

Exposure Drafts ESRS Set 1

PRESENTATION FOR OUTREACH EVENTS

June/July 2022



DISCLAIMER

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

Agenda

1. Sustainability reporting state of play
2. Project Task-Force achievements
3. ESRS: Overview
4. ESRS: Next steps
5. ESRS 1- 2: Cross-cutting standards
6. ESRS E1- E5: Environmental pillar
7. ESRS S1-S4: Social pillar
8. ESRS G1-G2: Governance pillar
9. Q&A





Sustainability reporting state of play

1.1 ESG Reporting: Three main standard-setting projects underway. A political priority for Europe with ambitious content and timeline



➤ **Green Deal: Directing capital allocation to sustainable investments** ⇒ An advanced regulatory package

- **SFDR** - Sustainable Finance Disclosure Regulation: ESG reporting by financial actors
- **Environmental taxonomy***: « Green » financial ratios
- **CSRD** - Corporate Sustainability Reporting Directive*: ESG reporting by companies in general
- **CSDDD** – Corporate Sustainability Due Diligence Directive*: European duty of care, management/governance responsibilities, climate transition plan
- **GBS** - Green Bonds Standard*: label for « green » bonds

➤ **European Pillar of Social Rights**

➤ Creation of EFRAG SRB (Sustainability Reporting Board) and SR TEG (Technical Expert Group) – Responsible for developing ESRS draft standards

➤ First 13 draft standards under consultation* (2 on « General principles », 5 on « Environment », 4 on « Social », 2 on « Governance »)



International sustainability standards
⇒ The start of a global baseline for sustainability reporting

➤ Creation of ISSB (International Sustainability Standards Board) (integration of SASB, CDSB and VRF) – Responsible for developing IFRS S standards

➤ First 2 draft standards under consultation* (« General principles » and « Climate »)



US SEC regulations for listed companies
⇒ A thematic approach

➤ Draft regulation under consultation* (« Climate » and shortly on « Human capital »)

*Proposals

1.2 Corporate Sustainability Reporting Directive (CSRD): The timetable

Level 1 text: CSRD to be transposed into EU legislation
Level 2 text (delegated acts): draft standards developed by EFRAG

Current negotiations will determine



04/2021:
Publication of proposals by the **European Commission (EC)**

03/2022:
European Parliament report on EC proposals

02/2022: General orientation of the **Council of the EU**

Q2 2022:
Trilogue
Council of the EU/
European Parliament /
European Commission

Political agreement end of 2022 Q2?
Final text of the CSRD

2022? 2023?
Transposition by Member States

2024?
Entry into force

1.3 Draft CSRD: Main provisions (I/II)

Publication in April 2021 – Proposed entry into force: 2023 (2026 for listed SMEs)*

1. Reporting areas (on the 3 ESG topics)*

- **Business model and strategy**, including plans to ensure compatibility with the transition to a sustainable economy and limiting global warming to 1.5°C and considering stakeholders' interests
- Sustainability **objectives** and **progress** towards the objectives
- Role of **governance bodies** on sustainability
- Sustainability **policies**
- **Description** of (i) due diligence, (ii) adverse value chain impacts and (iii) remedial actions
- Sustainability **risks** and management thereof
- **Indicators** related to the above
- **Intangibles** (intellectual, human, social and relational capital [<IR> / WICI])*
- **Assessing materiality** - process for identifying information to be reported
- **Time horizon**: short, medium and long term
- **Value chain including**: own operations, products and services, business relationships and supply chain

2. Characteristics

- **3 levels of reporting**: Sector-agnostic, sector-specific & entity-specific
- **Double materiality**
- **Connectivity** with financial reporting

*Ongoing discussions - Changes expected in the final CSRD text

1.3 Draft CSRD: Main provisions (II/II)

Publication in April 2021 – Proposed entry into force: 2023 (2026 for listed SMEs)*

3. Main new features (vs NFRD)

- **Mandatory sustainability reporting standards** drafts developed by EFRAG and issued as Delegated Acts
- Extended **scope of application***
 - All **large companies**⁽¹⁾ within the meaning of the Accounting Directive: 2 of the 3 criteria: >250 employees, balance sheet total >€20M and turnover >€40M
 - All **companies listed** on EU regulated markets (except micro-enterprises, i.e. less than 10 employees among others)*
- **Location** in the management report
- **Digitalisation**
- **Moderate assurance**, towards reasonable assurance*
- **Standards for SMEs**

4. Topics (ESG)

- **Environment:** (alignment with the 6 environmental objectives of the Taxonomy)
- **Social***: (i) equal opportunities (ii) working conditions and (iii) human rights
- **Governance***: (i) Composition and role of governance bodies, (ii) business ethics & culture, (iii) political engagement, (iv) management and quality of relationships with business partners and (v) internal control and risk management systems

⁽¹⁾ Large undertakings are defined in the Accounting Directive for each country.

*Ongoing discussions - Changes expected in the final CSRD text

1.4 EFRAG Consultation. Exposure Drafts issued on 29 April and open for consultation until 8 August

Implementing concepts, contents, approach and timeline defined by the CSRD.



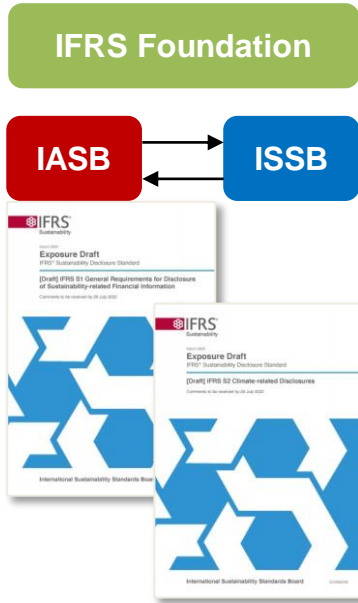
Cover Note and 6 Appendices
13 Exposure Drafts

Basis for conclusions (released on 31 May)

Online survey accessible at www.efrag.org

Educational sessions and outreaches: videos and slides accessible on EFRAG website

1.5 International Sustainability Standards Board (ISSB): Aiming to propose a global benchmark as basis for sustainability reporting



November 2021: Announcement of the creation of the **International Sustainability Standards Board (ISSB)**

- Develop **standards that provide a global basis for sustainability information** - « *a global baseline of sustainability disclosure standards* »
- Working with the International Accounting Standards Board (IASB) to ensure connectivity and compatibility of International Accounting Standards (IFRS/IAS) and ISSB (IFRS S)

First 2 exposure drafts (comments by 29 July)

- IFRS S1: General provisions for sustainability-related financial disclosures - « *General requirements for disclosure of sustainability-related financial information* »
- IFRS S2: climate-related disclosures - « *Climate-related Disclosures* »

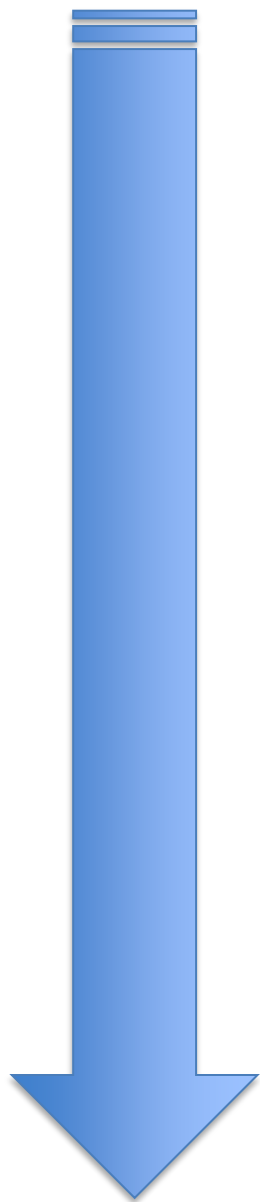
Further standards on other topics will be published later

- Regular technical exchanges between ISSB and EFRAG.
- Jurisdictional Working Group to enhance compatibility between global baseline and jurisdictional initiatives (May 2022): *the SEC, EFRAG and ISSB representatives all acknowledged that there is significant compatibility between their proposals.*
- Bilateral dialogue also taking place.
- Detailed comparison of ESRS 1&2 and ESRS E1 with IFRS S1&2 available in appendix V.



Project Task-Force achievements

2.1 Project Task-Force achievements – Main steps



- **1st Task-Force 2020/2021** for « Proposals for a relevant and dynamic EU sustainability reporting standard-setting » - report issued on 8 March 2021
- **Proposal by the EU Commission for a new CSRD on 21 April 2021**
- **2nd Task-Force re-launched in June 2021** following invitation letter from Commissioner McGuinness received on 12 May 2021 in order to start elaborating standards in project mode (PTF):
 - 35 members from 13 different Member States
 - Supported by Secretariat members (30 full-time equivalent)
 - Input from Expert Working Groups (appointed in November 2021)
 - Co-construction with GRI, Shift, WICI + dialogue with the IFRS Foundation (TRWG/ISSB) + meeting with the SEC
- **Final PTF –ESRS plenaries in Brussels and approval of the Exposure Drafts** for public consultation on 25/26 April 2022
- **Public consultation 13 Exposure drafts - 29 April 2022**

2.2 Project Task-Force : a robust due process

20 January 2022: 1st set of working papers released by the Task Force: Cross-cutting standards and Climate



20 January – 25 March 2022 : Remaining working papers released by the Task Force: Environmental, Social & Governance; Sector Specific classification and Sustainability Statements



February to April 2022: All working papers subject to the **triple review process:**

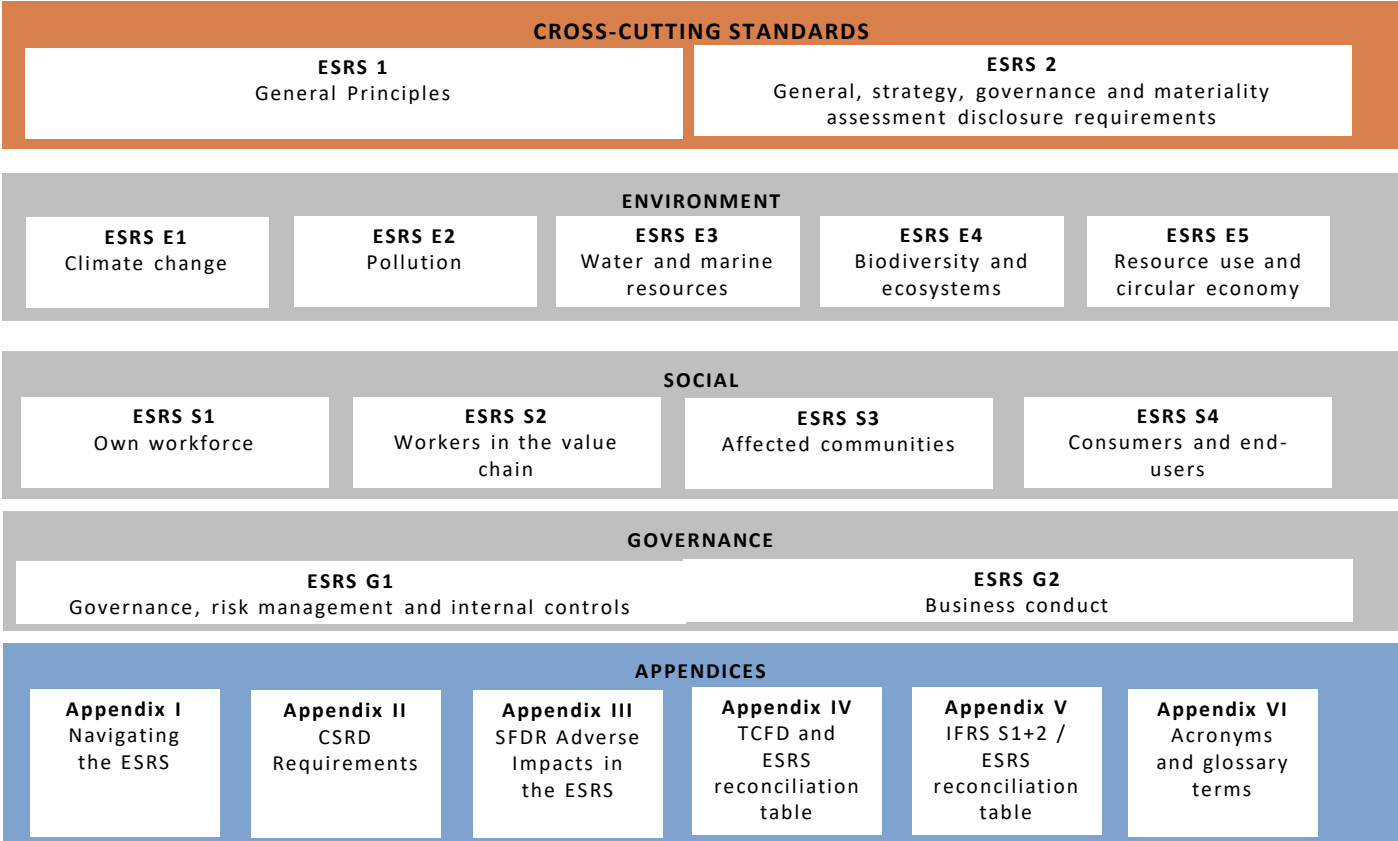
- Consensus Building within the PTF at plenary
 - Review Panel from the PTF
 - Expert Working groups
- + Feedback received and meetings arranged with European Commission (DG FISMA, DG ENV, DG EMPL, DG GROW, DG JUST)
- + Other feedback (Platform of Sustainable Finance, ESAs)



OUTPUT:

- **Exposure drafts issued on 29th April 2022**
- **Basis for Conclusions (not part of the Delegated Act) on 31st May 2022**

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



Set 1 exposure drafts: 13 for public consultation

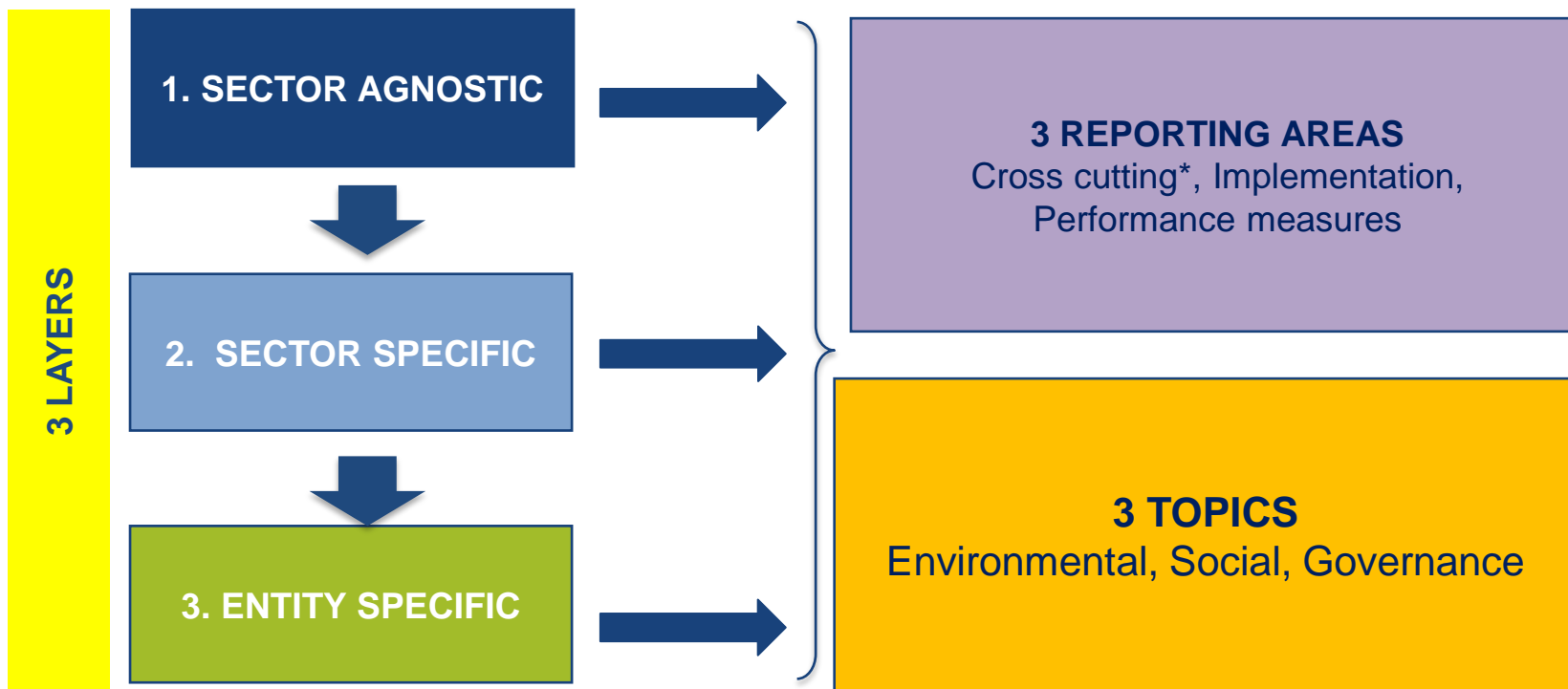


ESRS: Overview

3.1 ESRS Overview: Architecture

An EU comprehensive sustainability reporting

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



DOUBLE MATERIALITY : Financial materiality and impact materiality

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

3.2 ESRS Overview – Exposure drafts release

All Sector Agnostic

Cross-cutting standards

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

Environment

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

Social

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

Governance

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

Reporting Areas : Cross-cutting

Reporting Areas : Implementation and Performance measures

3 Reporting topics: Environmental, Social, Governance

3.3 Compatibility with TCFD and IFRS S1 core contents

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



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

FOCUS

1. Cross-cutting information

General provisions

- **ESRS 2** General requirements DRs

Strategy and business model

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

Governance and Organisation

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

Impacts, Risks and Opportunities

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

+ Sustainable Corporate Governance initiative?

2. Environmental information

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

Disclosures pursuant to Article 8 of the taxonomy regulation

3. Social information

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

4. Governance information

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

*Prepared in compliance with ESRS 1 general provisions

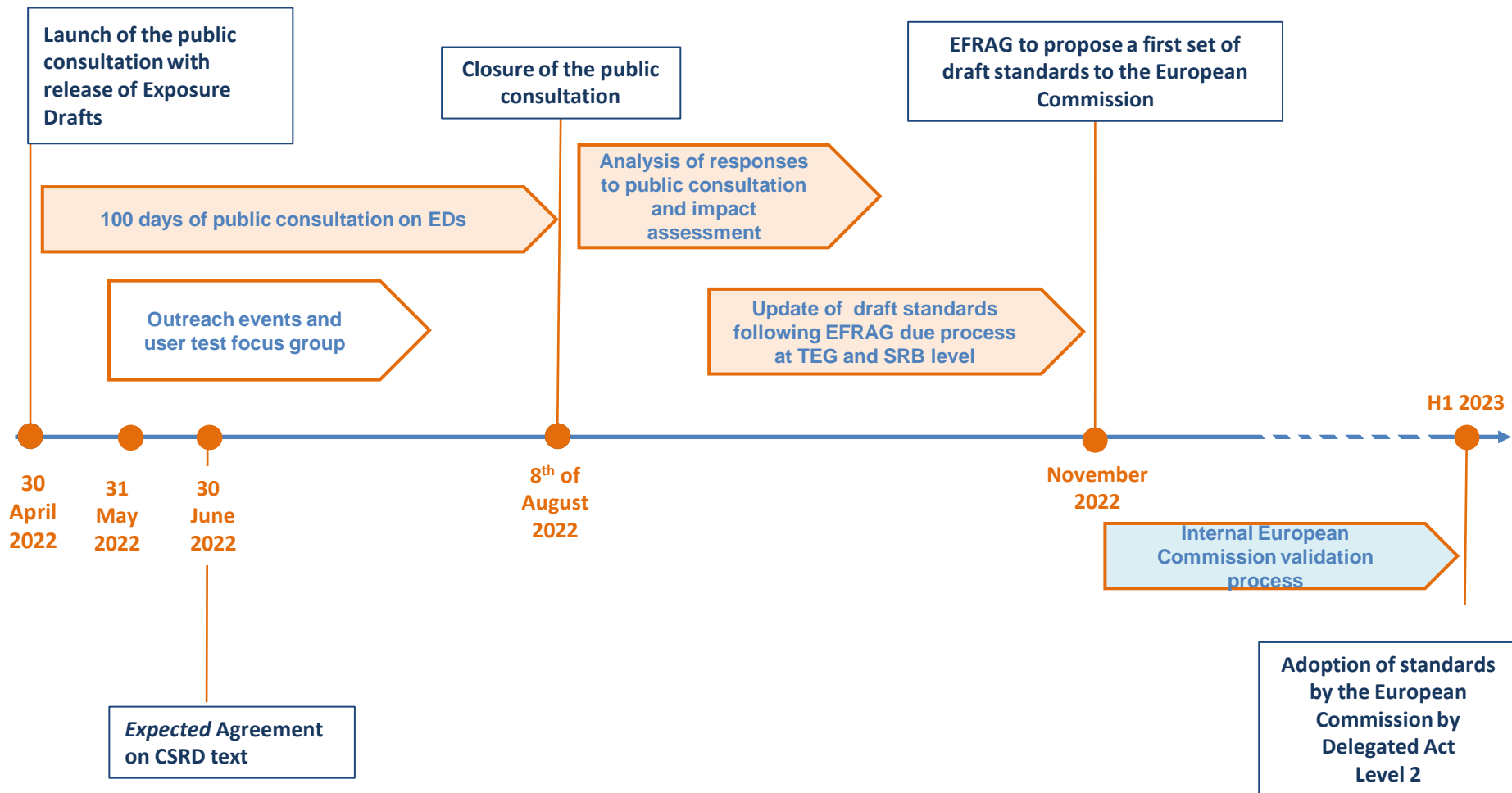
NOTE:
DR: Disclosure requirement
AG: Application Guidance
PTAPR: Policies, targets, action plans and resources (Implementation reporting area)
Performance: Performance measures



Next steps: Timetable

4.1 Next steps: Timetable

A critical step in the process of adopting European sustainability reporting standards

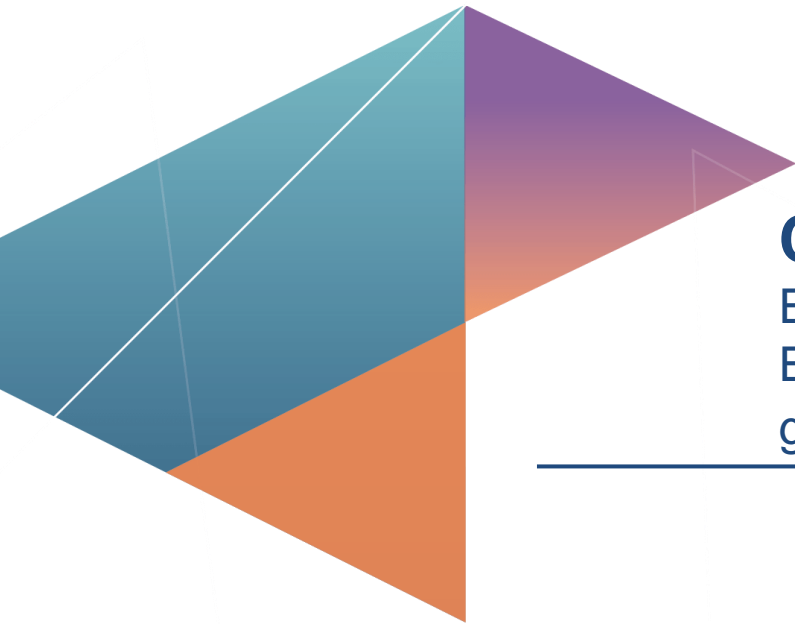


4.2 Public consultation EDs first set of draft ESRS (1/2)

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

4.3 Public consultation EDs first set of draft ESRS (2/2)

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



Cross-cutting:

ESRS 1 General principles

ESRS 2 General, strategy,

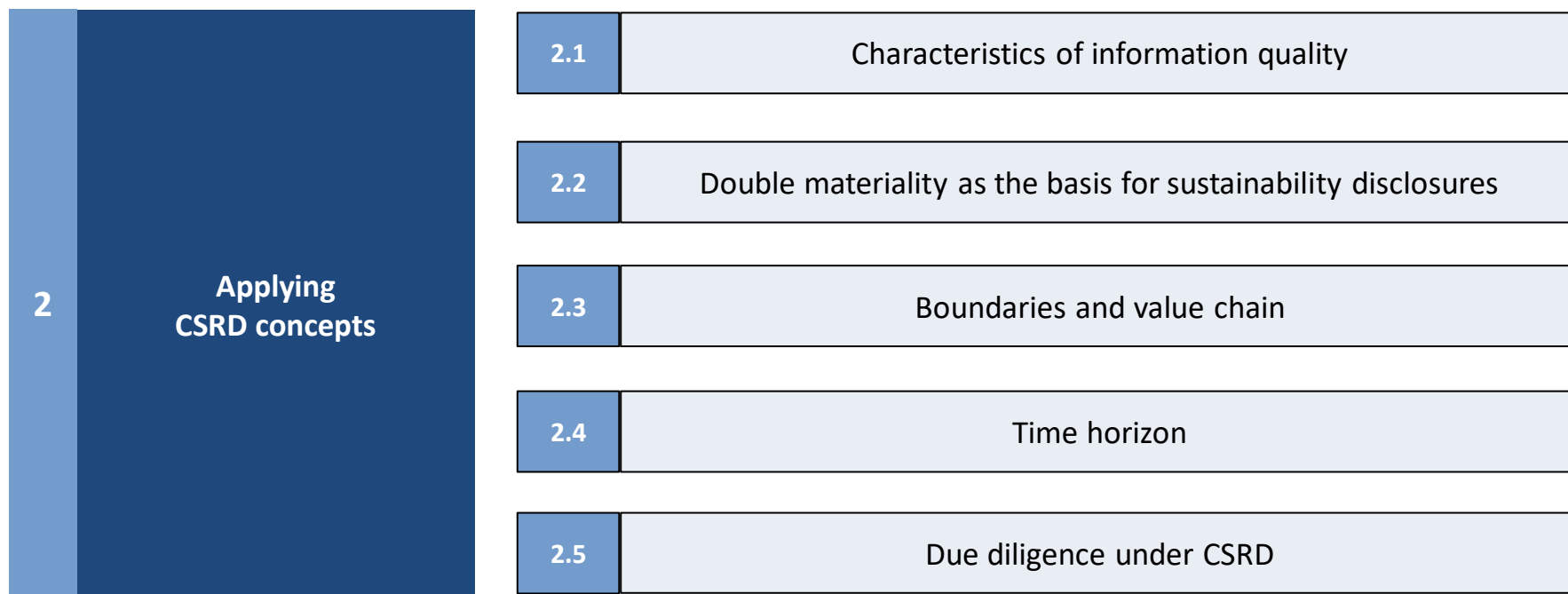
governance and materiality assessment.

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

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

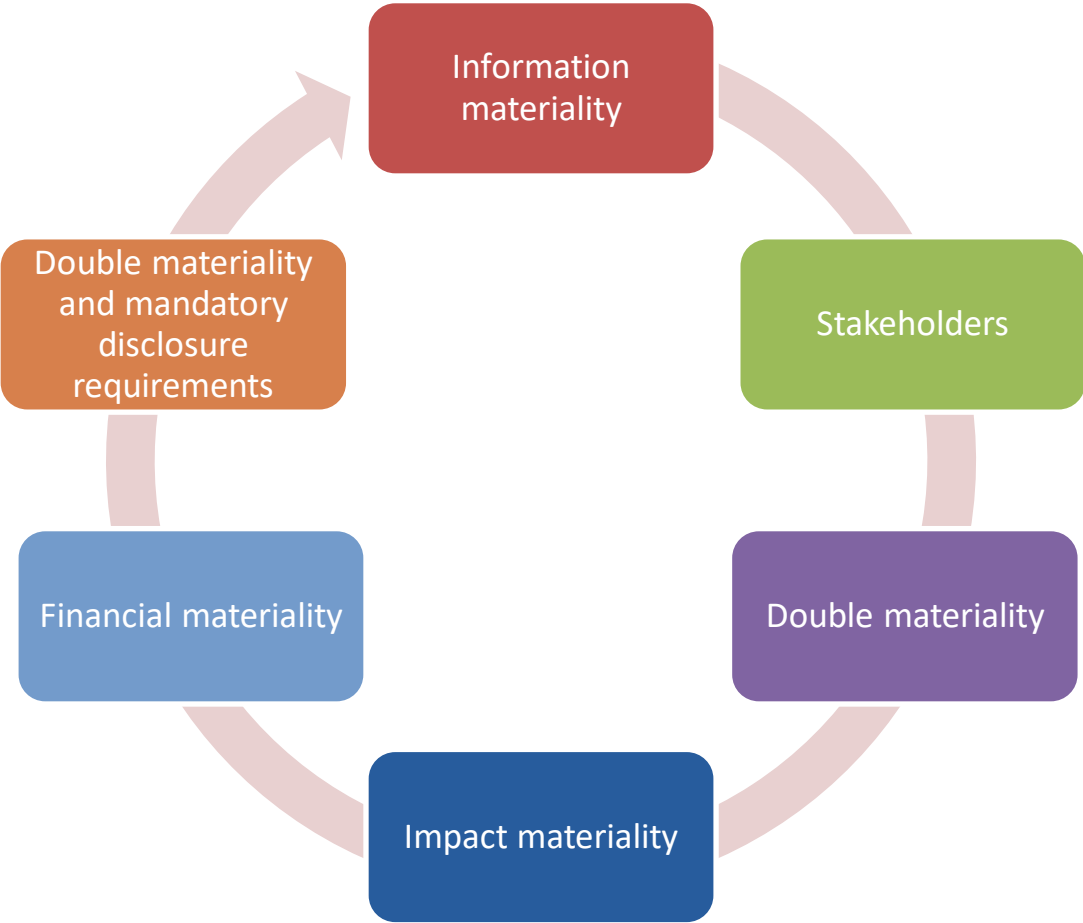
1	Reporting under European Sustainability Reporting Standards (ESRS)	1.1	Complying with ESRS
		1.2	Standardised and entity-specific disclosures
		1.3	Sector-agnostic and sector-specific standards
		1.4	Relationship between cross-cutting standards and topical standards
		1.5	Developing entity-specific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

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

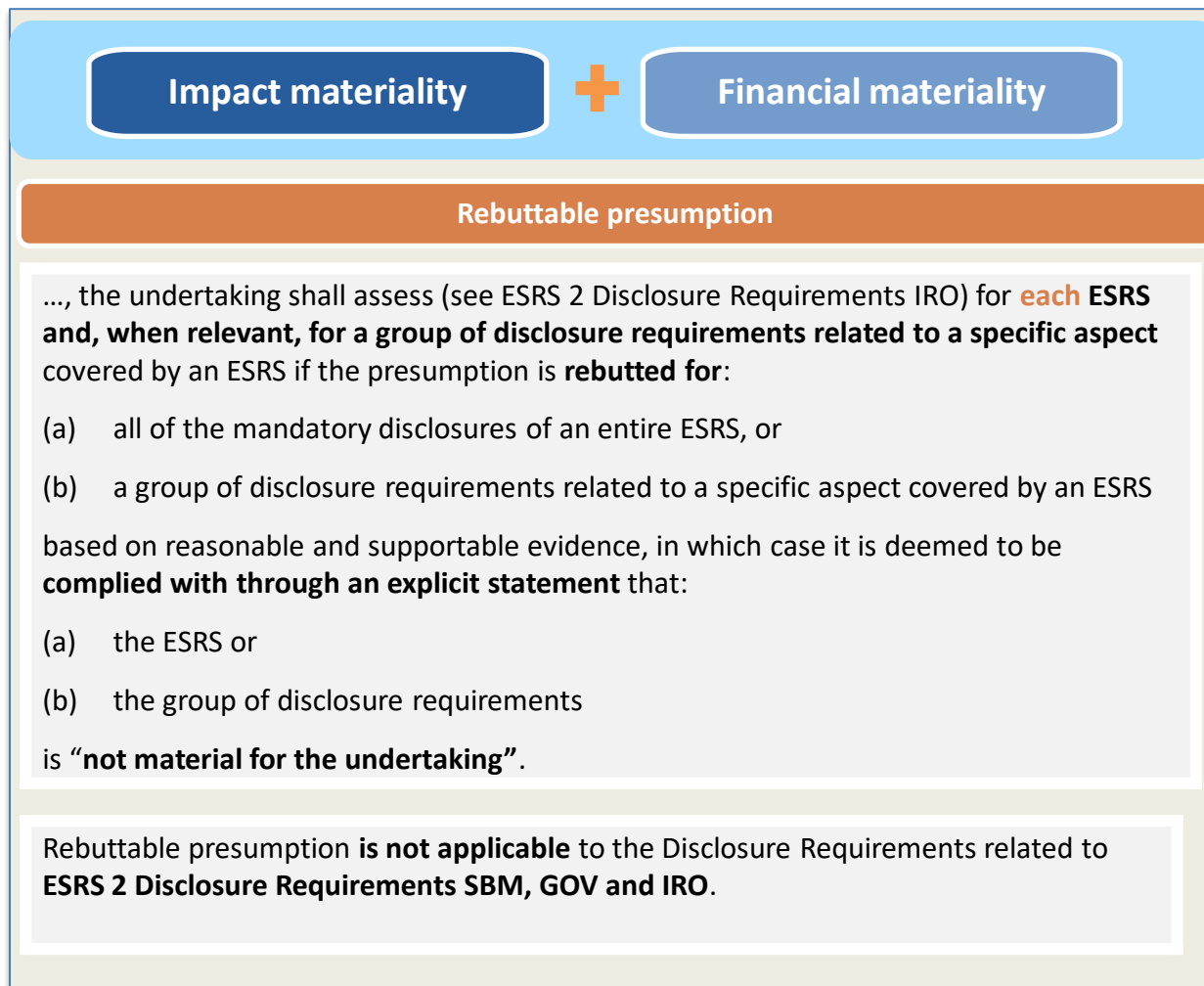


5.3 Chapter 2 Applying CSRD concepts:

2.2. Double materiality as the basis for sustainability disclosures



5.4 ESRS 1 – Key concepts: Double materiality and the possibility of rebutting the presumption of materiality



- No additional costs expected compared to assessing materiality without a list of requirements - in both cases judgement and evidence are required
- Having a predefined list supports comparability
- Having to rebut the presumption mitigates the risk of loss of relevant information

5.5 Chapter 2 Applying CSRD concepts: 2.2 Double materiality: From mandated DR to information material for the undertaking

Universe of sector-agnostic and sector-specific **mandated** disclosure requirements

-

Rebuttable presumption (at level of ESRS or group of DR)

-

Individual **disclosure requirement**/datapoint that **is below materiality criteria/thresholds** and that is not part of an ESRS (or a group) for which the presumption has been rebutted **may be omitted** and therefore considered implicitly disclosed as “not material”

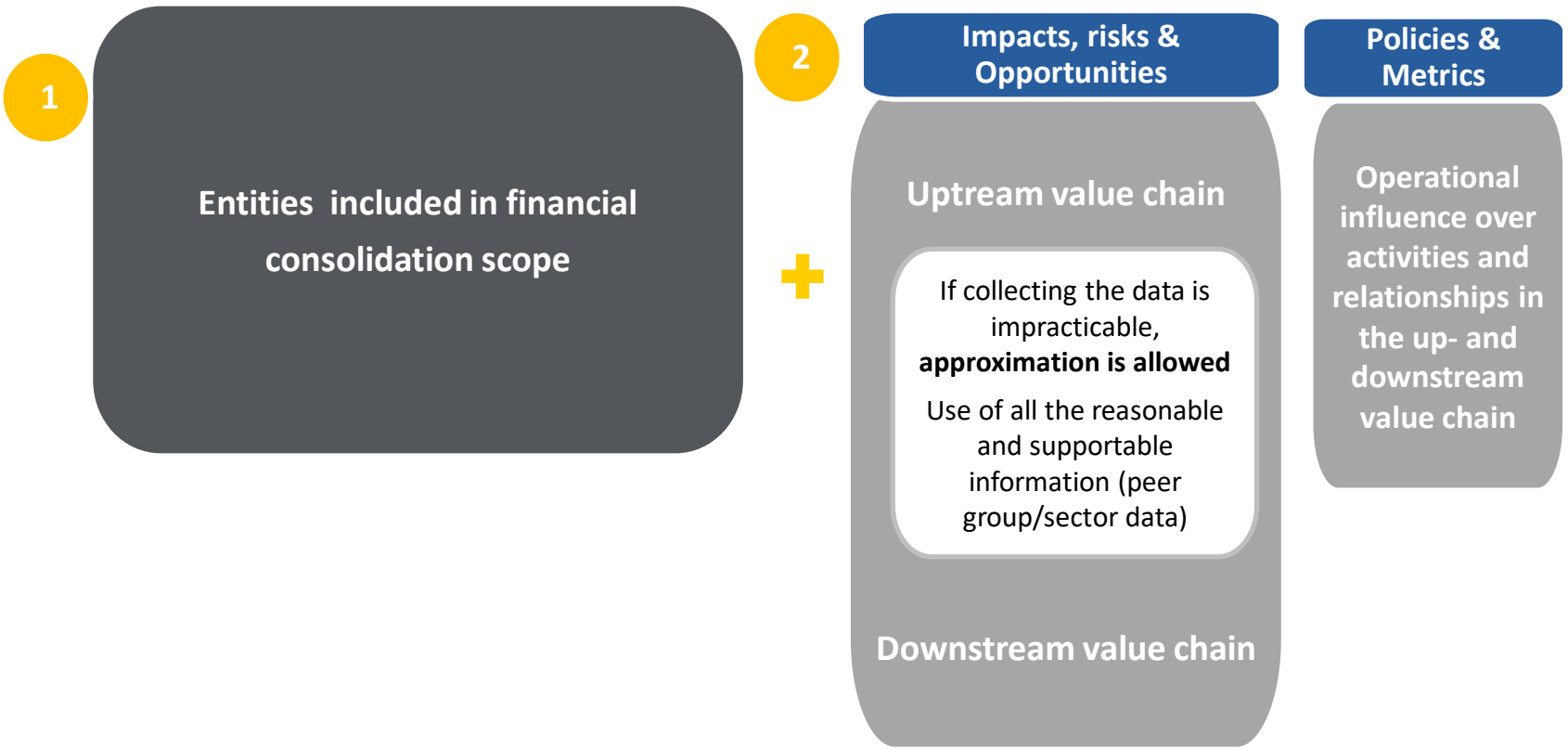
+

Entity specific disclosures

=

Material disclosure requirements for the undertaking

5.6 ESRS 1 – Key concepts: Boundaries and value chain: Consolidation scope plus up- and down-stream



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

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

6	Structure of the sustainability statements	Content of the sustainability statements
		<p>6.1 Undertaking <u>shall</u> report all the applicable disclosures required by ESRS within identifiable parts of the management report constituting the 'Sustainability Statements'.</p> <p>Undertaking <u>may</u> include in its sustainability statements additional disclosures clearly identified and referenced to local legislation or general accepted framework.</p>
		Structure of the sustainability statements
		<p>Options:</p> <p>6.2 a) <u>Single separately identifiable section</u> of the management report</p> <p>b) <u>Aggregating the disclosures into four separately identifiable parts</u> of the management report: i) general information; ii) environmental information; iii) social information; and iv) governance information</p> <p>c) <u>Aggregating the disclosures required by each ESRS</u> and reporting them as non-separable blocks in identifiable parts of the management report “on a standard-by-standard basis”</p>

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

5.8 Overview of ESRS 2

22 Disclosure requirements

Provides DRs for principles laid out in
ESRS 1

Not subject to "rebuttable
presumption" = fully mandatory

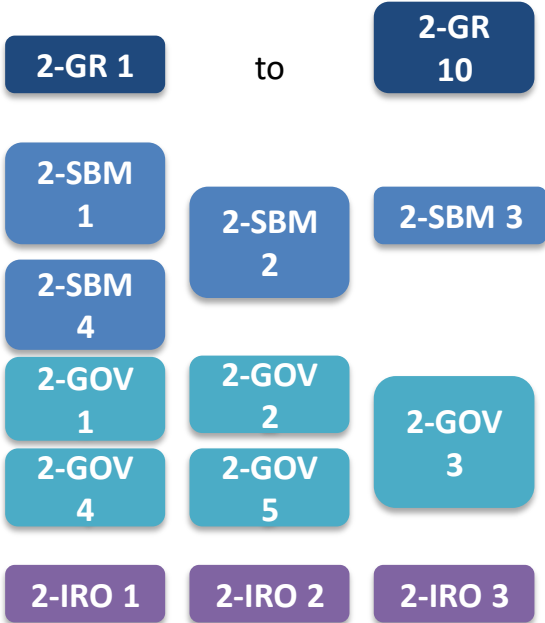
Cross-cutting
= provides context for all topical DRs

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

5.9 Objective and Overview: Objective of ESRS 2

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

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



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

GENERAL CHARACTERISTICS

DR 2-GR1: **General characteristics** of the sustainability reporting of the undertaking

DR 2-GR2: **Sector(s) of activity** ISSB SFDR

DR 2-GR3: **Key features** of the value chain ISSB TCFD

DR 2-GR4: **Key drivers** of the value creation ISSB

DR 2-GR5: **Using approximations** on the disclosure in relation to boundary and value chain

DR 2-GR6: Disclosing on significant **estimation uncertainty** ISSB

DR 2-GR7: **Changes** in preparation and presentation ISSB

DR 2-GR8: Prior period **errors** ISSB

DR 2-GR9: On other sustainability reporting **pronouncements** ISSB

DR 2-GR10: General **statement of compliance** ISSB

STRATEGY & BUSINESS MODEL

DR 2-SBM1: **Overview** of strategy and business model ISSB CSRD

DR 2-SBM2: Views, interests and expectations of **stakeholders** ISSB CSRD

DR 2-SBM3: **Interaction of impacts and the undertaking's Strategy** and business model ISSB CSRD

DR 2-SBM4: **Interaction of risks and opportunities and the undertaking's strategy** and business model TCFD CSRD ISSB

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

GOVERNANCE

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

IMPACTS, RISKS & OPPORTUNITIES

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

Focus on DR – GOV 5: Statement on due diligence

DR related to Governance in ESRS 2



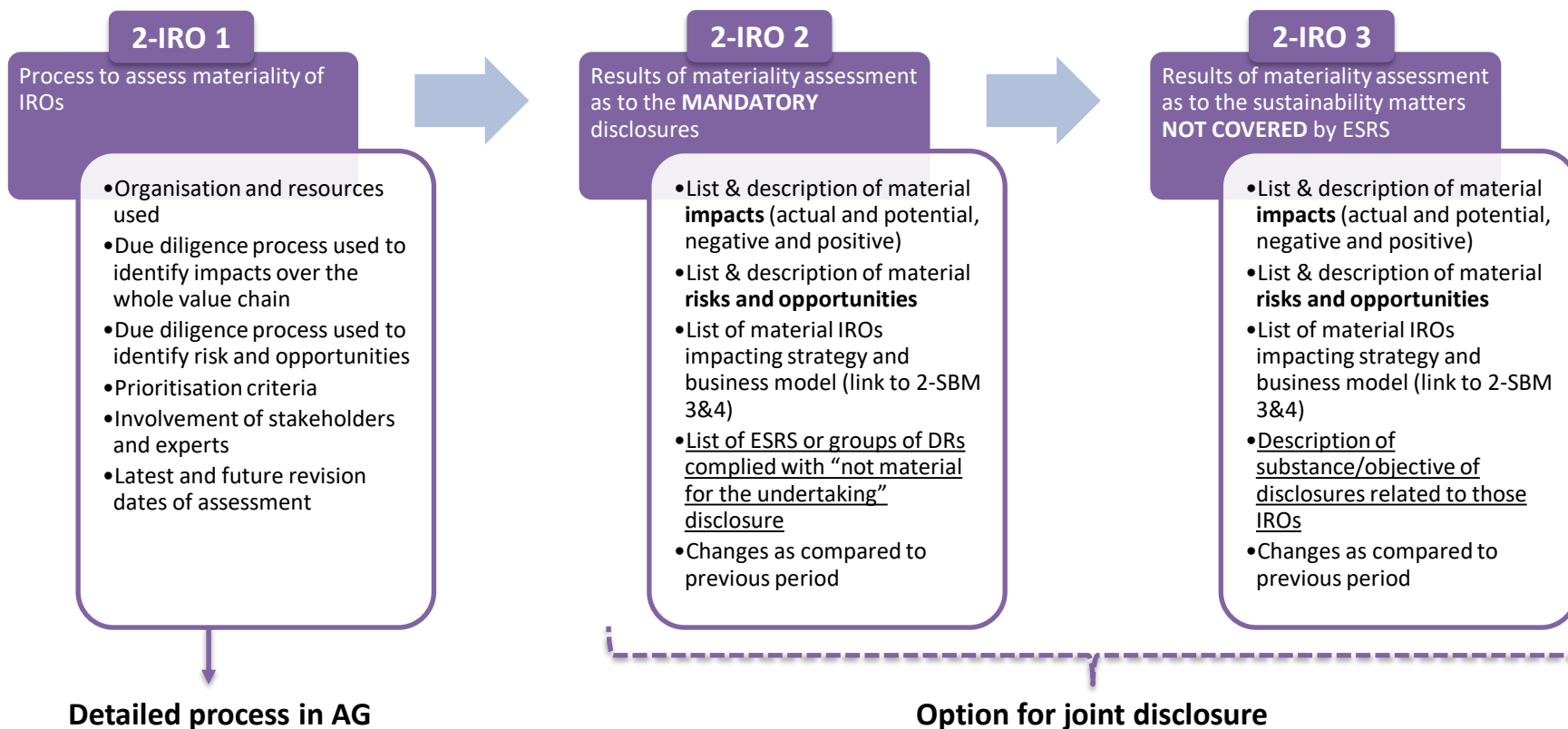
DR 2- GOV 5: Statement on due diligence

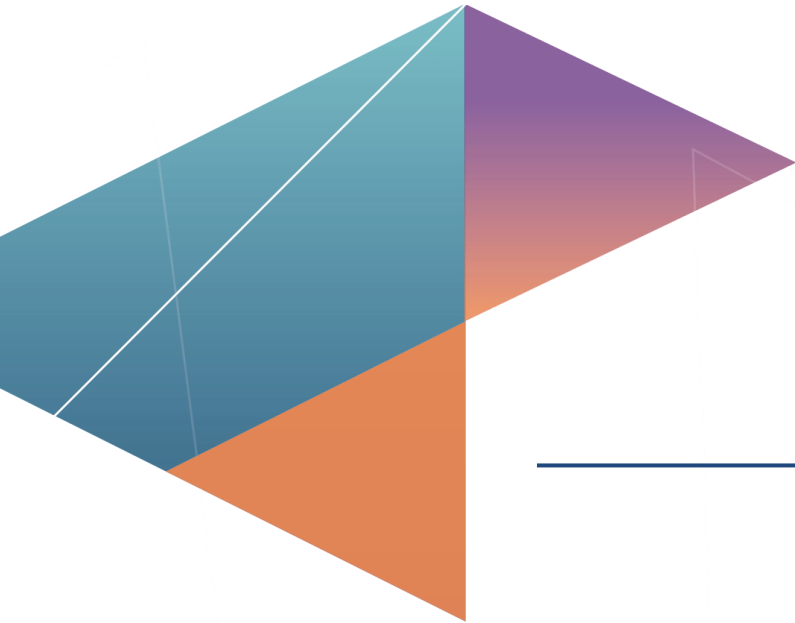
The undertaking shall provide a mapping that reconciles the main aspects of sustainability due diligence to the relevant disclosures in its sustainability statements

Main aspect of sustainability due diligence	Relevant disclosures
• Embedding due diligence in governance and organizations	
• Engaging with stakeholders	
• Identifying and assessing adverse impacts	
• Taking action	
• Tracking effectiveness and communicating	

Focus on DR – IRO1, 2 and 3

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





Environment:

E1 Climate change

E2 Pollution

E3 Water and marine resources

E4 Biodiversity and ecosystems

E5 Resource use and circular economy

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

ESRS E1 Disclosure Requirements (I/IV)

1 Disclosure Requirement related to Strategy, Governance and materiality assessment

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



- The company's plans to ensure that the business model is compatible with limiting global warming to 1.5°C in line with the Paris Agreement.

Application guidance related to ESRS 2

- **AG on ESRS 2-SBM4: Resilience** of strategy and business model
 - CSRD
 - ISSB
 - US SEC
- **AG on ESRS 2-GOV 4: Climate-related remuneration & Internal carbon pricing** schemes
 - ISSB
 - US SEC
- **AG on ESRS 2-IRO 1 and 2: material climate-related impacts, risks and opportunities**
 - CSRD
 - ISSB*
 - US SEC*

* Risks and opportunities only

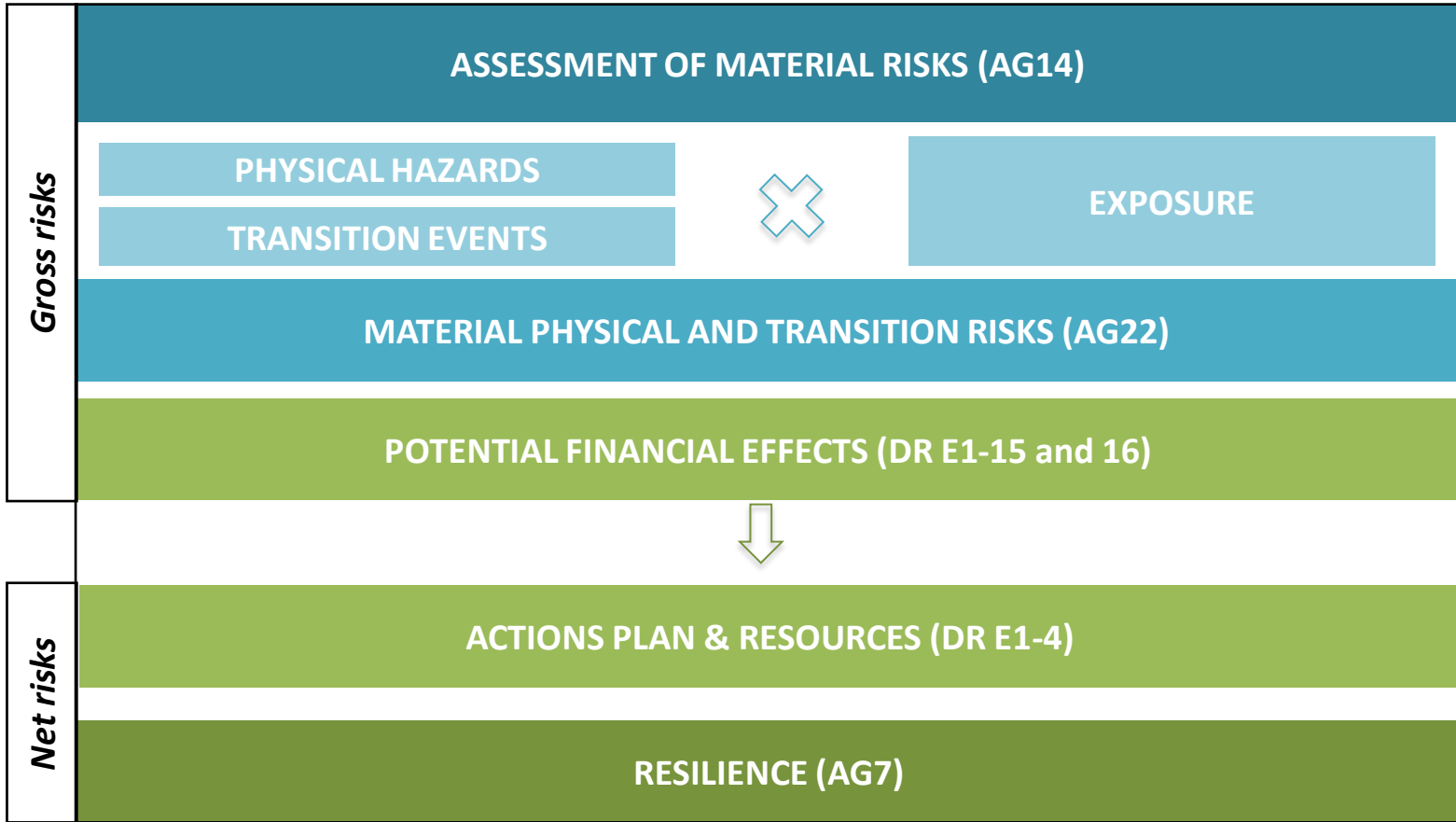
Information related to ESRS 2:

- Resilience of strategy and business model, complementing the mitigation transition plan.
- Incentive compensation schemes linked to climate objectives and elements on the incentive use of an internal carbon price (investment decisions, internal performance reviews, etc.).
- Description of climate-related impacts, risks and opportunities in relation to the TCFD and the physical risks of the Taxonomy, and the process for identifying these. Also includes information to be published on scenario analysis with the use of a 1.5°C scenario for transition risks and a high scenario for physical risks.

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

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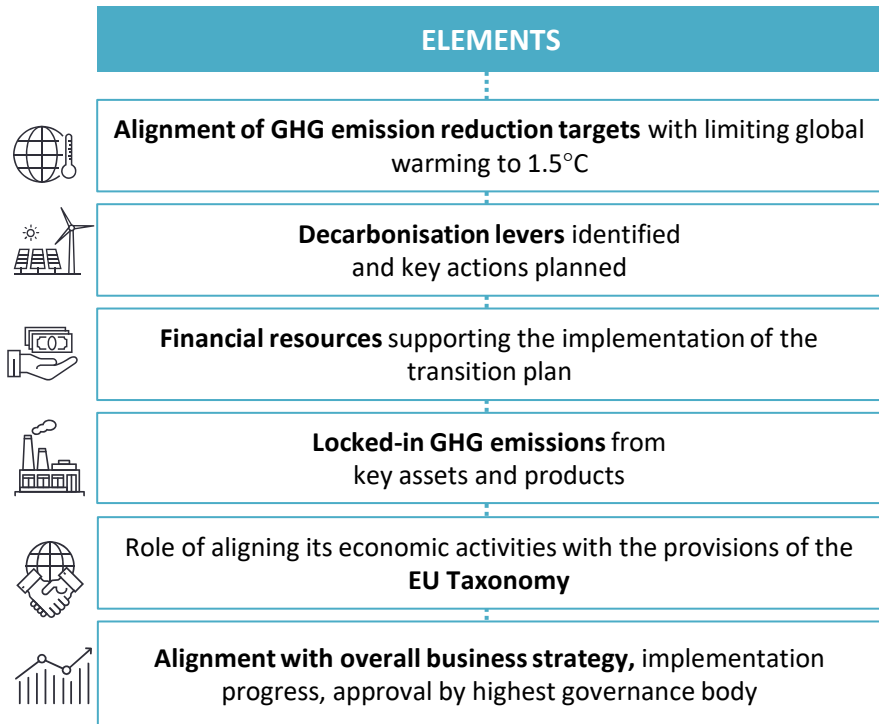
ESRS E1 – Focus on Gross VS Net risks



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

ESRS E1 – Focus on Transition Plan

DR E1-1 Transition plan for climate change mitigation



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

6.2 E1 Climate change: Disclosure Requirements Policies, targets, action plans and resources

ESRS E1 Disclosure Requirements (III/IV)

3 Disclosure Requirements related to Policies, targets, action plans and resources

- **DR E1-2 – Policies** implemented to manage climate change mitigation and adaptation CSRD
- **DR E1-3 – Measurable targets** for climate change mitigation and adaptation CSRD ISSB US SEC
- **DR E1-4 – Climate change mitigation and adaptation action plans and resources** CSRD* ISSB* Taxo*

Information to be published in relation to the Disclosure Principles (ESRS 1):

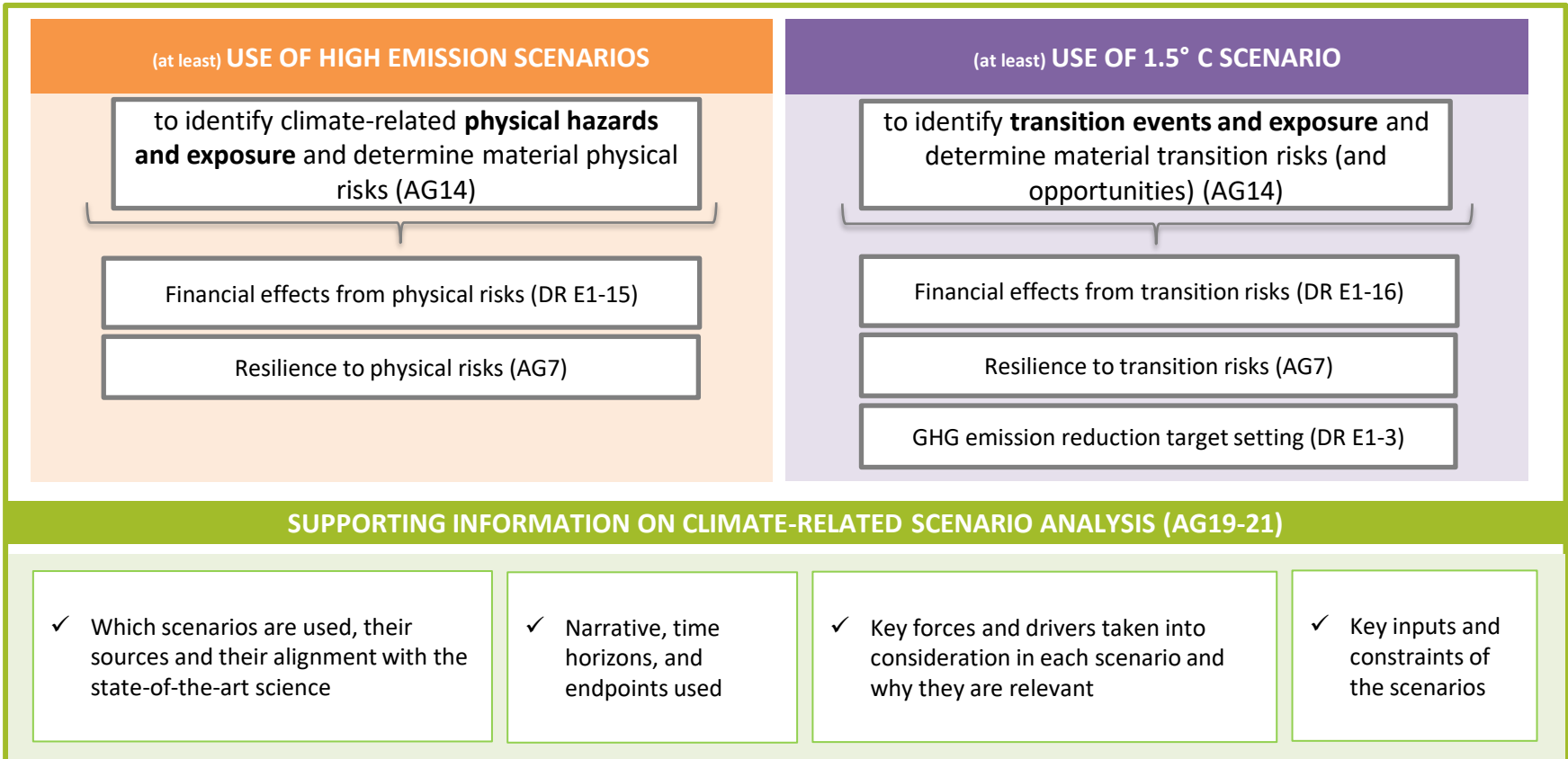
- Policies to manage GHG emissions, physical and transition risks and opportunities.
- Targets, including for reducing GHG emissions. Additional information to be provided if a net-zero target (including removals) or carbon neutrality (including carbon credits) is claimed.
- Action plan and resources to implement policies and achieve targets.

6.2 E1 Climate change: Disclosure Requirements

Policies, targets, action plans and resources

FOCUS

ESRS E1 – Focus on Scenario Analysis

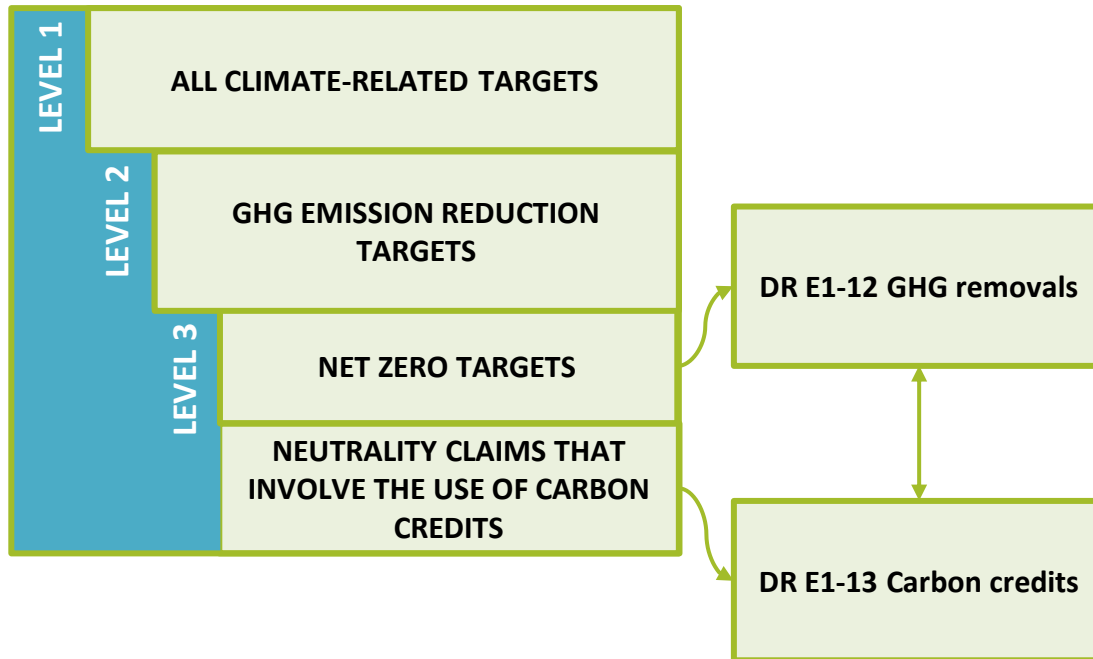


6.2 E1 Climate change: Disclosure Requirements Policies, targets, action plans and resources

FOCUS

ESRS E1 - Focus on targets

“The undertaking shall disclose the climate-related targets it has adopted.”



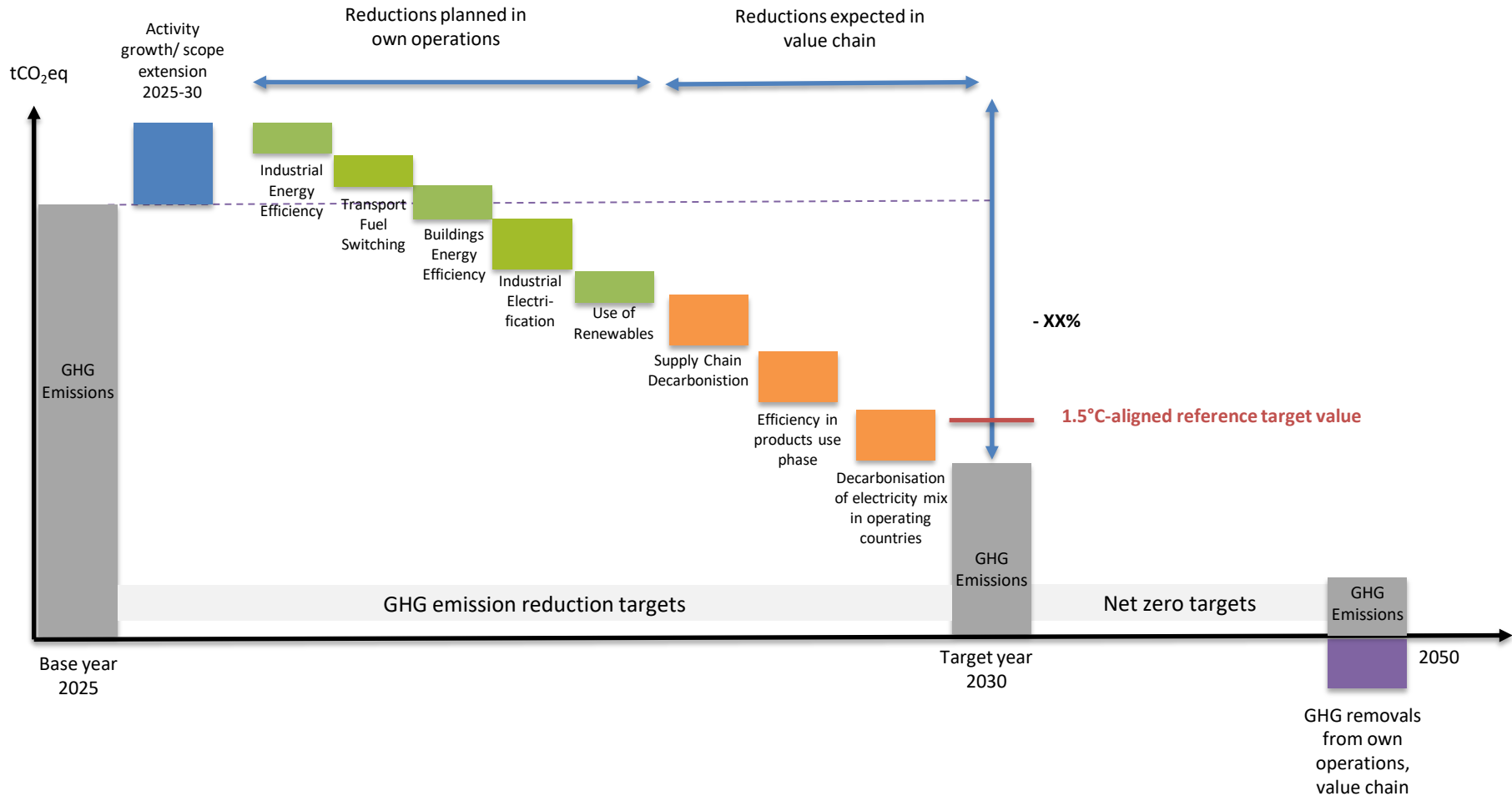
Reporting on GHG emission reduction targets:

- Absolute targets
- Scope 1, 2 and 3
- No netting of emissions to claim target achievement
- From 2025 in 5-year rolling periods
- Science-based?
- Decarbonization levers to achieve targets

6.2 E1 Climate change: Disclosure Requirements

Policies, targets, action plans and resources

ESRS E1 Graphical pathway of GHG targets



6.3 E1 Climate change: Disclosure Requirements Performance measures

ESRS E1 Disclosure Requirements) (III/IV)

13 Disclosure Requirements related to performance measures 1/2

Energy

DR E1-5: Energy consumption & mix SFDR

DR E1-6: Energy intensity per revenue SFDR

GHG emissions / removals

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

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

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

DR E1-10: Total GHG emissions

DR E1-11: GHG intensity per net turn SFDR ISSB US SEC

DR E1-12: GHG removals CSRD*

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

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

* in recital 41

- The information on energy consumption makes it possible to assess the company's absolute consumption, its evolution and the share of renewable energy.
- Intensity information meets the requirements of the SFDR.
- Publication of GHG emissions: Scopes 1, 2, 3 and Total. For Scope 3, selection from the 15 most significant GHG Protocol categories.
- Scope 3: calculation updated every 3 years, published annually.
- Distinction between "Removals" = actions to permanently reduce GHGs from the atmosphere within the value chain and "carbon credits" = financing outside the value chain by purchasing credits.
- Optionality of avoided emissions - lack of maturity and consensus on calculation methods.

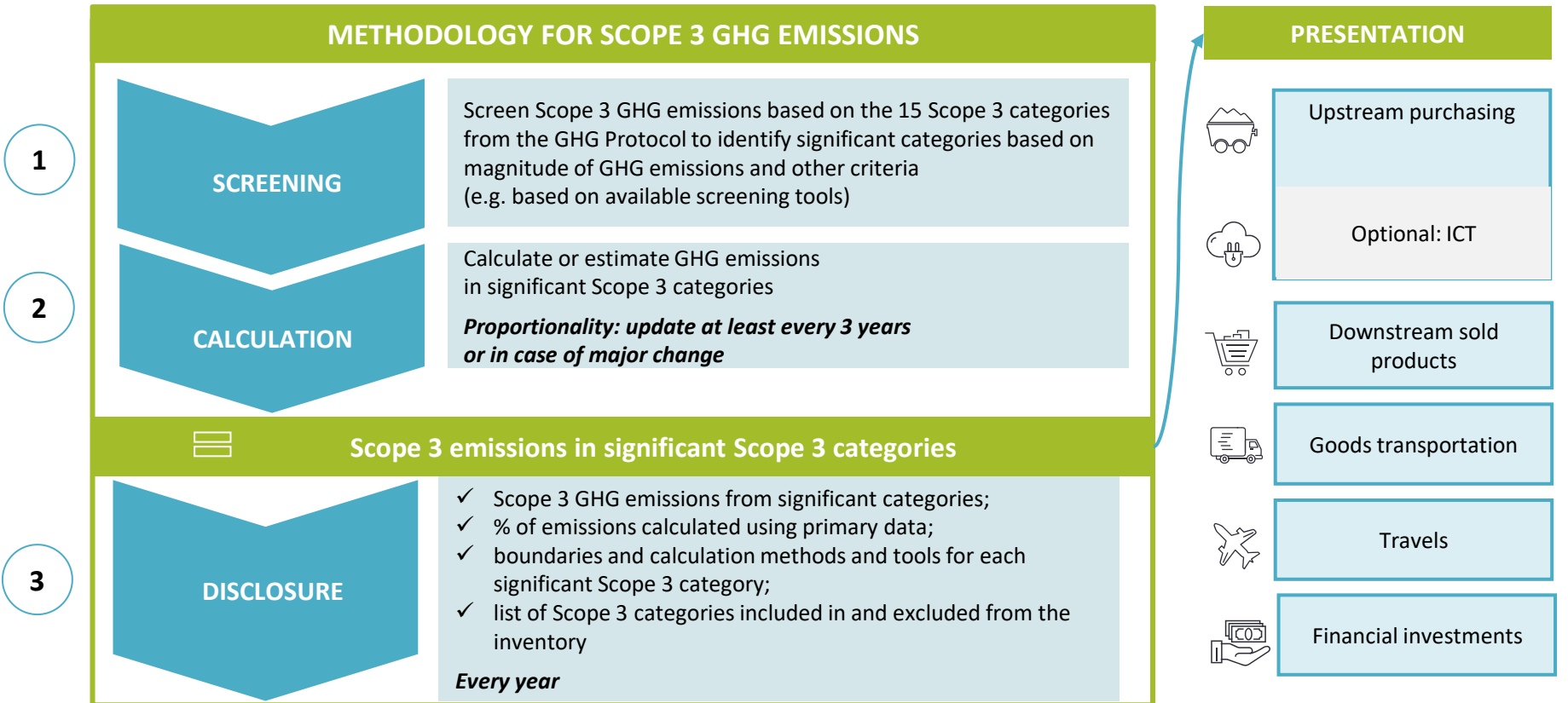
6.3 E1 Climate change: Disclosure Requirements

Performance measures

FOCUS

ESRS E1 – Focus on GHG Scope 3 methodology

DR E1-9 Scope 3 GHG emissions



6.3 E1 Climate change: Disclosure Requirements Performance measures

ESRS E1 Disclosure Requirements (IV/IV)

13 Disclosure Requirements related to performance measures 2/2

Financial effects

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

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

DR E1-17: Financial effect from **opportunities**

Taxo* ISSB US SEC

Taxonomy Regulation

** indirect link

Information on potential financial effects:

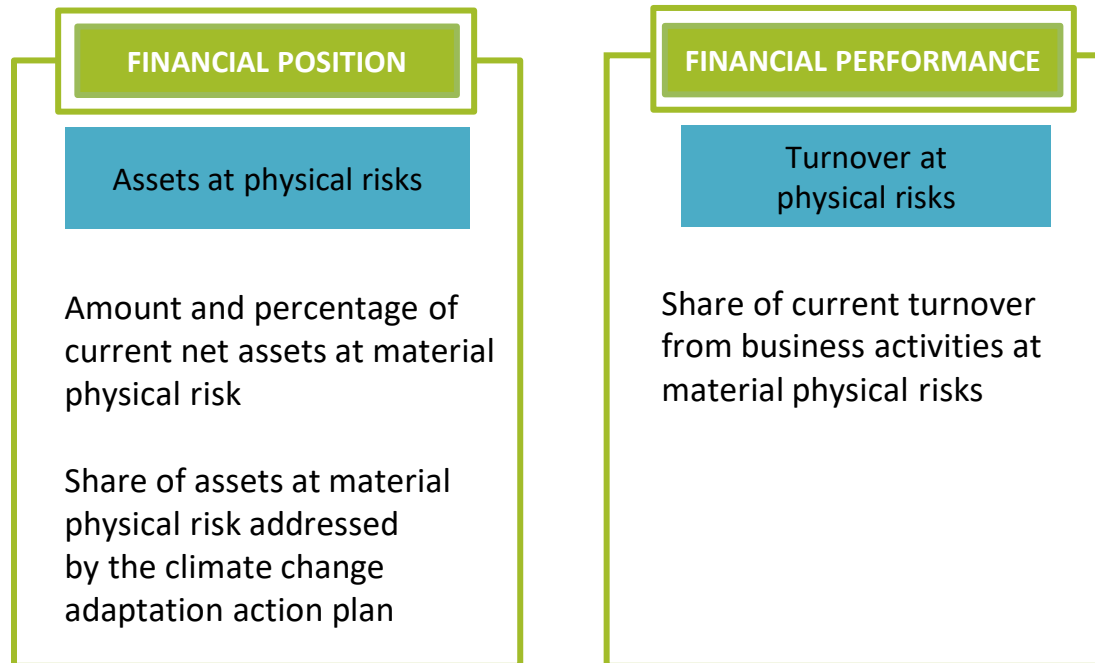
- Assets exposed to physical/transitional risks (value and %), share covered by adaptation plans.
- Possible future liabilities: ETS regulated installations, emission monetisation, etc.
- Share of turnover exposed to physical / transition risks.
- Financial effects of climate change opportunities (turnover, cost reduction).

6.3 E1 Climate change: Disclosure Requirements Performance measures

FOCUS

ESRS E1 – Focus on financial effects

DR E1-15 – Potential financial effects from material physical risks

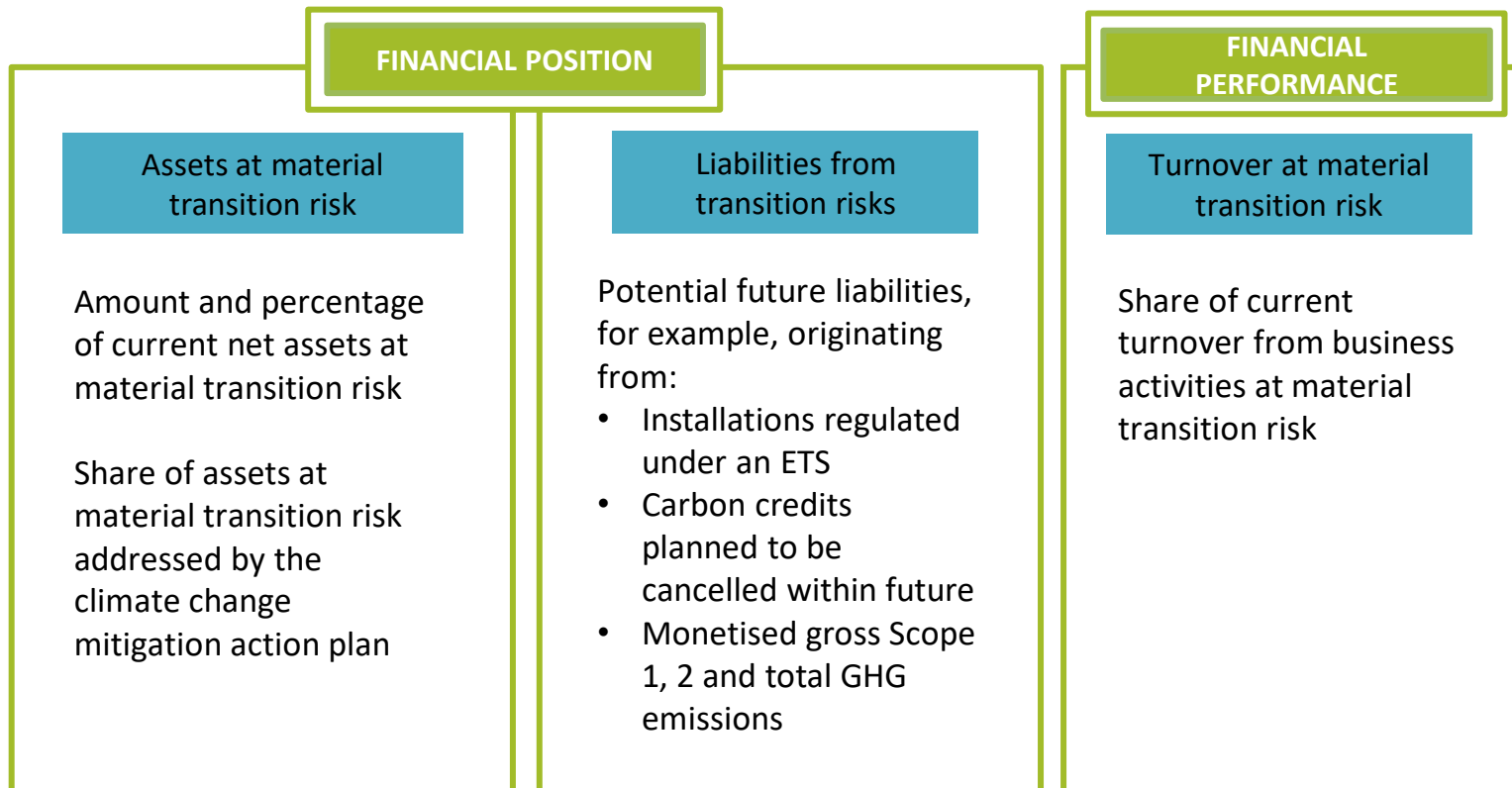


6.3 E1 Climate change: Disclosure Requirements Performance measures

FOCUS

ESRS E1 - Focus on financial effects

DR E1-16 – Potential financial effects from material transition risks



6.4 E2 Pollution: Objective

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

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

6.5 E2 Pollution: Overview (I/III)

Application guidance related to ESRS 2

- **AG on ESRS 2-SBM 4: Resilience** of strategy and business model TCFD CSRD
ZPAP
- **AG on ESRS 2-IRO 1 and 2: material pollution-related impacts, risks and opportunities** TCFD CSRD
OEF

- Link to the EU Action Plan initiative "Towards a Zero Pollution for Air, Water and Soil", and value chain consideration.
- Five sub-themes: air pollution, water pollution, soil pollution, substances of concern (including the most harmful substances) and enabling activities to prevent, control and eliminate pollution.
- Link to the definitions of the Chemicals Strategy for Sustainability, the EU REACH Regulation, the E-PRTR (European Pollutant Release and Transfer Register), the Industrial Emissions Directive and the work of the Sustainable Finance Platform.

3 Disclosure Requirements related to Policies, targets, action plans and resources

- **DR E2-1** – Policies implemented to prevent and control pollution CSRD
Sev. III
- **DR E2-2** – Measurable targets for pollution ZPAP CSRD
Taxo IED
GRI
- **DR E2-3** – Pollution action plans and resources CSRD
GRI
IED
Taxo

- Policies should pursue an objective (prevention, minimisation, etc.) related to one of the five sub-themes.
- Targets should be expressed in terms of the volume of pollutants concerned, as well as in terms of turnover and raw material costs for substances of concern, and the link should be made with the BAT benchmarks.
- The actions serve the objectives in line with the regulations.

6.5 E2 Pollution: Overview (II/III)

4 Disclosure Requirements related to performance measurement

- DR E2-4 – Pollution to air, water and soil	SFDR	CSRD
	IED	GRI
- DR E2-5 – Substances of concern and most harmful substances		CSRD
	Taxo	ZPAP
- DR E2-6 – Pollution-related incidents and deposit impacts and risks, and financial exposure to the undertaking		CSRD
- DR E2-7 – Potential financial effects from pollution-related impacts, risks and opportunities		CSRD
- Taxonomy Regulation		

Pollution to air, water and soil

- Information on the list and volumes of air, water and soil pollutants generated or used throughout the value chain, as well as the area affected where relevant (including Annex II E-PRTR).
- Link to degree of urbanisation and air quality indicators, as well as to the EU Industrial Emissions Directive and BAT/BREFs where relevant.

Substances of concern

- Specific information on the share of turnover and raw material costs related to these substances.

Incidents and deposits

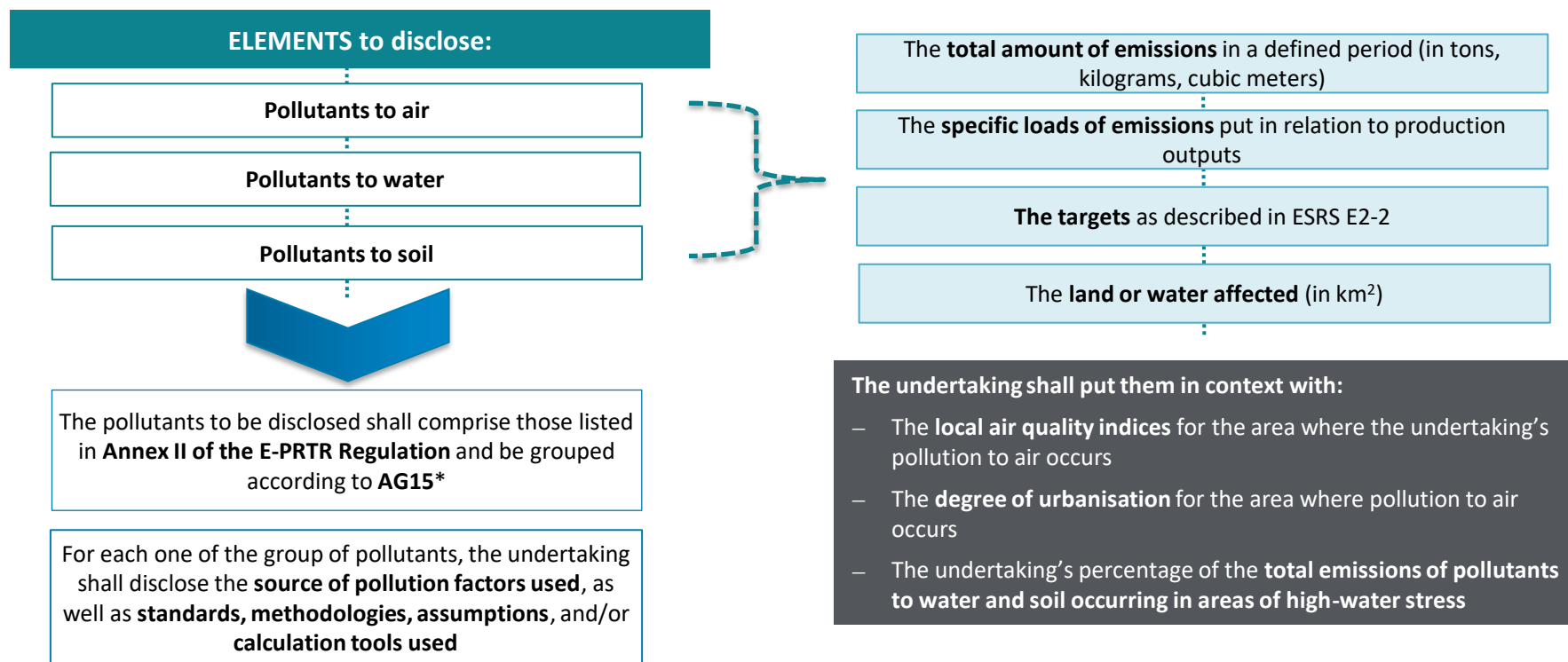
- Information on the main incidents and deposits, their impacts as well as their associated and provisioned costs.

SFDR

Link to additional indicators SFDR on Emissions of inorganic pollutants, air pollutants and ozone-depleting substances.

6.5 E2 Pollution: Overview (III/III)

“The undertaking shall disclose the list of pollutants that are generated or used during production processes or that are procured, and that leave its facilities as emissions, as products, or as part of products or services.”



6.6 E3 Water and marine resources: Objective

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

Water

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

Marine resources

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

6.7 E3 Water and marine resources: Overview (I/III)

Application guidance related to ESRS 2

AG on ESRS 2-IRO 1 and 2: Water and marine resources-related **impacts, risks and opportunities**

CSR
GRI
CDSB
CDP W
CEO W

- Water and marine resources sub-themes, covering the impacts and dependencies of water abstraction, consumption and discharge, including exposure to physical hazards (flooding, water stress, etc.).
- Link with the Water Framework Directive and the EU Marine Strategy Framework Directive.
- Water is a local issue: criticality of geographical sites, hydrological basins.
- Importance of raw materials and consideration of suppliers.
- Marine resources: consideration of deep-sea mineral resources, gravel and seafood.

3 Disclosure Requirements related to Policies, targets, action plans and resources

DR E3-1: Policies implemented to manage water and marine Resources

CSR
SFDR
GRI
CDSB

- Value chain and link to EU policies and quantified commitments to reduce water abstraction, consumption and discharge.

DR E3-2: Measurable **targets** for water and marine resources

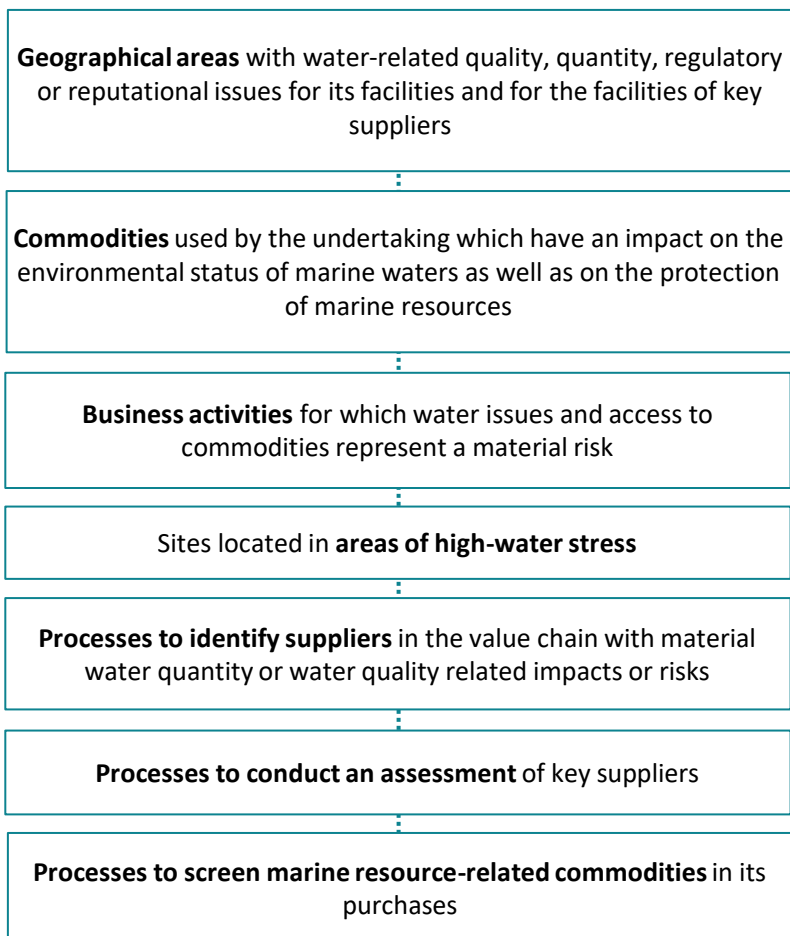
CSR
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CDSB F Mer

DR E3-3: Water and marine **action plans and resources**

CSR
CDSB

6.7 E3 Water and marine resources: Overview (II/III)

The process of identifying **material IROs** should include:



Outcomes:

A list of geographical areas where water is a material issue for the undertaking's operations and value chain

A list of commodities used by the undertaking which are material to the good environmental status of marine waters as well as for the protection of marine resources

A list of business activities associated to water and marine resources material IROs

Recommended databases: WWF Water Risk Filter, World Resources Institute's (WRI) Water Risk Atlas tool Aqueduct, annex II to EU Recommendation 2021/2279 on the use of the Environmental Footprint methods.

6.7 E3 Water and marine resources: Overview (III/III)

4 Disclosure Requirements related to performance measurement

DR E3-4: Water management performance

SFDR CSRD

CDP W GRI

CDSB CEO W

DR E3-5: Water intensity performance

SFDR CSRD

CEO W

DR E3-6: Marine resources-related performance

CSRD

F Mer

DR E3-7: Potential financial effects from water and marine resources-related impacts, risks and opportunities

Taxonomy regulation

Water

- Volumes of water abstracted, consumed, discharged and link to ESRS E2.
- If relevant, volume of water recycled, reused or stored.
- If relevant, information on intensity.
- Information by geographical area and business segment.

Marine resources

- Nature and quantity of materials used from marine resources.
- Links with ESRS E5 on waste and plastic use, ESRS E2 on pollutants, ESRS E1 on GHG emissions, ESRS E4 on impacting land use or settlement changes.

SFDR

Link to SFDR principal indicator on Emissions to water and additional indicators on Water usage and recycling, Investments in companies without water management policies and Exposure to areas of high-water stress.

6.8 E4 Biodiversity and ecosystems: Objective

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

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

6.9 E4 Biodiversity and ecosystems: Overview (I/III)

1 Disclosure Requirement related to Strategy, Governance and materiality assessment

- **DR E4-1** – Transition plan in line with the targets of no net loss by 2030, net gain from 2030 and full recovery by 2050

TNFD

- Information on the compatibility of the business model with the EU Biodiversity Strategy 2030 and the Post-2020 Global Biodiversity Framework.
- Identification of biodiversity loss levers (threatened species, protected areas and key areas) in the value chain and remediation actions (avoid, minimise, restore, compensate) on the main resources/dependencies and assets concerned.

Application guidance related to ESRS 2

- **AG on ESRS 2-SBM 4: Resilience** of strategy and business model

CSRD

TNFD

- **AG on ESRS 2-IRO 1 and 2: Biodiversity and ecosystems - related impacts, risks and opportunities**

CSRD

SFDR

TNFD

Resilience : advocating the use of scenarios (e.g. IPBES, ENCORE, etc.).

Materiality assessment :

- Advocacy of databases, assessment by geographical location and by commodity, consideration of threatened species, protected areas and key zones.
- Distinction between physical, transition and systemic risks, as well as opportunities in relation to TNFD and CDSB work.
- Presence of activity in biodiversity hotspots.

6.9 E4 Biodiversity and ecosystems: Overview (II/III)

3 Disclosure Requirements related to Policies, targets, action plans and resources

- **DR E4-2 – Policies** implemented to manage biodiversity and ecosystems **SFDR**
- **DR E4-3** – Measurable targets for biodiversity and ecosystems
- **DR E4-4** – Biodiversity and ecosystems action plans and resources

- Information in relation to the transition plan, as well as the hierarchy of levers: avoid, minimise, restore, compensate, and mitigate.
- Key role of the value chain, traceability of raw materials and suppliers, and importance of social issues of IROs including in relation to the use of genetic resources and interaction with local communities.

6 Disclosure Requirements related to performance measurement

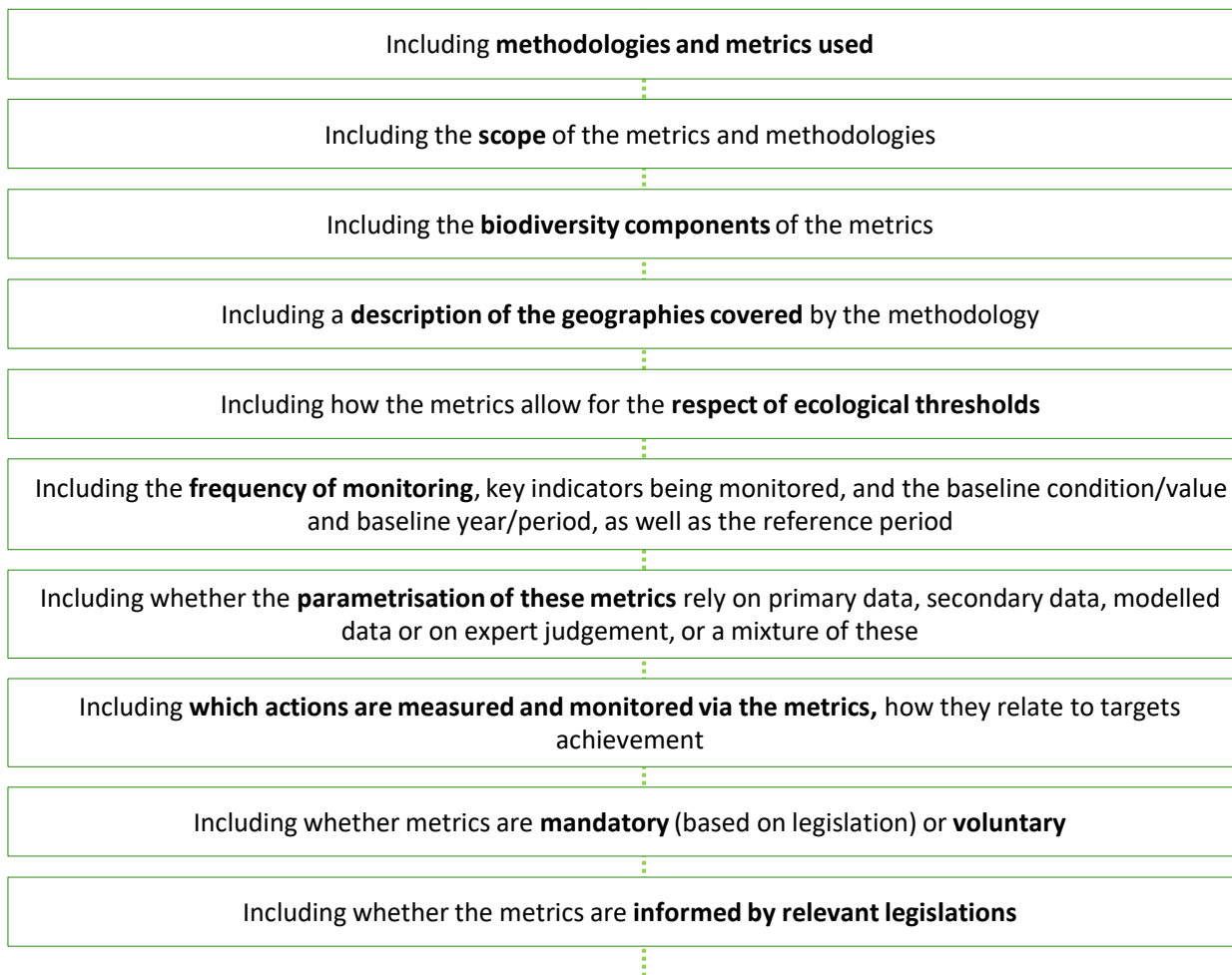
- DR E4-5** – Pressure metrics
- DR E4-6** – Impact metrics
- DR E4-7** – Response metrics
- DR E4-8** – Biodiversity-friendly consumption and production metrics
- DR E4-9** – Biodiversity offsets
- DR E4-10** – Potential financial effects from biodiversity-related impacts, risks and opportunities
- Taxonomy Regulation**

- Very basic indicators, in line with ongoing work at international level and the lack of agreed indicators, description of characteristics that indicators should have.

SFDR

Link to SFDR principal indicator on Activities negatively affecting biodiversity-sensitive areas and additional indicators on Land degradation, desertification, soil sealing, Investments in companies without sustainable land/agriculture practices, Investments in companies without sustainable oceans / seas practices, Natural species and protected areas and Deforestation.

6.9 E4 Biodiversity and ecosystems: Overview (III/III)



6.10 E5 Resource use and circular economy

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

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

6.11 E5 Resource use and circular economy: Overview (I/II)

Application guidance related to ESRS 2

- **AG on ESRS 2 SBM 3 and SBM 4** on the integration of resource use and circular economy in the business model
- **AG on ESRS 2-IRO 1 and 2:** on impacts, risks and opportunities

- Link with the European plan on the circular economy.
- Integration of **circular economy principles** in the business model: **elimination of waste and pollution**, circularity of products, **regeneration of nature**, decoupling of economic activity from natural resource extraction, **products and materials maintained at their highest value.**
- Materiality assessment in relation to the **five sub-themes described** in E5-4 to E5-8 in relation to the scenarios of remaining in a linear economy versus making a transition to a circular economy.

3 Disclosure Requirements related to Policies, targets, action plans and resources

- **DR E5-1 – Policies** implemented to manage resource use and circular economy
- **DR E5-2 – Measurable targets** for resource use and circular economy
- **DR E5-3 – Resource use and circular economy action plans**

- Policies to decouple activity and use of non-renewable resources / regenerate renewable resources and ecosystems.
- Action plans related to the sub-themes and the three principles of the circular economy.

6.11 E5 Resource use and circular economy: Overview (II/II)

6 Disclosure Requirements related to performance measurement

- **DR E5-4** – Resource inflows
- **DR E5-5** – Resource outflows
- **DR E5-6** – Waste **SFDR**
- **DR E5-7** – Resource use optimisation
- **DR E5-8** – Circularity support

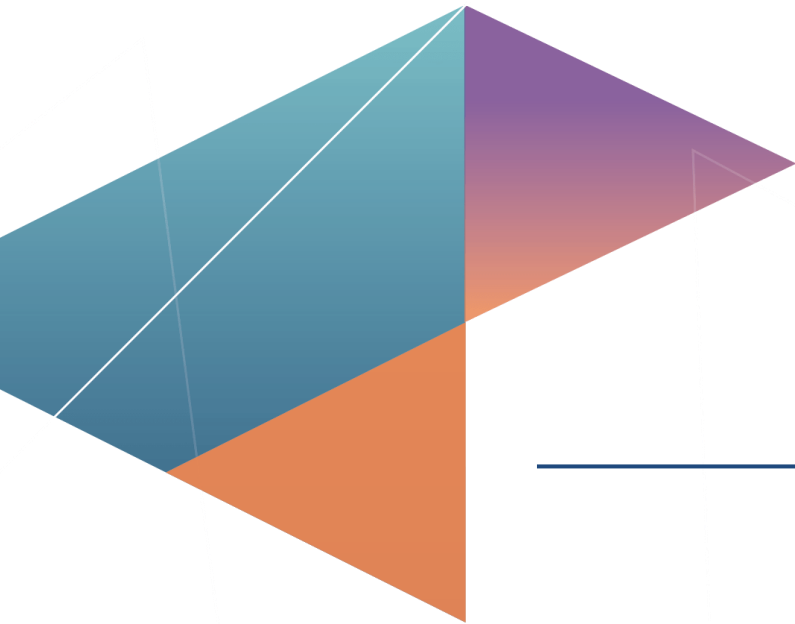
- **DR E5-9** – Financial effects from resource use and circular-economy-related impacts, risks and opportunities
- **Taxonomy Regulation**

SFDR

Link to SFDR principal indicator on Hazardous waste and radioactive waste ratio and additional indicator on Non-recycled waste ratio.

Information on the **five sub-themes**:

- quantitative (absolute value et percentage) et qualitative.
- **Resource Inflows**: information on the materials used (renewable, reused, recycled).
- **Resource Outflows**: information on the weight and percentage of products, materials and packaging intentionally created to contribute to the circular economy, i.e. sustainability, reusability, reparability, disassembly, recycling, etc.
- **Waste**: details of hazardous/non-hazardous waste and waste destination.
- **Resource use optimisation**: share of turnover for products and services that optimise the use of resources and promote circular business models.
- **Circularity support**: coordinated actions and partnerships in the value chain.



Social:

S1 Own workforce

S2 Workers in the value chain

S3 Affected communities

S4 Consumers and end-users

7.1 [draft] CSRD Mandate on Social sustainability matters

Background and methodology

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

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

(i) Equal opportunities

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

(ii) Working conditions

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

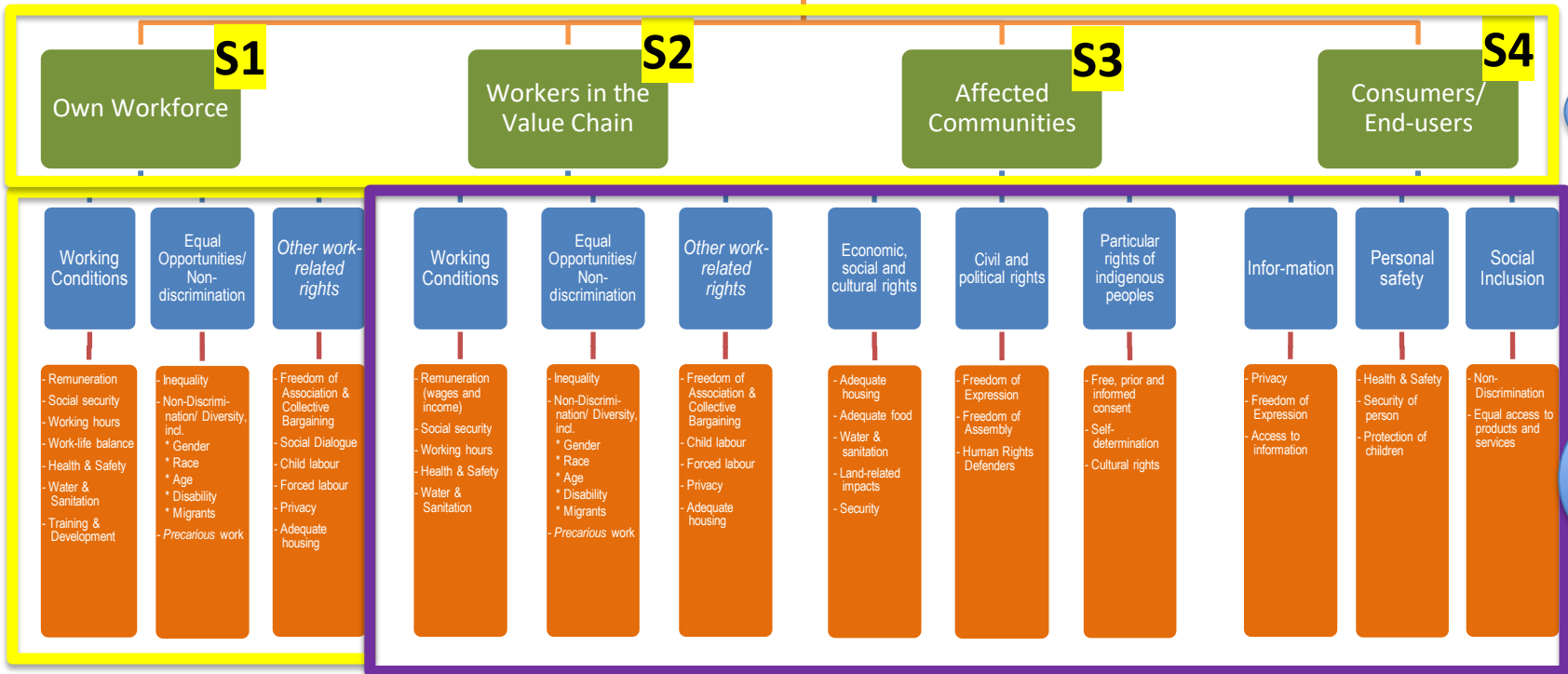
(iii) Respect for the human rights

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

7.2 Social standards: Structure of the social pillar

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

Social



Topic

Sub-Topic

Sub-Sub-Topic

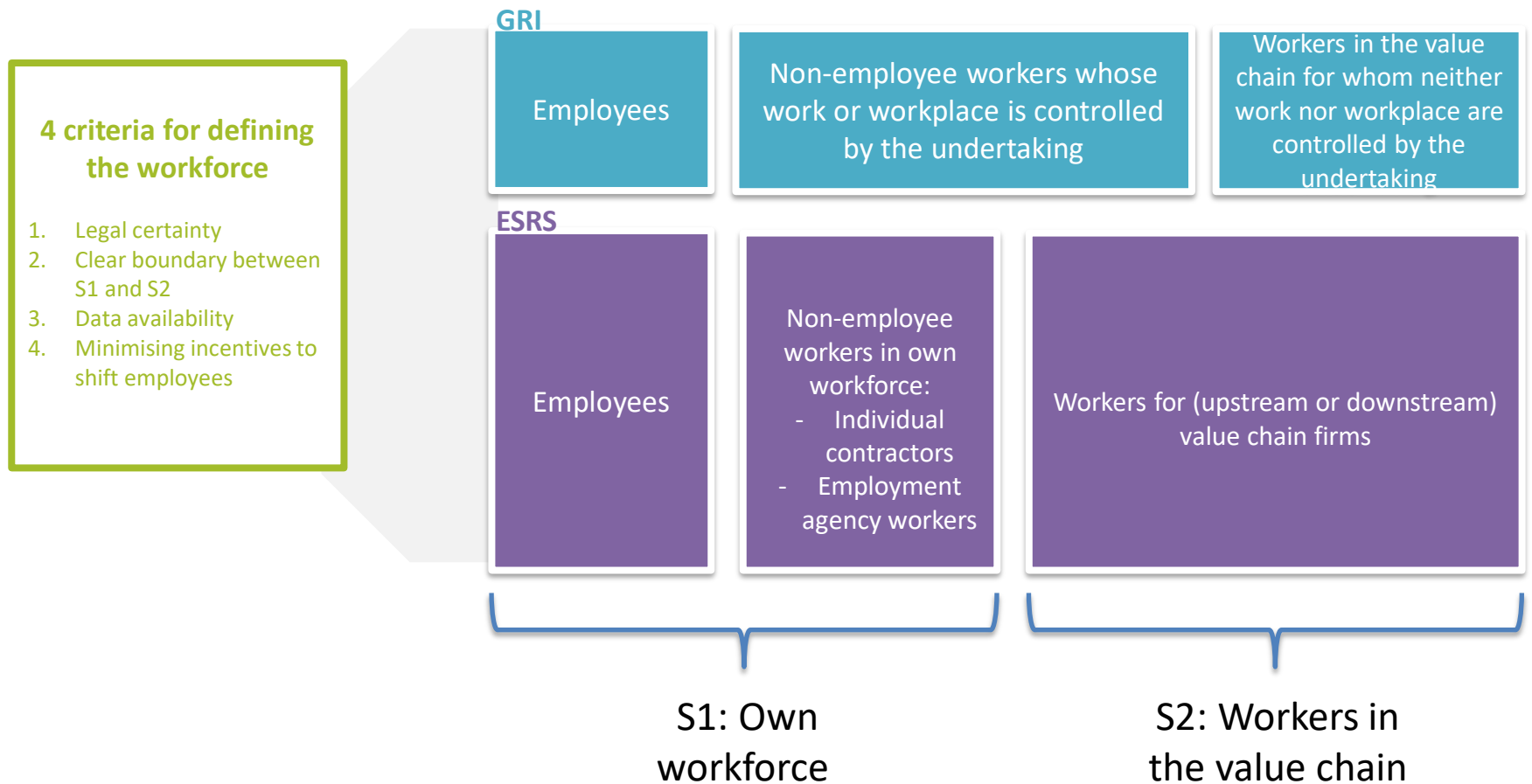
Specific issues / matters

17/06/2022

Standards developed in first set

Standards/disclosures to be developed in second set

7.3 Social standards: Definition of workforce

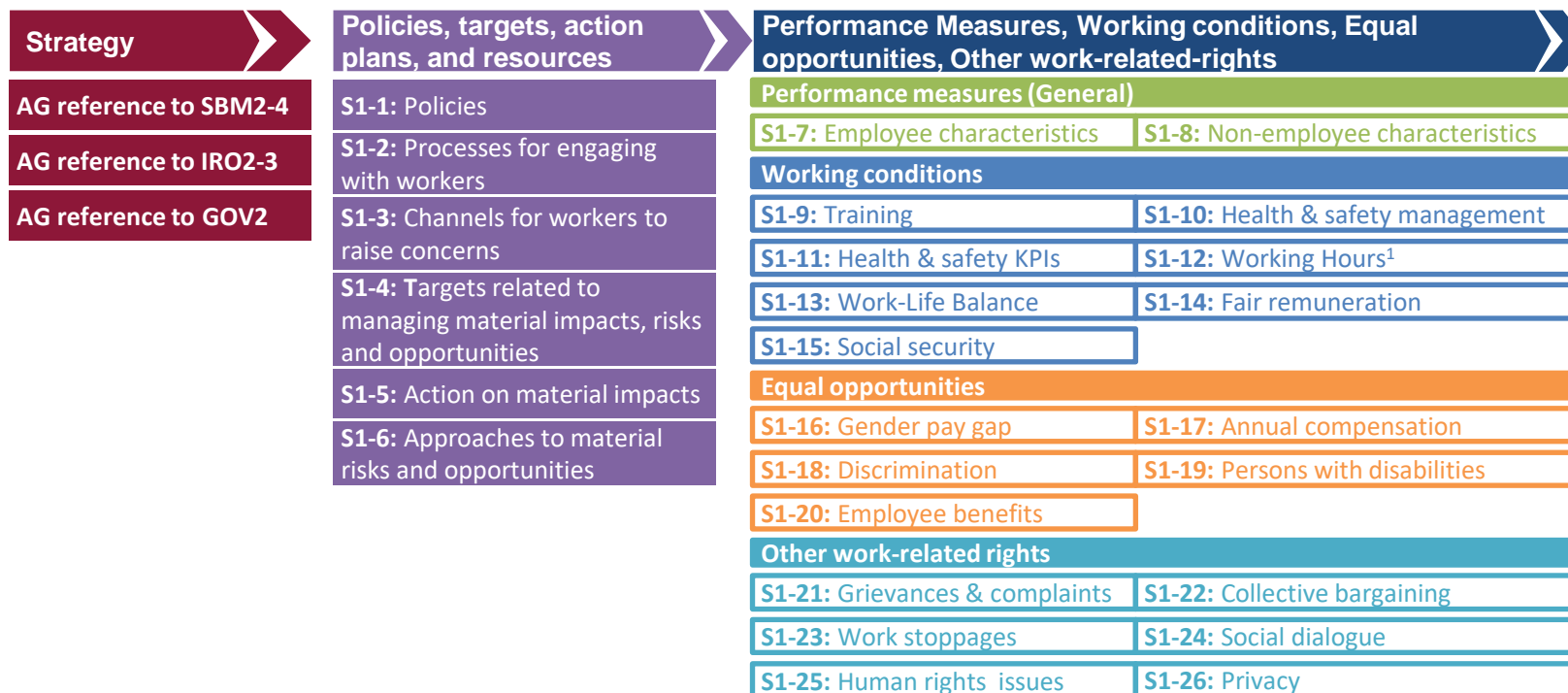


7.4 S1 Own workforce: Overview (I/IV)



7.4 S1 Own workforce: Overview (II/IV)

Standard Architecture



¹ *Optional Disclosure Requirement*

7.4 S1 Own workforce: Overview (III/IV)

Reference frameworks

STRATEGY <small>(complemented by ESRS 2)</small>	IMPLEMENTATION
<p>AG on ESRS 2-SBM2: Interaction between material impacts, risks and opportunities and the strategy and business model</p>	<p>DR S1-1: Policies, targets, action plans and resources</p> <p>OECD UNGP SFDR GRI</p>
<p>AG on ESRS 2-SBM3: Workforce matters on people and the adaptation of its strategy and business model(s) to such material sustainability impacts</p>	<p>DR S1-2: Processes for engaging with own workers and workers’ representatives about impacts</p> <p>OECD UNGP SFDR GRI</p>
<p>AG on ESRS 2-SBM4: Workforce matters that originate from or are connected to the undertaking’s strategy and business model(s) and of the adaptation of its strategy and business model(s) to such material risks and opportunities</p>	<p>DR S1-3: Channels for own workers and workers’ representatives to raise concerns</p> <p>SFDR UNGP</p>
<p>AG on ESRS 2-IRO2: Outcome of the undertaking’s assessment of material sustainability impacts, risks and opportunities as identified by reference to and in compliance with sector-agnostic and sector-specific level ESRS</p>	<p>DR S1-4: Targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities</p> <p>UNGP GRI</p>
<p>AG on ESRS 2-IRO3: Outcome of the undertaking’s assessment of material sustainability impacts, risks and opportunities that are not covered by an ESRS (entity-specific) level</p>	<p>DR S1-5: Taking action on material impacts on own workforce and effectiveness of those actions</p> <p>OECD UNGP GRI</p>
<p>ESRS 2-GOV2: Information of administrative, management and supervisory bodies about sustainability matters</p>	<p>DR S1-6: Approaches to mitigating material risks and pursuing material opportunities related to own workforce</p> <p>SASB OECD</p>

OECD - Organization for Economic Co-operation and Development

SASB – Sustainability Accounting Standards Board

GRI – Global Reporting Initiative

ILO – International Labour Organization

UNGP – United Nations Global Compact

EPSSR – European Pillar of Social Rights

SFDR – Sustainable Finance Disclosure Regulation

7.4 S1 Own workforce: Overview (IV/IV)

Reference frameworks

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

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

STRATEGY (complemented by ERS 2)

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

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

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

SFDR

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

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

IMPLEMENTATION

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

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

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

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

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

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

PERFORMANCE MEASURES

First set:

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

Subsequent standards:

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

SFDR/CSDDD structural alignment

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

7.6 Social standards: Embedding due diligence

Alignment of social standards with OECD Due Diligence

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



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



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

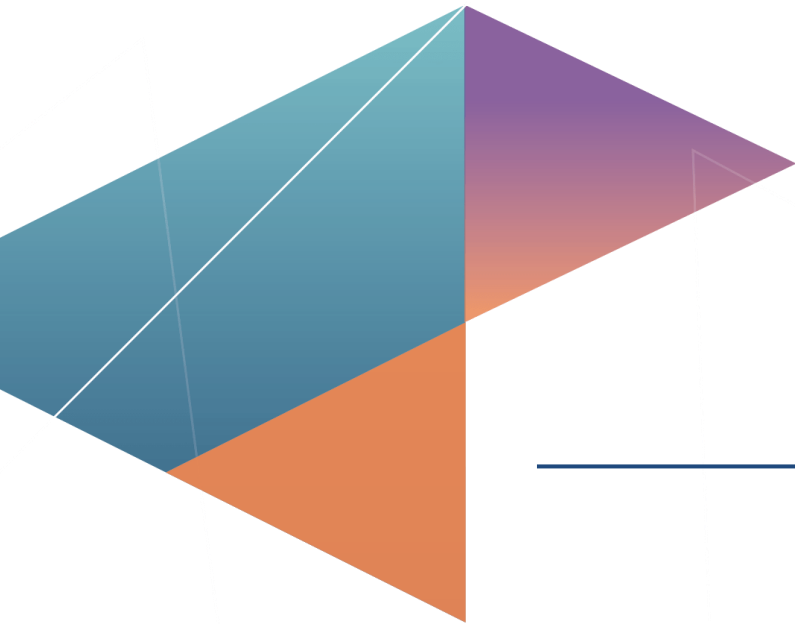


3. ESRS 1 on targets, progress and tracking effectiveness and ESRS S2 – DR 4: **track** performance



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

Approach developed in co-construction with Shift



Governance:

G1 Governance, risk management,
internal control

G2 Business conduct

8.1 [draft] CSRD mandate on Governance sustainability matters

Governance as a separate category of sustainability matters

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

CSRD Article 19 b)

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

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

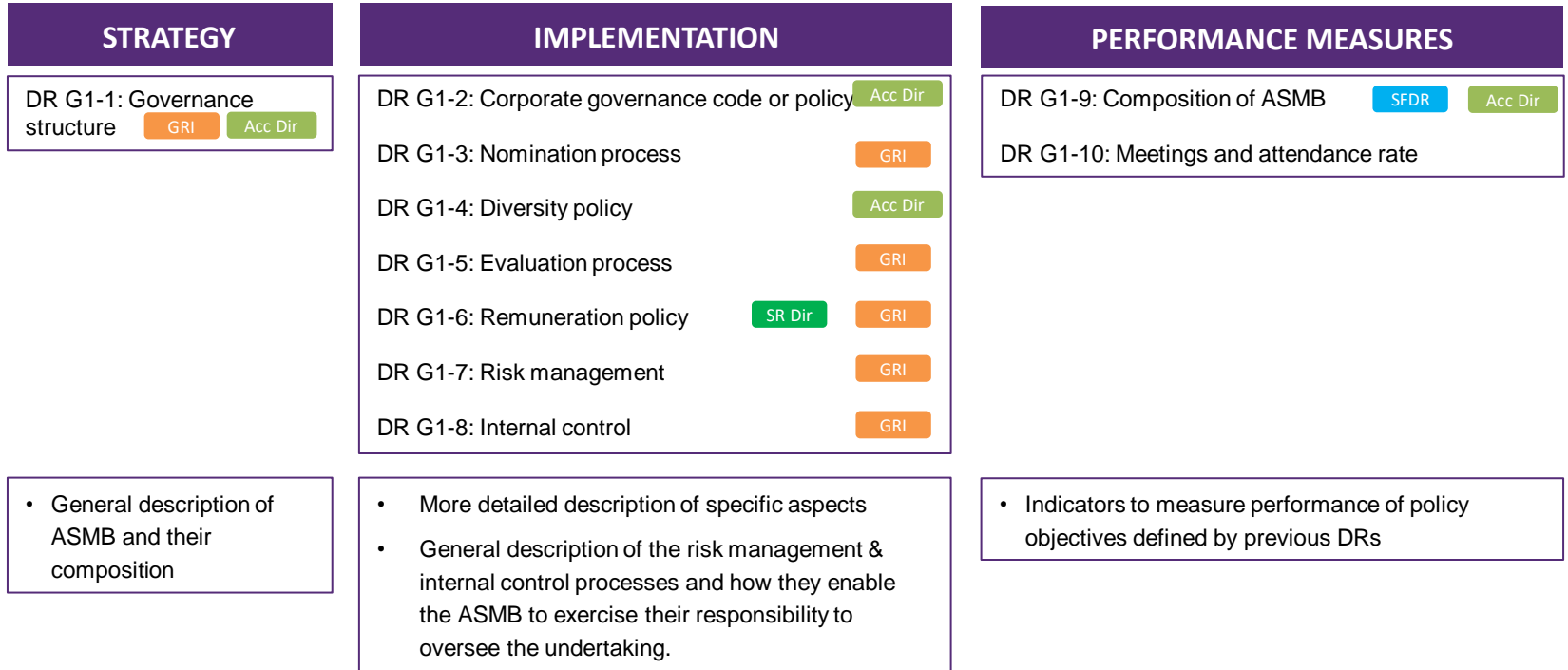
G1 Governance, risk
management, internal
control

G2 Business conduct

8.3 G1 Governance, risk management, internal control : Interaction with ESRS 2 (Governance disclosure requirements in cross-cutting)



8.4 G1 Governance, risk management, internal control : Overview



8.5 G2 Business conduct: Overview

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

CONSULTATION: SPECIFIC QUESTION

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

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

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

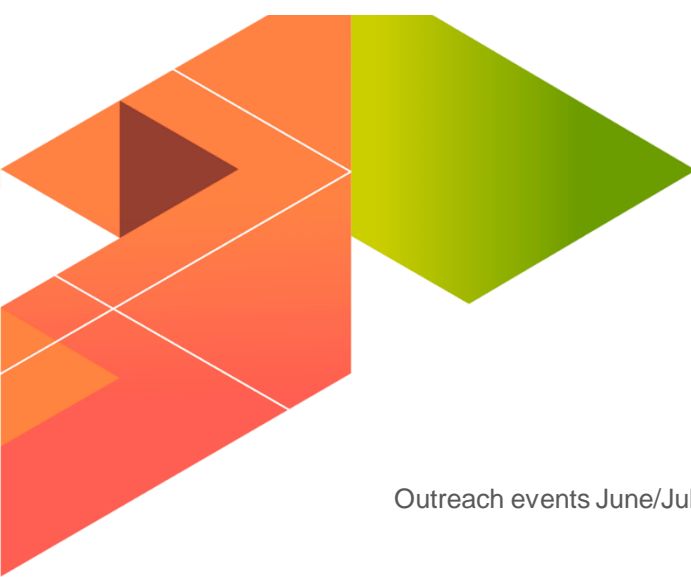
² According to the Intrum European payment Report 2021, on average 49% of businesses in the EU accepted payment terms longer than they are comfortable with out of fear of losing their customers or damaging business relations.



8. Q&A



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