

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG SR TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG SRB or EFRAG SR TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG SRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

ESRS 2 simplification proposal

Issues paper

Objectives of this session

- 1 Based on the feedback of the public consultation, the objective is for the EFRAG SR TEG and SRB to agree on the proposals for simplification of ESRS 2.
- 2 The EFRAG Secretariat proposes changes to the structure of the specific DRs and provides, for information, points relating to re-wording of text in the DRs. In a future meeting, the EFRAG Secretariat will propose draft amendments to be made to the DRs.

Analysis of the public consultation's comments

- 3 The below proposals do not take into account the exercise of alignment with the content of IFRS S1 notably the one on the structure.
- 4 Note also that further revisions of DRs are also subject to positions to be taken on materiality and value chain issues papers. This will impact granularity of the required disclosures (removal or/and further guidance). This would also lead to a rewording exercise of AG related to GR3 and GR4 (key features of the value chain and key drivers of the value creation).
- 5 Decision to onboard in ESRS2 DP1 "Reference principles for implementation of policies adopted to manage material sustainability matters", DP2 "Reference principles for implementation of targets, progress and tracking effectiveness" and DP3 "Reference principles for implementation of Actions, action plans and resources in relation to policies and targets" is not considered in this paper.
- 6 Comments and proposals received are related to:

Points for discussion and validation by EFRAG SR TEG and SRB

(a) Mergers of specific DRs within ESRS2:

- (i) DR2-GR3, DR2-GR4 and DR2-SBM 1 as descriptions of characteristics of the value chain and the process of value creation are highly interrelated with the description of overall strategy and business model.
- (ii) eliminate from ESRS 1 the equivalent concept, incorporate in ESRS 2 corresponding DR any eventual missing elements in the concepts. This will simplify ESRS 1. Also, merge from GR 5 to GR9 in only one GR.

- (iii) SBM1 and SBM2 as many interrelations between strategy and stakeholders => articulation with GR3, GR4, SBM1, SBM2 needs to be reviewed.
- (iv) Merge SBM3 and SBM4
- (v) Merge GOV2 and GOV3
- (vi) Merge IRO2 and IRO3 (to be moved at the beginning of SBM)

(b) More definitions identified:

- (i) GR1/ GR2/ GR3 : terms “key, material, significant”
- (ii) SBM1: need specific definition for “inputs”, “outputs and outcomes”, “business model vs strategy”, “stakeholders”
- (iii) GOV1: Governance bodies (align terms through all EDs)
- (iv) IRO1- AG64: concept of “severity” and “likelihood”

EFRAG Secretariat analysis

- 7 Proposed mergers of Disclosure requirements as summarised above came up many times in the consultation answers. This would contribute to a less complex standard allowing for a better appropriation by the undertakings of what they need to disclose and EFRAG secretariat considers these proposals relevant. First group of DRs (GR3, GR4, SBM1 &2) are proposed to be merged in SBM1.
- 8 Some respondents questioned the usefulness of DR9 as a mandatory requirement. Undertakings should first comply with ESRS, information related to use of other international standards is not a key piece of information. As this DR is already optional, EFRAG secretariat is of the opinion to keep this DR as it is.
- 9 Some respondents questioned the relevance of DR10 as an audit is mandatory. Although EFRAG secretariat agrees with the fact that audit assurance is stronger than a general statement of compliance, this is an usual statement in reporting areas. Accordingly, EFRAG secretariat is of the opinion to keep this DR as it is.
- 10 This would lead to decrease the number of disclosure requirements from 22 to 15. The structure of the ESRS2 DRs is summarised below with a tentative renumbering proposal:

General requirements

- 1. GR1
- 2. GR 5+6+7+8+9
- 3. GR 10

Governance

- 4. GOV 1
- 5. GOV 2+3
- 6. GOV 4
- 7. GOV 5

Strategy

- 8. GR 2
- 9. IRO 2+3
- 10. GR 3+4+ SBM 1
- 11. SBM 2

12. SBM 3+4

Management of impacts, risks and opportunities

13. IRO 1

14. DP 1

15. DP 3

Metrics and targets

16. DP 2

- 11 EFRAG secretariat supports the need of more definitions as resulting from the consultation in order to clarify the concept and avoid misinterpretation by the preparers.

Points of re-wording / redrafting for information

(a) Avoid duplications and redundancies in DRs and Application Guidance

- (i) General comment to pay attention that all requirements have to be located in main standards and that AG don't introduce additional (unintended) disclosure requirements. This point will be addressed systematically during the redrafting exercise.
- (ii) DR10 on general statement of compliance: entity-specific disclosures related paragraph (§30) to be considered as AG.
- (iii) AG23 related to DR10 could be deleted
- (iv) AG24 and AG25 related to SBM1 are too granular. If the merge of the 3 DRs (GR3, GR4 and SBM1) is validated, the corresponding AGs will be streamlined.
- (v) AG30 c) related to SBM2 redundant with main standard
- (vi) SBM3 §41 a) with IRO2 § 77 on actual, potential, negative and positive impacts
- (vii) GOV1: long text in main standard (§ 50 to 53) and excessive AG (from AG36 to AG43) – proposal to reduce the text and to develop an overarching governance concept.
- (viii) GOV3 §60 and 61 could be regrouped (list and related key decisions).
- (ix) GOV4 §74 should lead to a too granular information
- (x) IRO2 and IRO3: very long text for § 76/79 and §77/80 not easy to read.

(b) Application Guidance streamlining

- (i) Information related to restatement (DR7) as fears that information requested in §25 may be too large and burdensome. Request to limit restatement exercise.

(c) Wordings to be adjusted:

- (i) DR9: §27 – proposal to remove the term “generally accepted” as it could be interpreted differently
- (ii) SBM2 – ask for clarification of the exact scope of the stakeholders
- (iii) Term of “resilience” which is used in AG32b) covers a too abstract concept

(d) Align the titles:

- (i) Strategy (instead of Strategy and business model)

- (ii) Governance (instead of Governance and organisation)
 - (iii) Metrics and Targets (instead of Performance measures)
 - (iv) Management of impacts, risks and opportunities (instead of risk management)
- (e) Relations with other draft standards:
- (i) With ESRS1: limit ESRS1 to principles only and check that each ESRS2 DR refer to one principle in ESRS1
 - (ii) SBM2 link with social standards: S1-2, S2-2, S3-2 and S4-2
 - (iii) GOV1 with G1 (is decision to merge these 2 DRs final?), overlap identified between GOV4 and G1-DR6

EFRAG Secretariat analysis

- 12 All the above drafting proposals should improve the readability of the standard, making it shorter with less redundancies. EFRAG secretariat supports these changes and considers to implement all of them in a new version.
- 13 References to other standards have been shared.

Next steps

- 14 EFRAG Secretariat to propose draft amendments
- 15 The EFRAG TEG and SRB to discuss and agree on the proposed draft amendments

Questions to SR TEG and SRB

- 16 Do you agree with the related proposals?