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Alignment with IFRS Sustainability Standards: Architecture

Background

- 1 This session is a continuation of the SRB discussion started on the meeting on the 26 August 2026. Please refer to Agenda Paper 06.01 of the 26 August for more details on background.
- 2 The EFRAG SR TEG has agreed to recommend to the SRB changes to the ESRS EDs in order to enhance the alignment with IFRS S1 and S2. Suggested changes to ESRS 1 and 2 to enhance the alignment to fundamental concepts and terminology, including Architecture, are presented in **Agenda Paper 04.02** of this meeting¹.

Objectives of this session

- 3 For the SRB consider the EFRAG SR TEG advice on the changes in Architecture and to agree on the approach to be followed in the architecture of the final standards.

Architecture of the ESRS EDs

- 4 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:
 - (a) Cross-cutting ESRS which:
 - (i) Establish the general principles to be followed when preparing sustainability reporting in line with the CSRD provisions (ESRS 1);
 - (ii) Mandate Disclosure Requirements (“DRs”) aimed at providing an understanding of (a) strategy and business model, (b) governance and organisation, and (c) materiality assessment, covering all topics (ESRS 2).
 - (b) Topical ESRS (ESRS E1/E5, ESRS S1/S4, ESRS G1/2) which, from a sector-agnostic perspective:
 - (i) Provide topic-specific 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.

¹ This is the same paper presented at the SRB on 26 August as agenda paper 06.02.

- 5 Appendices IV² and V³ of the Cover Note to the consultation show how all the contents in IFRS S1/S2 and of the TCFD Framework are covered by the ESRS requirements.

Changes to the architecture recommended by EFRAG SR TEG

- 6 As part of the alignment of ESRS 1 and 2, SR TEG members considered the architecture, including the differences between the 3 content areas in ESRS (cross cutting / PTAPR-implementation / Performance metrics) and the 4 pillars of IFRS/TCFD (Governance, Risk Management, KPIs).
- 7 EFRAG SR TEG members considered that the articulation of the cross-cutting/topical standards in ESRS was a strength of the ESRS architecture. They tentatively agreed however to recommend to the SRB to proceed to the following changes to the Architecture in order to promote alignment with TCFD/IFRS:
- (i) Move IRO 2 and 3 to SBM (within ESRS2);
 - (ii) Move DP1, 2 and 3 from ESRS 1 to ESRS 2;
 - (iii) Align the titles (Strategy – instead of Strategy and Business Model, Governance – instead of Governance and Organization, Metrics and Targets – instead of Performance Measures). Risk management was not considered a good replacement for PTAPR for the need to cover impacts, risks and opportunities.
- 8 The tables in the appendix show the current table of contents of ESRS 1 and 2, IFRS S1 and 2 and how the tables of contents would look like after the implementing the changes.
- 9 The EFRAG Secretariat note that these changes are consistent with what has been suggested by some stakeholders in the consultation and will allow to respond to the concerns that the architecture is not aligned with the TCFD/ISSB structure. At the same time, they preserve the advantages of the current architecture, including the interaction of the two levels (cross-cutting/topical level), which is essential to avoid duplications of content between the two levels and to manage the coexistence of multiple topics, next to the cross- cutting standards.

Messages from the consultation

- 10 The average support rate⁴ for Q2⁵ is 76,8%, with a support lower than 70% from audit firms, business associations, NGOs, other, unlisted non-financial corporations) and a higher support from other categories of stakeholders. The average support rate for Q3⁶ is 50%, with many categories below 40%.

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https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FED_ESRS_AP4.pdf

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https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FED_ESRS_AP5.pdf

⁴ Average across the categories of respondents of the % of respondents by category that fully or to a large extent support the EDs, divided by the number of respondents that provided an answer, excluding blanks and not applicable.

⁵ Q2: in your opinion, to what extent is the TCFD framework of reporting areas (governance, strategy, risk management and metrics/targets) compatible with the structure of the ESRS?

⁶ Q3: in your opinion, to what extent does the approach taken to structure the reporting areas promote interoperability between the ESRS and the IFRS Sustainability Exposure Drafts?

- 11 A recurring comment is the need to (further) align with the ISSB and TCFD structure, as a necessary element of the global inter-operability, to facilitate understandability and implementation of the ESRS for the undertakings that already report under TCFD and will report also under IFRS Sustainability Standards, and to avoid double reporting obligations. Among the arguments supporting the full alignment, adopting the same structure now would mean that the ESRS approved by EFRAG could significantly influence the look, feel and usability of future standards that will be issued by the ISSB.
- 12 Some respondents, while encouraging to achieve more alignment, do not support that, in order to achieve full alignment, the conceptual integrity of ESRSs and their alignment with the requirements of the CSRD and the overall ambition of the EU's sustainability agenda are compromised. Along the same lines, others:
- (a) acknowledge that the TCFD structure was devised for financially material information and therefore might not be entirely suitable to the European context of the sustainable standards;
 - (b) note that the ESRS structure is more sensible to incorporate policies, targets, actions and action plans into the same ~~Implementation-implementation~~ pillar instead of separating them amongst Risk Management and Performance Metrics as it is the case in the TCFD;
 - (c) note that the reporting areas as defined in ESRS 1 adequately draw a distinction between targets and metrics and they are consistent with the requirement set in article 19 a (e) (i) and (iii) of the CSRD to disclose the due diligence process implemented with regard to sustainability matters, and the actions plans related to PAI.
- 13 To achieve further alignment, the following suggestions have been made in the consultation:
- (a) follow the exact same four pillars of TCFD / EFRAG should align its chapter structures with ISSB and ensure they should have a very similar table of contents;
 - (b) restructuring ESRS 2 starting by the governance, followed by strategy and business model, and finally by risk management;
 - (c) reordering ESRS 2 and slightly adapting the titles of the ESRS reporting areas. ESRS 2 may be restructured as follows:
 - (i) 1. Governance,
 - (ii) 2. Strategy (incl. business model considerations),
 - (iii) 3. Impact, risk and opportunity identification and assessment (containing current IRO and G1-7 and G1-8 disclosure requirements).
 - (iv) The reporting area "implementation" covered by the topical standards could be renamed to "impact, risk and opportunity management", the reporting area "performance measurement" to "metrics".
 - (d) under ISSB, there is only one cross-cutting standard (S1), under ESRS, there are two;
 - (e) ESRS structure can be easily improved to better correspond with the TCFD (and ISSB) reporting areas in the following way:
 - (i) ESRS 2 IRO-2 and 3 should be moved to the beginning of ESRS 2 SBM. In this way, the SBM section would fully correspond to the TCFD/ISSB "Strategy" reporting area.
 - (ii) ESRS 1 Section 3.2. "Reference principles for implementation of policies, targets, actions, action plans and resources" should be integrated in or directly follow ESRS 2 IRO. This would make the IRO section of the ESRS 2 aligned with the TCFD/ISSB "Risk management"

as regards the presentation of the disclosure requirements (or principles) on policies and actions.

- (iii) These changes would ensure near full correspondence between the reporting areas, whilst not undermining the unique features of the ESRS, in particular the double materiality approach and a combination of cross-cutting and topical standards and disclosures.
 - (iv) The only remaining difference would then concern the location of the disclosure principles on targets. This difference is justifiable due to the cross-cutting approach of the ESRS. It shouldn't pose problems in application.
- 14 Some respondents focused on the need to develop a mapping to facilitate alignment, ideally mutually recognised with the ISSB. Such mapping should identify which of the draft ESRS cover which of the draft ISSB standards and which, if any, ISSB standards are not covered by the draft ESRS. Any ISSB requirement not covered by the ESRS and any extension going beyond the global baseline (e.g., for SFDR or to cover the double materiality perspective) should be easily identifiable.
- 15 Some respondents focused on the role of digital tagging in fostering alignment. They note that in the medium term and long term, many users will not access sustainability reports directly, but through portals like the European Single Access Point. Therefore, interoperability at the level of machine-readable codes is more important than similarity of the overall structures of ESRS and IFRS S1 and S2. Both the ESRS and the ISSB will use digital data taxonomies to enable structured electronic tagging of an undertaking's sustainability disclosures. ESAP will offer a single place for public financial and sustainability-related information about EU companies. Similarly, the ISSB is developing a sustainability disclosure taxonomy to facilitate the extraction and use of sustainability-related information disclosed through the ISSB Standards.

Next steps

- 16 The EFRAG Secretariat will process the consequential changes to the draft standards. All the changes will be made available to the SR TEG and SRB in markup for approval.

Papers for this session

- 17 In addition to this cover note, **Agenda Paper 06.02** (Alignment with IFRS S2) is provided.

Questions to SRB

- 18 Do you agree with the EFRAG SR TEG advice on changes to the architecture to enhance the alignment with the of ISSB standards and TCFD framework?
- 19 Do you have any additional suggestions for further work on alignment?

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