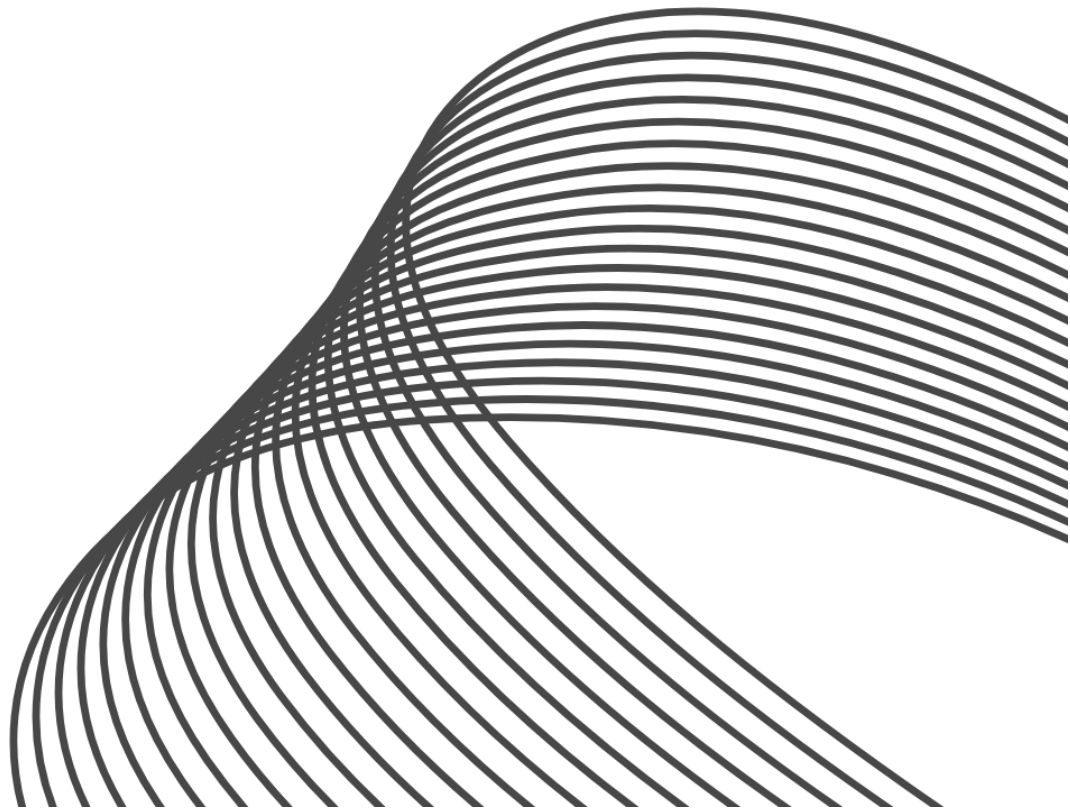




EFRAG
sustainability reporting

ESRS IMPLEMENTATION Q&A PLATFORM Explanations 2/2024

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EFRAG's mission is to serve the European public interest in both financial and sustainability reporting by developing and promoting European views in the field of corporate reporting. EFRAG builds on and contributes to progress in corporate reporting. In its sustainability reporting activities, EFRAG provides technical advice to the European Commission in the form of draft European Sustainability Reporting Standards (ESRS) elaborated under a robust due process and supports the effective implementation of ESRS. EFRAG seeks input from all stakeholders and obtains evidence about specific European circumstances throughout the standard-setting process. Its legitimacy is built on excellence, transparency, governance, due process, public accountability and thought leadership. This enables EFRAG to speak convincingly, clearly, and consistently and to be recognised as the European voice in corporate reporting as well as a contributor to global progress in corporate reporting.



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The Questions in this document are identified by the progressive number (ID) that they receive at the beginning of the submission to the Q&A Platform. The system also attributes identification numbers to partial submissions. For this reason, the ID number is not indicative of how many questions EFRAG has finally received.

Cross-Cutting

ID 37 – Positive impact only

Question asked

Can an impact be material if it is material from a positive impact perspective only?

EFRAG considers that the question should be reworded in the following way to be clearer: *Can a sustainability matter be material from a positive impact perspective only?*

ESRS reference

ESRS 1 Chapter 3.4; ESRS 1 paragraph 43 and 46

Key terms: Materiality, only positive impact is material

Background

Background as provided by the submitter:

‘It is essential that when I have evaluated and qualitatively assessed the actual/potential negative and positive effects on human beings and the environment, I have concluded that the topic is irrelevant in terms of actual negative impacts and also irrelevant in terms of actual positive impacts. However, it is critical from the perspective of potential positive impacts. Is my topic then considered significant?’

ESRS 1 paragraph 43: ‘A sustainability matter is material from an impact perspective when it pertains to the undertaking’s material actual or potential, positive or negative impacts on people or the environment over the short-, medium- or long-term.’ ESRS 1 paragraph 46 states the criteria on which positive impacts are based.

Answer

Yes, a sustainability matter can be material from a positive impact perspective only.

Based on the definition in ESRS 1 paragraph 43, a sustainability matter is material when it pertains:

- (a) to material actual or potential impacts or
- (b) to material positive or negative impacts.

Positive impacts can be either actual or potential.

ESRS 1 Chapter 3.4 defines the criteria used to assess materiality. For actual positive impacts, the criteria are scale and scope. In addition, for potential positive impacts likelihood is considered.

ESRS 1 paragraph 45 describes the relationship between negative impacts and the due diligence process defined in international instruments (i.e., the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises). In particular, due diligence focuses on negative or adverse impacts on people and the environment, but this does not mean that impact materiality is limited to negative impacts under ESRS reporting.

ID 67 – SBM-3 vocabulary/grammar used

Question asked

Can you provide a more detailed explanation on how the expression ‘as opposed to’ is to be interpreted in the context of the Disclosure Requirement SBM-3 of ESRS 2?

ESRS Reference

ESRS 2 paragraph 48(h)

Key terms: ESRS 2 Disclosure Requirement SBM-3

Background

According to ESRS 2 paragraph 48(h), the undertaking shall disclose a specification of those impacts, risks and opportunities that are covered by ESRS Disclosure Requirements as opposed to those covered by the undertaking using additional entity-specific disclosures.

Answer

ESRS 1 Chapter 1.1 describes the three categories of ESRS standards (i.e., cross-cutting, topical and sector-specific). ESRS 1 paragraph 11 explains the entity-specific disclosures that complement the disclosures laid out in these three categories of ESRS standards.

In addition, ESRS 1 AR1 to AR5 provide further guidance on the requirements that entity-specific disclosures shall fulfil.

ESRS 2 paragraph 48(h) requires undertakings to separately distinguish those material impacts, risks and opportunities whose disclosures follow the ESRS standards (i.e., standardised disclosures) from those that have been specifically designed by the undertaking according to the provision in ESRS 1 paragraph 11 and its related Application Requirements (i.e., entity-specific disclosures).

ID 171 and ID 358 – Administrative, management and supervisory bodies

Question asked [ID 171]

Please clarify with examples what is meant by ‘administrative, management and supervisory bodies’ as a collective versus ‘management’ and ‘management-level position’ versus ‘senior executive management’.

This explanation also answers question ID 358: Could you please specify clearly what is to be included in the administrative, management and supervisory bodies? By this, I mean, it refers to only a highest body (Board of Directors) or it refers to another body or other bodies?

ESRS Reference

ESRS 2 paragraph 22(a) and (d)

Background

Annex II of the ESRS defines ‘administrative, management and supervisory bodies’ as follows:

‘The governance bodies with the highest decision-making authority in the undertaking include its committees. If in the governance structure there are no members of the administrative,

management or supervisory bodies of the undertaking, the CEO and, if such function exists, the deputy CEO should be included. In some jurisdictions, governance systems consist of two tiers, where supervision and management are separated. In such cases, both tiers are included under the definition of administrative, management and supervisory bodies.'

GRI is also a useful source of complementary guidance: GRI uses 'highest governance body' as well in reference to the 'administrative, management and supervisory bodies'. GRI 102 requires jurisdictions with two tiers of governance bodies to consider both as 'highest governance bodies'.

ESRS do not define the term 'senior executive management'. However, GRI explicitly defines 'senior executive management' in GRI 102 as top-ranking members of the management of an organisation including a Chief Executive Officer (CEO) and individuals reporting directly to the CEO or to the highest governance body. Each organisation defines which members of its management teams are senior executives.

Undertakings might report the identity of their 'management body' and 'governance body' as part of the corporate governance statement as they are key actors in the national corporate governance codes. ESRS 1 paragraph 119 allows an undertaking to incorporate in the sustainability statement information prescribed by a Disclosure Requirement of ESRS, including a specific datapoint prescribed by a Disclosure Requirement by reference to the corporate governance statement (if not part of the management report), provided that the conditions in paragraph 120 are met.

Answer

As defined in Annex II of ESRS, administrative, management and supervisory bodies as a collective have the highest decision-making authority. The governance bodies which are covered under this definition can vary from one jurisdiction to another. This is because some jurisdictions have different bodies for management and supervision, respectively, whereas others have one unique body carrying out both roles.

'Senior executive management' must be understood as a higher position than a 'management-level position'.

In the description of their governance bodies and management, undertakings need to ensure consistency between the sustainability statement and the corporate governance statement as well as other corporate communications in general.

ID 204 – Phase-in for first-time large undertakings

Question asked

Companies that become 'large undertakings' for the first time: do they benefit from the Phase-In Requirements?

[Note by the EFRAG Secretariat: the only question by the submitter marked as '1: explanation' is answered here. The submitter also had a second question: 'Are the ESRS requirements applicable from the year they exceed the thresholds?' which is considered to fall outside the scope of the Q&A platform and will be forwarded to the European Commission.]

ESRS reference

ESRS 1 paragraph 137 and Appendix C: List of phased-in Disclosures Requirements

Key terms: Phased-In Requirements

Background

ESRS 1 section 10.4 paragraph 137 states: 'Appendix C List of phased-in Disclosure Requirements in this Standard sets phase-in provisions for the Disclosure Requirements or datapoints of Disclosure Requirements in ESRS that may be omitted or that are not applicable in the first year(s) of preparation of the sustainability statement under the ESRS.'

In setting phase-ins, ESRS 1 Appendix C uses the wording '... for the first year (for the first two years/for the first three years) of preparation of its sustainability statement ...'

Answer

As stated in ESRS 1 Appendix C, the phase-in requirements apply to the first year, to the first two years or to the first three years 'of preparation of its sustainability report'. All undertakings meeting the criteria of the Accounting Directive (Directive 2013/34/EU) Article 3 of large undertakings (groups) may benefit from the phase-in requirements listed in ESRS 1 Appendix 1, including undertakings that become 'large undertakings' for the first time.

Environment

ID 206 – Climate-related targets

Question asked

Is it an absolute requirement in paragraph 30 that 90-95% of GHG emission reduction needs to be performed before giving the option to work with GHG Removals?

ESRS reference

ESRS E1 paragraphs 30, 34 and 60

ESRS Annex II (Glossary): GHG removal and storage; ESRS Annex II (Glossary): Carbon credit

Background

ESRS E1-4 paragraph 30 refers to 'Targets related to climate change mitigation and adaptation'. ESRS E1 paragraph 34(b) specifically requires GHG emission reduction targets to be gross targets and not to include GHG removals, carbon credits or avoided emissions as a means of achieving the reduction targets.

ESRS E1-7 'GHG removals and GHG mitigation projects financed through carbon credits' paragraph 60 requires transparency related to targets that intend to achieve net-zero GHG emissions. It states that if the undertaking discloses a net-zero target in addition to the gross GHG emission reduction targets (Disclosure Requirement E1-4), it shall explain the scope, methodologies and framework applied and how the residual GHG emissions (after approximately 90-95% of GHG emission reduction) are intended to be neutralised.

ESRS Annex II (Glossary): GHG removal and storage – (anthropogenic) removals refer to the withdrawal of GHGs from the atmosphere as a result of deliberate human activities. These include enhancing biological anthropogenic sinks of CO₂ and using chemical engineering to achieve long-term removal and storage. Carbon capture and storage (CCS) from industrial and energy-related sources, which alone does not remove CO₂ from the atmosphere, can remove atmospheric CO₂ if combined with bioenergy production (Bioenergy with Carbon Capture & Storage – BECCS). Removals can be subject to reversals, which are movements of stored GHG out of the intended storage that re-enter the atmosphere. For example, if a forest that was grown to remove a specific amount of CO₂ is subject to a wildfire, the emissions captured in the trees are reversed.

ESRS Annex II (Glossary): Carbon credit – A transferable or tradable instrument that represents one metric tonne of CO₂eq emission reduction or removal issued and verified according to recognised quality standards.

Answer

The ESRS E1 standard does not mandate undertakings to work, or prevent them from working, with GHG removals. While the (extent of) use of carbon removals remains the undertaking's decision, ESRS E1 aims at ensuring transparency. It requires to differentiate between:

- the established GHG emissions reduction targets (that shall not include carbon removals per ESRS E1 Disclosure Requirement E1-4);
- targets related to net-zero (ESRS E1 Disclosure Requirement E1-7 paragraph 60, which requires GHG emission reductions of approximately 90-95%); and
- the climate neutrality claims involving carbon credits (ESRS E1 Disclosure Requirement E1-7 paragraph 61).

Undertakings can work with GHG removals before achieving 90-95% GHG emission reductions near the point of net-zero. If they claim to have set a net-zero target, however, they need to

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explain how they expect to neutralise the outstanding residual emissions after a 90-95% of GHG emissions reduction has been achieved.

Social

ID 31 – Breakdown of temporary, permanent, and non-guaranteed hours employees

Question asked

Is this a three-way split or are non-guaranteed hours employees part of temporary/permanent employees?

ESRS Reference

ESRS S1 paragraph 50(b); ESRS S1 paragraph AR55; ESRS S1 paragraph AR56

Key terms: Temporary, permanent, non-guaranteed hours employees; FTE

Background

ESRS S1 paragraph 50(b) requires the disclosure of ‘the total number by head count or full-time equivalent (FTE) of

- i. permanent employees, and breakdown by gender;
- ii. temporary employees, and breakdown by gender; and
- iii. non-guaranteed hours employees, and breakdown by gender.’

Further information on how to present this information can be found in Table 3 and Table 4 in ESRS S1 paragraph AR55, while ESRS S1 paragraph AR56 also provides a definition of non-guaranteed hours employees: ‘Non-guaranteed hours employees are employed by the undertaking without a guarantee of a minimum or fixed number of working hours. The employee may need to make themselves available for work as required, but the undertaking is not contractually obliged to offer the employee a minimum or fixed number of working hours per day, week, or month. Casual employees, employees with zero-hour contracts, and on-call employees are examples that fall under this category.’

Answer

ESRS S1 paragraph 50(b) requires a three-way split of employees as the text distinguishes between three datapoints, (i) permanent, (ii) temporary and (iii) non-guaranteed hours employees, and it specifies that a breakdown by gender is required for the three datapoints. In addition, ESRS S1 paragraph AR55, Table 3 and Table 4 offer further guidance by providing the template for presenting information on employees by contract type.

ESRS S1 paragraph AR56 specifies that ‘the definitions of permanent, temporary, non-guaranteed hours . . . employees differ between countries . . .’ and it also provides a definition of non-guaranteed hours employees. While permanent and temporary employment relationships define the duration of a contract, a non-guaranteed hours contract refers mainly to the expected working time. The defining characteristic of non-guaranteed hours contracts is that they do not guarantee a minimum or fixed number of working hours.

In some countries, non-guaranteed hours contracts may be further classified as either permanent or temporary according to national legislation. Hence, in these countries the undertaking reports those non-guaranteed hours employees under paragraph 50(b)(iii) and also under paragraph

50(b)(i) or (ii). The provision of contextual information in ESRS S1 paragraph 50(e) requires explaining how the information is reported; for example, the undertaking would describe if non-guaranteed hours employees are also included within the permanent and temporary datapoints.

ID 38 – Structure of the sustainability statement

Question asked

Separating HR policies (ESRS S1-1), action plans (ESRS S1-4), targets (ESRS S1-5) and metrics (ESRS S1-9 to S1-17) is not efficient for the understanding of users. Can we put into one chapter, for each material issue (e.g., health and safety), the policy with the targets, the action plan, and the metrics?

ESRS reference

ESRS S1 paragraph 11, ESRS 1 Chapter 8, ESRS 1 Appendix F

Key terms: Structure of sustainability statement

Background

ESRS 1 Chapter 8 provides the basis for the presentation of information about sustainability matters prepared in compliance with Articles 19a and 29a of Directive 2013/34/EU (i.e., the sustainability statement) within the undertaking's management report.

ESRS 2 paragraph 49 states that 'The undertaking may disclose the descriptive information required in paragraph 46 – ESRS 2 SBM-3 – alongside the disclosures provided under the corresponding topical ESRS, in which case it shall still present a statement of its material impacts, risks and opportunities alongside its disclosures prepared under this chapter of ESRS 2.'

ESRS S1 paragraph 11 specifies that the ESRS 2 General disclosures in topical standards shall be presented alongside the disclosures required by ESRS 2 except for ESRS 2 SBM-3 *Material impacts, risks and opportunities and their interaction with strategy and business model*, for which the undertaking has an option to present the disclosures alongside the topical disclosures.

Answer

In relation to the presentation of information required by a topical standard, flexibility is provided to the undertaking as there are no specific requirements defining how an undertaking shall present the reported information related to a specific topic required by a given topical standard.

Therefore, for a given material matter (for example, health and safety) the undertaking may present the applicable disclosures on policies, actions, targets and metrics all together and does not have to follow the structure of the disclosure requirements within the topical standard, such as ESRS S1 Own workforce.

Regarding the overall sustainability reporting, ESRS 1 paragraph 115 clarifies that the sustainability statement must be structured in four parts: 'general information, environmental information, social information and governance information'. A particular treatment is anticipated for ESRS 2 General disclosures required by topical standards, which can be either presented alongside the other ESRS 2 General disclosures or alongside the respective topical disclosures (environmental, social and governance). In case the ESRS 2 General disclosures required by topical standards are presented alongside other topical disclosures, the undertaking still has to present a statement of its material impacts, risks and opportunities alongside its disclosures prepared under ESRS 2 SBM-3. Appendix F of ESRS 1 provides a non-binding structure for a sustainability statement.

ID 132 – Gender pay gap

Question asked

Can you please specify if for the below indicators: (a) the gender pay gap, defined as the difference of average pay levels between female and male employees, expressed as percentage of the average pay level of male employees; should we include variable components of salary or only gross wage?

ESRS reference

ESRS S1-16 paragraph 95, paragraph 97, paragraph 98

Key terms: Gender pay gap, gross wage, variable components of salary

Background

The ESRS Annex II ‘Acronyms and Glossary of Terms’ states the following:

‘PAY: the ordinary basic or minimum wage or salary and any other remuneration, whether in cash or in kind, which the worker receives directly or indirectly (“complementary or variable components”) in respect of his/her employment from his/her employer. “Pay level” means gross annual pay and the corresponding gross hourly pay. “Median pay level” means the pay of the employee that would have half of the employees earn more and half less than they do’.

Disclosure Requirement S1-16 includes the following paragraphs on remuneration metrics (pay gap and total remuneration):

‘95. The undertaking shall disclose the percentage gap in pay between its female and male employees and the ratio between the remuneration of its highest paid individual and the median remuneration for its employees.’

‘97. The disclosure required by paragraph 95 shall include: (a) the gender pay gap, defined as the difference of average pay levels between female and male employees, expressed as a percentage of the average pay level of male employees . . .’

‘98. The undertaking may disclose a breakdown of the gender pay gap as defined in paragraph 97(a) by employee category and/or by country/segment. The undertaking may also disclose the gender pay gap between employees by categories of employees broken down by ordinary basic salary and complementary or variable components’.

ESRS S1 paragraph 97 includes additional information in a footnote as follows: ‘The gender pay gap information supports the information needs of: financial market participants subject to Regulation (EU) 2019/2088 because it is derived from a mandatory indicator related to principal adverse impacts as set out by indicator #12 in Table I of Annex I of Commission Delegated Regulation (EU) 2022/1288 with regard to disclosure rules on sustainable investments (“Unadjusted gender pay gap”); and benchmark administrators to disclose ESG factors subject to Regulation (EU) 2020/1816 as set out by indicator “Weighted average gender pay gap” in Section 1 and 2 of Annex II.’

Answer

Complementary and variable components of the employee’s remuneration package form part of the calculation. Annex II: Acronyms and Glossary of Terms defines ‘pay’ as the salary and other remuneration in cash or in kind that the employee directly or indirectly receives in respect of his/her employment.

ESRS S1-16 AR 98 describes the methodology to follow when calculating the gender pay gap required by ESRS S1-16 paragraph 97(a). The value to be used in the ratio is the gross hourly pay level.

ID 214 – Resources to manage material impacts

Question asked

When mentioning ‘material impacts’ in paragraph 43 of ESRS S1-4, it is unclear if you mean ‘all’ material impacts or ‘own workforce’ material impacts.

The issue raised has been reworded as follows to be clearer:

In paragraph 43 of ESRS S1 (‘the undertaking shall disclose what resources are allocated to the management of its material impacts, with information that allows users to gain an understanding of how the **material impacts** are managed’), it is unclear whether ‘material impacts’ is meant to cover all material impacts or only ‘own workforce’ material impacts.

ESRS reference

ESRS S1-4 paragraph 43; ESRS S1 paragraph AR48; ESRS S1 paragraph 1.

Key terms: Actions; resources to manage material impacts

Background

ESRS S1 paragraph 1 clarifies the objective of ESRS S1, specifying that Disclosure Requirements in this topical standard will ‘enable users of the sustainability statement to understand the undertaking’s material impacts on its own workforce.’

ESRS S1-4 paragraph 43 states: ‘The undertaking shall disclose what resources are allocated to the management of its material impacts, with information that allows users to gain an understanding of how the material impacts are managed.’

ESRS S1 paragraph AR 48 further explains: ‘When disclosing the resources allocated to the management of material impacts, the undertaking may explain which internal functions are involved in managing the impacts and what types of action they take to address negative, and advance positive, impacts.’

Answer

‘Resources allocated to the management of material impacts’ refers only to the disclosure of resources allocated to the management of material matters pertaining to the ‘own workforce’ topic.

As paragraph 43 of ESRS S1-4 is part of the topical standard on ‘own workforce’, ‘material impacts’ in that paragraph is intended to refer specifically to material impacts on own workforce.

ID 215 – Social dialogue global percentage

Question asked

Can you clarify the ‘global percentage reported at the country level’ in ESRS S1 paragraph 63?

ESRS reference

ESRS S1 paragraph 63; ESRS S1 paragraph AR 69; ESRS S1 paragraph AR 70

Key terms: Social dialogue; global percentage; significant employment

Background

ESRS S1 paragraph 63 states: ‘The undertaking shall disclose the following information in relation to social dialogue: (a) the global percentage of employees covered by workers’ representatives, reported at the country level for each EEA country in which the undertaking has significant employment . . .’

ESRS S1 paragraph AR 69 specifies that, ‘for calculating the information required by paragraph 63(a), the undertaking shall identify in which EEA countries it has significant employment (i.e., at least 50 employees representing at least 10% of its total employees). For these countries it shall report the percentage of employees in that country which are employed in establishments in which employees are represented by workers’ representatives.’

ESRS S1 paragraph AR 70 provides a template for reporting on collective bargaining coverage and social dialogue, specifying that it applies to ‘EEA countries only.’

Answer

The term ‘global’ refers to the total or overall percentage of employees in a specific EEA country working in establishments (e.g., factories, branches) with workplace representation, based on the International Labour Organisation’s (ILO) definition of workers’ representatives. Workplace representation enables social dialogue at the establishment level, which is different from social dialogue at the group, sectoral, national or EU level. As an undertaking may have several establishments in one country, the aim of this metric is to obtain the overall percentage of employees with workplace representation for each EEA country where the undertaking has significant employment (i.e., at least 50 employees representing at least 10% of its total employees).

ESRS S1 paragraph AR 70 provides a template to present this information in. The column under the heading ‘Social dialogue’ provides an example of how an undertaking with significant employment in two EEA countries (country A and country B) can report this data point.

ID 243 – Reference to financial statements

Question asked

Can you explain and give more context to the datapoint in ESRS S1 paragraph 50(f)?

ESRS reference

ESRS S1-6 paragraph 50(f)

Key terms: Financial Statement; number of employees

Background

ESRS S1-6 paragraph 50(f) requires undertakings to disclose ‘a cross-reference of the information reported under (a) above to the most representative number in the financial statements.’

ESRS S1-6 paragraph 50(a) requests the ‘total number of employees by head count and breakdowns by gender and by country for countries in which the undertaking has 50 or more employees representing at least 10% of its total number of employees.’

ESRS 1 paragraph 124 addresses the matter of connectivity with financial statements and states: ‘when the sustainability statement includes monetary amounts or other quantitative datapoints that exceed a threshold of materiality and that are presented in the financial statements (direct connectivity between information disclosed in sustainability statements and information disclosed in financial statements), the undertaking shall include a reference to the relevant paragraph of its financial statements where the corresponding information can be found.’

Directive 2013/34/EU, Article 16 describes the ‘Content of the notes to the financial statements relating to all undertakings’ and requires the disclosure of (1)(h) ‘the average number of employees during the financial year.’

Answer

This datapoint requirement is based on the principle of connectivity between the sustainability statement and the financial statement, which is described in ESRS 1 Chapter 9.2. In paragraphs 124 and 125 of this chapter, a distinction is made between direct connectivity (paragraph 124) and indirect connectivity (paragraph 125). In both cases, the principle is that monetary or quantitative amounts that exceed the threshold of materiality shall be cross-referenced from the sustainability statement to the financial statements; for indirect connectivity, this means explaining how these amounts relate to the most relevant amounts presented in the financial statements. Where appropriate, a reconciliation may be provided, and it may be presented in tabular form.

On this basis, the objective of ESRS 1 S1-6 paragraph 50(f) is to cross-check the number of employees required by paragraph 50(a) against the most appropriate amount disclosed in the financial statements. This includes the average number of employees during the year, disclosed according to Article 16 of the Directive 2013/34/EU as transposed into the laws of each EU Member State, and other relevant data if they are disclosed in the financial statements.

Given that ESRS S1-6 provides some flexibility in terms of methodology for calculating the head count number of employees (i.e., average or at the end of the year), the undertaking is required to disclose the methodology used as per paragraph 50(d)(ii). If an undertaking uses a different methodology for calculating the head count between the note to the financial statements and this datapoint in ESRS S1-6 (e.g., average for the former, end of the year for the latter), it shall explain the difference in the basis for calculation following the principle of connectivity defined in ESRS 1.

Other

ID 217 – Prudential consolidation

Question asked

Should an undertaking prepare its ESRS consolidated sustainability statement following the requirements relating to prudential consolidation laid down in Part One, Title II, Chapter 2 of the Capital Requirements Regulation (EU) 575/2013?

ESRS reference

ESRS 1 paragraph 62

Background

ESRS 1 paragraph 62 states: 'The sustainability statement shall be for the same reporting undertaking as the financial statements. For example, if the reporting undertaking is a parent company required to prepare consolidated financial statements, the sustainability statement will be for the group.'

In its answer to ID 2013-310 for Regulation (EU) No 575/2013 (CRR), the European Banking Authority states the following:

'Article 18(1) of Regulation (EU) No. 575/2013 (CRR) requires institutions to carry out a full consolidation of all institutions and financial institutions which are its subsidiaries for the application of prudential requirements on a consolidated basis.

'Undertakings, other than institutions and financial institutions which neither acquire holdings nor pursue any of the activities listed in points 2 to 12 and point 15 of Annex I to Directive 2013/36/EU (CRD), are excluded from the scope of prudential consolidation irrespective of whether or not these undertakings are directly or indirectly held by the parent entity. As a result:

- Non-financial subsidiaries are excluded from the scope of prudential consolidation regardless of whether these subsidiaries are fully held by a holding company. On the other hand, the holding company is included for prudential consolidation purposes;
- Conversely, any holding company needs consolidating even when it holds no participation in a financial subsidiary. However, all its participations are excluded for prudential consolidation purposes.'

Answer

In accordance with ESRS 1 paragraph 62, sustainability statements shall be prepared for the consolidated group; therefore, they shall not be grounded in a consolidation based on prudential requirements. The reported information shall meet the qualitative characteristics of information and the requirements in ESRS 1 paragraphs 54, 57 on level of disaggregation: on this basis, if applicable and helpful to produce more understandable and relevant reporting, the undertaking could disaggregate the reported disclosures between those related to the scope of financial consolidation and those related to the scope of prudential consolidation. This is particularly relevant if the undertaking uses the option to incorporate by reference information presented in its Pillar 3 reports (ESRS 1 paragraphs 119/122).



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