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Interoperability between ESRS and ISSB standards EFRAG assessment at this stage and mapping table

Objective

- The objective of this paper is to present the EFRAG's assessment at this stage on the interoperability between ESRS 2 *General Disclosures* and ESRS E1 *Climate* and IFRS S1 & S2 Climate-related Disclosures and to provide a supporting mapping table. This paper and the climate-related disclosures mapping table is a contribution to the ongoing joint work with the ISSB on interoperability guidance on ESRS and ISSB standards.

EFRAG assessment on the level of interoperability achieved

- Over the past months, multiple constructive meetings have been held between representatives from the ISSB and the European Commission (EC)/ EFRAG with the objective of enhancing interoperability between all IFRS S1 & S2 requirements and related ESRS requirements.
- Careful attention has been paid by EC and EFRAG to:
 - ✓ all the datapoints required by IFRS S2 to consider the corresponding disclosures either in ESRS 2 (when they are of a cross-cutting nature, i.e., corresponding to the IFRS Core contents) or in ESRS E1;
 - ✓ the conceptual foundations, general requirements, provisions on judgements, uncertainties and errors in IFRS S1 to consider the corresponding provisions in ESRS 1 while complying with the CSRD.
- Specific consideration is given to the definition of financial materiality, particularly in ESRS 1 paragraph 48 of the Delegated Act. Material financial information under ESRS is now focused on the needs of primary users (investors), assuming that the needs of other stakeholders are satisfied either through impact materiality information or through the information needed by investors.
- EFRAG's assessment of the outcome at this stage of the above combined efforts is the following:
 - ✓ EC/EFRAG and the ISSB have ensured a very high degree of interoperability between the two sets of standards.

- ✓ Companies that are required to report in accordance with ESRS will to a very large extent report the same information as companies that use ISSB standards.
- ✓ The very high degree of interoperability between ESRS and the two ISSB standards significantly reduces the risk that companies required to report in accordance with ESRS will also be expected to report separately under ISSB standards.
- The mapping table below illustrates the high level of interoperability achieved and can assist preparers and users in identifying the ESRS information corresponding to IFRS S1 & S2 requirements in relation to climate.
- In this context two points have to be mentioned:
 - ✓ On the one hand, IFRS S2 mandates financial institutions to provide additional information about Category 15 greenhouse gas emissions or emissions associated with their investments (§29(a)(vi)(2) and B58–B63). On the other hand, ESRS E1 (AR44b) states that “financial institutions shall consider the GHG Accounting and Reporting Standard for the Financial Industry (PCAF) when preparing information about its scope 3 GHG emissions.” Currently, there is no equivalent disclosure for financed emissions in ESRS E1. However, it is expected that future ESRS sector-specific standards will include provisions for reporting financed emissions. ESRS 1 paragraph 131 sets the approach that should be applied in the transition period before the sector ESRS are finalized: to the extent that the undertaking concludes that they are material on an entity-specific basis, they can be reported in the ESRS sustainability statement, based on the ISSB provisions (see also below the general provision of ESRS 1 paragraph 114).
 - ✓ IFRS S2 requires disclosure of whether the GHG emissions target is gross or net (§36(c)). For net targets, the entities shall outline their planned use of carbon credits to offset GHG emissions and achieve any net greenhouse gas emissions target (§36(e)). In contrast, ESRS E1 (§35 (b)) defines GHG emission reduction targets solely as gross targets, disallowing the inclusion of GHG removals, carbon credits or avoided emissions as a means of achieving the targets. However, E1 (§62) acknowledges the use of carbon credit for neutrality claims, requiring some information to be provided in case the undertaking has made public claims of GHG neutrality that involve the use of carbon credits. ESRS clarify that climate-related targets are intended to be reduction targets, with net targets being referred to as neutrality claims.
- From a general standpoint it is worth noting also that ESRS 1 paragraph 114 organises sustainability reporting under ESRS as an open environment (under certain conditions) since it introduces the possibility for undertakings that would so wish to integrate in their sustainability statement clearly identified additional disclosures therefore allowing for compliance with other standards (in particular

the ones issued by the ISSB or GRI): “When the undertaking includes in its sustainability statement additional disclosures stemming from (i) other legislation which requires the undertaking to disclose sustainability information, or (ii) generally accepted sustainability reporting standards and frameworks, including non-mandatory guidance and sector-specific guidance, published by other standard-setting bodies (such as technical material issued by the International Sustainability Standards Board or the Global Reporting Initiative), such disclosures shall:

- (a) be clearly identified with an appropriate reference to the related legislation, standard or framework (see ESRS 2 BP-2, paragraph 15);
- (b) meet the requirements for qualitative characteristics of information specified in chapter 2 and Appendix B of this standard.”

IFRS – ESRS Mapping table: Climate change

IFRS S2	ESRS
Governance: oversight of climate-related risks and opportunities	
§6 (a) Governance body's identity, responsibilities, skills, oversight of strategy, transaction and targets, remuneration linked to climate performance	2-Gov 1 §22 to §23; 2-GOV 2 §26; 2-GOV 3 §29
§6 (b) Management's role, controls and procedures	2-Gov 1 §22 (c)
Strategy: strategy for managing climate-related risks and opportunities	
Climate-related risks and opportunities	
§10 (a) Description, (b) Physical or transition risks, (c)-(d) Time horizons	2-SBM 3 §48 [with exclusion of §48 (c)]; E1-IRO1 AR 11 to AR 13; ESRS 1 §77
Business model and value chain	
§13 (a) Current and anticipated effects of risks and opportunities on business model and value chain, (b) Where they are concentrated	2-SBM 3 §48 (a) to (b)
Strategy and decision-making	
§14 (a) Current and anticipated changes in strategy and decision-making (changes to business model, direct and indirect mitigation and adaptation efforts, climate-related transition plan, targets)	2-SBM 3 §48 (b); MDR-Policies §65; MDR-Actions §68; E1-1 §16 (a) to (c); E1-2 §24 to §25; E1-3 §28 to §29
§14 (b) Current and planned resources of activities in accordance with §14 (a)	2-MDR-Actions §69; E1-3 §29 (c)
§14 (c) Progress of plans disclosed in previous reporting periods	2-MDR-Actions §68 (e); E1-1 §16 (j)
Financial position, financial performance and cash flows	
§15 (a), §16 (a) Effects of climate-related risks and opportunities on current financial position, performance and cash flows	2-SBM 3 §48 (d)
§15 (b), §16 (b)-(c)-(d) Anticipated financial effects on financial position, performance and cash flows over the short, medium and long-term	2-SBM 3 §48 (d) to (e); E1-9 §66 to §69
Climate resilience	
§22 (a) Climate resilience assessment (implications for strategy & business model, uncertainties, capacity to adjust)	2-SBM 3 §48 (f); E1 SBM 3 §19 (c), AR 8
§22 (b) How & when scenario analysis was carried out (inputs, scenarios used, time horizons, scope, key assumptions)	2-SBM 3 §48 (f); E1 SBM 3 §19 (a) to (b), AR 6, AR 7, AR 13
Risk management: process and integration in ERM	
§25 (a)-(b) Processes to identify, assess, prioritise and monitor climate-related risks, opportunities (use of scenario analysis)	2-IRO 1 §53 (a) and (c) to (h); E1 IRO 1 §20 (b) to (c), §21; AR 11 to AR 13
§25 (c) Integration in overall risk management process	2-GOV 5 §36 (d); 2-IRO 1 §53 (e) to (f)
Metrics and targets: performance in relation to climate-related risks and opportunities	
Climate-related metrics	
§29 (a) Greenhouse gases Scope 1, 2 and 3	E1-6 §46 to §52, AR 39 to AR 52
§29 (a) (vi) (2) Scope 3 (financed emissions)	-
§29 (b) Climate-related transition risks	E1-9 §67, AR 72 to AR 76
§29 (c) Climate-related physical risks	E1-9 §66, AR 69 to AR 71
§29 (d) Climate-related opportunities	E1-9 §69, AR 80 to AR 81
§29 (e) Capital deployment	2-MDR-Actions §69; E1-3 §29 (c), AR 20 to AR 22
§29 (f) Internal carbon prices	E1-8 §62, §63(c), AR 65
§29 (g) Remuneration	2-GOV 3 §29; E1 GOV 3 §13
§32 Industry-based metrics	1-10.1 §131 (b); Forthcoming sector-specific standards
Climate-related targets	
§33 Climate-related targets (metric, objective, scope, period, base period, milestones, absolute or intensity, link to latest international agreement)	2-MDR-Targets §80 (a) to (e), (g); E1-4 §33 to §34 (a) to (e)
§34 Approach to set and review targets (third party validation)	2-MDR-Targets §80 (f), (h) to (j); E1-4 §34 (e)
§35 Performance against targets and analysis of trends	2-MDR-Targets §80 (j)
§36 GHG emissions targets (scope, gross or net, use of carbon credits)	E1-4 §33 to §34, AR 23 to AR 31; E1-7 §58 to §61, AR 56 to AR 64

NOTES TO THE TABLE

The IFRS S2 paragraphs that do not require datapoints have not been listed in the first column. In the second column, the corresponding ESRS datapoints are usually found in cross-cutting standards ESRS 1, ESRS 2 and complemented by E1 climate topical requirements. References to ESRS 2 are made through the cross-cutting disclosure requirement reference (e.g. SBM3, MDR-Policies, etc.), while references to text in the other two standards include the text ESRS 1 + paragraph number or the disclosure requirement in E1, followed by paragraphs or AR references.