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Log of explanations as of 29 November 2023

QUESTIONS TO EFRAG SR TEG

This paper collects the proposed answers to the 'explanations' in the first batch.

Objective of this meeting is to approve the first batch of explanations.

Members do not need to read entirely this paper: the paragraphs in blue are essential readings, the others are 'nice to have'.

Members are not requested to provide editorial comments during this meeting. They may submit editorial comments to the EFRAG Secretariat by the 6 December 2023.

Purpose of the meeting is to approve the direction of the answers.

A critical point to consider in reviewing the answers, is that an Explanation, differently from the Implementation Guidance, are not subject to public feedback, but released in final form by EFRAG to the public after the approval by EFRAG SRB. EFRAG SR TEG recommends a text to the SRB. As a result, the answers should not trespass the content of the Delegated Act nor should include illustrations or references to sources that are not already included in the Delegated Act. If, in order to answer properly a question, such elements are needed, the question needs to be classified as Implementation Guidance and exposed to public feedback.

Do EFRAG SR TEG agree that all these questions may be solved via an Explanation?

Do EFRAG SR TEG members agree with the proposed answers (substance not editorial)?

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ID 32 - Methodology for presenting information on employees

Question asked

Is there a materiality approach for the people reporting in place (for example, if 99% of the workforce are full-time employees, the difference between our existing FTE reporting and head count is negligible. Does an additional head count reporting have to be set up or can we keep FTE reporting and provide background information for the users?)

ESRS reference

ESRS S1 paragraph 50(b) and (d), ESRS S1 paragraph 52(a) and (b); ESRS S1 paragraph AR 55.

ESRS 1 paragraph 34

Key terms

Methodology to compile data;

FTE

Background

Disclosure Requirement S1-6 on characteristics of the undertaking's employees requires information on employees by headcount for ESRS S1 paragraph 50(a) and it allows for the undertaking to select between two methodologies for headcount for the breakdowns of employees required by ESRS S1 paragraph 50 (b). The options provided in ESRS S1 for paragraph 50 (b) are head count or full-time equivalent (FTE); the same options apply to the voluntary datapoints in ESRS S1 paragraph 52 (a) and (b) . This is also aligned with ESRS S1 paragraph AR55, which provides the tables to disclose information on employees by contract type, either by head count or FTE.

Furthermore, ESRS S1 paragraph 50(d) requires a "description of the methodologies and assumptions used to compile the data' on the characteristics of the undertaking's employees, 'including whether the numbers are reported (i) in head count or full-time equivalent (FTE) (including an explanation of how FTE is defined)."

Answer

According to ESRS S1 paragraph 50(b) and paragraph 52 (a) (b) , the undertaking has two options to report the information of employees by contract type: head count or full time equivalent (FTE). In addition, ESRS 1 paragraph AR 55 tables 3 and 4 contain the tables that undertaking are to use to disclose this information by either headcount or FTE.

ESRS S1 paragraph 50(d) requires disclosures on the methodology applied and ESRS S1 paragraph 50(e) on contextual information permits the undertaking to disclose relevant facts and circumstances for the users of the sustainability statement subject to the provisions of ESRS 1 chapter 3 Double materiality as the basis for sustainability disclosures.

ID 33 - Definitions of non-employees

Question asked

Which groups can be considered as employees or non-employee workers in line with the German HGB respectively other national laws?

ESRS reference

ESRS S1 paragraph 50(a), ESRS S1 paragraph 55(a), ESRS S1 paragraph 4, ESRS S1 paragraph AR3

Key terms;

Non-employees;

Employees

Background

ESRS S1 paragraph 4 describes the scope of ESRS S1 and states: “this Standard covers an undertaking’s own workforce, which is understood to include both people who are in an employment relationship with the undertaking (“employees”) and non-employees who are either people with contracts with the undertaking to supply labour (“self-employed people”) or people provided by undertakings primarily engaged in “employment activities” (NACE Code N78). See Application Requirement 3 for examples of who falls under own workforce. The information required to be disclosed with regard to non-employees shall not affect their status pursuant to applicable labour law.”

ESRS S1 paragraph AR3 gives a number of examples of people that fall within the scope of “Own workforce” for contractors (self-employed persons) or people employed by a third party engaged in ‘employment activities’ include people who perform the same work that employees.

Answer

Assessing whether certain groups can be considered as employees or non-employees requires clarifying ESRS S1 paragraph 4 in relation to the status of employees and non-employees pursuant to applicable labour law at country level.

As specified in ESRS S1 paragraph 4, employees are individuals who are “in an employment relationship with the undertaking according to national law and practice.” If any of the individuals defined as non-employees under national law are in an employment relationship, they are employees within ESRS S1. National labour law or practice of each country defines what type of contracts constitute an employment relationship.

ID 36 - Electricity mixes

Question asked

Does disclosure E1-37(b) refer to all forms of energy generated from nuclear sources, such as electricity? Does ESRS E1 paragraph 37(b) also encompass electricity mixes that include fractions of nuclear-generated electricity?

ESRS reference

ESRS E1-5, ESRS E1 paragraph AR 34, ESRS E1 paragraph AR 35

Key words: Energy consumption and mix, nuclear source;

Background

ESRS E1 paragraph 35 – 38 state:

35. “The undertaking shall provide information on its energy consumption and mix.

36. The objective of this Disclosure Requirement is to provide an understanding of the undertaking’s total energy consumption in absolute value, improvement in energy efficiency, exposure to coal, oil and gas-related activities, and the share of renewable energy in its overall energy mix.

37. The disclosure required by ESRS E1 paragraph 35 shall include the total energy consumption in MWh related to own operations disaggregated by:

- a. total energy consumption from fossil sources;
- b. total energy consumption from nuclear sources;
6. total energy consumption from renewable sources disaggregated by:

- i. fuel consumption for renewable sources including biomass (also comprising industrial and municipal waste of biologic origin), biofuels, biogas, hydrogen from renewable sources, etc.;
- 5. Obtaining the details of the energy mix from suppliers can constitute a challenge for the undertaking. To address this, the ESRS 2 MDR-M paragraph 77 requires the undertakings to disclose the significant assumptions behind the metric, including the limitations of the methodologies used.

Answer (Secretariat)

ESRS E1 paragraph 35(b) requires de disclosure of total energy consumption from nuclear sources;

AR32(d) clarifies that the energy to be reported should refer to “final energy consumption”, which includes energy carriers such as electricity, heat and steam which can be and are frequently derived from nuclear sources.

A company disclosing on ESRS 1 paragraph 35 should thus report final energy consumption taking into account its energy mix, which may involve proportions of nuclear-generated electricity, heat, steam, and cooling; fossil-fuel generated electricity, heat, steam, cooling and fuels; or renewable electricity, heat, steam, cooling and fuels.

This disclosure requires the undertaking to understand, from its consumption of electricity, which portion originate from nuclear, fossil or renewables sources. When electricity, heat and steam are purchased, and the mix includes fractions of nuclear-generated electricity, heat and steam these fractions are to be included in the disclosure. The undertaking should use the information available on the electricity, heat and steam mix to reflect its energy consumption breakdown according to ESRS E1 paragraph 35 accurately.

ID 43 - Scope 3 GHG emissions for Insurance company

Question asked

What is the scope of reporting scope 3 greenhouse gas emissions for insurance companies?

ESRS reference

ESRS 1, section 3.2 (Material matters and material information).

ESRS E1 Disclosure Requirement E1-6 – Gross Scopes 1, 2, 3 and Total GHG emissions, as well as other paragraphs related to Scope 3, in particular: paragraphs: 44 (c), 45 (c), 46, 51, 52, as well as AR 39 (a) and AR 46 (b).

Principle of relevance, as defined in the “GHG Protocol Corporate Accounting and Reporting Standard” and further articulated in “relevance criteria” by the “GHG protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard”, as well as the “Technical Guidance for calculating Scope 3 Emissions”.

Key words: Materiality assessment, Materiality, Relevance; Scope 3 GHG emissions, insurance companies, financial investment.

Background

The determination of the different categories of scope 3 greenhouse gas emissions to include in the Sustainability statement is driven by the materiality assessment of the company, namely in the scope of the analysis of ESRS E1 paragraph 31 which determines that “The applicable information prescribed within a Disclosure Requirement, including its datapoints, or an entity-

specific disclosure, shall be disclosed when the undertaking assesses, as part of its assessment of material information, that the information is relevant from one or more of the following perspectives: (a) the significance of the information in relation to the matter it purports to depict or explain; or (b) the capacity of such information to meet the users' decision-making needs, including the needs of primary users of general-purpose financial reporting described in paragraph 48 and/or the needs of users whose principal interest is in information about the undertaking's impacts".

If climate change is considered a material topic by the undertaking, insurance companies are required by ESRS E1 paragraphs 44 and 51 to disclose their gross Scope 3 greenhouse gas (GHG) emissions, for each of the Scope 3 categories that they assess to be 'significant', encompassing emissions within their upstream and downstream value chain. This includes emissions over which the company does not have direct control but may have a significant impact on its overall carbon footprint and transition risks, as outlined in ESRS E1 paragraph 45.

In making its evaluation of the "significant Scope 3 categories" the company shall consider, in accordance to ESRS E1 AR39 (a), the principles, requirements and guidance of the GHG Protocol Corporate Standard and its supplement "GHG protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard" (also referred to in this document as "GHGP Scope 3 standard), as well as the GHG Protocol "Technical Guidance for calculating Scope 3 Emissions" (v1.0), a supplement to the GHGP Scope 3 standard.

Answer

All undertakings that assess climate change to be material, are required to disclose their gross Scope 3 greenhouse gas (GHG) emissions, for each of the Scope 3 categories that they consider significant. This determination will require a thorough assessment. For investments, this will factor-in the scale of the investments and the associated indirect GHG emissions. The company should follow the principles, requirements and guidance laid out in the GHG Protocol Corporate Standard, the GHGP Scope 3 standard, as well as the associated Scope 3 calculation guidance.

In particular, the GHG Protocol Scope 3 Category 15 is specifically tailored to financial institutions – which includes insurance undertakings - and the following financial investments and services are required to be reported (under the GHG Scope 3 standard, Table 5.9, pp.52): Equity investments, Debt investments and Project finance. Without pre-empting conclusions on materiality, insurance undertakings are required to consider the principles, requirements and guidance of the GHG Protocol Corporate Standard – and as such expected to evaluate and, if deemed material, report the GHG emissions from their equity, debt or project finance investment portfolios.

The significance of Scope 3 categories other than investments has also to be covered in the assessment. The outcome will depend on specific conditions of the undertaking, which should be assessed on an individual basis.

EFRAG's forthcoming work on the development of a ESRS for the financial industry, will consider specificity in terms of disclosure or application requirements on Scope 3 reporting for insurance undertakings.

Therefore, at this moment insurance companies shall consider, assess and make determinations on the relevance of all the different categories of Scope 3 emissions, and be prepared to adapt to evolving guidelines which will further clarify the extent of Scope 3 disclosures requirements.

Supporting material

<https://ghgprotocol.org/sites/default/files/2022-12/Chapter15.pdf>
<https://ghgprotocol.org/scope-3-calculation-guidance-2>

ID 81 - Subsidiaries, holding company – alignment for GHG protocol

Question asked

Should the companies of a holding company use the same criteria and methodology for GHG emissions?

ESRS reference

ESRS 1 Appendix B: Qualitative characteristics of information, QC10 to QC12 on Comparability and consistency;

ESRS 2, paragraph 77(a);

ESRS E1 paragraphs 50, AR 39(c), AR 42, and AR 46(h).

Key words: GHG protocol, holding companies, alignment in methodology;

Background

Considering the criteria in ESRS 1 Appendix B; qualitative characteristics of information, consistency of accounting methodologies it is an aspect that undertakings should take appropriate consideration of.

The EFRAG Secretariat considers that having a common methodology is preferable, given that it facilitates direct comparison and coherent interpretation of emissions data across the holding company's portfolio and this consistency ensures that stakeholders can evaluate the environmental performance of the conglomerate without the convolution of varying calculation methods. It guarantees consistency, comparability, transparency, and the overall integrity of GHG emissions reporting.

ESRS2 paragraph 77(a) requires the disclosure of methodologies and significant assumptions behind metrics; ESRS E1 paragraph 39(b), requires the undertaking to disclose the methodologies, significant assumptions and emissions factors used to calculate or measure GHG emissions; ESRS E1 paragraph AR46 (h), on Scope 3 emissions, requires clarity on the boundaries considered and the methods used for estimating emissions. All these requirements point to the advantages of using a uniform approach for ease of understanding and transparency.

Nevertheless, a uniform methodology is not explicitly required and deviations from a common methodology can be accepted, but they should be disclosed along with the rationale for their use, to meet the transparency requirements set forth by the ESRS (ESRS 2 77, ESRS E1 39(b) and 46(h)).

Answer

ESRS allows for flexibility in the methodologies used by different entities within a holding company, provided the qualitative characteristics of information can be met, namely comparability and consistency. A standardized approach from the onset is advantageous for consistency, comparability, transparency, and the overall integrity of GHG emissions reporting. Deviations from a common methodology can be accepted but should be disclosed, along with the rationale for their use, to meet the transparency requirements set forth by the ESRS.

ID 136 - GHG emissions – Guarantees of Origin

Question asked

Under which circumstances can reporting entities use Guarantees of Origin for biomethane (or green hydrogen certificates) to assess their emissions (market-based) under scope 1 as per ESRS E1 Paragraph 48 and AR 43?

ESRS reference

ESRS E1 paragraph 48, ESRS E1 paragraph AR 43

Background

ESRS E1 paragraph 48 requires the disclosure of Gross Scope 1 GHG emission. This includes the gross Scope 1 GHG emission as well as the percentage of Scope 1 GHG emissions from regulated emission trading schemes.

ESRS E1 paragraph AR 43 further outlines how to proceed when preparing the information on the gross Scope 1 GHG emissions required under ESRS E1 paragraph 48 (a).

The paragraphs mentioned above do not refer to the use of market-based accounting or the use of guarantees of origin in relation to Scope 1 GHG emissions. Market-based approaches are typically used in relation to Scope 2 GHG emissions.

Answer

The use of Guarantees of Origin is not foreseen when accounting for Scope 1 GHG emissions under ESRS (there is no market-based accounting in ESRS for Scope 1 GHG emissions).

ID 167 - GHG Protocol Scope 3; Sector

Question asked

Is there a requirement for, or guidance around, the methods allowed to calculate Scope 3 emissions from shipping?

ESRS reference

ESRS 1 Annex B: qualitative characteristics of information

ESRS E1 paragraph 44, ESRS E1 paragraph AR39, AR46

Background

ESRS 1 Annex B on the qualitative characteristics provides important principles and criteria to attend in the consideration of which calculation methodologies and which input data to consider in the preparation of ESRs disclosures.

ESRS E1 paragraph 44 requires the disclosure of gross Scope 3 GHG emission and ESRS E1 AR39 (a) states that the undertaking shall consider the principles, requirements and guidance provided by the GHG protocol Corporate Standard (version 2004), which in this case, also includes the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (Version 2011) (mentioned in ESRS E1 AR 46(a)) as well as the “Technical guidance for calculating Scope 3 emissions (version 1.0).

ESRS E1 paragraph AR 46 details to other requirements related to reporting of Scope 3 GHG emissions. In particular, ESRS EA paragraph AR 46 (g) highlights the need to disclose the percentage of emissions calculated using primary data obtained from suppliers or other value chain partners.

Other methodological details that go beyond the provisions included in the “Technical guidance for calculating Scope 3 emissions (version 1.0)” are not provided within the ESRS. Additional provisions may be envisaged as part of the future ESRS sector standards.

Answer

The ESRS set reporting standards but do not prescribe detailed calculation methodologies. However, when determining the methodology and input to be used the undertaking shall reflect the criteria defined under ESRS 1 Annex B, qualitative characteristics of information, as well as requirements to consider the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (Version 2011) (mentioned in ESRS E1 AR 46(a)) and the “Technical guidance for calculating Scope 3 emissions (version 1.0). Additional provisions may be envisaged as part of the future ESRS sector standards.

ID 106 - Entity specific guidance and examples

Question asked

What are concrete examples of potential entity-specific sustainability matters and any guidance related to finding and dealing with such?

ESRS reference

ESRS 1 chapter 10.1 and paragraphs AR 4 and 5; ESRS IG 3 Materiality assessment paragraph 67.

Background

ESRS 1 chapter 10.1 Transitional provision related to entity-specific disclosures states in its paragraphs:

“130. The extent to which sustainability matters are covered by ESRS is expected to evolve as further Disclosure Requirements are developed. Therefore, the need for entity-specific disclosures is likely to decrease over time, in particular as a result of the future adoption of sector specific standards.

131. When defining its entity-specific disclosures, the undertaking may adopt transitional measures for their preparation in the first three annual sustainability statements under which it may as a priority:

- a) introduce in its reporting those entity-specific disclosures that it reported in prior periods, if these disclosures meet or are adapted to meet the qualitative characteristics of information referred to under chapter 2 of this Standard; and
- b) complement its disclosures prepared on the basis of the topical ESRS with an appropriate set of additional disclosures to cover sustainability matters that are material for the undertaking in its sector(s), using available best practice and/or available frameworks or reporting standards, such as IFRS industry-based guidance and GRI Sector Standards.”

ESRS1 AR 4 and 5 state:

“AR 4. When developing its entity-specific disclosures, the undertaking shall carefully consider: comparability between undertakings, while still ensuring relevance of the information provided, recognising that comparability may be limited for entity-specific disclosures. The undertaking shall consider whether the available and relevant frameworks, initiatives, reporting standards and benchmarks (such as technical material issued by the International Sustainability Standards Board or the Global Reporting

Initiative) provide elements that can support comparability to the maximum extent possible; and ...

AR 5. Further guidance for developing entity-specific disclosures can be found by considering the information required under topical ESRS that addresses similar sustainability matters.”

Answer

When developing entity-specific disclosures (ESRS 1, paragraph 11), ESRS 1 points to “available frameworks or reporting standards, such as IFRS industry-based guidance and GRI Sector Standards” as possible sources of relevant entity-specific disclosures (see ESRS 1 paragraph 131 b).

The IFRS industry-based guidance are the former SASB standards, they can be found here: <https://sasb.org/standards/download/>.

GRI Sector Standards can be downloaded from: <https://www.globalreporting.org/standards/sector-program/>

These two sources offer examples of sector specific information that could complement on an entity-specific basis the information required in sector agnostic ESRS depending on the relevant sector.

In general, there are two types of instances that will give rise to entity-specific information:

- when the undertaking identifies a material matter that is not covered by Disclosure Requirements in ESRS;
- when for a matter that is covered by Disclosure Requirements in ESRS, the undertaking concludes that in order to provide information that meets the qualitative characteristics of the information (Appendix B of ESRS 1) additional disclosures need to be included. This may be the case of a specific aspect of a sub-sub topic (see AR 16 of ESRS 1), when such sub-sub topic is covered in ESRS but the specific aspects (i.e. an additional level of granularity) is not covered. This may also be the case of a specific metric that is not included in ESRS, but considering the specific facts and circumstances of the undertaking, this metric is necessary in order to provide the appropriate quality of information.

The entity-specific information may relate to the description of a material impact, risk or opportunity (along the lines of ESRS 2 SBM 3), it may relate to policies, actions and targets that the undertaking has set, or it may relate to metrics.

ID 109 - Disclosure Requirement E1-6

Question asked

Is the “bolded paragraph” following each ESRS Disclosure Requirement a disclosure that the undertaking has to respond to? Or is it simply a "headline" that prescribes what the paragraph will contain once all the individual datapoints are completed? Reference is made to ESRS E1-6.

ESRS reference

ESRS 2 and all topical ESRS, and Disclosure Requirement E1-6

Key terms: bold text in Disclosure requirements

Background

In ESRS 2 and in the topical ESRS Disclosure Requirements are generally followed by a “bolded paragraph” stating “The undertaking shall disclose ...” with a general statement of the requirement that needs to be disclosed under the respective Disclosure Requirement.

The “bolded paragraph” is followed by a objective paragraph which is followed by more detailed paragraphs containing the datapoints that must be disclosed under the respective Disclosure Requirement and further specifications of the information requested.

In the case of ESRS E1-6 this is as follows:

ESRS E1 paragraph 44 provides “bolded paragraph” with the general statement of the requirement that needs to be satisfied under DR E1-6;

ESRS E1 paragraph 45 outlines the objective of the disclosure requirement; and

ESRS E1 paragraphs 46 – 52 further specify information to be included when disclosing on ESRS E1 paragraph 44.

This is illustrated as follows:

Disclosure Requirement E1-6 – Gross Scopes 1, 2, 3 and Total GHG emissions		→ Headline
44. The undertaking shall disclose in metric tonnes of CO ₂ eq its ⁴⁵ :	(a) gross Scope 1 GHG emissions; (b) gross Scope 2 GHG emissions; (c) gross Scope 3 GHG emissions; and (d) total GHG emissions.	→ General statement of the requirement(s)
45. The objective of the Disclosure Requirement in paragraph 44 in respect of:	(a) gross Scope 1 GHG emissions as required by paragraph 44 (a) is to provide an understanding of the direct impacts of the undertaking on climate change and the proportion of its total GHG emissions that are regulated under emission trading schemes. (...)	→ Objective of the requirement(s)
46. When disclosing the information on GHG emissions required under paragraph 44, the undertaking shall refer to ESRS 1 paragraphs from 62 to 67. In principle, the data on GHG emissions of its associates or joint ventures that are part of the undertaking’s upstream and downstream value chain (ESRS 1 Paragraph 67) are not limited to the share of equity held. For its associates, joint ventures, unconsolidated subsidiaries (investment entities) and contractual arrangements that are joint arrangements not structured through an entity (i.e., jointly controlled operations and assets), the undertaking shall include the GHG emissions in accordance with the extent of the undertaking’s operational control over them.	47. In case of significant changes in the definition of what constitutes the reporting undertaking and its upstream and downstream value chain , the undertaking shall disclose these changes and explain their effect on the year-to-year comparability of its reported GHG emissions (i.e., the effect on the comparability of current versus previous reporting period GHG emissions). (...)	→ Further specification of the information requested

Answer

The “bolded paragraph” that introduces each Disclosure Requirement is not simply a headline. It is a general explanation what needs to be disclosed under the respective Disclosure Requirement.

The information provided under a Disclosure Requirement should satisfy the overall objective of it, as stated in the paragraph following the bolded paragraph (“the objective of this Disclosure Requirement is...”).

The subsequent paragraphs include a list of datapoints (“the disclosure provided under paragraph XXX shall include...”). This list is generally sufficient to meet the disclosure requirements; however such list cannot be assumed to be exhaustive, as meeting the disclosure requirement takes precedent over the list of datapoints.

In providing the disclosure that corresponds to the list of individual datapoints (and if applicable in the related Application Requirements), it is assumed that the:

- requirements of the “bolded paragraph”; and the
- objective as stated in the subsequent paragraph are both met.

The “bolded paragraph” of ESRS E1-6 (i.e., ESRS E1 paragraph 44) covers: Scope 1, 2, 3, and total GHG emissions. The objective of the Disclosure Requirements also covers Scope 1, 2, 3, and total GHG emissions. While the detailed list of datapoints do not explicitly mention the total GHG emissions, they shall be reported as included both in the bold and in the Objective.

ID 157 - ESRS 2 GOV disclosures and specifications in the topical ESRS

Question asked

If there is no additional guidance, then do the other disclosure requirements do not apply to the topical standard (meaning Gov 1 and Gov 2 don't apply). Or do they all still apply, but there is just more guidance to follow (such that there is more specific guidance for Gov 3 specifically when reporting on E1?)

ESRS reference

ESRS 2 GOV 1 to GOV 5; ESRS 1 paragraph 29; ESRS E1 paragraph 13

Background

In the architecture of the ESRS, the two cross cutting standards ESRS 1 General Requirements and ESRS 2 General Disclosures are complemented with 10 topical standards (E, S and G).

ESRS 2 disclosure requirements are 'cross cutting in nature' so they do not refer to a specific topic, but some of them also have topical specifications in the topical standards as explained in ESRS 2 Appendix C. An example is ESRS 2 GOV- 3 Integration of sustainability-related performance in incentive schemes: this disclosure requirement (paragraphs 27-29) has a specification in the climate topical standard ESRS E1 para 13.

A basic principle is that the requirements in the topical standards should be read and applied in conjunction with the cross-cutting standards.

Furthermore, all topical standards are subject to materiality assessment.

Answer

Disclosure Requirements (DRs) and datapoints covered by the cross-cutting standard ESRS 2 General Disclosures are to be reported irrespective of the outcome of the materiality assessment (example GOV-1, GOV-2, GOV-3, GOV-4, GOV-5), see ESRS 1 paragraph 29.

The content of ESRS 2 (with the exception of MDR – P, A, T) is not intended to provide a content to be followed in each and every topic, but it provides content that is to be provided at corporate/general level (across all the topics).

However, all topical standards should be read in conjunction with the cross-cutting standards ESRS 1 and ESRS 2, as these apply to the sustainability statement as a whole.

In particular, there are additional datapoints relating to the ESRS 2 DRs in some of the topical standards. These are outlined in the table in Appendix C including GOV-1 in ESRS G1 Business conduct para 5 and GOV-3 in ESRS E1 Climate change para 13.

In terms of scope of materiality assessment:

- ESRS 1 paragraph 29 also includes the Disclosure Requirements (and datapoints) in topical ESRS related to the DR ESRS 2 IRO-1 Description of the process to identify and assess material impacts, risks and opportunities. Therefore, only the ESRS 2 IRO-1 requirements in the topical standards are also to be reported irrespective of the outcome of the materiality assessment.
- Other ESRS 2 specifications (cfr. Appendix C) and disclosure requirements in topical standards are subject to materiality. This implies that the undertaking only has to report on them when considered material. This avoids having to report for example on GOV-1 on Business conduct if the standard has been determined not to be material to the undertaking.

The topical specification of ESRS 2 DRs listed in appendix C of ESRS 2 provide additional datapoints that shall be included and/or additional considerations that the undertaking has to take into account when preparing the respective ESRS 2 DRs.

However, when a Disclosure Requirement in ESRS 2 does not have topical specifications, it has to be applied at a general level, i.e. not with reference to a specific topic. No additional datapoints or considerations at topical level apply in these cases.

ID 162 - Minimum number of material matters

Question asked

Is there a minimum number of material sustainability matters to be disclosed in the sustainability statement of the undertaking?

ESRS reference

ESRS 1 chapter 3

Key words: minimum number of material sustainability matters

Background

ESRS 1 paragraph 28 states: “A sustainability matter is “material” when it meets the criteria defined for impact materiality ... or financial materiality ... or both.”

[draft] ESRS IG 3 paragraph 1 states: “The materiality assessment is the process by which the undertaking determines material information on sustainability impacts, risks and opportunities. This is achieved by the determination of material matters and material information to be reported in the undertaking's sustainability statement. The performance of a materiality assessment based on objective criteria is pivotal to sustainability reporting which shall include relevant and faithful information about all impacts, risks and opportunities (IROs) across environmental, social and governance matters determined to be material from the impact materiality perspective or the financial materiality perspective or both. The undertaking will use judgement when applying the criteria and the related explanations are expected to aim at enhanced transparency from the undertaking to the users of the sustainability statement.”

The Application Requirements in Appendix A of ESRS include a list of sustainability matters covered in ESRS.

Answer

Materiality is a principles-based concept. [draft] ESRS IG 3 – Materiality assessment provides non authoritative guidance on how to conduct the materiality assessment. Materiality of a sustainability matter for an undertaking depends on the specific facts and circumstances related to its strategy, business model, own operations and value chain. Based on those specific facts and circumstances a number of material impacts, risks and opportunities will be identified as a result of the materiality assessment.

As materiality is based on the specific facts and circumstances, no minimum (or maximum) number of material sustainability matters is required (or allowed) by ESRS.

ID 180 - Time horizon: impact vs financial materiality

Question asked

Is there a difference between the time horizon as defined in ESRS 1 for impact materiality and for financial materiality?

ESRS reference

ESRS 1 chapter 6.4

Key words: Difference between time horizon for impact and for financial materiality

Background

ESRS 1 paragraph 77 states: “When preparing its sustainability statement, the undertaking shall adopt the following time intervals as of the end of the reporting period:

- for the short-term time horizon: the period adopted by the undertaking as the reporting period in its financial statements;
- for the medium-term time horizon: from the end of the short-term reporting period defined in (a) up to 5 years; and
- for the long-term time horizon: more than 5 years.”

ESRS 1 paragraph 80 states: “There may be circumstances where the use of the medium- or long-term time horizons defined in paragraph 77 results in non-relevant information, as the undertaking uses a different definition for (i) its processes of identification and management of material impacts, risks and opportunities or (ii) the definition of its actions and setting targets. These circumstances may be due to industry-specific characteristics, such as cash flow and business cycles, the expected duration of capital investments, the time horizons over which the users of sustainability statements conduct their assessments or the planning horizons typically used in the undertaking's industry for decision-making. In these circumstances, the undertaking may adopt a different definition of medium- and/or long- term time horizons (see ESRS 2 BP-2, paragraph 9).”

ESRS 1 Basis of conclusion paragraph 124 states: “The SRB discussed whether to prescribe mandatory time horizons for short-, medium- and long-term for reporting purposes or whether they should be entity-specific based on its business model, industry-characteristics, and its planning horizon. Feedback from public consultation in that respect was ambiguous. Preparers generally preferred an entity-specific approach to be able to use already existing data consistent with their managerial processes, whereas users a more standardized approach for better comparability across undertakings. Noticing that many of the forthcoming first-time sustainability reporters need guidance and to increase comparability the SRB decided to prescribe conventional time periods but to allow deviations from the medium and long- term time horizon based on entity-specific circumstances acknowledging also that – depending on the sustainability matter and sector concerned – other time horizons within the long-term horizon might be useful and therefore prevail at topical level.”

Answer

Time horizons are defined in ESRS 1 chapter 6.4 setting fixed time horizon for short-, medium- and long-term with no distinction made between impact and financial materiality.

However, ESRS 1 paragraph 80 acknowledges that there may be circumstances in which the undertaking uses a different definition of its time horizons compared to the fixed time horizons set in ESRS 1 paragraph 77. This exception to the general rule has been granted to take into account entity specific circumstances to manage sustainability related impacts, risks and

opportunities into account (see also the basis of conclusions of ESRS 1 in that respect in paragraph 6).

When applying either the pre-defined time horizons or when the exception is used and, as a consequence, other entity-specific horizon is used instead of the pre-defined time horizon, potential or actual impacts may have a different time horizon than risks or opportunities arising from the same sustainability matter. Similarly, actions put in place to address impacts may have a different time horizon than actions put in place to address risks or opportunities.

ID 39 - SBM1 sector breakdown and phase-in

Question asked

What are the 'ESRS sectors' mentioned under the ESRS 2 Disclosure Requirement SBM-1 in paragraph 40 (b)?

ESRS reference

ESRS 2 paragraph 40; ESRS 1 paragraph 137 and Appendix C: List of phased-in Disclosure Requirements
Key words: Difference between time horizon for impact and for financial materiality

Background

ESRS 2 paragraph 40 states: “The undertaking shall disclose the following information about the key elements of its general strategy that relate to or affect sustainability matters: ... (b) a breakdown of total revenue, as included in its financial statements, by significant ESRS sectors.”

ESRS 1 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.”

ESRS 1 Appendix C states: “The undertaking shall report the information prescribed by ESRS 2 SBM-1 paragraph 40(b) (breakdown of total revenue by significant ESRS sector) and 40(c) (list of additional significant ESRS sectors) starting from the application date specified in a Commission Delegated Act to be adopted pursuant to article 29b(1) third subparagraph point (ii), of Directive 2013/34/EU.”

Accounting Directive: Article 29b(1) third subparagraph point (ii), of Directive 2013/34/EU.

“In the delegated acts referred to in the first subparagraph the Commission shall, by 30 June 2024, specify: (ii) information that undertakings are to report that is specific to the sector in which they operate.”

Answer

To fulfil the requirement related to the breakdown of total revenue by significant ESRS sectors (SBM 1 ESRS 2), undertakings will need the list of ESRS sectors. No other sector-specific information is required.

According to the paragraphs copied above in the background as reference, undertakings shall disclose the breakdown of total revenue by significant ESRS sectors. This disclosure requirement is however subject to a phase-in of ESRS 1 paragraph 137 and Appendix C in line with the adoption of the delegated act which will list the ESRS sectors (ESRS SEC1).

EFRAG plans to finalize ESRS SEC 1 in the first batch of sector specific ESRS, tentatively scheduled for November 2025 (delivery to the EC as draft standard, i.e. Delegated Act by June 2026).

ID 58 - Transitional provisions 750 employees

Question asked

If appendix C of ESRS 1 allows companies under 750 employees to omit E4 and S1-4 for the first three years, why does ESRS 2 paragraph 17 then say that the information still needs to be disclosed if considered material? Is there a difference in granularity of information disclosed?

ESRS reference

ESRS 1 Appendix C; ESRS 2 paragraph 17

Background

ESRS 2 paragraph 17 – states the following: “If an undertaking or group not exceeding on its balance sheet date the average number of 750 employees during the financial year decides to omit the information required by ESRS E4, ESRS S1, ESRS S2, ESRS S3 or ESRS S4 in accordance with Appendix C of ESRS 1, it shall nevertheless disclose whether the sustainability topics covered respectively by ESRS E4, ESRS S1, ESRS S2, ESRS S3 and ESRS S4 have been assessed to be material as a result of the undertaking’s materiality assessment. In addition, if one or more of these topics has been assessed to be material, the undertaking shall, for each material topic:

- a. disclose the list of matters (i.e. topic, sub-topic or sub-sub-topic) in AR 16 ESRS 1 Appendix A that are assessed to be material and briefly describe how the undertaking’s business model and strategy take account of the impacts of the undertaking related to those matters. The undertaking may identify the matter at the level of topic, sub-topic or sub-sub-topic;
- b. briefly describe any time-bound targets it has set related to the matters in question, the progress it has made towards achieving those targets, and whether its targets related to biodiversity and ecosystems are based on conclusive scientific evidence;
- c. briefly describe its policies in relation to the matters in question;
- d. briefly describe actions it has taken to identify, monitor, prevent, mitigate, remediate or bring an end to actual or potential adverse impacts related to the matters in question, and the result of such actions; and
- e. disclose metrics relevant to the matters in question.” ESRS 1 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.”

Appendix C of ESRS 1 - List of phased-in Disclosure Requirements has the following table:

ESRS	Disclosure Requirement	Full name of the Disclosure Requirement	Phase-in or effective date (including the first year)
ESRS E4	All disclosure requirements	All disclosure requirements	Undertakings or groups not exceeding on their balance sheet dates the average number of 750 employees during the financial year (on a consolidated basis where applicable) may omit the information specified in the disclosure requirements of ESRS E4 for the first 2 years of preparation of their sustainability statement.
ESRS S1	All disclosure requirements	All disclosure requirements	Undertakings or groups not exceeding on their balance sheet dates the average number of 750 employees during the financial year (on a consolidated basis where applicable) may omit the information specified in the disclosure requirements of ESRS S1 for the first year of preparation of their sustainability statement.
ESRS S2	All disclosure requirements	All disclosure requirements	Undertakings or groups not exceeding on their balance sheet dates the average number of 750 employees during the financial year (on a consolidated basis where applicable) may omit the information specified in the disclosure requirements of ESRS S2 for the first 2 years of preparation of their sustainability statement.
ESRS S3	All disclosure requirements	All disclosure requirements	Undertakings or groups not exceeding on their balance sheet dates the average number of 750 employees during the financial year (on a consolidated basis where applicable) may omit the information specified in the disclosure requirements of ESRS S3 for the first 2 years of preparation of their sustainability statement.
ESRS S4	All disclosure requirements	All disclosure requirements	Undertakings or groups not exceeding on their balance sheet dates the average number of 750 employees during the financial year (on a consolidated basis where applicable) may omit the information specified in the

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			disclosure requirements of ESRS S4 for the first 2 years of preparation of their sustainability statement.
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Answer

Appendix C of ESRS 1 allows companies under 750 employees to omit E4 and S1-4 for the first three years. However, according to ESRS 2 paragraph 17, if material matters relate to these standards, the phase-in is combined with reduced disclosure requirements for material sustainability matters as required by ESRS 2 paragraph 17 (a) to (e): Undertakings need to disclose brief descriptions on the policies, actions and targets related to the material matters.

As the description has to be brief, this is an exception to the general rule in ESRS 1 paragraph 33, so undertakings do not need to include the Minimum Disclosure Requirements (MDR) for material sustainability matter on policy, actions and targets.

We note that the term “briefly” is not used for metrics in ESRS 2 paragraph 17 (e) whereas it is used for targets, policies, and actions in paragraph 17 (b) to (d). This is because metrics cannot be “briefly disclosed”: they are disclosed or not. Undertakings should use judgment to determine which metrics are relevant for the respective sustainability matter.