EXPOSURE DRAFT

ESRS 1
General principles

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PTF-ESRS
Project Task Force on European sustainability reporting standards

EFRAG

DISCLAIMER

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[Draft] ESRS 1 General principles is set out in paragraphs 1–155 and Appendix A: Defined terms, Appendix B: Application Guidance, Appendix C: Explanations on sustainability due diligence, Appendix D: Classification of ESRS reporting areas and sub-topics, and Appendix E: Illustrative examples. All the paragraphs, including those in Appendices A and B, have equal authority. Each Disclosure Requirement is stated in a bold paragraph, followed by a paragraph that illustrates the principle to be followed in the preparation of the respective disclosures. The [draft] Standard also uses terms defined in other [draft] ESRS and should be read in the context of its objective.

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Objective

1. This [draft] Standard prescribes the mandatory concepts and principles to apply for preparation of sustainability statements under the [draft] Corporate Sustainability Reporting Directive (CSRD).

2. It covers the applicable general principles:

   (a) when reporting under European Sustainability Reporting Standards;

   (b) on how to apply CSRD concepts;

   (c) when disclosing policies, targets, actions and action plans, and resources;

   (d) when preparing and presenting sustainability information;

   (e) on how sustainability reporting is linked to other parts of corporate reporting; and

   (f) specifying the structure of the sustainability statements building upon the disclosure requirements of all ESRS.

General principles

1. Reporting under European Sustainability Reporting Standards (ESRS)

1.1 Complying with ESRS

3. The undertaking shall disclose all material information on its sustainability-related impacts, risks and opportunities in accordance with applicable ESRS. Applicable ESRS mandate reporting under standardised sector-agnostic and sector-specific disclosures. These disclosures are complemented by entity-specific disclosures to be developed as prescribed under the principles established by this [draft] Standard.

4. The undertaking assesses its sustainability-related material impacts, risks and opportunities in consideration of the disclosure requirements mandated by ESRS as well as in consideration of the undertaking's specific facts and circumstances justifying entity-specific disclosures.

5. Standardised disclosure requirements are stipulated in ESRS that apply to all undertakings (sector-agnostic Standards) and in ESRS that apply for undertakings doing business in one or several specific sectors (sector-specific Standards). The undertaking shall disclose material sustainability-related information comprising sector-agnostic, sector-specific and entity-specific information.

6. The undertaking shall cover the following sustainability topics:

   (a) environmental matters;

   (b) social matters; and

   (c) governance matters.

7. The undertaking shall cover in its sustainability reporting the following reporting areas:

(a) strategy and business model in relation to sustainability;

(b) governance and organisation in relation to sustainability;

(c) materiality assessment of its sustainability-related impacts, risks and opportunities;

(d) implementation measures, covering policies, targets, actions and action plans, allocation of resources; and

(e) performance metrics.

The first three reporting areas are covered by cross-cutting Standards since they address several or all topics. The last two reporting areas are covered by topical Standards.

8. The undertaking shall present sustainability information in Sustainability Statements that are part of the management report (see **chapter 6 Structure of the sustainability statements**).

1.2 Standardised and entity-specific disclosures

9. The undertaking shall disclose sustainability-related information following standardised disclosures prescribed by ESRS and when relevant through entity-specific disclosures.

10. To achieve a high degree of comparability, disclosure requirements that are mandated for all undertakings or undertakings in a specific sector are standardised on a sector-agnostic and sector-specific bases. However, as every undertaking operates under specific facts and circumstances and deals with a unique combination of impacts, risks and opportunities, disclosure requirements mandated by ESRS may not be sufficient for the undertaking to depict in a faithful manner all its material sustainability-related impacts, risks and opportunities following its double materiality assessment (see **chapter 2.2 Double materiality as the basis for sustainability disclosures**).

11. The undertaking shall therefore define, when necessary, additional entity-specific disclosures that best illustrate its unique situation (see **chapter 1.5 Developing entity-specific disclosures**).

1.3 Sector-agnostic and sector-specific Standards

12. Sector-agnostic Standards define disclosures that are considered relevant across all sectors. The undertaking shall also follow disclosure requirements specific to its sector mandated by sector-specific Standards, to address impacts, risks and opportunities not covered, or not sufficiently covered, by sector-agnostic sustainability disclosure requirements.

1.4 Relationship between cross-cutting standards and topical Standards

13. The undertaking shall comply with cross-cutting and topical Standards. Sustainability reporting topics, as described in paragraph 6, are structured groups of sustainability matters that at the highest topical level reflect the interaction between the undertaking and its sustainability impacts, risks and opportunities beyond what is already reflected in financial statements. To define sustainability-related disclosure requirements, topics are further divided in sub-topics (and when necessary, in sub-sub-topics) covering sector-agnostic and sector-specific levels and reflecting an adequate granular approach to

disclosures related to environmental, social and governance matters. Sustainability related topics and sub-topics may also be referred to as sustainability-related matters. Disclosure requirements prescribed by sector-agnostic or sector-specific topical ESRS are organised in accordance with this topical approach.

14. Topical ESRS organise disclosure requirements in accordance with reporting areas (see paragraph 7):

(a) topical application guidance in certain cases expand disclosure requirements mandated by cross-cutting ESRS (strategy and business model, governance and organisation, materiality assessment) with additional topic-specific information;

(b) disclosure requirements related to the undertaking's implementation of its sustainability-related objectives: policies, targets, actions and action plans, and allocation of resources; and

(c) disclosure requirements related to performance metrics.

15. The topical approach is complemented by a cross-cutting approach defining all disclosure requirements that address information related to several or all sustainability matters. These disclosure requirements cover:

(a) the interaction between sustainability matters and the undertaking's strategy and business model(s), including its transition plans;

(b) how the undertaking governs and organises its material sustainability-related impacts, risks and opportunities; and

(c) the undertaking's assessment of its material sustainability impacts, risks and opportunities.

16. When reporting on implementation the undertaking shall describe how it manages its material matters and their related impacts, risks, and opportunities. This covers information on policies and targets, actions and action plans, and resources allocation, whereby:

(a) policies refer to an operational set of implementation decisions with defined related objectives, specific coverage of activities and an accountable person in oversight;

(b) targets refer to goals to be achieved at a (sub-)topic level in relation to impacts, risks or opportunities that can be absolute or intensity based, with specific time frames, a base year, key performance indicators used to assess progress as well as a description of the methodologies and assumptions used to define the scenarios and calculate targets;

(c) actions and action plans refer to activities that are undertaken to ensure that the undertaking delivers against the targets set; and

(d) allocation of resources refers to the decisions taken to support actions and action plans with identified financial, human or technological resources.

(see chapter 3 Disclosure Principles on implementation).

17. In this context, a transition plan is a specific type of action plan that is adopted by the undertaking in conjunction with a strategic decision and target setting that addresses:

(a) a public policy objective; and/ or

(b) an entity-specific action plan that the undertaking decides to organise as a structured set of targets and actions and is associated to

i. a key strategic decision;

ii. a major change in the business model; and/or

iii. a particularly important action plan in terms of objectives or allocation of resources.

18. When reporting on performance the undertaking shall provide key indicators in relation to its impacts, risks and opportunities and explain how it delivers against its related policies and targets. They reflect its trajectory based on its past performance and in relation to its forward-looking perspective. Reporting on performance measurement refers to the current achievements (qualitative and/or quantitative) and results (performance-oriented) of the undertaking's operations and activities based on metrics/KPIs. Performance measurement is most useful in monitoring and assessing progress against targets and supporting comparability across undertakings and sectors.

1.5 Developing entity-specific disclosures

19. For material impacts, risks and opportunities not covered by topical Standards and therefore not mandated, the undertaking shall develop disclosures (entity-specific disclosures). They shall meet the characteristics of information quality: relevance, faithful representation, comparability, verifiability and understandability (see **chapter 2.1 Characteristics of information quality**).

20. The undertaking shall comply with the principles set under paragraphs 6, 7, 16 and 18 for material entity-specific disclosures.

21. When developing its entity-specific disclosures the undertaking shall pay attention to the following:

(a) at entity-specific level comparability between undertakings may be limited. However available and relevant references, frameworks, initiatives, reporting standards and benchmarks shall be considered to provide elements of comparability to the maximum extent possible;

(b) comparability over time is a key aspect of comparability. Consequently, consistency of methodologies and disclosures is a key comparability factor and changes in methodologies or disclosures shall be duly explained and justified; and

(c) no meaningful aspect/angle of an identified entity-specific material impact, risk or opportunity shall be omitted. This may include disclosing, as applicable, relevant information in relation to strategy, governance, policies, targets, actions and action plans, resources and/or metrics. In this regard guidance can be found by comparing the information required under ESRS addressing similar sustainability matters. Disclosures shall follow, when applicable, the definitions mandated by **chapter 3 Disclosure Principles on implementation**.

22. The undertaking shall scrutinise the capacity of any metric or indicator to provide valuable insight to the users of reporting:

(a) performance metrics shall provide relevant indications as to the likelihood that the undertaking's practices are reducing negative outcomes and increasing positive outcomes for people and the environment;

(b) in the case of quantitative metrics, due consideration shall be given to whether the issue at hand can reasonably be measured by the undertaking without an excessive amount of conjecture and unknowns that would render it too arbitrary to be of value; and

(c) due consideration shall also be given to (i) the extent to which an indicator can be relied upon for insight absent contextual information to enable its interpretation and (ii) the extent to which variations in such contextual information mean that a quantitative indicator does not provide for comparability over time.

23. When developing entity-specific disclosures the undertaking shall:

(a) determine them based on its materiality assessment of its impacts, risks and opportunities and the matters covered by ESRS requirements;

(b) provide information on how its strategy and business model, as well as its governance, relate to those material entity-specific impacts, risks and opportunities and present this information in accordance with ESRS 2, together with those that are sector-agnostic and sector-specific;

(c) provide information on its policies, targets, action plans, and resources that relate to those material entity-specific impacts, risks and opportunities in accordance with the disclosure principles of **chapter 3.2 Reference principles for implementation of policies, targets, actions, action plans and resources** of this [draft] Standard; and

(d) design appropriate disclosures for them to measure performance considering the concepts of paragraph 18.

2 Applying CSRD concepts

24. The undertaking shall comply with the concepts of information quality, double materiality, boundaries and value chain, time horizons and due diligence (CSRD concepts):

(a) Information to be reported shall be relevant, represented in a faithful manner, comparable, verifiable and understandable (information quality).

(b) The undertaking shall report the material information necessary to allow users of its sustainability report to understand its impacts on sustainability matters, and how sustainability matters affect the undertaking's development, performance and position (double materiality).

(c) Material actual or potential (adverse) impacts, risks and opportunities connected with the undertaking's value chain, including its products and services, its business relationships and its supply chain, shall be considered (boundaries and value chain).

(d) Sustainability matters shall be considered over an appropriate short-, medium-, and long-term time horizon containing retrospective and forward-looking information (time horizon).

(e) Sustainability due diligence is the process that undertakings carry out to identify, assess, prevent, mitigate and remediate the actual and potential adverse impacts connected with its operations, products or services through its own activities and its business relationships.

2.1 Characteristics of information quality

25. When preparing its sustainability report, when following ESRS and when developing its entity-specific disclosures the undertaking shall apply the fundamental principles of information quality (relevance and faithful representation) as well as the enhancing qualities of information (comparability, verifiability, and understandability).

Relevance

26. Sustainability information is relevant when it has substantive influence on the assessments and decisions of users of sustainability reports under a double materiality approach (see **chapter 2.2 Double materiality as the basis for sustainability disclosures**).

27. Sustainability information can make a difference in decisions made by stakeholders if it has predictive value, confirmatory value or both. Information has predictive value when it is valuable input allowing stakeholders to form a view on and assess future outcomes. Information has confirmatory value when it provides valuable feedback about the quality of previously reported information.

28. Materiality is an enabling factor of relevance. The undertaking should assess the extent to which a required disclosure can provide insight that is decision-useful for stakeholders that are users of the sustainability report, whether from the perspective of material impacts on people and the environment, or from the perspective of financial materiality, or both.

Faithful representation

29. Sustainability information should faithfully represent the reality it depicts. Faithful representation requires information to be (i) complete, (ii) neutral and (iii) accurate.

30. A complete depiction includes all material aspects related to the reportable content, including appropriate descriptions and explanations.

31. A neutral depiction is without bias in its selection and/or presentation of sustainability information. It should be balanced, so as to cover favourable/positive and unfavourable/negative aspects: both negative and positive material impacts from an impact materiality perspective as well as the risks and opportunities from a financial materiality perspective should receive equal attention. Neutrality is supported by the exercise of prudence which implies the exercise of caution and clarity on the assumptions when making judgements under conditions of uncertainty or in relation to forward-looking information. Information shall, a priori, not be netted or compensated to be neutral. The undertaking may present net information if such presentation does not obscure relevant information and includes a clear explanation about the effects of the netting.

32. Accurate information implies that the undertaking has implemented adequate processes and internal controls to reduce errors or material misstatements. As such, estimates should be presented with a clear emphasis on their possible limitations and associated uncertainty (see **chapter 4.3 Estimating under conditions of uncertainty**).

Comparability

33. Sustainability information is comparable when it is consistent over time and, to the greatest extent possible, presented in a way that enables comparisons between undertakings (across sectors and within a specific sector). A point of reference for comparison can be a

target, a baseline, an industry benchmark, comparable information from either other entities or from an internationally recognized organisation, etc.

34. Consistency refers to the use of the same approaches or methods for the same sustainability matter, from period to period by the undertaking (as well as by other undertakings to the maximum extent possible).

Verifiability

35. Sustainability information is verifiable if it is possible to corroborate such information itself or the inputs used to derive it.

36. Verifiability is about ensuring the reliability of the presented information and of the process of its generation. Reliability is when different independent observers with reasonable expertise would be able to reach a similar conclusion and consider that a particular disclosure conveys a faithful representation.

37. Information is verifiable if it is possible to trace it, which is a prerequisite of information being auditable, as it allows for appropriate evidence on the audit assertions to be obtained.

Understandability

38. Sustainability information is understandable when it is clear and concise.

39. Understandable information enables all (knowledgeable) intended users to readily comprehend the information being communicated.

40. For sustainability disclosures to be concise, they need to (i) avoid generic 'boilerplate' information, that is not specific to the undertaking; (ii) avoid unnecessary duplication of information, including information also provided in financial statements; and (iii) use clear language and well-structured sentences and paragraphs. Concise disclosures should only include material information. Any immaterial information or complementary information presented pursuant paragraph 147 shall be provided in a way that avoids obscuring material information.

41. Some disclosures might be best understood in the context of information in the related financial statements. If sustainability risks and opportunities discussed in financial statements have implications for sustainability reporting, the undertaking shall include the information necessary for users to assess those implications and present appropriate links to the financial statements (see **chapter 5 Providing linkage with other parts of corporate reporting**). The level of information, granularity and technicality should be aligned with the needs and expectations of users. Abbreviations should be avoided and the units of measure should be defined and disclosed.

2.2 Double materiality as the basis for sustainability disclosures

42. The undertaking shall report sustainability matters on the basis of the double materiality principle.

Information materiality

43. Materiality is to be understood as the criterion for the inclusion of specific information in sustainability reports. It reflects (i) the significance of the information in relation to the phenomenon it purports to depict or explain, as well as (ii) its capacity to meet the needs of the stakeholders of the undertaking, allowing for proper decision-making, and more generally (iii) the needs for transparency corresponding to the European public good. The implementation of materiality implies the use of thresholds and/or criteria.

Stakeholders

44. Stakeholders are those who can affect or be affected by the undertaking's decisions and actions. The undertaking shall identify its two main groups of stakeholders:

    (a) affected stakeholders: individuals or groups that have interests that are affected or could be affected – positively or negatively – by the undertaking's activities and through its value chain; and

    (b) users of sustainability reporting: stakeholders with an interest in the undertaking:

        i. existing and potential investors, lenders and other creditors (including asset managers, credit institutions, insurance undertakings); and

        ii. business partners of the undertakings, trade unions and social partners, civil society organisations and non-governmental organisations.

45. Some, but not all, stakeholders may belong to both groups. The materiality assessment process should ensure that impact on all affected stakeholders is considered and not only the needs of users.

Double materiality

46. Double materiality is a concept which provides criteria for the determination of whether a sustainability matter has to be included in the undertaking's sustainability report. Double materiality is the union (in mathematical terms, i.e., union of two sets, not intersection) of impact materiality and financial materiality. A sustainability matter meets therefore the criteria of double materiality if it is material from either the impact perspective or the financial perspective or both perspectives.

47. Impact materiality and financial materiality assessments are intertwined and the interdependencies between the two dimensions should be considered in these assessments. In general, the starting point is assumed to be the assessment of impact materiality, as a sustainability impact may become financially material when it translates or is likely to translate into financial effects in the short-, medium-, or long-term. In addition, beyond considering the actual and potential financial consequences of its material impacts, the undertaking shall consider how it is affected by sustainability matters which are external to its activities.

48. The undertaking shall refer to double materiality for the identification of its principal impacts, risks and opportunities (see **chapter Materiality assessment of sustainability impacts, risks and opportunities in ESRS 2**). In addition, the terms significant and material have the same meaning when referring to impacts, risks and opportunities in ESRS.

Impact materiality

49. Impact materiality is a characteristic of a sustainability matter or information in relation to an undertaking. A sustainability matter is material from an impact perspective if it is connected to actual or potential significant impacts by the undertaking on people or the environment over the short-, medium- or long-term. This includes impacts directly caused or contributed to by the undertaking in its own operations, products or services and impacts which are otherwise directly linked to the undertaking's upstream and downstream value chain, and not limited to contractual relationships.

50. An impact is 'directly linked to' the undertaking's operations, products or services, if it occurs in relation to any tier of business relationships, provided in the value chain. It is not restricted to direct relationships between the undertaking and another entity and is therefore not limited for instance to direct contractual relationships, such as 'direct sourcing'. For example:

    (a) Consider the various scopes of GHG emissions: Indirect GHG emissions, i.e., Scope 2 and Scope 3, are still 'directly linked' to the undertaking's operations, products and services. However, the GHG emissions of a business partner that are not connected to the undertaking's value chain, are neither 'directly linked', nor part of its Scope 3 emissions.

    (b) If the undertaking uses cobalt mined using child labour in its products, the negative impact (i.e., child labour) is directly linked to its products through the tiers of business relationships in its supply chain (i.e., through the smelter and minerals trader, to the mining enterprise that uses child labour), even though the undertaking has not caused or contributed to the negative impact itself.

51. The materiality of an actual impact is determined by the severity of the impact (scale, scope, and irremediable character), while the significance of a potential negative impact is determined by the severity and likelihood of the impact. In the case of a potential human rights impact, the severity of the impact takes precedence over its likelihood.

Financial materiality

52. Financial materiality, as defined in the next paragraph, relates to financial materiality in sustainability reporting. The definition of financial materiality for sustainability reporting is different from the concept of materiality used in the process of determining which information should be included in the undertaking's financial statements.

53. Financial materiality in the context of sustainability reporting is a characteristic of a sustainability matter or information in relation to the undertaking. For the purposes of preparing sustainability reporting, a sustainability matter is material from a financial perspective if it triggers or may trigger significant financial effects on undertakings, i.e., it generates or may generate significant risks or opportunities that influence or are likely to influence the future cash flows and therefore the enterprise value of the undertaking in the short-, medium- or long-term, but it is not captured or not yet fully captured by financial reporting at the reporting date.

54. A sustainability matter which is financially material may refer to risks and opportunities that derive from past events or future events and may have effects on future cash flows in relation to (i) assets and liabilities already recognised in financial reporting or that may be recognised as a result of future events or (ii) factors of enterprise value creation that do not meet the accounting definition of assets (liabilities) and/or the related recognition

criteria, but contribute to the creation/maintenance of enterprise value. The latter factors are generally referred to as ‘capitals’ in frameworks promoting a multi-capital approach.

55. The undertaking relies on the availability of economic, natural and social resources at appropriate prices and quality. Such dependencies are sources of financial risks or opportunities. Triggers of financial effects may be attributed to two groups:

    (a) they may influence the undertaking’s ability to continue to use or obtain the resources needed in its business process, as well as the quality and pricing of those resources; and

    (b) they may affect the undertaking’s ability to rely on relationships needed in its business processes in acceptable terms.

56. Sustainability-related financial risks or opportunities are measured as a combination of a probability of occurrence and magnitude of financial effects.

Relationship between double materiality and mandatory disclosure requirements

57. Sector-agnostic and sector-specific ESRS mandate disclosure requirements for all undertakings or all undertakings in a particular sector reflecting double materiality. Therefore, all mandatory disclosure requirements established by ESRS shall be presumed to be material and, therefore, to justify a full disclosure in accordance with the relevant ESRS. However, to consider the undertaking’s facts and circumstances and the outcome of its assessment process, such a presumption is rebuttable based on reasonable and supportable evidence.

58. The undertaking shall establish explicit thresholds and/or criteria to determine when a disclosure is complied with through a statement ‘not material for the undertaking’.

59. Consequently, the undertaking shall assess (see ESRS 2 Disclosure Requirements IRO) for each ESRS and, when relevant, for a group of disclosure requirements related to a specific aspect covered by an ESRS if the presumption is rebutted for:

    (a) all of the mandatory disclosures of an entire ESRS, or

    (b) a group of disclosure requirements related to a specific aspect covered by an ESRS

    based on reasonable and supportable evidence, in which case it is deemed to be complied with through an explicit statement that:

    (a) the ESRS or

    (b) the group of disclosure requirements

    is ‘not material for the undertaking’.

60. To illustrate the principle in paragraph 59, consider ESRS S1 on ‘Own workforce’ on the sub-sub-topic ‘other work-related rights’ covering the following specific aspects of the sub-sub-topic:

    (a) freedom of association and collective bargaining;

    (b) child labour;

(c) forced labour;

(d) privacy; and

(e) adequate housing.

Based on its materiality assessment described in ESRS 2 the undertaking could conclude that ‘child labour’ and ‘forced labour’ are aspects with material impact and / or risk to the undertaking but the other aspects of ‘other work-related rights’ are not. It, therefore, complies with (i) all disclosure requirements related to ‘child labour’ and ‘forced labour’ and (ii) with the disclosure requirements related to ‘freedom of association and collective bargaining’, ‘privacy’ and ‘adequate housing’ with a statement that these specific aspects are ‘not material for the undertaking’.

61. The rebuttable presumption is not applicable to the Disclosure Requirements related to ESRS 2 Disclosure Requirements SBM, GOV and IRO.

62. In addition to the implementation of paragraph 59, an individual disclosure requirement, or an individual datapoint mandated by a disclosure requirement, of a topical or sector-specific Standard that is below materiality criteria / thresholds (see paragraph 43) and that is not part of an ESRS or a group of disclosure requirements for which the presumption has been rebutted may be omitted and therefore considered implicitly disclosed as ‘not material for the undertaking’.

2.3 Boundaries and value chain

Reporting boundary

63. The undertaking’s reporting boundary for its sustainability reporting is the one retained for its financial statements expanded to its upstream and downstream value chain. Associates and joint ventures accounted for under the equity method are considered as part of the upstream or downstream value chain. Entities accounted for under the proportional consolidation method are considered as part of the boundary for the consolidated portion.

64. The undertaking’s reporting boundary is expanded when the integration of information on impacts, risks and opportunities on matters connected to the undertaking by its direct and indirect business relationships in the upstream and/or downstream value chain is necessary to:

(a) allow users of sustainability reporting to understand the undertaking’s material impacts and how material sustainability-related risks and opportunities affect the undertaking’s development, performance and position; and

(b) produce a set of complete information that meets the qualitative characteristics of information quality (see **chapter 2.1 Characteristics of information quality**).

65. When determining at which level (within its own operations and its upstream and downstream value chain) a material sustainability matter arises, the undertaking shall leverage and rely on its assessment of impacts, risks and opportunities following the double materiality concept (see **chapter 2.2 Double materiality as the basis for sustainability disclosures**). In particular:

(a) The impact materiality of a sustainability matter is not constrained to matters that are within the undertaking’s direct control, but is also determined by:

i. evidence of a link between the impact and the undertaking's own operations, products and services, including through its downstream and upstream value chain; and

ii. the relative severity of the impact.

(b) The financial materiality of a sustainability matter is not constrained to matters that are within the control of the undertaking. In reporting about sustainability matters that are considered financially material, the undertaking shall also include risks and opportunities (including those arising from dependencies) and outcomes attributable to or associated with other undertakings/stakeholders beyond the scope of financial reporting that have a significant effect on the ability of the undertaking to create value.

66. When a topical or sector-specific ESRS requires that a disclosure requirement is prepared using a specific reporting boundary, the topical or sector-specific requirement shall prevail.

Use of all the reasonable and supportable information including peer group or sector data

67. In some circumstances, collecting the information about the undertaking's upstream and downstream value chain that is needed to integrate entities in the value chain into the reporting boundary as required by paragraphs 63 and 64 may be impracticable, i.e. the undertaking cannot collect the necessary information after making every reasonable effort. In these cases, the undertakings should seek to approximate the missing information about its upstream and downstream value chain, by using all reasonable and supportable information, including internal and external information, such as peer groups or sector data.

68. When doing so, it shall also disclose: the relevant information and indicators for which an approximation has been used, and the planned actions to reduce the missing data in the future.

Operational influence over activities and relationships in the upstream and downstream value chain

69. The undertaking's level of operational influence on entities involved in its upstream and downstream value chain and the level of access to their sustainability-related information may vary, depending on the undertaking's position in the value chain. The undertaking's contractual arrangements, its buying power (for direct suppliers), and the effectiveness of its own systems, among other factors, influence the level of access to the relevant information. As regards policies, targets, actions, action plans, resources, and quantitative performance measures, it is more likely that the undertaking will have access to information in relation to entities under its operational influence belonging to either its upstream or downstream value chain. However, the undertaking shall make every reasonable effort to obtain relevant data from entities under its operational influence, as well as from entities beyond its operational influence and shall disclose a clear indication of the reliability of data obtained and approximations made.

70. The undertaking's boundary is expanded to its upstream and downstream value chain, following the provisions in paragraphs 63 and 64, regardless of the level of control or influence.

Reporting policy adopted for the definition and changes of reporting boundaries

71. The undertaking shall, on a regular basis, reassess the definition of its reporting boundaries, to make sure it remains appropriate. When a change has occurred in the undertakings' boundaries, such as a change in its legal or operational structure or its products and services, business relationships and supply chain, the definition of the reporting boundaries shall be adjusted accordingly. To facilitate the understanding of the undertaking's performance and developments, it shall restate the comparative information, unless the undertaking assesses that this is impracticable, after making every reasonable effort.

Level of disaggregation

72. In addition to the distinction between information in relation to its own operations and information in relation to its downstream and upstream value chain, the undertaking shall consider all relevant facts and circumstances, in defining the appropriate level of disaggregation for information in sustainability reports.

73. Due to the dynamics and causal connections between levels within the undertaking's reporting boundary, material information is not constrained to one particular level. However, the undertaking shall first and foremost adopt a level of disaggregation that is consistent with the ESRS sector classification and the sector-specific disclosure requirements mandated by sector-specific ESRS.

74. When relevant for a proper understanding of its material impacts, risks and opportunities, a disaggregation shall be adopted:

    (a) by country when material impacts, risks and opportunities are linked to laws, regulations or prevailing business practices in a country; or

    (b) in relation to a significant site or a significant asset when relevant in respect of other EU regulations.

75. Where data from different levels, or multiple locations within a level, is aggregated, the undertaking shall ensure that this is done in a way that avoids obscuring the specificity and context necessary to interpret the information and that avoids aggregating material items with different natures.

76. As such, data relevant to the existence or severity of impacts frequently does not sit only at one level in the value chain but involves dynamics across different levels, including the undertaking's own operations. Disclosures should enable undertakings to accurately reflect these connections and dynamics. The undertaking shall illustrate the dynamics and causal connections that exist between levels and provide information that reflect connections to the undertaking's strategy and business model and its role in generating positive or negative impacts on people and the environment and creating or destroying value for the undertaking as a result.

77. When a topical or sector-specific ESRS requires that a specific level of disaggregation is adopted in preparing a specific item of information, the topical or sector-specific requirement shall prevail.

2.4 Time horizon

Reporting period

78. The undertaking shall retain a reporting period in its sustainability report consistent with the one retained for its financial statements.

Linking past, present and future

79. The undertaking shall link in its sustainability report retrospective and forward-looking information, to foster a clear understanding of how historical data relate to future-oriented data.

Reporting progresses against the base year

80. A base year is the reference date or period to track backward-looking information over time. The undertaking shall use in its sustainability report a base year consistent with the one used to monitor its progress against each target.

81. When reporting the developments and progress realised for a given sustainability matter, unless the relevant disclosure requirement already defines how to report for progress, the undertaking shall compare the most recent results with the equivalent information for the base year. The undertaking may also include backward-looking information about achieved milestones between the base year and the reporting period when this supports the provision of more relevant information.

82. Base years shall be regularly reassessed by the undertaking to make sure they are still appropriate. When no longer appropriate, the base year shall be adjusted. It can be the case when significant changes in the undertaking’s legal structure or boundaries have occurred or when new targets are set.

Definition of short-, medium- and long-term for reporting purposes

83. When preparing its sustainability report, the undertaking shall adopt the following time intervals as of the end of the reporting period:

    (a) one year for short-term;

    (b) two to five years for medium-term; and

    (c) more than five years for long-term.

84. In its processes of identification and management of material impacts, risks and opportunities, the undertaking shall adopt time horizons that reflect the expected impacts on people or the environment or the expected financial effects, including an additional breakdown for the long-term when necessary. When defining its action plans and setting targets, the undertaking shall adopt time horizons that reflect its strategic planning horizons and resource allocation plans. When preparing its sustainability report, the entity shall:

    (a) present its material impacts, risks and opportunities classifying them in the relevant time horizon; and

    (b) present its action plans and targets classifying them in the relevant time horizon.

2.5 Due diligence under the CSRD

85. A summarised explanation of the key elements of due diligence is provided in Appendix C.

86. ESRS provide disclosure requirements concerning due diligence, organised in the following categories that correspond to the main aspects of due diligence:

    (a) embedding due diligence in governance and organisation;

    (b) engaging with stakeholders;

    (c) identifying and assessing adverse impacts;

    (d) taking actions to address those adverse impacts; and

    (e) tracking the effectiveness of these efforts and communicating.

Embedding due diligence in governance and organisation

87. Key disclosures concerning the embedding of due diligence shall be provided under the ESRS 2 Disclosure Requirements GOV. The undertaking shall in particular:

    (a) report on management levels and/or functions within the undertaking to which responsibility for addressing impacts is assigned and on how the internal decision-making, budget allocations and oversight procedures enable responding to impacts;

    (b) explain how the senior management and board are informed of severe actual and potential impacts, and whether those with daily responsibility for addressing human rights issues have adequate access to senior decision-making levels and appropriate means to escalate issues where necessary; and

    (c) explain how performance incentives reflect the objectives of preventing and mitigating negative impacts on the environment or people.

Engaging with stakeholders

88. Engaging with affected stakeholders (refer to paragraph 44) is relevant in all steps and addressed in the ESRS 2 Disclosure Requirements GOV and IRO as well as in **chapter 3 Disclosure Principles on implementation** of this [draft] Standard, and in the topical Standards reflecting the different stages and purposes of stakeholder engagement throughout the due diligence process.

Identifying and assessing adverse impacts

89. This step of due diligence is reflected in the ESRS 2 Disclosure Requirements IRO whereby the undertaking identifies instances where it is, or is at risk of being, involved with adverse impacts on the environment or people, and then assesses the nature of those actual or potential impacts (their context, causes, severity etc). In addition, in the ESRS 2 Disclosure Requirements SBM, the undertaking shall provide additional information on the results of the assessment of how the undertaking's business model and strategy play a role in creating or exacerbating the identified impacts, and the adopted changes to the business model and strategy. Due diligence is an on-going practice that responds to changes in the undertaking's activities, business model, business relationships, operating, sourcing and selling contexts. It is independent of the undertaking's reporting processes but a source of critical inputs to them.

Taking action

90. This step of due diligence is addressed following the principles described in **chapter 3 Disclosure Principles on implementation** of this [draft] Standard related to policies, targets, actions and action plans and resources. It is further addressed in topical Standards. Consequently, the undertaking shall report on implementation measures taken to prevent and mitigate identified adverse impacts, and on the processes and actions to secure remedy for those harmed.

Tracking effectiveness and communicating

91. This step of due diligence is addressed in **chapter 3 Disclosure Principles on implementation** of this [draft] Standard and in the topical Standards. The undertaking shall provide information on how it verifies through qualitative and quantitative indicators whether the negative impacts are being addressed. Tracking effectiveness of due diligence is based on performance measurement in relation to sustainability matters and evaluated as part of measuring progress in achieving the objective of the undertaking's policy.

3 Disclosure Principles on implementation

3.1 Objective of disclosures on implementation

92. Disclosing on the implementation of the undertaking's strategy following the decisions taken through its governance processes and the assessment of its impacts, risks and opportunities is a key dimension of sustainability reporting. Understanding the undertaking's implementation approach encompasses information on the following aspects:

    (a) the policies adopted by the undertaking to manage its material sustainability-related impacts, risks and opportunities;

    (b) the targets the undertaking has set to define what it wants to achieve;

    (c) the actions and action plans, including transition plans, the undertaking has put in place; and

    (d) the resources, operational expenses and capital expenses the undertaking is dedicating to the action plans.

93. The objective of this chapter is to specify, from a generic perspective, the key aspects to disclose (i) when the undertaking is required by topical ESRS to describe policies, targets, actions and action plans, and resources in relation to sustainability matters and (ii) when the undertaking decides to describe policies, targets, actions and action plans, and resources in relation to entity-specific sustainability matters.

94. This chapter, therefore, provides a common reference for the implementation of other ESRS and sets the required content for disclosure on policies, targets, actions and action plans, and resources concerning entity-specific material matters, for which other ESRS do not provide specific disclosure requirements.

95. The disclosure principles in this [draft] Standard can be grouped under three overarching disclosures, which serve as reference content for other ESRS.

3.2 Reference principles for implementation of policies, targets, actions, action plans and resources

Disclosure Principle 1-1 – On policies adopted to manage material sustainability matters

96. This Disclosure Principle defines the aspects that are to be described for the relevant policies in respect of each sustainability matter identified as material following the materiality assessment performed by the undertaking and described pursuant to ESRS 2. The undertaking shall disclose the policy in a concise manner to provide information which is necessary and relevant for users to understand how the undertaking intends to address the identified material sustainability impacts, risks and opportunities.

97. The disclosure of a policy to manage a material sustainability matter shall include the following information:

(a) a description of the policy, including its general objectives;

(b) a description of the scope of the policy, including the policy's perimeter with regard to the undertaking's operations and the upstream and downstream value chain, and geographical boundaries;

(c) a description of the allocation of responsibilities, including oversight, for the implementation of the policy across the undertaking;

(d) a description of third-party standards of conduct, if any, that the undertaking commits to respect through the implementation of the policy;

(e) a description of the consideration given to the interests of stakeholders in setting the policy; and

(f) a description of if and how the undertaking makes the policy available to potentially affected stakeholders, and stakeholders who need to help implement the policy.

98. If the undertaking cannot disclose the above required information, because it has not adopted a policy and objectives as outlined in paragraph 97 (a), it shall disclose this to be the case and provide reasons for not having adopted a policy or objectives. The undertaking may indicate a timeframe in which a policy will be adopted.

Disclosure Principle 1-2 – On targets, progress and tracking effectiveness

99. This Disclosure Principle defines how the undertaking describes:

(a) where applicable, its measurable outcome-oriented targets set to meet the policy's objectives, in terms of expected results for people, the environment and the undertaking concerning material impacts, risks and opportunities;

(b) the overall progress towards the adopted targets over time; and

(c) if no measurable outcome-oriented targets exist, how it tracks the effectiveness of its actions and measures the progress in achieving its policy objectives.

100. For each measurable outcome-oriented target, the undertaking shall include a description of:

(a) the relationship of the target to the policy objectives;

(b) the defined level of ambition (quantitative and qualitative depending on the nature of the target) to be achieved, including, where applicable, whether the target is absolute or relative and in which unit it is measured;

(c) the scope of the target, including an explanation of any limitations as to its operations, value chain and geographical boundaries or activities;

(d) if applicable, the baseline value and base year from which progress is measured;

(e) the timeframe to achieve the target, including any milestones or interim targets;

(f) the methodologies and significant assumptions used to define targets, including where applicable, the selected scenario, data sources, alignment with science-based methodologies, and national, EU or international policy goals;

(g) any changes in targets or underlying methodologies and assumptions adopted within the defined time horizon together with an explanation of the rationale for those changes and their effect on comparability; and

(h) the overall progress towards the defined target, including information on how the target is monitored and reviewed, whether the progress is in line with what had been initially planned, and an analysis of trends or significant changes in the performance of the undertaking towards achieving the target.

101. If the undertaking has not adopted any measurable outcome-oriented target in line with paragraph 99, it shall describe whether (i) measurable outcome-oriented targets are not applicable, in which case it shall explain how the outcomes will be assessed as compared to the policy objectives, (ii) whether such targets will be adopted and the timeframe for their adoption, or (iii) the reasons why the undertaking does not plan to adopt such targets.

102. The undertaking shall describe if it monitors the effectiveness of its policies and actions and measures progress in achieving the policy's objectives without a specific target, and if so, how and what progress has been achieved in terms of the results for people, the environment and the undertaking concerning the material impacts, risks and opportunities.

Disclosure Principle 1-3 – Actions, action plans and resources in relation to policies and targets

103. This Disclosure Principle defines the aspects that are to be described for the actions, action plans and allocation of resources to meet the undertaking's policy objectives and targets to address material impacts, risks and opportunities by providing an understanding of (i) the stand-alone actions and action plans comprising closely interrelated management measures being undertaken in the framework of the policy, including where applicable engagement with third parties, through the exercise of leverage or collective action, and (ii) the related allocation of resources.

104. For key polices, the undertaking shall include:

(a) a list of key actions taken in the reporting year and planned for the future and how their implementation addresses material impacts, risks and opportunities;

(b) the scope of the key actions about the undertaking's operations and the upstream and downstream value chain, and geographical boundaries;

(c) the time horizons under which the undertaking intends to complete each key action;

(d) the expected outcomes of actions in relation to the contribution of the actions to the achievement of the underlying policy objectives and targets;

(e) if applicable, any actions taken (along with results) to provide for, cooperate in securing or support the provision of remedy for those harmed by the actual material impacts;

(f) if applicable, a brief explanation on whether and how key actions may induce significant adverse impacts on other sustainability matters or financial risks for the undertaking; and

(g) if applicable, an explanation of changes in the action plan and any further explanation deemed useful to understand key actions.

105. Where the implementation of an action plan requires significant operational expenses and/or investments the undertaking shall:

(a) describe the type and amount of current and future financial and other resources allocated to the action plan, including information on sustainable finance instruments such as green bonds and green loans; and

(b) provide complementary explanatory information, where the ability to implement the action plan depends on specific preconditions, e.g., granting of financial support or public policy and market developments.

106. If the undertaking cannot disclose the information required by paragraph 103, because it has not adopted any action plans or stand-alone actions, the undertaking shall disclose this to be the case and provide reasons for not having adopted them. The undertaking may indicate a timeframe in which action plans or actions will be adopted.

4 Basis for preparing and presenting sustainability information

107. This chapter provides principles to be applied when preparing and presenting sustainability information covering:

(a) general situations; and

(b) specific circumstances.

4.1 General presentation principles

108. Sustainability information shall be presented:

(a) in a way that allows a clear distinction between information resulting from the implementation of ESRS and other information included in the management report; and

(b) under a structure that facilitates access to and understanding of the sustainability statements, both in human and machine-readable formats.

109. Detailed presentation prescriptions are included in chapter 6 Structure of the sustainability statements of this [draft] Standard.

4.2 Presenting comparative information

110. The undertaking shall present comparative information in respect of the preceding period for all amounts including metrics and key performance indicators reported in the actual period. Comparative information shall also be disclosed for narrative and descriptive information when relevant to the understanding of the current period's information.

111. When a topical (or sector-specific) Standard requires to present more than one comparative period for a metric or key performance indicator, the requirements of that Standard shall prevail.

4.3 Estimating under conditions of uncertainty

112. Measurement uncertainty arises when metrics cannot be quantified directly and can only be estimated. The use of reasonable estimates is necessary and unavoidable when preparing sustainability-related information. In order not to compromise the usefulness of sustainability information, disclosed metrics that have a significant estimation uncertainty shall be clearly and accurately described and the nature and the factors of the estimation uncertainty explained.

113. ESRS require information such as explanations about possible future events that have sustainability impacts, that because they might happen in future years involve uncertainty, or that have not, or not yet, affected the undertaking's financial performance or position. The undertaking shall consider when determining estimates regarding such possible future events:

    (a) their effect on risks or opportunities that influence or are likely to influence the future cash flows and therefore the enterprise value of the undertaking;

    (b) their effect on actual or potential significant impacts on people or the environment;

    (c) the full range of possible outcomes considering all relevant facts and circumstances; and

    (d) the likelihood of the possible outcomes within that range including low-probability and high-impact outcomes, which when aggregated, could become material.

4.4 Updating disclosures about events after the end of the reporting period

114. Estimation involves judgements based on the latest available reliable data. An estimate may need revision if changes occur in the circumstances on which the estimate was based or because of new data or more experience.

115. If the undertaking receives material sustainability data after the reporting period but before the management report is approved for issuance and the data provides evidence or insights about conditions that existed at the end of the reporting period, it shall consider this data and update estimates and sustainability disclosures, in the light of the new information.

116. When the data provides evidence or insights about conditions that arise after the end of the reporting period and may modify the understanding by users of the related disclosure the undertaking shall provide qualitative or narrative information indicating the existence, nature and potential consequences of these post-year end events.

4.5 Changes in preparing or presenting sustainability information

117. The undertaking shall prepare and present sustainability information (approach, method, option, metrics used to report, and disclosures reported) consistently overtime. Any change from one year to another is expected to occur only when the new preparation or presentation allows to provide more useful information. When a change in preparation or presentation occurs, the data related to the comparative period should be restated according to the new preparation or presentation.

118. When an undertaking changes the preparation or presentation, in some circumstances, it might be impracticable to adjust comparative information to achieve comparability with the current period, in which case the undertaking shall disclose that fact (see ESRS 2).

4.6 Reporting errors in prior periods

119. Prior period errors are omissions from, and misstatements in, the undertaking's sustainability report for one or more prior periods arising from a failure to use, or misuse of, reliable data that:

   (a) was available when the management report that includes the sustainability report for those periods was approved for issuance; and

   (b) could reasonably be expected to have been obtained and considered in the preparation of sustainability disclosures included in these reports.

120. Material errors are sometimes not discovered until a subsequent period. These prior period errors shall be corrected in the comparative information presented in the sustainability-related disclosures for that subsequent period and duly explained.

121. The undertaking shall correct material prior period errors in the first management report approved for issuance after their discovery by retrospectively restating the comparative amounts for the prior period(s) presented in which the error occurred except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.

122. When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the undertaking shall restate the comparative information to correct the error prospectively from the earliest date practicable.

123. Any information disclosed about prior periods, including any historical summaries of sustainability-related financial information, shall be restated as far back as is practicable. Hindsight should not be used when correcting amounts for a prior period, either in making assumptions about what the undertaking's intentions would have been in a prior period or in estimating the amounts disclosed in a prior period.

124. Corrections of errors are distinct from changes in estimates. Estimates by their nature are approximations that may need revision as additional information becomes known.

4.7 Adverse impacts and financial risks

125. Actions or action plans of the undertaking to avoid sustainability impacts or financial risks or to benefit from opportunities in relation to a sustainability topic or sub-topic might have material adverse impacts or cause material financial risks in relation to another sustainability topic or sub-topic. For example:

(a) an action plan to decarbonise production or products involving abandoning production or products might have negative impacts on own workforce and financial risks for redundancy payments; and

(b) an action plan of an automotive supplier to focus on the supply for e-vehicles might lead to stranded assets for the production of supply parts for conventional vehicles.

126. The undertaking shall:

(a) mention the existence of material adverse impacts or material financial risk together with the actions and action plans that generate them, with a cross-reference to the topic or sub-topic to which the adverse impact or financial risks relate; and

(b) a description of the material adverse impact or material financial risks and how they are addressed under the topic or sub-topic to which the adverse impact or financial risks relate.

4.8 Optional disclosures

127. ESRS may leave some disclosures optional but include provisions on how to prepare them. If an undertaking decides to disclose on those matters, it shall follow the provisions on those optional disclosures given in ESRS.

4.9 Consolidated reporting and subsidiary exemption

128. When the undertaking is reporting at a consolidated level and one or more of its subsidiaries is using the subsidiary exemption of the CSRD the undertaking shall perform its assessment of material impacts, risks and opportunities for the entire consolidated group, regardless of its group legal structure, making sure that all subsidiaries are covered in a way that allows for the unbiased identification of material impacts, risks and opportunities.

129. Criteria and thresholds for assessing an impact, risk or opportunity as material shall be determined based on chapter 2.2 Double materiality as the basis for sustainability disclosures.

4.10 Additional reporting in part or in full under other sustainability reporting pronouncements

130. In addition to preparing its sustainability statements in accordance with ESRS, the undertaking may decide to report in part or in full under generally accepted sustainability reporting pronouncements of other standard setting bodies and non-mandatory guidance including sector-specific. It may include such reporting in its sustainability statements in accordance with paragraph 147 subject to paragraph 40.

5 Providing linkage with other parts of corporate reporting

5.1 General cohesiveness

Cohesiveness, incorporation by reference, and specific EU regulations

131. The undertaking shall adopt presentation practices that promote cohesiveness between its sustainability report and:

    (a) the information provided in the other parts of the management report in accordance with chapter 5 and article 29 of chapter 6 of Directive 2013/34/EU;

    (b) its financial statements; and

    (c) other sustainability-related regulated information.

132. To promote effective communication and avoid duplications appropriate cross-referencing shall be put in place by the undertaking.

133. Listed undertakings or financial undertakings that comply with specific EU regulations must disclose information related to sustainability matters following the requirements specified in such specific EU regulations. In these cases, the undertaking shall:

    (a) include in its sustainability report information that is consistent with the information disclosed under such specific EU regulations; and

    (b) refer in its sustainability report to, and include where appropriate additional explanations of, the information disclosed under such specific EU regulations.

134. Examples of disclosure requirements relevant to sustainability matters required in specific EU regulations are:

    (a) the information to be disclosed in the registration document as required by the 2017/1129 Regulation of the European Parliament and the Council (the Prospectus Regulation);

    (b) the remuneration report required by the 2007/36/EC directive on the exercise of certain rights of shareholders in listed companies; and

    (c) public disclosures under regulation 575/2013 (Pillar 3 disclosures).

Incorporation by reference

135. Elements of information mandated by a disclosure requirement of an ESRS (including a specific datapoint mandated by a disclosure requirement) may be incorporated by reference in the sustainability statements to another section of the management report, provided that such disclosures constitute a separate element of information clearly identified in the other section of the management report as addressing the relevant disclosure requirement (or the relevant specific datapoint mandated by a disclosure requirement). Without the information incorporated by reference, the sustainability statements are incomplete. Incorporation by reference in the sustainability statements from reports other than the management report is not allowed.

136. When the undertaking uses incorporation by reference, it has to disclose a list of the disclosure requirements of the ESRS (or the specific datapoints mandated by a disclosure requirement) that have been incorporated by reference.

5.2 Connectivity with financial statements

137. Financial data and assumptions presented in the sustainability report shall be consistent with the corresponding financial data and assumptions included in the undertaking's financial statements.

138. When the sustainability report includes monetary amounts or other quantitative data points that are directly presented in financial statements, the undertaking shall include a reference to the relevant paragraph of its financial statements where the corresponding information can be found.

139. When sustainability reporting includes monetary amounts or other quantitative data points that are either an aggregation of or a part of monetary amounts or quantitative data presented in the undertaking's financial statements, the undertaking shall explain how these relate to the most relevant amount(s) presented in the financial statements, including a reference to the line item and/or to the relevant paragraph(s) of its financial statements where the corresponding information can be found. Where appropriate, a reconciliation, including in a tabular form, may be provided.

140. When a link cannot be made either directly or indirectly (including through a reconciliation if applicable) the undertaking shall state, where needed, the consistency of data, assumptions used, and qualitative information included in its sustainability report with the corresponding data, assumptions and qualitative information included in the financial statements. This may occur when the sustainability report includes:

    (a) monetary amounts or other quantitative data linked or interdependent with monetary amounts or other quantitative data presented in financial statements, but a direct reconciliation is not possible; and

    (b) qualitative information linked or interdependent with qualitative information presented in financial statements.

141. Consistency as required by paragraph 140 above shall be at the level of a single data point and shall include a reference to the relevant line item / paragraph of a footnote of the financial statements. When the data, assumptions and qualitative information are not consistent, the undertaking shall state that fact and explain the reason.

142. Examples of items for which the statement in paragraph 140 above is required are:

    (a) when the same KPI is presented as of the reporting date in financial statements and in forecast for future periods in the sustainability report; and

    (b) when macroeconomic or business projections are used to develop key indicators in the sustainability report and they are also relevant in estimating the recoverable amount of assets, the amount of liabilities or provisions in financial statements.

143. Topical and sector-specific Standards may include requirements to include reconciliations or consistent explanations for specific disclosure requirements. In such cases, the requirements in these Standards shall prevail.

6 Structure of the sustainability statements

144. This chapter provides the basis for the presentation of the information related to sustainability matters (i.e. sustainability reporting) within the management report. Appendix E provides illustrative guidance on the requirements of this chapter.

6.1 Content of the sustainability statements

145. The undertaking shall report all the applicable disclosures (sector-agnostic, sector-specific and entity-specific) required by ESRS within identifiable parts of the management report constituting the 'Sustainability Statements'.

146. The undertaking shall report within the sustainability statements the disclosures pursuant to Article 8 of Regulation 2020/852 on the establishment of a framework to facilitate sustainable investment.

147. Subject to the provision of paragraph 40, the undertaking may include in its sustainability statements additional disclosures stemming from local legislation, generally accepted sustainability reporting pronouncements of other standard setting bodies and non-mandatory guidance including sector-specific. Such disclosures shall be clearly identified with an appropriate reference to the related legislation, pronouncement or guidance and shall complement ESRS disclosure requirements.

6.2 Structure of the sustainability statements

Presentation of disclosures required by sector-agnostic ESRS

148. When reporting the disclosures required by sector-agnostic ESRS, the undertaking shall choose one of the following three options:

   (a) reporting the disclosures within a single separately identifiable section of the management report;

   (b) aggregating the disclosures into four separately identifiable parts of the management report:

      iii. general information;

      iv. environmental information;

      v. social information; and

      vi. governance information; or

   (c) aggregating the disclosures required by each ESRS and reporting them as non-separable blocks in identifiable parts of the management report 'on a standard-by-standard basis'.

149. Option 148 (a) is the preferred option. Any undertaking that elects to apply the options laid down in paragraphs 148 (b) or (c) shall report a location table within the management report using a tabular format allowing to identify where the sector-agnostic disclosures are presented in the management report.

Presentation of disclosures required by sector-specific ESRS

150. When reporting the disclosures required by sector-specific ESRS, the undertaking shall group those disclosures by cross-cutting reporting areas and, where applicable, by sustainability sub-topics and report them alongside the relevant sector-agnostic disclosures.

Presentation of entity-specific disclosures required by ESRS

151. Where the undertaking shall develop material entity-specific disclosures in accordance with **chapter 1.5 Developing entity-specific disclosures**, it shall exercise judgment and report those disclosures alongside the most relevant sector-agnostic and sector-specific disclosures.

Presentation of the disclosures pursuant to article 8 of the Taxonomy regulation (2020/852)

152. The undertaking shall report the disclosures pursuant to article 8 of the Taxonomy regulation (2020/852) in a dedicated and identifiable part of the management report.

APPLICATION PROVISIONS

1.5 Developing entity-specific disclosures

153. The way sustainability matters are addressed is expected to evolve as ESRS are developed. Therefore, the need for entity-specific disclosures is likely to decrease with the expanded coverage of sustainability matters by mandatory sector-agnostic and sector-specific disclosure requirements.

154. Because of the above, the undertaking is allowed when defining its entity-specific disclosures to adopt transitional measures for their preparation in the first two annual sustainability reports. It shall as a priority:

    (a) introduce in its reporting entity-specific disclosures (i) that have been reported on by the undertaking in prior periods (ii) if these disclosures meet or are adapted to meet the characteristics of quality referred to under **chapter 2.1 Characteristics of information quality**;

    (b) limit the entity-specific disclosures to facts and circumstances that are unique to its activities and, as such, will likely be needed in the future, after the incorporation of additional sector-agnostic and sector-specific disclosure requirements in future sets of Standards; and

    (c) in addition, consider the available best practices and/or frameworks to complement, in an appropriate manner, its sustainability reporting with a reasonable set of prioritised disclosures additional to the ones covered by ESRS.

4.2 Presenting comparative information

155. To ease the first-time application of this [draft] Standard, an undertaking may defer the presentation of comparative information as required by **chapter 4.2 Presenting comparative information** for one reporting period by one year.

Appendix A: Defined terms

This appendix is an integral part of the proposed [draft] ESRS 1 [General Principles].

Actions, and action plans	Actions refer to activities that are undertaken to ensure that the undertaking delivers against targets set. An action plan is a structured group of actions that are considered necessary to achieve a specific policy objective or a target, to manage principal impacts, risks and opportunities.
Double materiality	Double materiality provides criteria for the determination of whether or not information on a sustainability matter has to be included in the undertaking's sustainability report. A sustainability matter meets the criteria of double materiality if it is material from the impact perspective or the financial perspective or both of these two perspectives. Impact materiality and financial materiality assessments are intertwined and interdependencies between the two dimensions should be considered in the assessments. In general, the starting point is assumed to be the impact materiality assessment, as a sustainability impact is likely to translate into financial effects in the short-, medium-, or long-term. However, beyond the actual and potential financial consequences for the undertaking of its material impacts, the undertaking shall consider how it is affected by sustainability matters which are external to its activities.
Downstream entity(s)	An entity is considered downstream from the undertaking (e.g., distributors, customers) when it receives products or services from the undertaking (GRI).
Due diligence	Process(es) that the undertaking carries out to identify, assess, prevent, mitigate and remediate the material actual and potential adverse impacts connected with its operations, products or services through its own activities and its business relationships.
Financial materiality	A sustainability matter is material from a financial perspective if it triggers or may trigger financial effects on undertakings, i.e., it generates or may generate risks or opportunities that influence or are likely to influence the future cash flows and therefore the enterprise value of the undertaking in the short-, medium- or long-term, but it is not captured or not yet fully captured by financial reporting at the reporting date. The undertaking relies on the availability of economic, natural and social resources of an appropriate pricing and quality. Such dependencies are sources of financial risks or opportunities.
Impact materiality	A sustainability matter is material from an impact perspective if the undertaking is connected to actual or potential significant impacts related to the matter on people or the environment over the short-, medium- or long-term. This includes impacts directly caused or contributed to by the undertaking in its own operations, products or services and impacts which are otherwise directly linked to the undertaking's upstream and downstream value chain, not limited to direct contractual relationships.
Policy	A policy is a set or framework of general objectives and management principles that the undertaking uses for decision-making. A policy implements the undertaking's strategy or management decisions related to a material sustainability matter. Each policy is under the responsibility of defined person(s), specifies its perimeter of application, and includes one or more objectives (linked when applicable to measurable targets). A policy is validated and reviewed following the undertakings'

	applicable governance rules. A policy is implemented through actions or action plans.
Policy objectives	Objectives are specific, direction setting, outcome-based statements. Objectives are defined in the policies translating the undertaking’s strategy.
Stakeholder(s)	Stakeholders are those who have interests in the undertaking. Two main groups of stakeholders may be identified: a) ‘affected stakeholders - individuals or groups that have interests that are affected or could be affected – positively or negatively – by the undertaking’s activities and through its value chain; b) users of sustainability reporting – stakeholders with an interest in the undertaking, which includes: (i) existing and potential investors, lenders and other creditors (including asset managers, credit institutions, insurance undertakings), and (ii) business partners of the undertakings, trade unions and social partners, civil society organisations and non-governmental organisations. Some, but not all, stakeholders may belong to both groups.
Sustainability matters	Sustainability factors as defined in Article 2, point (24) of Regulation (EU) 2019/2088 of the European Parliament and the Council, that is environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters; and governance factors.
Sustainability statements	A separately identifiable section or the parts of the management report that contain the sustainability information required by the applicable ESRS.
Transition plan	A transition plan is a specific type of action plan that is adopted by the undertaking in relation to a strategic decision and that addresses: a) a public policy objective; and/ or b) an entity-specific action plan that the undertaking decides to organise as a structured set of targets and actions and is associated to (i) a key strategic decision; (ii) a major change in business model; and/or (iii) a particularly important action plan in terms of objectives or allocation of resources.

Appendix B: Application guidance

This appendix is an integral part of the proposed [draft] ESRS 1 [General principles] and has the same authority as the [draft] Standard. It describes the application of the requirements of **chapter 3 Disclosure Principles on implementation** and **chapter 6 Structure of the sustainability statements**.

Application guidance for chapter 3 - Disclosure principles on implementation

Disclosure Principle 1-1 – On policies adopted to manage material sustainability matters

AG 1. A policy is a set or framework of general objectives and management principles that the undertaking uses for making decisions. Within the context of this ESRS, a policy implements the undertaking's strategy or management decisions related to a material sustainability matter. Such material sustainability matters are identified by the undertaking as disclosed following ESRS 2.

AG 2. Due to the interdependency between impacts on people and the environment, risks and opportunities, a single policy may apply to several material matters, including matters addressed by more than one ESRS. The undertaking shall report the required information once in the relevant ESRS whilst providing information required by other applicable ESRS, with a clear explanation of the disclosures covered and appropriate cross-references to other disclosures (e.g. the undertaking may enact a single policy to address several interconnected material human rights or environmental issues in its value chain, provided the policy is specific with respect to the management of the underlying material impacts, risks, and opportunities as outlined in this chapter).

AG 3. This Disclosure Principle concerns the policy the undertaking has adopted specifically for the related material matter. The undertaking shall not describe generic policy commitments, values, and principles, such as those concerning norms of responsible business conduct or, respecting human rights in general. Such disclosures shall be provided, when applicable, pursuant to the ESRS 2 Disclosure Requirement SBM.

AG 4. For the reported information to meet the necessary qualitative characteristics, the policy description should be concise and include relevant information, which is necessary for understanding how it addresses the identified significant impacts, risks and opportunities. The level of detail of the policy description should correspond to the severity of the identified impacts and the importance of the risks and opportunities which underpin the materiality of the sustainability matter addressed. The undertaking shall not provide a detailed list or content of all related policy documents, such as codes of conduct, that can be located on the undertaking's website as an example. Instead, the undertaking should prioritise and summarise relevant content from across the undertaking's applicable documents.

AG 5. Within the description of the policy, the undertaking shall provide information on the objectives of the policy defined in terms of outcomes for people and the environment or the effect on the undertaking's business, corresponding to the impacts, risks or opportunities underpinning the materiality of the matter. When applicable the undertaking shall explain whether the objectives of its policy are based on regulatory compliance or extend beyond it. The undertaking shall further outline the key decisions on how the undertaking intends to achieve such objectives, according to the Disclosure Principles on targets, progress and tracking effectiveness, and actions, action plans and resources. Where relevant, the undertaking may describe how the policy is aligned with other operational policies and procedures, for example, integration of the sustainability objectives and principles in purchasing practices and policies.

AG 6. The description of the scope of the policy shall explain which activities and/or segments of the undertaking's operations, value chain or other business relationships it concerns. The description should also explain further boundaries relevant to the specific topic or the undertaking's circumstances, which may include geographies, life cycles, etc. In certain cases, when the scope of the value chain perimeter differs from the one defined by other ESRS and the policy may not cover the full value chain, the undertaking should provide clear information regarding the extent of the value chain covered by the policy.

AG 7. The description of the allocation of responsibility shall indicate responsibilities at the appropriate levels within the undertaking (for example, senior management or middle management), insofar as these are related specifically to the disclosed policy. The undertaking shall not describe the general organisation of sustainability management and governance, that is the allocation of responsibilities for the sustainability-related policies, as this is described in the ESRS 2 Disclosure Requirements GOV. However, the undertaking may explain how the responsibilities for oversight over the policy and its implementation are connected to such general organisation.

AG 8. The information on the adherence to third-party standards of conduct, if any, shall be provided insofar as such standards explicitly address the sustainability matter addressed by the undertaking's policy (e.g., ETI Base Code for supply chain labour rights). The undertaking shall explain in sufficient detail the extent of its commitment, including whether it considers the standard to be binding and how it intends to act in case of a breach. Under this disclosure the undertaking should neither refer to international frameworks that are of a general nature nor to those with which undertakings are expected to comply by the governments and intergovernmental organisations, such as the UN Guiding Principles on Business and Human Rights or the OECD Guidelines for Multinational Enterprises.

AG 9. Where appropriate, the undertaking should include information on consideration of the interests of stakeholders. This is the case, for example, with relation to the undertaking's most severe impacts which affect specific categories of stakeholders. The undertaking shall explain how it engaged with the stakeholders affected by the impacts, their legitimate representatives, or organisations defending their interests, and how their interests are reflected in the policy adopted to address the material sustainability matter. If the policy concerns change to the undertaking's business model and strategy, this disclosure must be provided in conjunction with the corresponding disclosures required in the ESRS 2 Disclosure Requirements SBM.

Disclosure Principle 1-2 – On targets, progress and tracking effectiveness

AG 10. This Disclosure Principle specifies how to report on progress and the effectiveness of the undertaking's policy both when the undertaking has set targets for this purpose as well as when it has not. Paragraph 100 applies, if measurable outcome-oriented targets are set, and clarifies specific aspects which shall be disclosed for measurable targets and progress towards those targets. In case the undertaking has not adopted measurable targets, it shall report on its progress in accordance with paragraph 101.

AG 11. Targets disclosed under the Disclosure Principle in paragraph 100 shall be articulated in terms of their relevance to outcomes for affected stakeholders and/or the environment or effect on the undertaking's business performance, position or development. Targets that are not directly related to such outcomes, for example a percentage of employees or suppliers who have taken part in an activity such as training, may be articulated and disclosed as part of the actions under ESRS 1 Disclosure Principle 3.

AG 12. Targets disclosed in accordance with the Disclosure Principle shall not be defined in terms of implementation of processes (e.g., implementing a risk management system; training of employees or suppliers) which shall be disclosed as part of the action plan to implement the undertaking's policy and/or measurable target under ESRS 1 Disclosure Principle 3.

AG 13. Targets that concern the prevention or mitigation of environmental impacts shall be specified in terms of reduction of the impacts in absolute and relative terms. Targets that concern prevention or mitigation of social impacts shall be specified in terms of the effects on human rights, welfare and positive action for affected stakeholders.

AG 14. The undertaking shall not include in the calculation of targets any netting or offsetting of impacts.

AG 15. In the description of the methodology, the undertaking shall describe how the targets are set, whether and how the targets consider the wider context of sustainable development and/or local situation in which impacts take place and whether the targets are based on scientific consensus (science-based), where applicable.

AG 16. The information on progress made towards achieving the targets may be provided in a comprehensive table, including information on the baseline and target value, milestones, and achieved performance over the prior periods.

AG 17. The undertaking shall describe how targets have been tracked and measured, including any estimations used in calculating performance throughout the relevant time horizon. In addition, the undertaking should disclose whether progress is satisfactory or not. If a target has not been achieved, the undertaking should explain why.

AG 18. Where an undertaking describes progress in achieving the objectives of a policy in the absence of a measurable target, it may specify a baseline against which the progress is considered. For example, the undertaking may assess an increase of wages by a certain percentage for those below a fair wage; or may assess the quality of its relationships with local communities by reference to the proportion of issues raised by communities that were resolved to their satisfaction. The baseline and the assessment of the progress shall be related to the impacts, risks and opportunities which underpin the materiality of the matter addressed by the policy.

Disclosure Principle 1-3 – Actions, action plans and resources in relation to policies and targets

AG 19. The undertaking shall disclose all relevant actions to meet the policy objectives and its targets for those implemented in the current period together with forward-looking information on planned actions across relevant time horizons.

AG 20. The undertaking may adopt stand-alone actions or more comprehensive action plans. A set of actions which are either connected to a single objective, or a target shall be presented in a form of an action plan. Where the undertaking reports a stand-alone action, the disclosure reference contents concerning the action plans apply analogously.

AG 21. The action plan has a retrospective component, including key actions accomplished during the reporting period, and a forward-looking component, including key actions planned in the short-, medium- and long-term. The undertaking may include implemented actions from past periods and their outcomes, if this supports the provision of a faithful presentation of the implementation of the climate change mitigation or climate change adaptation policy.

AG 22. The description of the scope of the action plan shall specify which activities and segments of the undertaking's operations, value chain or other business relationships are considered. This information provided by the undertaking is to be consistent with AG 6 on the scope of the policy.

AG 23. For policies for which it is not meaningful to define a measurable outcome-oriented target, illustrations of the implementation of the undertaking's policy and effectiveness should be provided. Such illustrations should only be provided for impacts, risks and opportunities that the undertaking's policy is addressing but not for past impacts. The examples should present a balanced view of positive and negative aspects concerning the undertaking's involvement with the underlying impacts.

AG 24. Information on resources needed and their allocation shall be provided, when applicable, at the level of the undertaking's action plan. The undertaking should provide such information if the implementation of the action plans requires substantial dedicated resources, such as significant capital expenditure or operational costs related for instance to the adoption of new technologies, refurbishment or replacement of industrial facilities (e.g., a climate net-zero transition plan in high-impact sectors), investment in people and organisation that the undertaking can rely on to effectively implement the action plan and meet policy objectives or targets. Conversely, where the effectiveness of the action plans does not depend on specific dedicated resources, the undertaking shall clearly indicate it instead of disclosing resource allocations. The undertaking shall also provide complementary explanatory information, where the ability to implement the action plan depends on specific preconditions, e.g., granting of financial support or public policy and market developments.

AG 25. Information on resources needed and allocated may be disclosed at the level of the entire action plan or by key action taken or planned.

AG 26. Information on resources allocation should be presented in the form of a table and should be broken down between capital expenditures and operating expenditures, and across the relevant time horizons, at minimum for the current reporting year resources, and the planned allocation of resources over specific time horizons.

Application guidance for chapter 6 Structure of the sustainability statements

Presentation of disclosures required by sector-agnostic ESRS

Reporting all sector-agnostic disclosures within a single separately identifiable section of the management report (see paragraph 148 (a))

AG 27. The undertaking applying the option in paragraph 148 (a) shall apply the requirement in paragraphs AG 28 through AG 32 and may apply the option outlined in paragraph AG 33.

AG 28. As a starting point, the undertaking shall group together the disclosures required by each sector-agnostic ESRS and report them as non-separable blocks. The disclosures shall appear within each block in the order outlined in the sector-agnostic Standards.

AG 29. The title of each block shall be the name of the relevant sector agnostic ESRS. Each disclosure requirement in the applicable ESRS shall be identified within the block by a header. The header shall consist of the code of the sector agnostic Standard as outlined in Appendix D and the title of the disclosure requirement in the relevant ESRS.

AG 30. Notwithstanding paragraph AG 28, when a topical ESRS Standard provides specific presentation guidance for a disclosure requirement, this specific requirement shall prevail.

AG 31. The undertaking shall group the blocks referred to in paragraph AG 29 into four identifiable parts of the management report applying the ESRS classification of reporting areas and sustainability sub-topics set out in Appendix D. The blocks shall appear in the order prescribed in Appendix D.

AG 32. The undertaking shall report the four parts referred to in paragraph AG 31 in a single identifiable section of the management report in the order prescribed in Appendix D.

AG 33. The undertaking shall apply the structured presentation outlined in paragraphs AG 28 to AG 32 but may report that it complies with an ESRS disclosure requirement through a disclosure in one single identifiable part of the management report outside the single section referred to in paragraph AG 32. The undertaking shall include an explicit cross-reference in the sustainability statements and the cross-referred part of the management report shall also include an explicit reference to the header of the disclosure requirement in the sustainability statements. Furthermore, if the cross-referenced part of the management report only partially complies with the disclosure requirement, the undertaking shall provide additional information in the sustainability statements.

Aggregation of the sector-agnostic disclosures into four identifiable parts of the management report (see paragraph 148 (b)))

AG 34. The undertaking applying the option in paragraph 148 (b) shall apply the requirement in paragraphs AG 28 to AG 31 and therefore disaggregate the presentation described in AG 32 into four parts. The undertaking may apply the option in paragraph AG 33 to one or more ESRS disclosure requirements.

Aggregation of the sector-agnostic disclosures required by each ESRS as non-separable blocks in identifiable parts of the management report (paragraph 148 (c))

AG 35. Any undertaking applying the option laid down in article 148 (c) shall apply the requirements in paragraphs AG 28 to AG 30 and may apply the option in paragraph AG 33 to one or more ESRS disclosure requirements.

Presentation of disclosures required by sector-specific ESRS (Paragraph 150)

AG 36. The undertaking shall group the disclosures required by each sector-specific ESRS applying the sector-agnostic ESRS classification set out in Appendix D. It shall report those groups of disclosures within the appropriate blocks referred to in paragraph AG 29 immediately after the cross-cutting disclosures and in the order prescribed by the applicable sector-specific Standard. The undertaking shall identify each sector-specific disclosure with a header, which shall consist of the code of the sector-specific ESRS and the title of the disclosure requirement in the relevant ESRS.

Presentation of the entity-specific disclosures required by ESRS (Paragraph 151)

AG 37. When applying paragraph 151, the undertaking shall group the entity-specific disclosures that relate to a sustainability matter and report them within the most relevant blocks in accordance with paragraph AG 29 after the sector-specific disclosures.

Presentation of the disclosures pursuant to article 8 of the Taxonomy regulation (Paragraph 152)

AG 38. The undertaking that elects to apply the options in paragraphs 148 (a) or (b) shall report the disclosures pursuant to article 8 of the Taxonomy regulation (2020/852) in a dedicated identifiable part of the management report immediately after the topical statement ‘Environmental information’ in accordance with paragraph AG 32.

Appendix C: Explanations on sustainability due diligence

This appendix provides summarised explanations of the key elements of sustainability due diligence, as they are specified in international guidance and principles. The purpose of this appendix is to explain the parameters and the procedural steps of due diligence, to help undertakings to apply ESRS disclosure requirements in relation to sustainability due diligence. It is a factual reflection of the content of the international guidance and principles and is not intended nor should be construed as adding to or subtracting from them (in case of any doubt, reference should be made to the standards directly). The application guidance for disclosure requirements is provided in the respective ESRS.

1. Due diligence is defined in international instruments, including in particular the UN Guiding Principles on Business and Human Rights (2011) and the OECD Guidelines for Multinational Enterprises (2011) and it is further specified in the OECD Due Diligence Guidance for Responsible Business Conduct (2018).

2. The purpose of sustainability due diligence is to identify and address negative impacts with which the undertaking either is or risks being involved through its operations, products or services. This includes both actual and potential negative impacts. It includes impacts the undertaking has caused or may cause, impacts to which it has contributed or may contribute, and impacts where there is no contribution, but which remain linked to its operations, products or services through its business relationships. The nature of the undertaking's involvement affects the actions it will need to take. Due diligence applies across a company's full operations and value chain.

The scope of due diligence

3. Due diligence applies across the undertaking's own operations and upstream and downstream value chain. It is not constrained to direct relationships in the value chain nor by the degree of control or influence the undertaking has over a situation or a third party, nor by the content of national laws and regulations.

4. Due diligence is an on-going practice that responds to changes in the undertaking's activities, business model, business relationships, operating, sourcing and selling contexts. It should be considered independent of the undertaking's reporting processes but a source of critical inputs to them and be initiated as early as possible in the development of a new activity or relationship, given that risks can be increased or mitigated already at the stage of structuring contracts or other agreements, and may be inherited through mergers or acquisitions.

5. If an undertaking cannot conduct due diligence across its whole value chain at once, due to its complexity, it is expected to identify general areas where the risk of negative impacts is most significant, and take these as the first focus of due diligence, before broadening to other areas over time. In identifying such areas, it is expected to consider impacts it has been involved with in the past or knows are likely, as well as impacts commonly associated with its sector, its products, geographic locations, or with organisations it works with.

Embedding due diligence in governance and organisation

6. It is expected that the undertaking embeds due diligence, from the top of the organisation and across all its functions, the mindsets, behaviours and practices necessary to minimize impacts on human rights and the environment. Senior management and the board have an important role in reviewing both whether the business model and strategy play a role

in creating or exacerbating impacts, and how effectively impacts are being addressed. It is expected that they ensure that performance incentives, procurement practices and lobbying activities reflect the objectives of preventing and mitigating adverse impacts on human rights and the environment.

7. Responsibility for addressing impacts should be assigned to the appropriate level and function within the undertaking and internal decision-making, budget allocations and oversight processes should enable effective responses to impacts.

8. A due diligence system should - to be effective – make sure that the administrative, management and supervisory bodies are kept informed of severe actual or potential impacts and that those with daily responsibility for addressing environmental and human rights issues have adequate access to senior decision-making levels and appropriate means to escalate issues where necessary.

Engaging with stakeholders

9. Engagement with affected stakeholders is central in all steps of the due diligence process. Actual and potential impacts often cannot be adequately identified, understood, addressed and remedied without involving those most directly affected. Providing information to stakeholders and engagement with them is an important way to listen to their views and experiences so that their insights can inform the undertaking's decisions and actions.

10. Where there are legitimate representatives for groups of affected stakeholders, such as trade unions, they can provide an efficient and effective means of understanding stakeholders' perspectives. If impacts are widespread or collective (e.g. in the case of corruption or GHG emissions) or where those affected might be placed at risk by engagement with the undertaking (e.g. if they are subject to surveillance by their government), then it may be necessary to consult proxy organisations with direct knowledge of affected stakeholders' experiences and interests (e.g. local non-governmental organisations). In situations where such engagement is also not possible, undertakings can consult credible independent experts, including human rights defenders and others from civil society.

Identifying and assessing adverse impacts

11. It is expected that as part of due diligence, an undertaking identifies all instances where the undertaking is, or is at risk of being, involved with negative impacts on the environment or people, and assesses the nature of those actual or potential impacts (their context, causes, severity etc). Actual impacts are those that have already occurred. Potential impacts are those that could occur, but have not yet done so. The impacts may be short-term or long-term, intended or unintended, reversible or irreversible.

12. To identify situations where negative impacts are likely to arise, it is expected that an undertaking, as part of its due diligence, considers the nature of its own activities, products and services; the types, nature and location of business relationships across its operations and value chain; and the locations where it operates, sources, sells or is otherwise active. Undertakings are expected to prioritise situations where stakeholders may be particularly vulnerable to impacts.

13. Sources of information for identifying impacts include those stakeholders who are or may be affected as well as the undertaking's own workforce, legal reviews, financial audits, shareholder filings, health and safety inspections, impact assessments and

grievance/complaints mechanisms. Additional external sources could include civil society, academic and media reports, the experience of industry peers, third-party social audits of facilities and independent experts.

14. To assess adverse impacts, the undertaking should assess how (i) it is involved with the impact and (ii) how severe the impact is or would be.

15. The undertaking can be involved with an impact by (i) causing it, (ii) contributing to it, or (iii) by being linked to it. Causing means that its actions (or omissions) on their own result in the impact. Contributing means that the undertaking facilitates or incentivizes a third party to cause an impact, or that its actions (or omissions), combined with those of others, result in the impact. Direct linkage means that, while the undertaking does not cause or contribute to it, an impact is nevertheless directly linked to its operations, products or services through a business relationship (which may be a direct or remote relationship in the value chain). In situations that appear to be limited to direct linkage, undertakings need to consider whether the undertaking's own business model, decisions or practices may play a role, even if the impact appears to be caused by a third party.

16. The severity of an impact is informed by (i) how grave the harm is or would be, (ii) how widespread the harm is or would be, and (iii) how hard it is or would be to put the harm right. Any one of these factors may be sufficient to judge the impact to be severe. For potential impacts, an assessment of their likelihood is also important. However, for human rights impacts, the severity of the impact takes precedence over its likelihood.

Taking action:

17. Due diligence requires that action is taken to address negative impacts that have been identified. In the case of a potential impact, the undertaking should take action to prevent it wherever possible, or, where this is not feasible, to mitigate the risk of it occurring and the extent of harm that could result. In the case of an actual impact, two types of action may be needed. First, if there is a risk that the impact may continue or recur, then the undertaking is expected to take action to prevent or mitigate that risk (including by ceasing any role it has in the impact). Second, it is expected to take an appropriate role in securing remedy for those harmed.

18. While undertakings should make sure to address all their adverse environmental and human rights impacts, it is not always possible to address them all at once. If prioritization is needed, undertakings are expected to begin with those impacts that would be most severe (based on the three criteria noted in paragraph 16), and with the focus on the relative severity of impacts - severity is not meant to be applied as an absolute concept.

19. Due diligence specifies that the nature of the appropriate action to prevent and / or mitigate an impact depends on the nature of the undertaking's involvement with the impact:

    (a) if the undertaking causes or may cause the impact, it should take action to cease or prevent the impact;

    (b) if the undertaking contributes, or may contribute, to the impact, it should take action to cease or prevent its contribution, and use its leverage to mitigate any remaining impact; and

    (c) if there is no contribution by the undertaking, but the impact is directly linked to its operations, products or services, the undertaking should first and foremost use its leverage with third parties to seek to prevent or mitigate the impact.

20. Leverage is the ability to effect change in the practices of a third party that causes a harm. Leverage may be traditional commercial leverage, such as through contract terms, or through other means within the undertaking's control such as offers of capacity-building or particular incentives. The more complex or systemic the issue, or the more remote in an undertaking's value chain, the more likely that exercising leverage will require some form of collaboration with others, whether industry peers or other public, private, international or civil society organisations. It may also require forms of collective action.

21. Where an undertaking lacks leverage, it is expected to take steps to build it to the extent possible. Where it cannot create or use the leverage necessary to achieve change, it should consider ending the business relationship(s) concerned, taking into account credible assessments of any potential environmental and human rights impacts of doing so. The more severe the impact, the more swiftly leverage will need to show results before the undertaking considers ending the relationship. For as long as the undertaking remains in the relationship, it is advised to continue and be able to demonstrate its efforts to mitigate the impact and be prepared to accept any consequences – reputational, financial or legal – of the continuing connection.

22. In the case of actual impacts, undertakings are expected to take appropriate action with regard to the provision of remedy for stakeholders who are harmed, with the aim of putting them back in the position they were in before the harm, or as close to it as possible:

    (a) if the undertaking has caused or contributed to an adverse impact, it should provide for, or cooperate in securing remedy for those harmed, whether by itself or in collaboration with others; and

    (b) if the undertaking has not contributed to an adverse impact, it may still choose to support the provision of remedy.

23. Operational-level grievance mechanisms can be an important means for undertakings to identify impacts and provide for remedy, and also serve as a feedback loop that supports due diligence by providing insight into how effectively impacts are being addressed.

Tracking effectiveness and communicating

24. Action to verify whether negative impacts are being addressed effectively is an integral part of due diligence. It is expected that processes to track effectiveness are based on a mix of qualitative and quantitative indicators and draw on internal as well as external feedback, including from affected stakeholders. While it can be important to measure the quality or reach of an undertaking's activities or the outputs they produce, the focus on tracking effectiveness is on evaluating whether these are leading to better outcomes for stakeholders.

25. It is expected that undertakings are prepared to communicate externally on how they address their environmental and human rights impacts, to provide some transparency and accountability to stakeholders – in particular affected stakeholders. Meaningful, on-going stakeholder engagement can play a significant role in this element of due diligence. Public reporting can also be an important means of communication. It is expected that communication provides information that is sufficient for others to assess the adequacy of the undertaking's response to environmental and human rights impacts. Communication should not pose any risks to affected stakeholders.

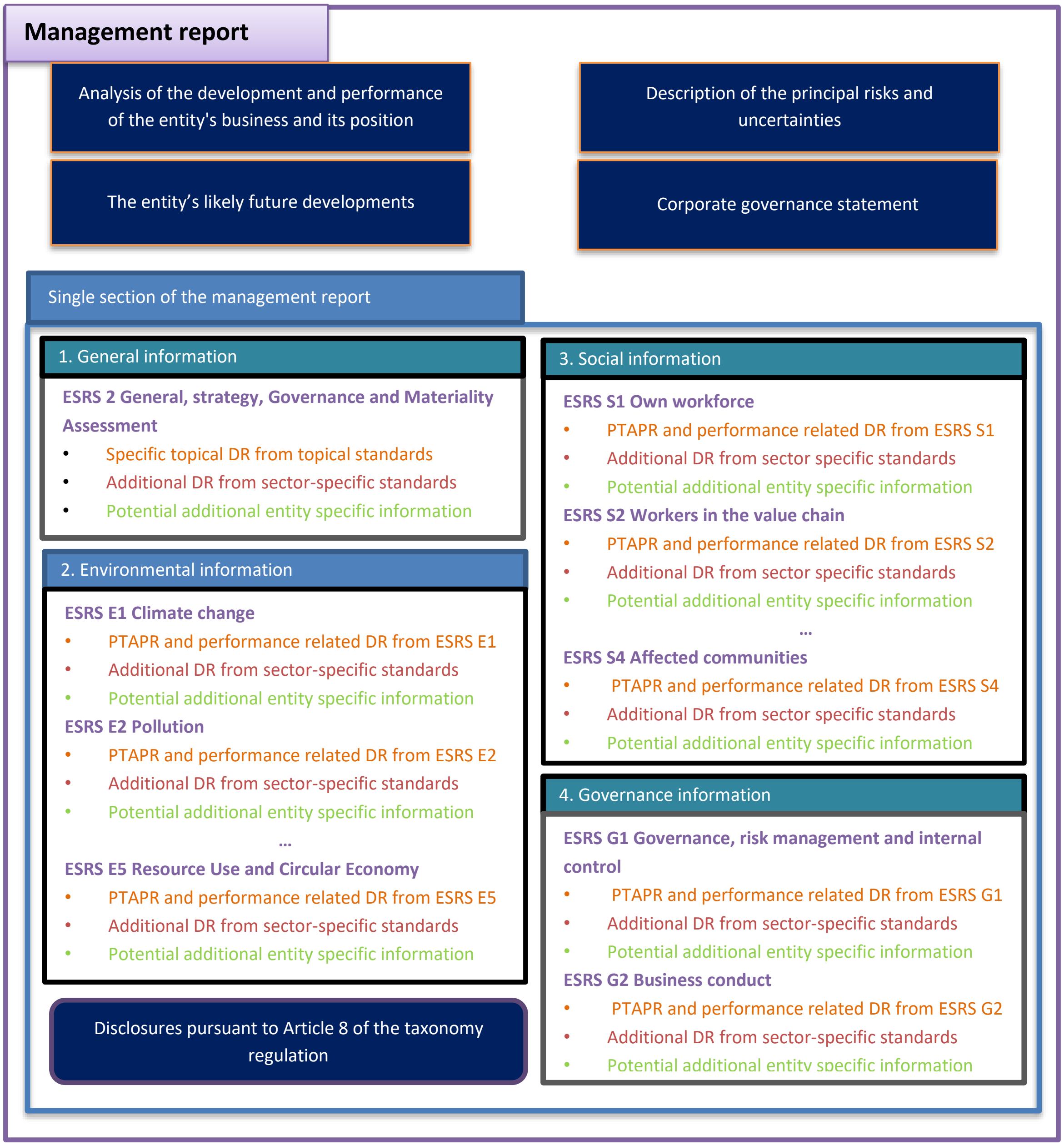
Appendix D: Classification of ESRS reporting areas and sub-topics

ESRS codification	Non-separable blocks of disclosures (paragraph AG 28)	Part of the management report (AG 32)
ESRS 1	1. General principles	1. General information
ESRS 2	2. General, strategy, governance and materiality assessment	
ESRS E1	3. Climate change	2. Environmental information
ESRS E2	4. Pollution	
ESRS E3	5. Water and marine resources	
ESRS E4	6. Biodiversity and ecosystems	
ESRS E5	7. Resource use and circular economy	
ESRS S1	8. Own workforce	3. Social information
ESRS S2	9. Workers in the value chain	
ESRS S3	10. End users / consumers	
ESRS S4	11. Affected communities	
ESRS G1	12. Governance, risk management, internal control	4. Governance information
ESRS G2	13. Business conduct	

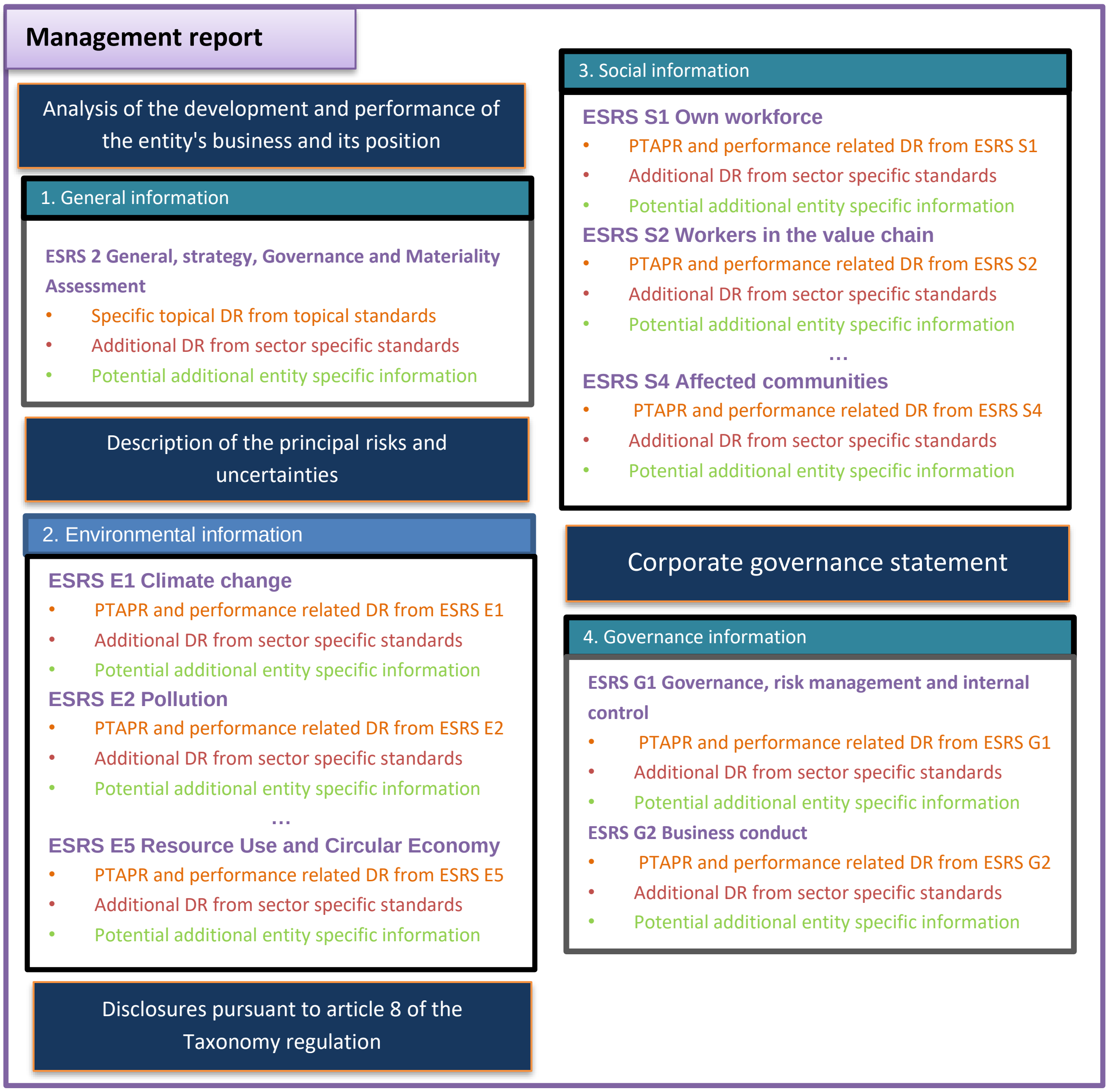
Appendix E: Illustrative examples

This appendix complements the [draft] ESRS 1. It provides non-binding illustrations of the structure of the sustainability statements applying the three options outlined in paragraph 148.

Single separately identifiable section of the management report (paragraph 148 (a))



Aggregating the disclosures into four separately identifiable parts of the management report (Paragraph 148 (b))



Illustrative index:

List of sustainability parts	Location in the management report
General information - ESRS 2	p. 25-32
Environmental information - ESRS E1 – ESRS E5	p. 35-44
Disclosures pursuant to article 9 of the Taxonomy Regulation	p. 47-50
Social information - ESRS S1 – ESRS S5	p. 51-62
Governance information - ESRS G1 – ESRS G2	p. 67-75

Aggregation of the sector-agnostic disclosures required by each ESRS as non-separable blocks in identifiable parts of the management report (Paragraph 148 (c))

Management report

Analysis of the development and performance of the entity's business and its position

Business conduct
PTAPR and performance-related DR from ESRS G2
Additional DR from sector specific standards
Potential additional entity specific information

The entity likely future developments

General, strategy, Governance and Materiality Assessment
PTAPR and performance-related DR from ESRS 2
Additional DR from sector specific standards
Potential additional entity specific information

Corporate governance statement

Governance, risk management and internal control
PTAPR and performance-related DR from ESRS G1
Additional DR from sector specific standards
Potential additional entity specific information

Description of the principal risks and uncertainties

Climate change
PTAPR and performance-related DR from ESRS E1
Additional DR from sector specific standards
Potential additional entity specific information

Pollution
PTAPR and performance-related DR from ESRS E2
Additional DR from sector specific standards
Potential additional entity specific information

…

Resource Use and Circular Economy
PTAPR related DR from ESRS E5
Performance DR from ESRS E5
Additional DR from sector specific standards
Potential additional entity specific information

Disclosures pursuant to article 8 of the Taxonomy regulation

Own workforce
PTAPR and performance-related DR from ESRS S1
Additional DR from sector specific standards
Potential additional entity specific information

Workers in the value chain
PTAPR and performance-related DR from ESRS S2
Additional DR from sector specific standards
Potential additional entity specific information

End users/ consumers
PTAPR and performance-related DR from ESRS S3
Additional DR from sector specific standards
Potential additional entity specific information

Affected communities
PTAPR and performance-related DR from ESRS S4
Additional DR from sector specific standards
Potential additional entity specific information

Illustrative index

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