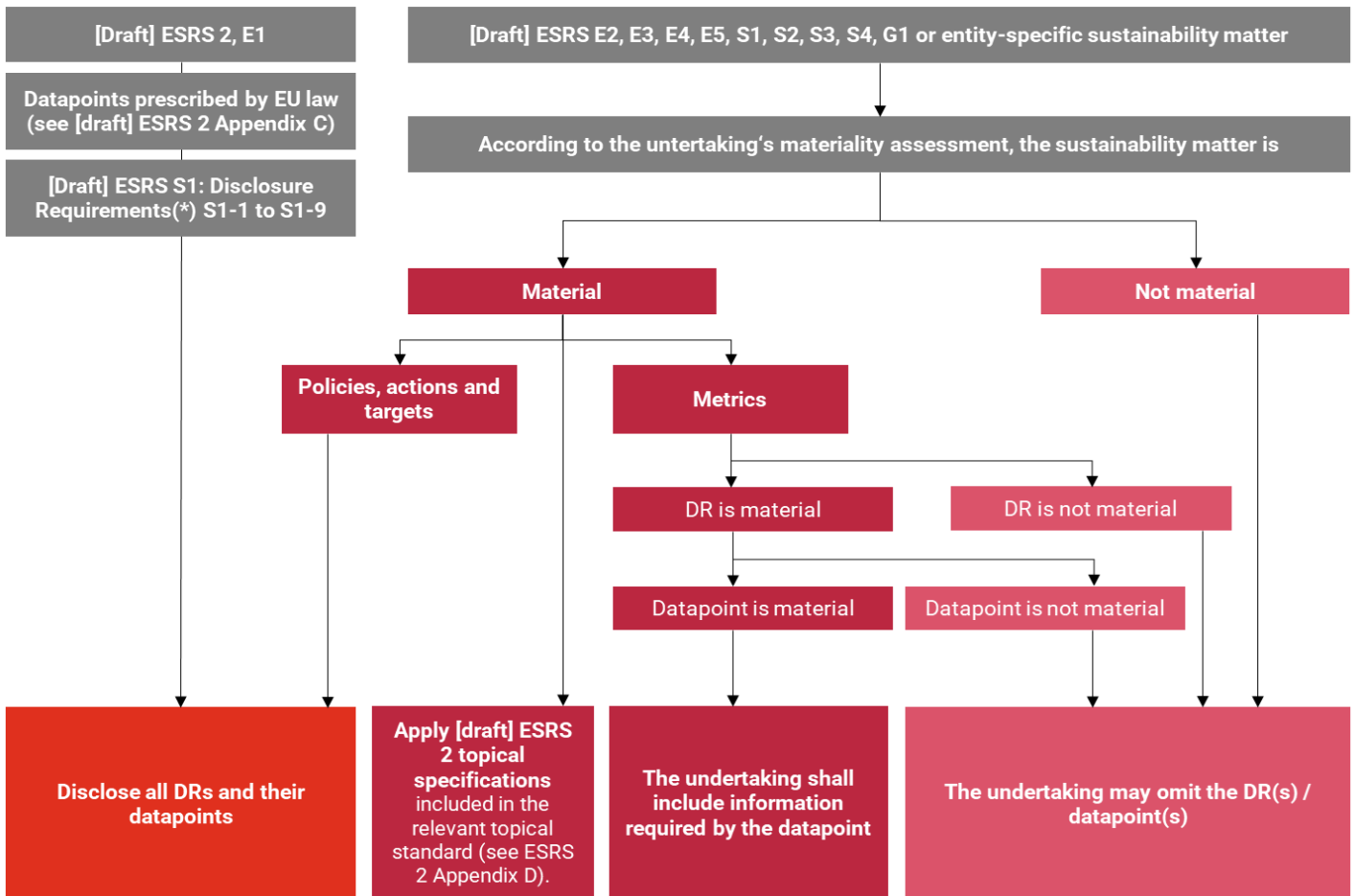
Social			
ESRS	Topic	Sub-topic	Sub-sub-topic
ESRS S1	Own workforce	<ul style="list-style-type: none"> <li>Working conditions</li> <li>Equal treatment and opportunities for all</li> <li>Other work-related rights</li> </ul>	<ul style="list-style-type: none"> <li>Secure employment • Working time • Adequate wages • Social dialogue • Freedom of association, the existence of works councils and the information, consultation and participation rights of workers • Collective bargaining, including rate of workers covered by collective agreements • Work-life balance • Health and safety</li> <li>Gender equality and equal pay for work of equal value • Training and skills development • Employment and inclusion of persons with disabilities • Measures against violence and harassment in the workplace • Diversity</li> <li>Child labour • Forced labour • Adequate housing • Privacy</li> </ul>
ESRS S2	Workers in the value chain	<ul style="list-style-type: none"> <li>Working conditions</li> <li>Equal treatment and opportunities for all</li> <li>Other work-related rights</li> </ul>	<ul style="list-style-type: none"> <li>Secure employment • Working time • Adequate wages • Social dialogue • Freedom of association, including the existence of work councils • Collective bargaining • Work-life balance • Health and safety</li> <li>Gender equality and equal pay for work of equal value • Training and skills development • The employment and inclusion of persons with disabilities • Measures against violence and harassment in the workplace • Diversity</li> <li>Child labour • Forced labour • Adequate housing • Water and sanitation • Privacy</li> </ul>
ESRS S3	Affected communities	<ul style="list-style-type: none"> <li>Communities' economic, social and cultural rights</li> <li>Communities' civil and political rights</li> <li>Particular rights of indigenous communities</li> </ul>	<ul style="list-style-type: none"> <li>Adequate housing • Adequate food • Water and sanitation • Land-related impacts • Security-related impacts</li> <li>Freedom of expression • Freedom of assembly • Impacts on human rights defenders</li> <li>Free, prior and informed consent • Self-determination • Cultural rights</li> </ul>
ESRS S4	Consumers and end-users	<ul style="list-style-type: none"> <li>Information-related impacts</li> <li>Personal safety</li> <li>Social inclusion</li> </ul>	<ul style="list-style-type: none"> <li>Privacy • Freedom of expression • Access to (quality) information</li> <li>Health and safety • Security of a person • Protection of children</li> <li>Non-discrimination • Access to products and services • Responsible marketing practices</li> </ul>

Governance			
ESRS	Topic	Sub-topic	Sub-sub-topic
ESRS G1	Business Conduct	<ul style="list-style-type: none"> <li>Corporate culture</li> <li>Protection of whistleblowers</li> <li>Animal welfare</li> <li>Political engagement and lobbying activities</li> <li>Management of relationships with suppliers including payment practices</li> </ul>	
		<ul style="list-style-type: none"> <li>Corruption and bribery</li> </ul>	<ul style="list-style-type: none"> <li>Prevention and detection including training • Incidents</li> </ul>

- There are criteria to assess if a topic is material from the double materiality perspective:
  - To assess impact materiality, for example the identification of actual negative impacts (determined by the severity of the impact) and potential negative impacts (determined by the severity and likelihood of the impact). During this process, the undertaking needs to engage with relevant stakeholders to understand the context in relation to its impacts. This includes its activities, business relationships, sustainability context and stakeholders. In addition, thresholds shall be adopted to determine the impacts to be covered in the sustainability statement.
  - To assess financial materiality, an undertaking needs to consider the existence of triggers of financial effects and the materiality of these triggers. Those triggers that generate risks or opportunities that have a material influence (or are likely to have a material influence) on the undertaking's cash flows, development, performance, position, cost of capital or access to finance over short-, medium- and long-term time horizons.
  - Impact materiality and financial materiality assessments are inter-related and the interdependencies between these two dimensions shall be considered.
- The revised materiality approach contains a set of mandatory DRs and datapoints, to be disclosed irrespective of the outcome of the materiality assessment.



For the remaining disclosures and entity and sector specific matters, there are specific provisions to identify the information to be reported in the event that a sustainability matter is material according to the company’s materiality assessment (see illustration below).



(\*) only for undertakings with 250 or more employees

Figure based on draft ESRS 1, Appendix F: Flowchart for determining disclosures to be included

If a company concludes that a certain sustainability matter is not material and omits all the DRs in a topical ESRS, it is required to explain the conclusions of its materiality assessment for the matter.

If a company comes to the conclusion that a certain sustainability matter is material, all DRs and datapoints related to policies, actions and targets shall be disclosed. If the company has no policies, actions or targets for the material sustainability

matter, the company shall disclose this and it may report a timeframe to have these in place, as these DRs and datapoints can not be omitted. In addition, all ESRS 2 topic-specific DRs included in the relevant topical standard shall be applied.

When reporting on metrics, the company may omit specific DR(s) or datapoint(s), if the company assesses those not to be material. In this case, such information is considered to be implicitly reported as not material for the company.

**Draft European Sustainability Reporting Standards**


**Regulatory update**

**Value chain**


Compared to the ESRS EDs the approach to the value chain has been simplified and refocused (see illustration below).




**...expanded to its upstream and downstream value chain**

- 

**Materiality approach on value chain**

→ information on the **material impacts, risks and opportunities** connected to the company through its direct and indirect business relationships in the upstream and/or downstream value chain (“value chain information”) → **qualitative information to understand material IRO**
- 

**Majority of quantitative metrics are only required at “own operation” level**

→ apart from ESRS E1 - Climate change → Scope 3 GHG emissions disclosure requirements
- 

**ESRS E1 - Climate change: Notion of operational control from GHG protocol**

→ some equity entities could be accounted for as scope 1 GHG emissions if the reporting company has the ability to control the operational activities and relationships of these entities, that is; can manage the GHG emission reduction

The reporting boundary would be based on the financial statements. It is expanded to cover material impacts, risks and opportunities related to the upstream (for example suppliers) and downstream (for example customers) value chain. This means that value chain information is not required for each disclosure, but only when specific provisions in the topical standards require it to do so. It is generally limited to material impacts, risk or opportunity, and most metrics only cover the company’s 'own operational' level. Exceptions to this can be found in ESRS E1 where value chain information is to be included for the disclosure of Scope 3 GHG emissions.

In addition, ESRS E1 foresees specific requirements for the assessment and disclosure of GHG emissions when a company has to apply the concept of 'operational control' to defining its value chain. If the company has operational control over an equity accounted entity (associate, joint venture or unconsolidated subsidiary) the full Scope 1 and 2 GHG emissions of this entity have to be included in the reporting company’s Scope 1 and 2 GHG emissions (see ESRS E1 paragraph 44). Operational control means that the company has the ability to control the operational activities and relationships of an entity and manage the GHG emission reduction.

The inclusion of value chain information may be postponed by three years, except for datapoints mandated by other EU regulation, ESRS 2 General Disclosure and ESRS E1 Climate change (see next page the section on 'Transitional provisions and phased-in disclosures').

**Transitional provisions and phased-in disclosures**

In order to support companies in the first years of implementation, transitional provisions have been introduced to various DRs and datapoints (see where they relate below).

Entity specific disclosures	Value chain	Comparative information	12 Disclosures
<p>When defining its entity-specific disclosures, the undertaking may adopt transitional measures for their preparation in the <b>first 3 annual sustainability statements</b></p>	<p>For the <b>first 3 years</b>, if information regarding the value chain is not available, the undertaking shall explain</p> <ul style="list-style-type: none"> <li>- the efforts made to obtain the information,</li> <li>- the reasons why this information could not be obtained, and</li> <li>- the plans to obtain such information in the future.</li> </ul> <p><i>Except when value chain data is needed to comply with the requirements of other pieces of EU legislation</i></p>	<p>Presentation of comparative information may be deferred by <b>1 year</b></p>	<p>Application date of twelve disclosures has been postponed <b>between 1 and 3 years</b>, among others:</p> <ul style="list-style-type: none"> <li>- Potential financial effects from environmental-related IROs</li> <li>- Selected requirements of ESRS S1 (e.g. adequate wages, social protection for non-employee workers)</li> <li>- Breakdown of revenue by 41 ESRS sectors from 2025 onwards</li> </ul> <p><i>See ESRS 1 - Appendix D: List of phased-in DRs</i></p>

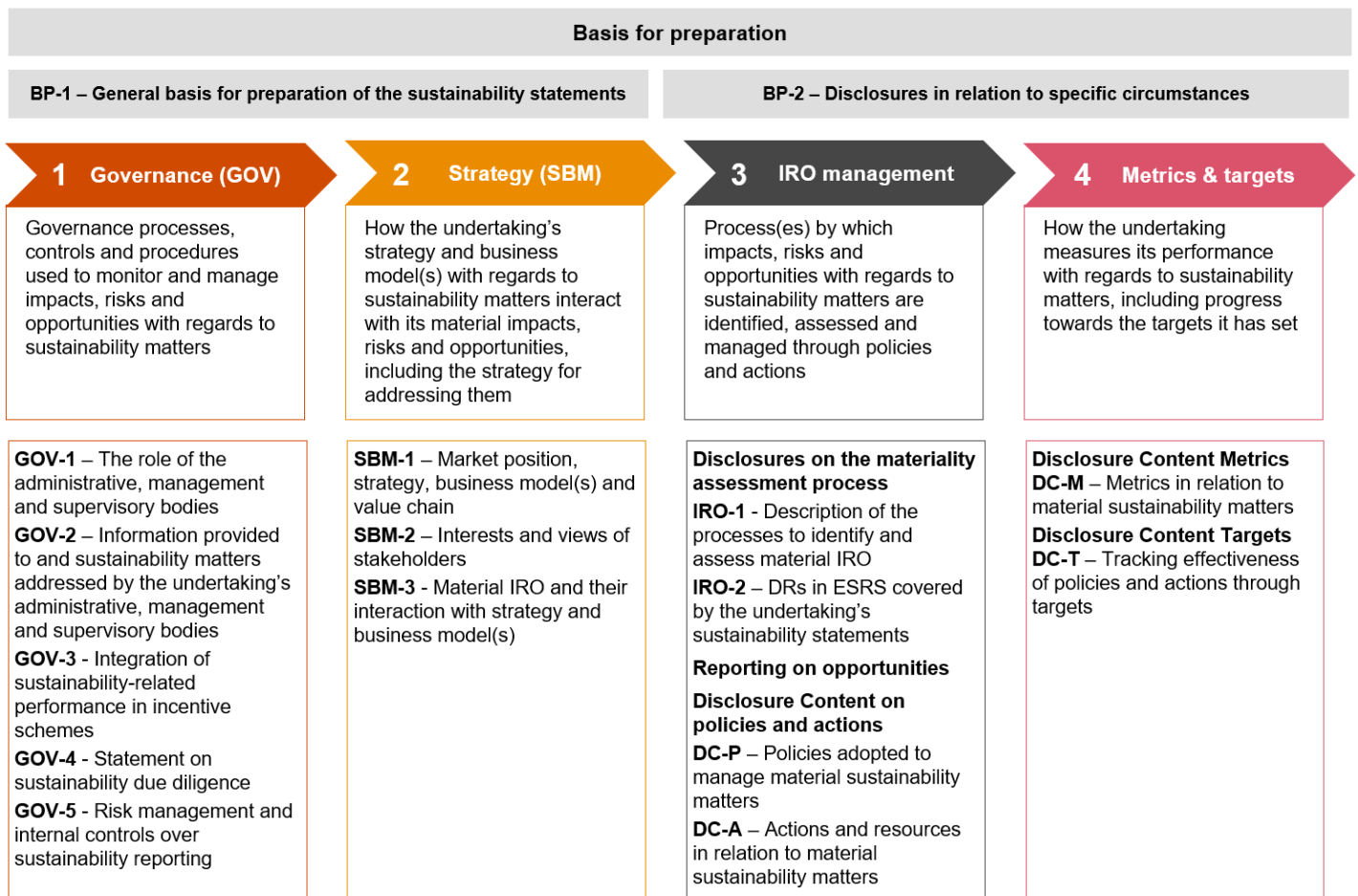


## ESRS 2 General disclosures

ESRS 2 contains the general disclosures that apply to all companies regardless of their sector of activity (sector agnostic) and apply across sustainability topics (cross-cutting).

The number of DRs has been reduced from 22 DRs in the ED ESRS 2 to 12 DRs in ESRS 2. The reduction is due to a reorganisation where several DRs have been merged and simplified. The entire ESRS 2 is to be applied by all companies irrespective of the outcome of the materiality assessment.

The structure of ESRS 2 has changed according to the revised four pillar structure. See an overview of the content of ESRS 2 below.



# Topical standards

## Environment standards

The environment section has five standards relating to the environment. These are climate change, pollution, water and marine resources, biodiversity and ecosystems, resource use and circular economy.

The standards should be read in conjunction with the cross-cutting standards, ESRS 1 and ESRS 2,

where the structure of the standards is based on the revised architecture with the four pillars. Each environment standard is also divided into four pillars mirroring the architecture of ESRS 2.

Here are overviews and some high-level quantitative metrics for each standard.

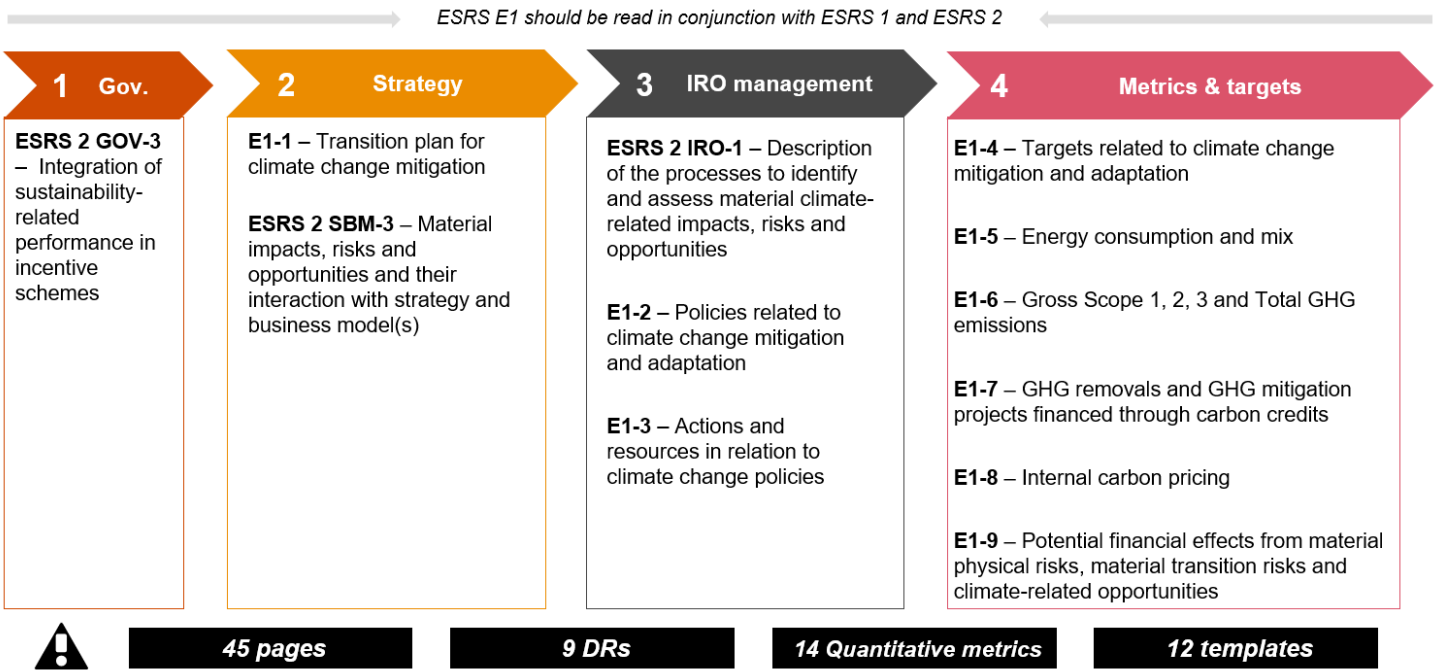
### ESRS E1 Climate change

The importance of climate change is demonstrated by the fact that the application of ESRS E1 is mandatory for all companies irrespective of the outcome of the materiality assessment.

ESRS E1 became mandatory, as Scope 1, Scope 2 and Scope 3 (where relevant) were added to the

information that companies are to disclose about environmental factors in the final text of the CSRD.

The structure of the ESRS E1 has changed according to the revised four pillar structure. See below an overview of the content of ESRS E1.



**Draft European Sustainability Reporting Standards**

**Regulatory update**

**What are the metrics included?**

It is important to note that each high-level metric can further be divided into additional metrics. Energy consumption and mix, for example, could be disaggregated into more detailed metrics.

Energy	
1	Total energy consumption from <b>non-renewable sources</b> for high climate impact sectors disaggregated by sources (ie coal, gas...)
2	Total energy consumption from <b>renewable sources</b> disaggregated by sources (ie biomass, biogas, purchased electricity...)
3	Energy intensity based on net revenue (for high impact sectors only) €

GHG emissions	
4	Gross Scope 1 GHG emissions
5	Gross Scope 2 GHG emissions ( <b>BOTH</b> location and market based approach)
6	Gross Scope 3 GHG emissions
7	Total emissions (Scope 1 - 3)
8	<b>Intensity ratio</b> = (Total GHG emissions (t CO2eq) / Net revenue (Monetary unit)) €

GHG emissions	
9	GHG <b>removals and storage</b> from its <b>own operations</b> and its upstream and downstream value chain
10	The amount of GHG <b>emission reductions or removals</b> from climate change mitigation projects <b>outside its value chain (= carbon credits)</b>
11	The <b>shadow prices</b> applied for CapEX or R&D investment decision making, internal carbon fees or internal carbon funds €

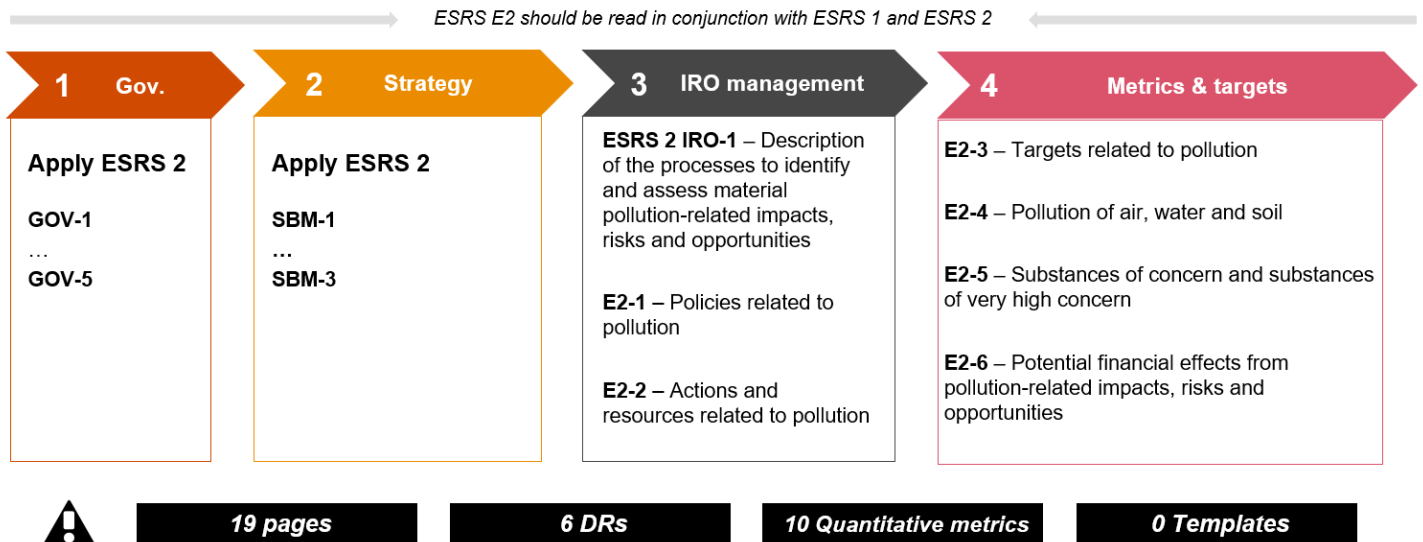
Potential financial effects	
12	Potential financial effects from material physical risks <ul style="list-style-type: none"> <li>- % assets exposed, disaggregated by monetary amount + location using NUTS)</li> <li>- the monetary amount and proportion (percentage) of net revenue from its business activities at material physical risk over the short-, medium- and long-term time horizons</li> </ul> €
13	Potential financial effects from material transition risks <ul style="list-style-type: none"> <li>- <b>the amount of potentially stranded assets</b> from the reporting year until 2030 and from 2030 to 2050,</li> <li>- breakdown of <b>the carrying value of its real estate assets</b> by energy efficiency classes (as per Directive 2010/31/EU ),</li> <li>- <b>the proportion (percentage) of total assets</b> (including finance lease/right-of-use assets) at material transition risk</li> </ul> €
14	Potential financial effects from climate related opportunities (shall explain shall explain the nature of the cost savings (e.g., from reduced energy consumption)) €

★ Phase-in provisions applicable € includes a financial component



## ESRS E2 Pollution

The structure of ESRS E2 has changed according to the revised four pillar structure. See below an overview of the content of ESRS E2.



### What are the required metrics?

Emission of pollutants: own operations <small>(in tonnes or kilogrammes)</small>	
1	Emissions of air pollutants generated by the undertaking (e.g sulphur dioxides (SO2))
2	Emissions to water generated by the undertaking (e.g phosphates and pesticides)
3	Emissions of inorganic pollutants generated by the undertaking
4	Emissions of ozone-depleting substances generated by the undertaking (e.g chlorofluorocarbons (CFCs))
5	Microplastics generated or used by the undertaking (e.g exfoliating beads in facial or body scrubs)

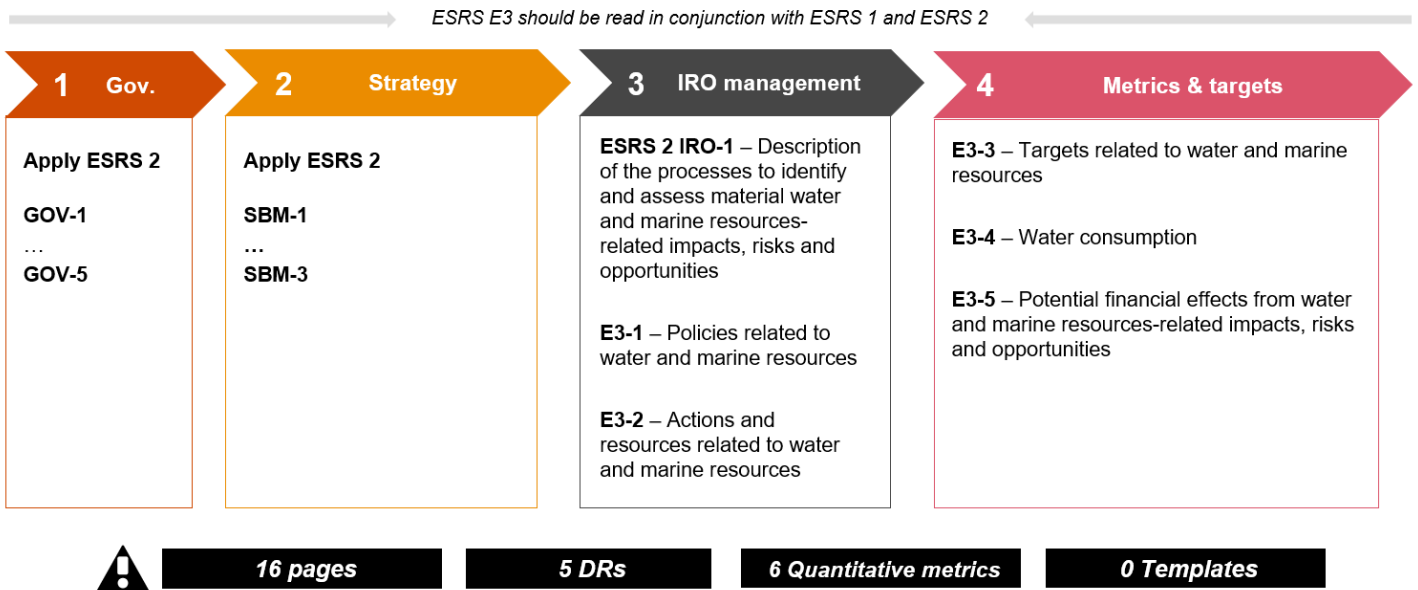
Substances of concern & substances of very high concern <small>(in tonnes or kilogrammes)</small>	
6	The total amounts of substances of concern that are generated or used during the production or that are procured, and that leave its facilities as emissions
7	The total amounts of substances of very high concern (e.g., embedded in ingredients, semi-finished products, or the final product)

Potential financial effects <small>(in monetary terms of single amount or a range)</small>	
8	Share of net revenue made with products and services that are or that contain substances of concern and substances of very high concern €
9	Operating and capital expenditures occurred in the reporting period in conjunction with major incidents and deposits €
10	Provisions for environmental protection and remediation costs (e.g., for rehabilitating contaminated sites, recultivating landfills) €

★ Phase-in provisions applicable € includes a financial component

## ESRS E3 Water and marine resources

The structure of the ESRS E3 has changed according to the revised four pillar structure. See below an overview of the content of the ESRS E3.



### What are the required metrics?

Water consumption performance (own operations)	
1	Total water consumption in m³
2	Total water consumption in m³ in areas at material water risk, including areas of high-water stress
3	Total water recycled and reused in m³
4	Total water stored and changes in storage in m³

Water intensity (own operations)	
5	Total water consumption in m3 per net revenue €

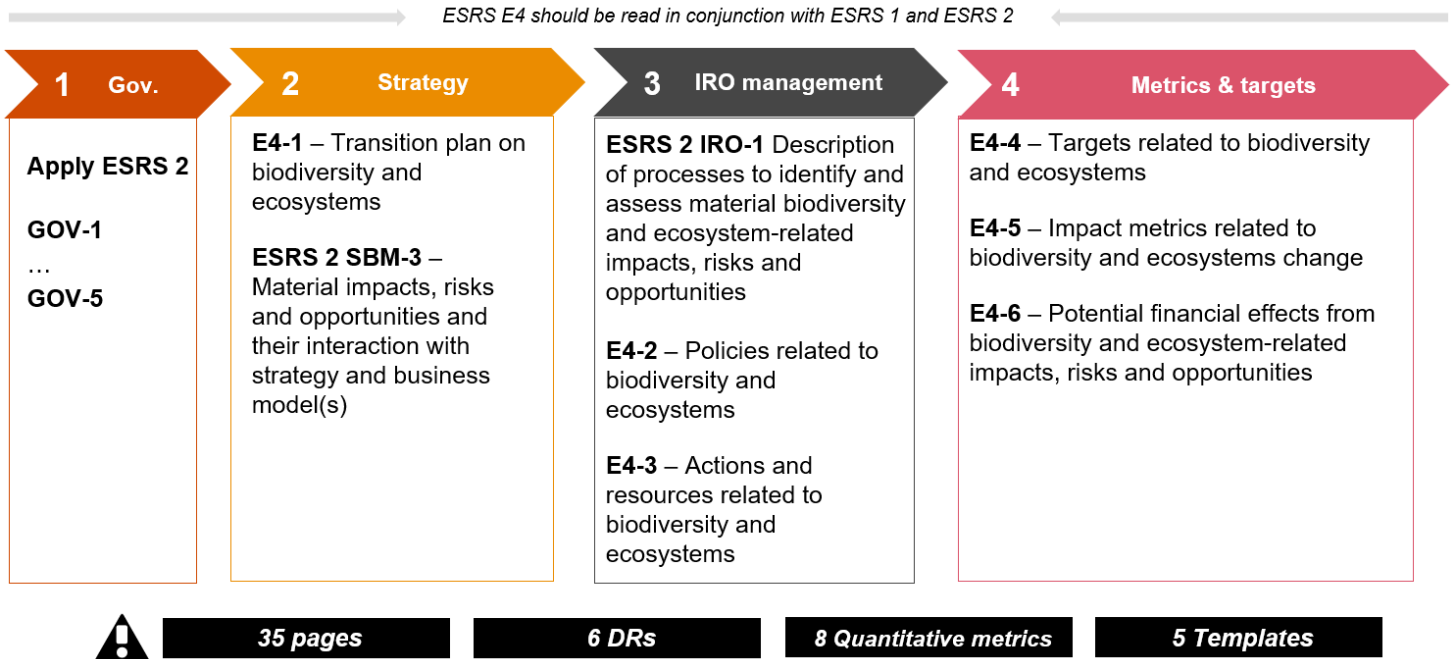
Potential financial effects (in monetary terms of single amount or a range) ★	
6	Quantification of the potential financial effects in monetary terms or where impracticable, qualitative information €

★ Phase-in provisions applicable € includes a financial component



## ESRS E4 Biodiversity and ecosystems

The structure of ESRS E4 has changed according to the revised four pillar structure. See below an overview of the content of ESRS E4.



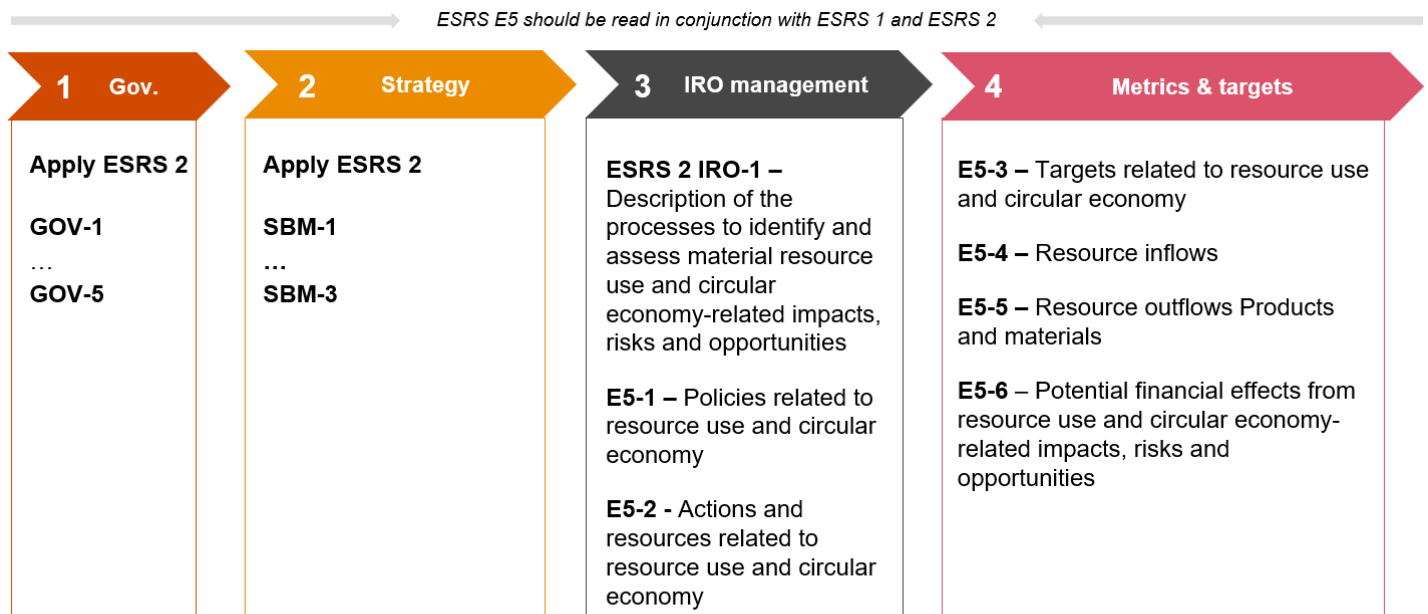
### What are the metrics included?

Metrics and Targets		Potential financial effects <span style="float: right;">★</span>	
1	The number and area (in hectares) of sites owned, leased or managed in or near these protected areas or key biodiversity areas	6	Potential financial effects from material impacts <span style="float: right;">€</span>
2	Land-use based on a Life Cycle Assessment	7	Potential financial effects from material risks <span style="float: right;">€</span>
		8	Potential financial effects from opportunities <span style="float: right;">€</span>
Impact metrics		<i>no prescription on metrics principle - based approach</i>	
3	Metrics on impact drivers of land use change, freshwater-use change and / or sea-use change		
4	Metrics on impact drivers of accidental or voluntary introduction of invasive alien species		
5	Metrics on impacts related to ecosystems, the undertaking shall consider, as per ecosystem category		

★ Phase-in provisions applicable € includes a financial component

## ESRS E5 Resource use and circular economy

The structure of ESRS E5 has changed according to the revised four pillar structure. See below an overview of the content of ESRS E5.



**19 pages**

**6 DRs**

**10 Quantitative metrics**

**0 Templates**

### What are the metrics included?

Resource inflows	
1	the overall <b>total weight</b> of products and materials used during the reporting period
2	<b>the weight in both absolute value and percentage</b> of renewable input materials from regenerative sources used to manufacture the undertaking's products and services (including packaging); and
3	<b>the weight in both absolute value and percentage</b> , of reused or recycled products and materials (non-virgin) used to manufacture the undertaking's products and services (including packaging).
Resource outflows	
4	the <b>total weight (tonnes)</b> and percentage of materials that come out of the undertaking's products and services production process (including packaging) that have been designed along circular principles
5	the <b>weight and percentage</b> of products and materials that come out of the undertaking including packaging that, even if they do not meet the requirement required by paragraph 35(a), are designed to enhance/enable circular economy for customers further down the value chain

Waste	
6	the <b>total amount of waste</b> generated
7	for each type of hazardous and non-hazardous waste, the amount by weight diverted from disposal by recovery operation type and the total amount summing all three types
8	for each type of hazardous and non-hazardous waste, the amount by weight directed to disposal by waste treatment type and the total amount summing all three types
9	total amount of hazardous waste and radioactive waste generated by the undertaking, where radioactive waste is defined in Article 3(7) of Council Directive 2011/70/Euratom
Potential financial effects <span style="float: right;">★</span>	
10	The quantification of the potential material financial effects in monetary <b>€</b> terms

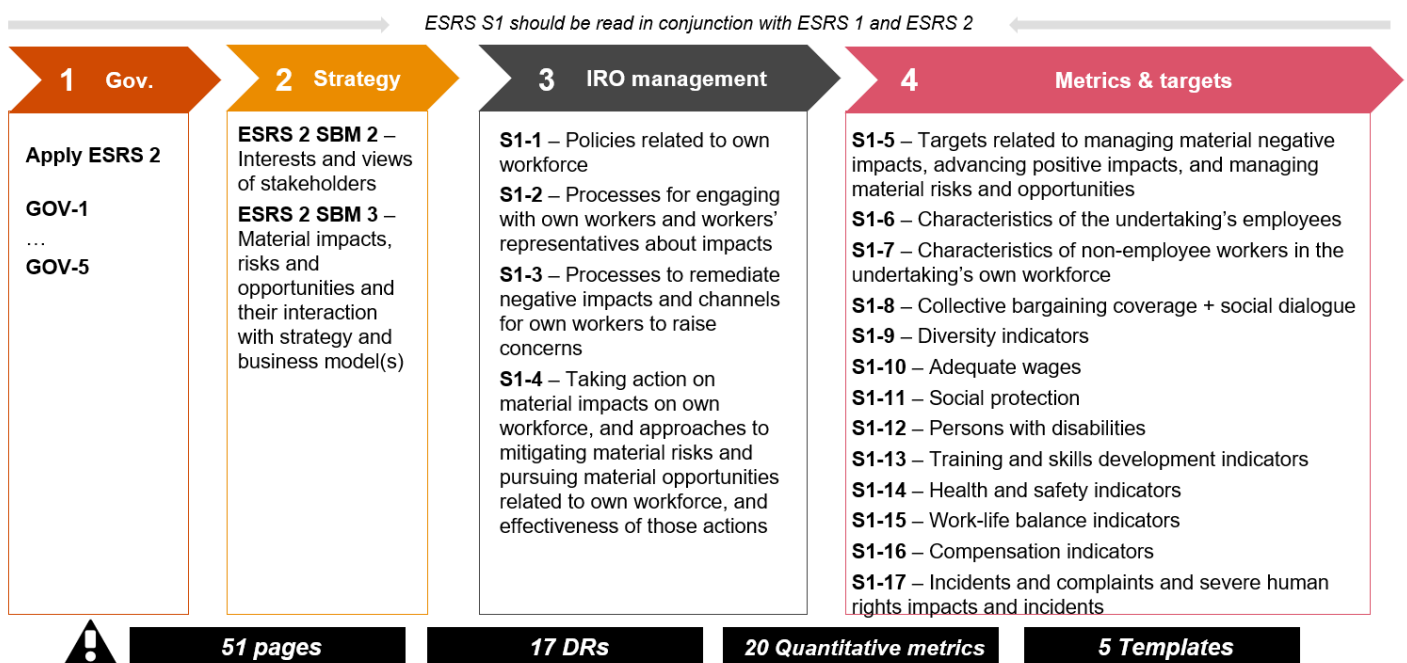
★ **Phase-in provisions applicable** € includes a financial component

## Social standards

There are four social standards. Each standard addresses a specific type of stakeholder: the S1 standard is about the company’s own workforce, the S2 standard discusses its value chain workers, the S3 standard targets the communities affected by its operations and the S4 standard considers its consumers and end-users.

### ESRS S1 Own workforce

The structure of ESRS S1 has changed according to the revised four pillar structure. See below an overview of the content of ESRS S1.



### What are the metrics included?

General		Working conditions	
1	The total <b>number</b> and <b>rate</b> of employee turnover	6	The <b>percentage</b> of workers paid below adequate wages (by country and employee type) ★
2	The total <b>number</b> of employees (by gender, country/region & employment type) ★	7	The <b>percentage</b> of workers not covered by social protection against loss of income due to major life events (by country and employee type) ★
3	The total <b>number</b> of non-employee workers ★	8	The <b>percentage</b> of workers covered by health & safety management system
<b>Working conditions</b>		9	The <b>number</b> of work-related fatalities, accidents, ill-health cases and injuries (by employee type)
4	The <b>percentage</b> of employees covered by collective bargaining (by agreement and country/region) ★	10	The <b>percentage</b> of employees entitled to take family-related leaves
5	The <b>percentage</b> of employees covered by workers’ representatives for social dialogue (by country) ★	11	The <b>percentage</b> of entitled employees that took family-related leaves (by gender)



**Draft European Sustainability Reporting Standards**

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**Equal treatment and opportunities**

12	The <b>percentage</b> and <b>number</b> of employees at top management (by gender) - NB: different than gender diversity on the board from ESRS 2	
13	The <b>distribution of employees</b> by age group (below, above or in 30-50 yrs old bracket)	
14	The <b>percentage</b> of employees with disabilities	
15	The <b>percentage</b> of employees with regular performance/career development reviews (by employee type and gender)	★
16	The average <b>number</b> of training hours per employee (by employee type and gender)	★

**Equal treatment and opportunities**

17	The male-female pay gap expressed as a <b>percentage</b> of average gross hourly earnings of male paid employees
18	The annual <b>total compensation ratio</b> of the highest paid individual to the median annual total compensation for all employees

**Other work-related rights**

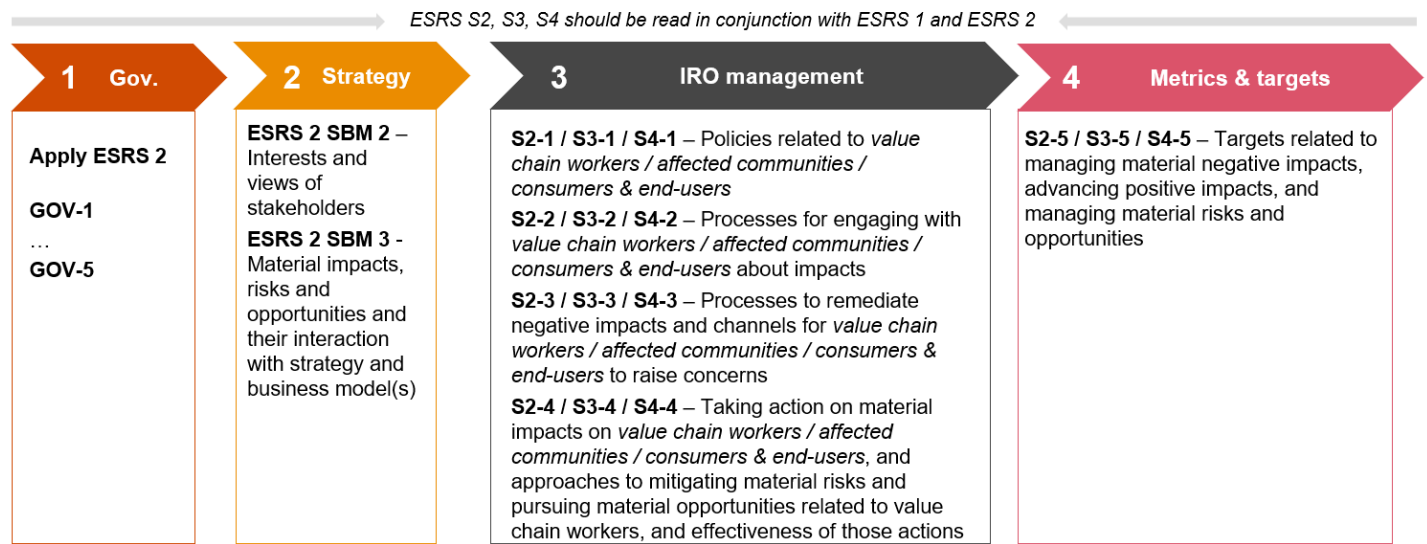
19	The <b>number</b> of incidents, complaints, issues & violations within workforce related to its work, social & human rights	
20	The <b>total amounts</b> of material fines, penalties, and compensation for damages & violations of social/human rights	€

★ Phase-in provisions applicable € includes a financial component

**ESRS S2 Value chain workers, S3 Affected communities and S4 Consumers and end-users**

DRs contained in the ESRS S2, S3 and S4 are all the same and relate to the impacts, risk and opportunities management of the company. There are no quantitative metrics (or any template) for these standards as these indicators will be developed at the sector level.

The structure of the ESRS E3 has changed according to the revised four pillar structure. See below an overview of the content of the ESRS E3.



**Pages: 20 (S2), 19 (S3), and 17 (S4)**

**5 DRs**

**0 Templates**

## Governance standard

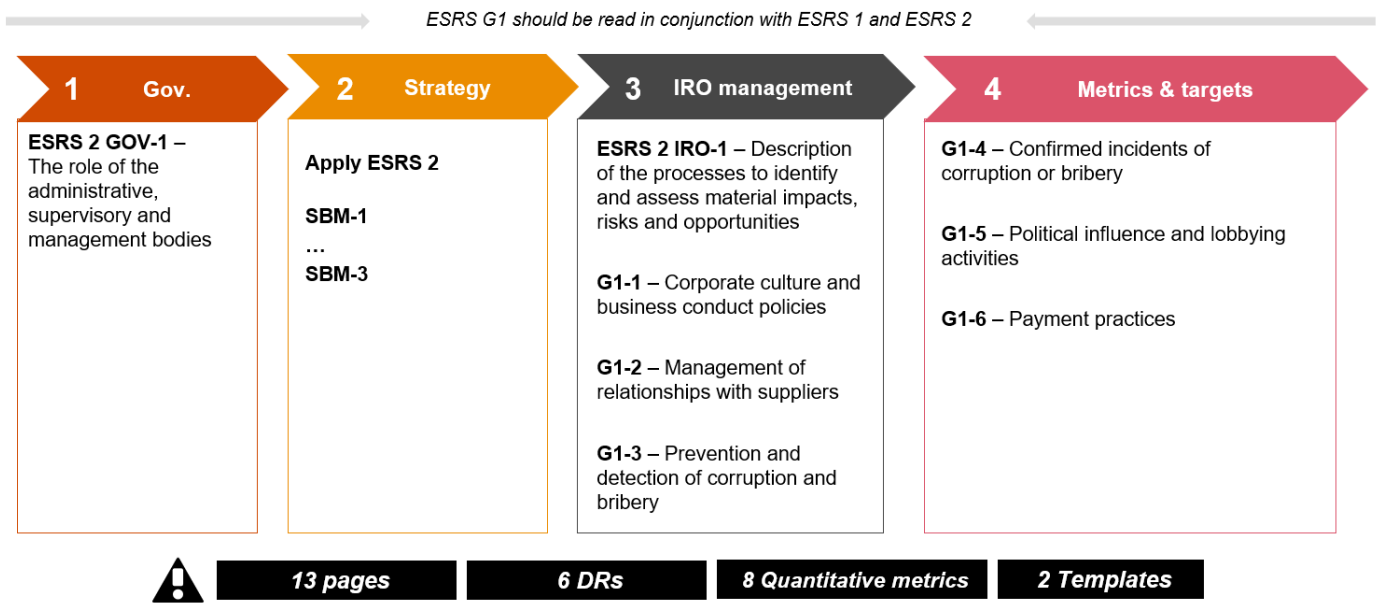
The public consultation revealed concerns on the governance ED as they went beyond sustainable governance. The final text of the CSRD was refined for the governance standards to consider only sustainability matters. The result was several DRs have been deleted, and others have been refocused to only cover sustainability matters.

The governance standards have been reduced to one standard: ESRS G1 Business conduct. It discusses the business conduct of the company, notably corruption, bribery and corporate culture. The standard has six DRs and includes several quantitative metrics.

The ESRS G1 should be read in conjunction with the cross-cutting standards, ESRS 1 and ESRS 2, where the structure of the standard is based on the revised four pillar architecture.

## ESRS G1 Business conduct

The structure of ESRS G1 has changed according to the revised four pillar structure approach. See below an overview of the content of ESRS G1.



### What are the metrics included?

Prevention and detection of corruption or bribery		Political influence and lobbying activities	
1	The percentage of functions-at-risk covered by training programmes relating to corruption and bribery and, where applicable, the information relating to members of the administrative, supervisory and management bodies	6	The total monetary value of financial and in-kind political contributions made directly and indirectly by the undertaking aggregated by country or geographical area where relevant, as well as type of recipient/beneficiary <b>€</b>
Confirmed incidents of corruption or bribery		Payment practices	
2	The total number and nature of confirmed incidents of corruption or bribery	7	The average time the undertaking takes to pay an invoice from the date when the contractual or statutory term of payment starts to be calculated, in number of days
3	The number of convictions and the amount of fines for violation of anti-corruption and anti-bribery laws	8	The number of legal proceedings (currently outstanding) during the reporting period for late payments
4	The number of confirmed incidents in which own workers were dismissed or disciplined for corruption or bribery-related incidents	<b>€ includes a financial component</b>	
5	The number of confirmed incidents relating to contracts with business partners that were terminated or not renewed due to violations related to corruption or bribery		

## Key comments from the opinion letters of the ESMA, EBA, EIOPA and ECB

As of February 2023, the following supervisory authorities released their opinion letters on the ESRS:

- [The European Securities and Markets Authority](#) (ESMA)
- [The European Banking Authority](#) (EBA)
- [The European Insurance and Occupational Pensions Authority](#) (EIOPA)
- [European Central Bank](#) (ECB)

These European agencies broadly support the revised set of sustainability reporting standards and acknowledge the significant improvements, as compared with the initial draft standards issued for comment.

In particular, there is a common view that the proposed standards will allow a sufficient level of interoperability with international standards. It is also considered that they will promote and improve the quality of sustainability reporting.

However, these agencies have stressed the importance of providing additional guidance on materiality assessment and emphasised the need for interpretative support and proper maintenance of the standards over time.





**Draft European Sustainability Reporting Standards**

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# Next steps

The adoption of the first set of ESRS (cross-cutting and topical standards) by the European Commission is expected by 30 June 2023 through the Delegated Acts. The development of the second set of ESRS (sector-specific standards) is underway and the first drafts should be released for public consultation in April 2023. On the financial institutions side, due to resource constraints, the earliest some guidance (or the entire standards) can be enacted is June 2025 (Set 3, effective in 2026).



>39 sector-specific standards



Reporting standards for third-country companies will most likely not be submitted by November 2023



Requirements dropped from sector-agnostic standards expected to be reintegrated through sector-specific ones

Set 2 – November 2023	Set 3 – November 2024		Set 4 – November 2025
drafts available in April: <ul style="list-style-type: none"> <li>Coal and mining</li> <li>Oil and gas - downstream (and if feasible Upstream in the same ED)</li> </ul> drafts available in May <ul style="list-style-type: none"> <li>Agriculture, farming and fishing</li> <li>Transport (road)</li> </ul> + listed SMEs standards	Building materials Construction and engineering Construction and furnishing Defence Electronics Information technology Machinery and equipment Medical instruments Metal processing Motor vehicles Paper and wood products Textiles, Accessories, footwear and jewellery	Pharma and Biotechnology Real estate Sales and Trade Sporting equipment and Toys Tobacco Transportation Water and waste services Chemical products Coal mining Forestry Oil and gas - upstream Food and beverage Power production and energy utilities	Accommodations Capital markets Credit institutions Education Food and beverage services Gaming Health care and services Insurance Marketing Media and communication Professional services Recreation and leisure



Still being defined / prioritized by EFRAG - last update 1 February 2023

The final version of the CSRD was published in the EU Official Journal on 16 December 2022 and is available in all languages [here](#). The CSRD will need to be transposed into the various national laws of the Member States of the European Union by 6 July 2024 (in practice, the CSRD is effective from 1 Jan 2024). Each Member State has the possibility to provide for national provisions that are more stringent than those provided for in the directive and/or to decide on the provisions left to the discretion of Member States.

You can find more information on the recent sustainability reporting initiatives in the EU and globally in our:

- [EU Newsletter Sustainability Reporting #4](#) with our comments on the ED ESRS, the ED from the International Sustainability Standards Board (ISSB) and the climate-related disclosures proposed by the Securities and Exchange Commission (SEC) - all released for public consultation in 2022.
- [EU Newsletter Sustainability Reporting #5](#) with in-depth analysis of the CSRD.

For a deeper insight into the CSRD, in particular into the CSRD provisions on scope and first-time application, for example:

- Which companies are within the scope of the CSRD reporting requirements?
- When is the first-time application for companies in scope?
- Which type of standard is to be used for sustainability reporting?
- Are companies within the scope of the CSRD reporting requirements also within the scope of Article 8 of the Taxonomy Regulation (Regulation (EU) 2020/852)?
- Are there any specificities, such as exemption possibilities, that should be considered?

Refer to our FAQs 'What you need to know about the Corporate Sustainability Reporting Directive' on Viewpoint ([here](#)).

# Regulatory update



## Publication of Taxonomy Regulation FAQs

Non-financial companies in scope of the Taxonomy Regulation are required for the first time to report on Taxonomy-alignment for the financial year 2022. This is in relation to the environmental objectives, climate change mitigation and climate change adaptation. Building on prior year's disclosures on eligibility reporting, companies have to indicate the extent their turnover, capital expenditure (CapEx) and operating expenditure (OpEx) are related to economic activities that are Taxonomy-aligned. That is activities that meet all technical screening criteria (substantial contribution, do no significant harm (DNSH) criteria, as specified in the Climate Delegated Act ([\(EU\) 2021/2139](#))) and the minimum safeguards according to Article 18 of the Taxonomy Regulation ([\(EU\) 2020/852](#)).

On 19 December 2022, the European Commission (EC) published two additional frequently asked questions (FAQ) documents in the form of draft commission notices. One batch of FAQs includes 34 FAQs on the disclosure requirements ([here](#)) that are specified in the Disclosures Delegated Act ([\(EU\) 2021/2178](#)). The other batch dedicates 187 FAQs to the technical screening criteria ([here](#)) listed in the Climate Delegated Act. These publications complement the documents published in [December 2021](#) and [February 2022](#) (publication in the Official Journal of the EC on 6 October 2022). The information given by the EC in the FAQ-documents serve as clarification of the applicable legal provisions. They are not legally binding and do not extend the rights and obligations arising from the Taxonomy Regulation. The FAQ will be translated into all official languages of the EU and subsequently published in the Official Journal. The documents currently still marked as drafts are considered formally adopted with this publication. Based on the commission notice of February 2022, no changes to the content are expected as part of this process.

The scope of the documents illustrates the considerable need for interpretation of the Taxonomy Regulation and the delegated regulations. The high number of FAQs also gives an indication of the extensive feedback from practitioners provided to the EC. These extensive clarifications were published very late in the current reporting period. Companies should not delay in dealing with the FAQs and compare their approaches and interpretations with the explanations given by the EC.





## Latest updates from the ISSB, GRI and SEC

### ISSB

The ISSB held a few board meetings these past months regarding its draft sustainability standards ([here](#)), IFRS S1 and IFRS S2. Some of the key proposals, recommendations and decisions include:

- Draft IFRS S1 (General Sustainability-related disclosures)
  - Expanding and clarifying aspects of the illustrative guidance to help entities identify sustainability-related risks and opportunities, as well as material information about those risks and opportunities.
  - Adding an exemption that would permit entities, in limited circumstances where information is not already publicly available, to exclude information about sustainability-related opportunities when the information is commercially sensitive.
  - **Companies may consider ESRS as a source of guidance, in the absence of a specific ISSB standard, to identify metrics and disclosures if they meet the information needs of investors.**
- Draft IFRS S2 (Climate-related disclosures)
  - Removing the requirement for an entity to disclose its Greenhouse Gas (GHG) emissions intensity and not explicitly requiring an entity to disaggregate its GHG emissions by constituent gases.
  - Adding specific reliefs for an entity disclosing its Scope 3 GHG emissions.
- Adding the concept of ‘reasonable and supportable information available at the reporting date without undue cost or effort’. This is information that can help an entity provide clarity on the application of certain disclosure requirements.
- Clarifying that an entity is required to provide quantitative and qualitative information about the current and anticipated effects of sustainability-related risks and opportunities on the entity’s

financial position, performance and cash flows. If the entity is unable to provide quantitative information, it is still required to provide qualitative information.

- Requiring an entity to consider its degree of exposure to climate-related risks and opportunities. The entity needs to consider the skills, capabilities and resources it has available when determining an approach to climate-related scenario analysis. This is in line with the stages of progression approach from the Task Force on Climate-Related Financial Disclosures (TCFD).
- The standards are expected to be issued at the end of Q2 2023, and to become effective as of January 2024.
- Next steps: the board will consult on a series of issues, including reporting on biodiversity, human capital, human rights, and the connectivity between financial and sustainability reporting.

### GRI

The Universal Standards 2021 ([here](#)) from the Global Reporting Initiative (GRI) are now effective starting 1 January 2023. The GRI sustainability reporting standards set the highest level of transparency for impacts on the environment, economy and society. The standards were revised in 2021 to include full alignment with the due diligence set out in intergovernmental legislations on sustainability impacts.

### SEC

We still await news of the finalisation of the United States Securities and Exchange Commission (SEC) rule regarding climate-related disclosures - we currently expect it to be released in March 2023. The SEC also intends to issue a final rule on the disclosure of cybersecurity incidents, as well as a proposal on human capital management disclosures in the first half of 2023.

*For more information, read our Global Sustainability Reporting Newsletters [here](#).*



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