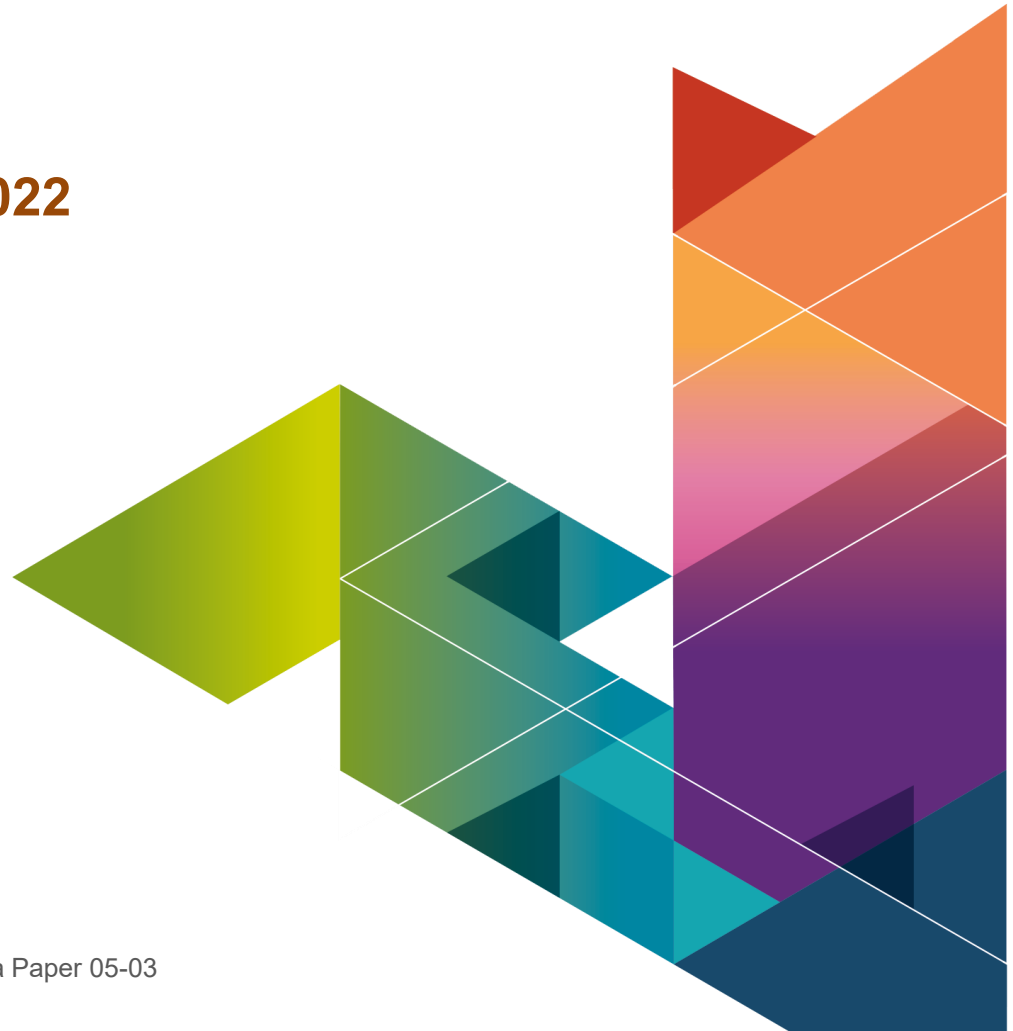


# Approach to the consultation: tentative questions to respondents

**AGENDA PAPER 05-03**

**EFRAG SR Board 13 April 2022**



# DISCLAIMER

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## Structure of the questions for the consultation

- The slides in this presentation illustrate the proposed approach to the consultation. The consultation will be structured in 3 levels:
  1. **Substance**
    - 1.1 Architecture – 5 questions
    - 1.2 Implementation of CSRD principles – 9 questions
    - 1.3 Overall relevance on an ESRS by ESRS basis – 14 questions
  2. **Prioritisation – 5 questions**
  3. **Adequacy on a DR by DR basis – could be included as 1.4 depending on the technicalities of the EU survey platform**
- Each question will be introduced by a summary of the context/provisions covered by the question. However, for more details, the respondents will have to refer to the relevant paragraphs of the ESRS (including AGs). A specific annex will support the identification of the relevant paragraphs per each ESRS.
- Respondents do not have to reply to all the questions. Answers to levels 1 and 2 are recommended.

CAVEAT - References to Exposure Drafts specific paragraphs to be added once Eds are finalised



# 1. RESPONDENT DETAILS AND PROFILE

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## ***1. Personal details:***

- Organisation name,
- First name,
- Surname,
- Email (this won't be published),
- Country of origin

## **2. Type of respondent**

- Academic / research institution
- Audit firm, assurance provider and/or accounting firm
- Business association
- Consumer organization
- ESG reporting initiative
- EU Citizen
- Financial institution (Bank)
- Financial institution (Financial Market Participant)
- Financial institution (Insurance)
- National Standard Setter
- Non-governmental organisation
- Non-financial corporations with securities listed on EU regulated markets
- Public authority/regulator/supervisor
- Rating agency and analysts
- Trade unions or other workers representatives
- Unlisted non-financial corporations
- Other

### **3. Size:**

- Micro (1 to 9 employees)
- Small (10 to 49 employees)
- Medium (50 to 249 employees)
- Large (250 or more employees)

### **4. User/Preparer perspective**

- User
- Preparer
- Both
- Neither



## 2. ARCHITECTURE

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*To achieve an optimal balance between comparability and relevance, the Exposure Drafts (EDs) architecture is based upon three layers of disclosure requirements (DR) that will be built overtime:*

- **Sector-agnostic:** mandated for all undertakings, as a basis, and complemented by:
- **Sector-specific:** mandated for undertakings in a specific sector, complemented by
- **Entity-specific:** additional disclosures that best illustrate specific facts and circumstances of the undertaking, when they are necessary.

*The EDs correspond to the sector-agnostic layer. As per the CSRD April 2021 proposal, sector-specific DRs will be developed in the next phase and are not included in this consultation.*

## **Q1A: To what extent do you support the proposed 3 layers approach?**

1/ Agree, 2/ Agree with some reservations, 3/ Partially agree with significant reservations, 4/ Disagree 5/ No opinion

**Q1B: Please explain your reservations together with your suggestions for improvement, if applicable**

**Q1C: Other comments, if applicable**

## 2 Topical and cross-cutting standards (1/2)

*To facilitate a coherent coverage of the CSRD topics and reporting areas, the EDs submitted for public consultation are based upon two categories of standards:*

- **Cross-cutting ESRS** which:
  - *Establish the general principles to be followed when preparing sustainability reporting in line with the CSRD provisions,*
  - *Mandate DRs aimed at providing an understanding of (i) strategy and business model, (ii) governance and organization, (iii) materiality assessment, covering all topics.*
- **Topical ESRS** which, from a sector-agnostic perspective:
  - (i) *Provide application guidance in relation to the cross-cutting DRs on strategy and business model, governance, materiality assessment;*
  - (ii) *Mandate DRs about the undertaking's implementation of its sustainability-related objectives (i.e. on its policies, targets, actions and action plans, and allocation of resources);*
  - (iii) *Mandate performance measurement metrics.*

*The two categories of standards are organised to cover the reporting areas in relation to governance, strategy, assessment/management of impacts, risks and opportunities, and targets/metrics.*

## 2 Topical and cross-cutting standards (2/2)

**Q2A: To what extent do you support the structure and articulation of cross-cutting and topical standards?**

1/ Agree, 2/ Agree with some reservations, 3/ Partially agree with significant reservations, 4/ Disagree 5/ No opinion

**Q2B: Please explain your reservations or your suggestions for improvements, if applicable**

**Q2C: To what extent do you support the approach taken to structure the reporting areas to promote interoperability between the ESRS and existing international standards and frameworks (please refer to appendices 4 to 7)?**

1/ Agree, 2/ Agree with some reservations, 3/ Partially agree with significant reservations, 4/ Disagree, 5/ No opinion

**Q2D: Please explain your reservations together with your suggestions for improvement, if applicable**

**Q2E: Other comments, if applicable**

### 3 Coverage of sustainability topics (1/2)

Eds have been designed to cover the topics listed in the CRSD April 2021 proposal. **The first set includes drafts for:**

#### Cross Cutting Standards

##### ESRS 1 – General principles <sup>(1)</sup>

General provisions on how to report according to CSRD

##### ESRS 2 - General and cross-cutting requirements <sup>(2)</sup>

Required information covering strategy, governance, sustainability impacts, risks and opportunities assessment and management

#### Topical Sector - Agnostic Standards

##### ENVIRONEMENT

- ESRS E1 - Climate
- ESRS E2 - Pollution
- ESRS E3 - Water and marine resources
- ESRS E4 - Biodiversity
- ESRS E5 – Circular economy

##### SOCIAL

- ESRS S1 – Own workforce
- ESRS S2 – Workers in the value chain
- ESRS S3 – End users / consumers
- ESRS S4 – Affected communities

##### GOVERNANCE

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

#### ESRS SEC 1 - Sector classification

(1) Including part of the previous ESRS 1, ESRS 5 and ESRS P1 working papers

(1) Merger of previous ESRS 2, ESRS 3, ESRS 4 and part of ESRS 1 working papers

- *Reminder: the CSRD foresees a second set of standards covering sector-specific standards and requirements for SMEs.*

### **Q3A: To what extent do you consider the proposed coverage of set 1 adequately addresses CRSD sustainability topics?**

1/ Agree, 2/ Agree with some reservations, 3/ Partially agree with significant reservations, 4/ Disagree 5/ No opinion

**Q3B: Please explain your reservations together with your suggestions for improvement, if applicable**

**Q3C: Other comments, if applicable**

*A sectoral description of the undertaking's activities is a key element to understand the undertaking's impacts, risks and opportunities arising from its business model(s). It is also the basis for the implementation of the set 2 sector-specific standards. As a consequence, a standardised sector classification has been developed based on the **NACE classification system**, together with reference to additional economic activities as described in the EU Taxonomy.*

***ESRS SEC 1 provides a detailed table** including how 40 sectors are aggregated into 14 sector groups: the different sectors within a sector group may determine different impacts, risks and opportunities.*

### **Q4A: To what extent do you support the proposed sector classification?**

1/ Agree, 2/ Agree with some reservations, 3/ Partially agree with significant reservations, 4/ Disagree 5/ No opinion

**Q4B: Please explain your reservations together with your suggestions for improvement, if applicable**

**Q4C: Other comments, if applicable**

*For clarity, standardised sustainability reporting shall be easily identifiable within the management report (MR). Therefore, when preparing its sustainability reporting, the undertaking shall choose one of the following three presentation options:*

- *a single separately identifiable section of the MR;*
- *four separately identifiable parts of the MR: (i) General information; (ii) Environment; (iii) Social; (iv) Governance.*
- *one separately identifiable part per ESRS in the MR.*

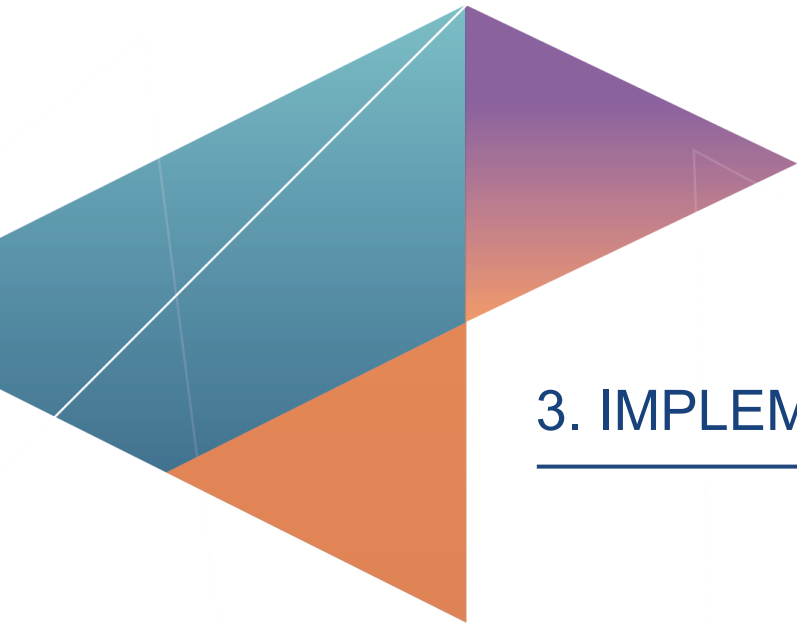
*The first option is the preferred option. When applying the other two options the entity shall report a **location table** to identify where disclosures are presented in the MR.*

## **Q5A: To what extent do you support the three options proposed approach?**

1/ Agree, 2/ Agree with some reservations, 3/ Partially agree with significant reservations, 4/ Disagree 5/ No opinion

## **Q5B: if Other, please explain**

## **Q5C: other comments, if applicable**



### 3. IMPLEMENTATION OF CSRD PRINCIPLES

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*ESRS 1 paragraphs [xx to xx]*

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

**Q6A: To what extent do you support the proposed approach to implement the characteristics of information quality?**

1/ Agree, 2/ Agree with some reservations, 3/ Partially agree with significant reservations, 4/ Disagree 5/ No opinion

**Q6B: Please explain your reservations together with your suggestions for improvement, if applicable**

**Q6C: Other comments, if applicable**

*ESRS 1 paragraphs [xx to xx]*

***Double materiality assessment** supports the determination of whether information on a sustainability matter has to be included in the undertaking's sustainability report. A sustainability matter meets the criteria of double materiality if it is material from an impact perspective or from a financial perspective or from both.*

*A sustainability matter is material from an **impact perspective** if the undertaking is connected to actual or potential significant impacts on people or the environment over the short, medium or long term. This includes impacts directly caused or contributed to by the undertaking and impacts which are otherwise directly linked to the undertaking's upstream and downstream value chain.*

*A matter is material from a **financial perspective** if it triggers or may trigger significant financial effects on the undertaking, i.e., it generates risks or opportunities that influence or are likely to influence the future cash flows and therefore the enterprise value of the undertaking in the short-, medium- or long- term, but it is not captured or not yet fully captured by financial reporting at the reporting date.*

*While recognising that both perspectives are intertwined the Exposure Drafts contain provisions about how to implement the two perspectives in their own rights.*

**Q7A: To what extent do you do you support the proposed approach to implement the double materiality principle?**

1/ Agree, 2/ Agree with some reservations, 3/ Partially agree with significant reservations, 4/ Disagree 5/ No opinion

**Q7B: Please explain your reservations together with your suggestions for improvement, if applicable**

**Q7C: Other comments, if applicable**

*ESRS 1 paragraphs [xx to xx]*

*All mandatory DRs in ESRS (sector agnostic and sector-specific) shall be presumed to be material and justify a full disclosure. To consider the undertaking's facts and circumstances and outcome of its materiality assessment, as well as not to overburden the sustainability reporting with unnecessary disclosures, this presumption is rebuttable.*

*The undertaking shall therefore assess for each ESRS and, when relevant, for a group of disclosure requirements related to a specific aspect covered by an ESRS if the presumption is rebutted for: (a) all of the mandatory disclosures of an entire ESRS or (b) a group of DR related to a specific aspect covered by an ESRS, on the basis of reasonable and supportable evidence, in which case it is deemed to be complied with through a statement that: (a) the ESRS or (b) the group of DR is “not material for the undertaking”.*

**Q8A: To what extent do you support the rebuttable presumption of mandatory disclosures?**

1/ Agree, 2/ Agree with some reservations, 3/ Partially agree with significant reservations, 4/ Disagree 5/ No opinion

**Q8B: Please explain your reservations together with your suggestions for improvement, if applicable**

**Q8C: Other comments, if applicable**

*ESRS 1 paragraphs [xx to xx]*

*The reporting boundary is the one retained for financial statements complemented by information about its upstream and downstream value chain. Associates and JVs accounted for under the equity method are considered as part of the value chain. Entities accounted for under proportional consolidation are considered as part of the boundary for the consolidated proportion.*

*The undertaking's reporting boundary includes information about the value chain when this is necessary in order to: (a) allow users to understand the undertaking's material impacts and how material sustainability-related risks and opportunities affect the undertaking's development, performance and position, and (b) produce a set of complete information that meets the qualitative characteristics.*

*The financial and/or impact materiality of a sustainability matter is not constrained to matters that are within the control of the undertaking.*

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

*In some circumstances, collecting the information about the upstream and downstream value chain **may be impracticable**, i.e. the undertaking cannot collect the necessary information after making every reasonable effort.*

*In these cases, the undertakings should **seek to approximate** the missing information, by using all reasonable and supportable information, including internal and external information, such as peer groups or sector data. It shall also disclose: (a) its basis for preparation for the relevant disclosure and indicators, including the scope for which an approximation has been used, and (b) the planned actions in order to reduce in the future missing data.*

*The undertaking shall reassess on a regular basis the definition of its reporting boundaries. When a change has occurred, the definition shall be adjusted accordingly. The undertaking shall **restate the comparative information**, unless the undertaking assesses that this is impracticable, after making every reasonable effort.*

**Q9A: To what extent do you do you support the proposed approach to implement the reporting boundary concept?**

1/ Agree, 2/ Agree with some reservations, 3/ Partially agree with significant reservations, 4/ Disagree 5/ No opinion

**Q9B: Please explain your reservations together with your suggestions for improvement, if applicable**

**Q9C: Other comments, if applicable**

*ESRS 1 paragraphs [xx to xx]*

*Disaggregation by country shall be applied when material impacts, risks and opportunities are linked to laws, regulations or prevailing business practices in a given country. Disaggregation in relation to a site or an asset shall also be considered by the undertaking when relevant for a proper understanding of its impacts, risks and opportunities.*

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

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

**Q10A: To what extent do you support the proposed approach to implement the disaggregation principle?**

1/ Agree, 2/ Agree with some reservations, 3/ Partially agree with significant reservations, 4/ Disagree 5/ No opinion

**Q10B: Please explain your reservations together with your suggestions for improvement, if applicable**

**Q10C: Other comments, if applicable**

*ESRS 1 paragraphs [xx to xx]*

*The undertaking shall adopt the following time intervals: (a) one year for short-term, (b) two to five years for medium-term, and (c) more than five years for long-term.*

***In its processes of identification and management of material impacts risks and opportunities, the undertaking shall adopt time horizons that reflect the expected impacts on people or the environment or the expected financial effects. When defining its action plans and setting targets, the undertaking shall adopt time horizons that reflect its strategic planning horizons and resources allocation plans.***

*When preparing its sustainability report, the entity shall: (a) present its material impacts, risks and opportunities classifying them in the relevant time interval, and (b) present its action plans and targets classifying them in the relevant time interval.*

**Q11A: To what extent do you support the proposed approach to time horizons?**

1/ Agree, 2/ Agree with some reservations, 3/ Partially agree with significant reservations, 4/ Disagree 5/ No opinion

**Q11B: Please explain your reservations together with your suggestions for improvement, if applicable**

**Q11C: Other comments, if applicable**



*ESRS 1 paragraphs [xx to xx]*

*The undertaking shall adopt presentation practices that promote **cohesiveness between its sustainability report** and: (a) the information provided in the other parts of the management report, (b) its financial statements (FS), and (c) other sustainability-related regulated information.*

*When the sustainability report includes monetary amounts or other quantitative data points that are directly presented in FS, the undertaking shall include a **reference to the relevant paragraph** of its FS.*

*When sustainability reporting includes monetary amounts or other quantitative data points that are either an aggregation or a part of amounts or data presented in the undertaking's FS, the undertaking shall include a **reconciliation with the most relevant amount(s)** presented in the FS and a reference to the relevant paragraph.*

*When a link cannot be made either directly or through reconciliation, the undertaking shall demonstrate where needed **the consistency of data, assumptions used, and qualitative information** with the corresponding data, assumptions and qualitative information included in the FS. When the data, assumptions and qualitative information are not consistent, the undertaking shall state that fact and explain the reason.*

*Examples of items for which the statement of consistency above is required are: (a) when the same KPI is presented as of the reporting date in financial statements and in projection in future periods in the sustainability report, and (b) when macroeconomic or business projections are used to develop key indicators in the sustainability report and they are also relevant in estimating the recoverable amount of assets, the amount of liabilities or provisions in financial statements.*

**Q12A: To what extent do you support the proposed approach to cohesiveness and connectivity?**

1/ Agree, 2/ Agree with some reservations, 3/ Partially agree with significant reservations, 4/ Disagree 5/ No opinion

**Q12B: Please explain your reservations together with your suggestions for improvement, if applicable**

**Q12C: Other comments, if applicable**

*ESRS 1 paragraphs [xx to xx]*

*In order to harmonise disclosures prescribed by topical standards, ESRS 1 provides disclosure principles (DP) to specify, from a generic perspective, the key aspects to disclose (i) when the undertaking is required to describe policies, targets, actions and action plans, and resources in relation to sustainability matters and (ii) when the undertaking decides to describe policies, targets, actions and action plans, and resources in relation to entity-specific sustainability matters.*

*DP 1 – On policies adopted to manage material sustainability matters*

*DP 2 – On targets, progress and tracking effectiveness*

*DP 3 – Actions, action plans and resources in relation to policies and targets*

## **Q13A: To what extent do you do you support DP1?**

1/ Agree, 2/ Agree with some reservations, 3/ Partially agree with significant reservations, 4/ Disagree 5/ No opinion

## **Q13B: To what extent do you do you support DP2?**

## **Q13C: To what extent do you support DP3?**

**Q13D: Please explain your reservations together with your suggestions for improvement, if applicable**

**Q13E: Other comments, if applicable**

*ESRS 1 paragraphs [xx to xx] provide bases for preparation which include the following principles:*

*1. Presenting comparative information, 2. Estimating under conditions of uncertainty, 3. Updating disclosures about events at the end of the reporting period, 4. Changes in preparing or presenting sustainability information, 5. Errors, 6. Adverse impacts and financial risks, 7. Optional disclosures, 8. Consolidated reporting and subsidiary exemption, 9. Stating relationship and compatibility with other sustainability reporting frameworks.*

**Q14A: To what extent do you do you support the comparative comparative principle?**

**Q14B to Q14K: repeat the question for each of the other 8 principles.**

1/ Agree, 2/ Agree with some reservations, 3/ Partially agree with significant reservations, 4/ Disagree 5/ No opinion

**Q14J: Please explain your reservations together with your suggestions for improvement, if applicable (please specify to which principle you refer)**

**Q14K: Other comments, if applicable**



## 4. GENERAL QUESTIONS PER EACH ESRS

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- **Objective: receive feedback on the general adequacy of each standard in relation to the sustainability matters it covers.**
- For each standard,
  - an introductory paragraph would remind its stated objective, and
  - Same sub-questions would be asked (but for ESRS E1 where an additional question would be asked on compatibility with international initiatives)
- The goal of each sub-question (ie what relevance means, ...) will be explained as an introduction to this section
- This section would not apply to ESRS 1 (covered by the previous section), but to all other Exposure drafts prescribing DRs.
- ESRS 2 would be subdivided in 3 sections covering strategy, governance and material impacts, risks and opportunities

# General questions per each ESRS (2/3)

## Q1: ESRS XX (including its application guidance):

	Agree	Agree with some reservations	Partially agree with significant reservations	Disagree	No opinion
Meets its stated objective					
Supports the production of relevant (decision useful) information about the sustainability matter covered					
Covers information necessary for a faithful representation from an impact perspective					
Covers information necessary for a faithful representation from a financial perspective					
Provides sufficient guidance to foster consistent application and comparability					
Can be produced at acceptable costs					

# General questions per each ESRS (3/3)

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**Q2: Please explain your reservations together with your suggestions for improvement, if applicable (comments per each DR are covered in a separate section, so here please provide general comments on the ESRS, if any)**

**Q3: Other comments, if applicable**





## 5. APPLICATION PROVISIONS & PRIORITISATION

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*Set 1 proposes the target content of a set of standards aimed at achieving the objectives of the CSRD proposal, with the exception of the standards to be included in Set 2. As such it sets a comprehensive package of principles and requirements. **Set 1 application provisions** included in ESRS 1 already include two provisions to facilitate the first-time application:*

*AP1 - comparatives not required for the first reporting, and*

*AP2 – transitional measures for entity-specific disclosures (“grand-fathering” for 2 years)*

**Q1: To what extent do you support AP1?**

**Q2: To what extent do you support AP2?**

1/ Agree, 2/ Agree with some reservations, 3/ Partially agree with significant reservations, 4/ Disagree 5/ No opinion

**Q3: Please explain your reservations together with your suggestions for improvement, if applicable (please specify to which principle you refer)**

**Q4: Other comments, if applicable**

# Prioritisation / phasing in options (1/2)

*EFRAG SRB might want to consider a possible phasing-in for the implementation of some of the Exposure Drafts and/or DRs included in the Exposure Drafts. The following questions explore potential prioritisation levers.*

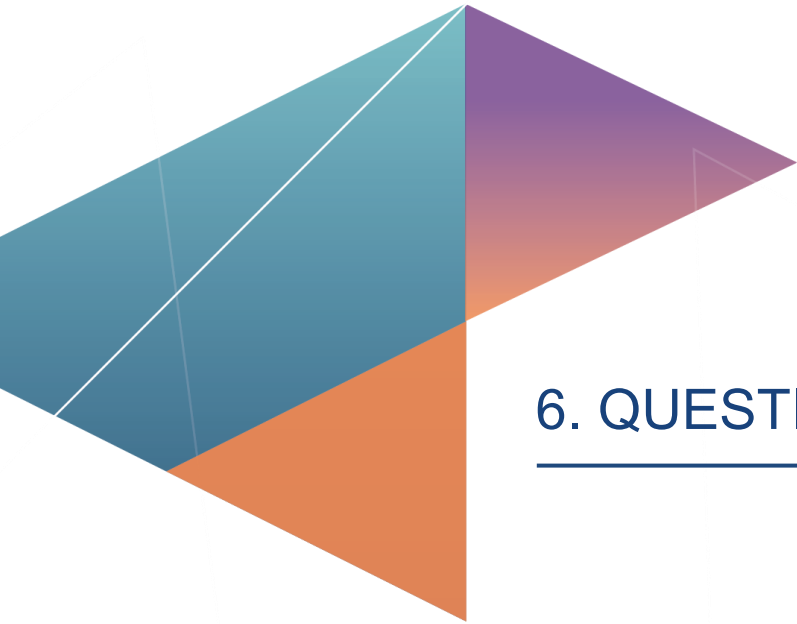
**Q6: How would you rank Exposure Drafts by relative level of priority (1.highest/ 2.medium / 3.lowest)?**

	High	Medium	Low	No opinion
ESRS 2 SBM				
ESRS 2 GOV				
ESRS 2 IRO				
ESRS E1				
ESRS E2				
...				

**Q7: How would you rank the following types of DRs in terms of implementation difficulty or sensitivity (high / medium / low)?**

- 1) Narrative retrospective information
- 2) Narrative forward-looking information (e.g. strategic orientations, policies, action / transition plans, ...)
- 3) Quantitative retrospective information
- 4) Quantitative forward-looking information (e.g. targets, scenarios, resources / opex / capex,...)
- 5) Information based on data outside the financial control
- 6) Commercially or legally sensitive information
- 7) Others?

**To be discussed and potentially completed with more granularity**



## 6. QUESTIONS PER EACH DR

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# Questions per each DR (1/2)

- *Same questions to be asked for all DR.*
- *It is anticipated that respondents will choose the DRs they want to comment but will probably not cover all of them.*

## Q1A: ESRS XX – DR YY – AG ZZ

	Agree	Agree with some reservations	Partially agree with significant reservations	Disagree	No opinion
Provides relevant (decision useful) information about the sustainability matter covered					
Covers information fostering comparability across sectors					
Provides sufficient guidance to foster consistent application and comparability					
Can be produced at acceptable costs					

## Questions per each DR (2/2)

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**Q1B: Please explain your reservations together with your suggestions for improvement, if applicable (specifying the paragraph of the main body of the standard and/or of the application guidance they relate to)**

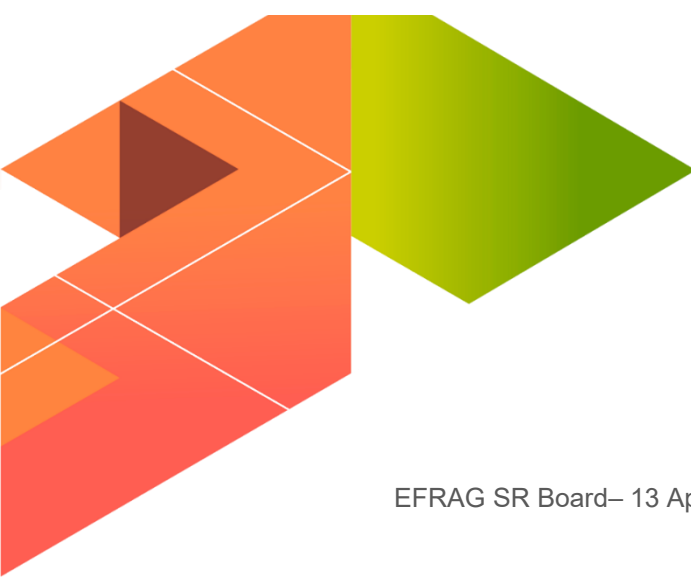
**Q1C: How would you rank the DR by relative level of priority (1.highest/ 2.medium / 3.lowest)?**

**Q1D: Other comments, if applicable**

***TO BE REPEATED FOR ALL DRs***



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