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## Log of draft explanations

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## Cross-Cutting

### ID 172 – Materiality assessment – private equity structures

#### Question asked

Which material sustainability matters must be identified and assessed in private equity structures having general and limited partners?

#### ESRS Reference

ESRS 1 chapters 5.1 Reporting undertaking and value chain and 7.6 Consolidated reporting and subsidiary exemption

#### Key terms

Materiality assessment; private equity structures; general and limited partner

#### Background

Private equity (PE) structures usually have a general partner (GP) and limited partners (LPs). GP refers to the PE firm that manages a private equity fund. These funds are usually set up as general partnerships with the third-party investors being the limited partners and the PE firm acting as the GP. In addition to raising the funds and administering the daily operations of the fund, the GP is responsible for identifying and closing on investments in portfolio companies of the private equity fund, assisting the portfolio company management teams in maximising value and liquidating investments so distributions can be made from the partnership to the LPs. LPs are the ones who have arranged and invested the capital for the private equity fund but who are not really concerned about the daily maintenance of the fund, whereas GPs are investment professionals who are vested with the responsibility of making decisions with respect to the investments.

To answer the question above, it is assumed that neither the GP nor the LPs consolidate the portfolio company in their respective financial statements as neither of them financially control the portfolio company.

ESRS 1 paragraph 62: 'The sustainability statement shall be for the same reporting undertaking as the financial statements.'

ESRS 1 paragraph 63: 'The information about the reporting undertaking provided in the sustainability statement shall be extended to include information on the material impacts, risks and opportunities connected with the undertaking through its direct and indirect business relationships in the upstream and/or downstream value chain ("value chain information").'

#### Answer

General and limited partners of private equity structures must identify and assess material sustainability matters in their own operations and in their value chain.

If neither the general partner nor the limited partner/s consolidate the portfolio company/ies in their respective financial statements because neither of them exercises financial control over the portfolio company/ies, then impacts, risks and opportunities of the portfolio company/ies are not part of the own operations (unless – to be assessed on a case-by-case basis – there are situations of operational control under ESRS E1, E2 and E4) of the general partner nor of the limited partner/s for the purposes of the sustainability statement.

The general partner typically provides management services to the portfolio company/ies through the private equity fund. Therefore, in the absence also of financial control, the portfolio company/ies are considered business relationships in the general partner's value chain. Accordingly, the general partner shall identify and assess material impacts, risks and opportunities connected to the portfolio company in its downstream value chain.

The limited partner typically provides funds for its investments in portfolio companies. Please refer to Implementation Guidance Value Chain: FAQ 2: *Are financial assets (loans, equity, and debt instruments) considered business relationships that trigger value chain information?*

To note: More detailed guidance is expected in future sector standards. ID 285 *Asset managers, investment entities, scope of sustainability statement* deals with a question about the scope of the sustainability statement assuming that the portfolio company is controlled by the asset manager / the holding company.

## **ID 185 – Objective evidence and stakeholders' opinion**

[To note: This is the revised version based on SRT objections raised on 7 March; it was asked to change the question and the related answer.]

### **Question asked**

When assessing the materiality of a sustainability matter, is the focus on stakeholder opinions or on objective evidence?

### **ESRS reference**

(Draft) IG1 chapter 3.5 *Role of stakeholders in the materiality assessment process*; FAQ 10 *Should the assessment of impacts, risks or opportunities rely on quantitative information?*; FAQ 15 *Do the ESRS mandate to actively engage in dialogue with affected stakeholders for the materiality assessment process?*; and FAQ 16 *Can the undertaking prioritise some categories of stakeholders for the materiality assessment process? How?*

### **Key terms**

Materiality assessment; stakeholder opinion versus objective evidence

### **Background**

[To note: To better address the issue mentioned by the submitter, it was agreed to change the question that was received from 'When evaluating sustainability matters, is the focus on stakeholder opinions or on objective evidence?' to the question above.]

ESRS 1 paragraph 24 states: 'Engagement with affected stakeholders is central to the undertaking's ongoing due diligence process ... and sustainability materiality assessment.'

ESRS IG1 FAQ 10 *Should the assessment of IROs rely on quantitative information?* (paragraphs 180 to 183) states:

'180. Where possible, yes, as quantitative measures of IROs are objective evidence of their materiality. The emphasis on objective and quantitative information does not mean to imply that the information from affected stakeholders should be disregarded.

181. The level of comfort sought by the undertaking from quantitative information depends on whether there is scientific validated data and on consensus reached on the given impact. For example, global reports or industry information on a given topic, such as negative impacts on biodiversity loss, could provide the quantitative information needed without the need for the undertaking to incur in additional research or data collection costs.

## Log of explanations

182. Quantitative information is not always available or may result in additional costs. Whenever a qualitative analysis is sufficient for the undertaking to reasonably conclude that a matter is “not material” or is “material”, additional quantitative information would not add value to the materiality assessment. As the materiality assessment process evolves over time, the undertaking may redefine the balance between qualitative or quantitative information.
183. Quantitative information would, however, be of interest where a topic is on the edge of being material/non-material based on qualitative information and/or where there are diverse views. In that case, quantification could corroborate the conclusion.’

ESRS IG1 FAQ 15 *Do the ESRS mandate to actively engage in dialogue with affected stakeholders for the materiality assessment process?* (paragraph 199) states: ‘The ESRS require disclosure on the materiality assessment and its outcomes but do not mandate specific behaviour on stakeholder engagement or the due diligence process.’

ESRS IG1 FAQ 16 *Can the undertaking prioritise some categories of stakeholders for the materiality assessment process? How?* (paragraph 202) states: ‘Engagement with affected stakeholders helps the undertaking to understand which sustainability matters are sources of concern for the respective stakeholders and how they are affected. This information may be useful input to the assessment.’

### Answer

When assessing the materiality of a sustainability matter, there is no conflict between consideration of views of affected stakeholders and objective evidence. The purpose of both is to get an understanding of the severity (and likelihood) of impacts to present them faithfully in the sustainability statement. Depending on the circumstances, this may or may not require engagement with affected stakeholders.

The materiality analysis should be driven as much as possible by objective data and evidence. Scientific evidence is the focus in some cases depending on the type of topic and availability of such evidence. Quantitative/scientific data on the impact may or may not also be available. Widespread/systemic impacts often tend to be well documented, and there is often a consensus on their severity.

In other cases, depending on the topic the views of affected stakeholders are a source of supporting evidence for impact materiality. However, not all stakeholder opinions are equally relevant for the materiality analysis. Relevance depends on how much the stakeholders are affected (severity – and likelihood – of impacts). Understanding entity-specific impacts and/or the manifestation of widespread/systemic impacts in particular contexts and situations requires more careful consideration of specific circumstances, including whether and how people or the environment are affected.

Elements useful to address this question can be found in (Draft) IG 1 *Materiality assessment* chapter 3.5 *Role and approach to stakeholders in the materiality assessment process* and 5.4 *FAQ on stakeholder engagement – impact materiality*.

## ID 296 – Location of ESRS 2-related Disclosure Requirements in topical standards

### Question asked

Do the ESRS 2-related Disclosure Requirements in topical standards have to be reported in the general section of the sustainability statement or in the respective topical section?

### ESRS Reference

All topical ESRS

### Key terms

ESRS 2-related Disclosure Requirements in topical standards

### Background

ESRS 1 paragraph 115 states: 'The undertaking shall structure its sustainability statement in four parts in the following order: general information, environmental information (including disclosures pursuant to Article 8 of Regulation (EU) 2020/852), social information and governance information. Respecting the provision in section 3.6 Material impacts or risks arising from actions to address sustainability matters of this Standard, when information provided in one part contains information to be reported in another part, the undertaking may refer in one part to information presented in another part, avoiding duplications.'

ESRS 2 paragraph 49 states: 'The undertaking may disclose the descriptive information required in paragraph 46 (reference to ESRS 2 SBM-3 Disclosure Requirement) 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 2-related disclosures** in topical standards are identified by reference to ESRS 2 Disclosure Requirements as follows: 'Disclosure Requirement related to ESRS 2 GOV-1 ... ESRS 2 GOV-3 ... ESRS 2 SBM-2 ... ESRS 2 SBM-3 ... and ... ESRS 2 IRO-1'.

### Answer

ESRS 2-related Disclosure Requirements in topical standards must be reported in the general section of the sustainability statement as they are part of the general disclosures of ESRS 2. They are presented alongside the relevant ESRS 2 disclosure (e.g., ESRS 2 Disclosure Requirement IRO-1-related).

For the descriptive information required in ESRS 2 paragraph 46 (ESRS 2 Disclosure Requirement SBM-3-related disclosures), there is an option to present them alongside the relevant topical disclosure if the undertaking makes the selection in ESRS 2 paragraph 49.

## ID 337 – Metrics calculation – same level of precision

### Question asked

When calculating metrics for sustainability matters that are material for a group, do the data of all subsidiaries have to be considered with the same level of accuracy even if the matter is not material for some subsidiaries of the group?

### ESRS reference

ESRS 1 Chapter 2 Qualitative characteristics of information

### Key terms

Metrics calculation – same level of accuracy

## Background

The submitter provided the following background for his question: ‘The following example refers to metrics in the context of water and marine resources. However, it should be noted that the question raised similarly applies to all sustainability matters and metrics and that the subtopic “water” was chosen for illustration purposes only.

Example: The main business of a group is manufacturing and selling a specific product, which is produced in a water-intensive production process in various own facilities. The group further owns and operates several sales corporations abroad, with a limited number of employees working in offices not being involved in production-related activities. The group determines that all topics and subtopics mentioned in ESRS E3 on water and marine resources are material and concludes that all metrics governed by ESRS E3 need to be disclosed.

Furthermore, based on a preliminary estimate, the group notes that its production facilities will bear the vast majority of the amounts of all metric data on this topic, whereas the sales corporations would account for a marginal portion of those metrics, which consequently the group considers not to be material. However, the group is aware of the requirement to calculate the metrics based on own operations, i.e., including the parent company and all the subsidiaries of the group. Therefore, it has established processes and procedures to measure directly and with precision the part of the metrics attributable to the group’s production facilities, whereas it continues to determine the part of the metrics attributable to its sales corporations based on estimations such as average per capita figures. The total metrics disclosed is therefore the total of the portion directly measured and a respective estimate.’

ESRS 1 paragraph 87 states: ‘When quantitative metrics and monetary amounts including upstream and downstream value chain information (see chapter 5 of this Standard) cannot be measured directly and can only be estimated, measurement uncertainty may arise.’

ESRS 1 paragraph 89 states: ‘The use of reasonable assumptions and estimates including scenario or sensitivity analysis is an essential part of preparing sustainability-related information and does not undermine the usefulness of that information, provided that the assumptions and estimates are accurately described and explained. Even a high level of measurement uncertainty would not necessarily prevent such an assumption or estimate from providing useful information or meeting the qualitative characteristics of information (see Appendix B of this Standard).’

## Answer

When providing metrics data, the undertaking is expected to comply with the text of ESRS by providing the metric as defined in the Disclosure Requirement:

1. data from all subsidiaries need to be included (unless the Disclosure Requirement of the metric provides otherwise; see IG 1 Materiality assessment: FAQ 22 – *Is a multi-sector group required to include metrics for the entire group or only data related to the material IRO?*); and
2. data – including data from subsidiaries – can be estimated where necessary subject to conditions (see ESRS 1 paragraphs 87 and 89), including the need to consider the qualitative characteristics (ESRS 1 chapter 2).

In the example mentioned by the submitter, the undertaking will have to consider whether precisely measuring the portion of the metrics attributable to the production facility – and using an estimate for the portion attributable to the sales corporation (even estimating that the metric for the subsidiary is immaterial) – will result in a degree of accuracy for the entire metric that is consistent with the characteristics of information quality.

Reference is made to (Draft) IG 1: *Materiality assessment implementation guidance* – FAQ 18: *Does the undertaking use the same criteria when defining the level of disaggregation across all IROs?* which deals with related issues.

## ID 426 – Structure of the sustainability statement

### Question asked

I wish to know the structure of the sustainability statement that needs to be published in the management report. While you have provided a structure in Appendix F, it seems to not be detailed. Are we meant to follow the exact format as given under each ESRS? Is there a template that can be provided to effectively disclose information?

### ESRS Reference

ESRS 1 Chapter 8, ESRS 1 Appendix F

### Key terms

Structure of ESRS the sustainability statement

### Background

ESRS 1 paragraph 111 states: 'Sustainability information shall be presented:

- (a) in a way that allows for a distinction between information required by disclosures in ESRS and other information included in the management report; and
- (b) under a structure that facilitates access to and understanding of the sustainability statement in a format that is both human-readable and machine-readable.'

ESRS 1 paragraph 115 states: 'The undertaking shall structure its sustainability statement in four parts in the following order: general information, environmental information (including disclosures pursuant to Article 8 of Regulation (EU) 2020/852), social information and governance information. Respecting the provision in section 3.6 Material impacts or risks arising from actions to address sustainability matters of this Standard, when information provided in one part contains information to be reported in another part, the undertaking may refer in one part to information presented in another part, avoiding duplications. The undertaking may apply the detailed structure illustrated in Appendix F of this Standard.'

### Answer

No, there is no requirement in ESRS to follow the exact format as given under each ESRS.

The only ESRS requirement is the following: 'The undertaking shall structure its sustainability statement in four parts in the following order: general information, environmental information (including disclosures pursuant to Article 8 of Regulation (EU) 2020/852), social information and governance information.' In addition, the undertaking may consider ESRS 1 Chapter 9.1 *Incorporation by reference*.

Appendix F provides an example on how to structure the sustainability statement aligned with the general requirements under chapter 8 of ESRS 1 without further limiting the flexibility of the preparers when presenting the related disclosures.

To note: The structure of the sustainability statement shall meet the qualitative characteristics of information (see ESRS 1 Appendix B).

The digital ESRS XBRL Taxonomy helps to prepare the sustainability statement in a more structured way. Starting to prepare the mapping of the information to be reported with the digital ESRS XBRL Taxonomy will facilitate the subsequent tagging of the ESG information required by



the machine-readable format. Therefore, EFRAG encourages the early adoption of the digital ESRS XBRL Taxonomy to structure the sustainability disclosures in an organised way.

## **ID 442 – Entity-specific metrics**

### **Question asked**

Do entity-specific metrics also need to be developed if it is a topic that is covered in the standards but is only for a specific part of the VC?

### **ESRS Reference**

ESRS 1 paragraphs 11, 30, AR 1-5 and AR 16; ESRS 2 paragraphs 48(h) and 51; and ESRS 2 MDR

### **Key terms**

Entity-specific disclosure on matters not covered by ESRS Disclosure Requirements

### **Background**

The submitter provided the following background for their question: ‘... for example, a company has identified a matter as material for which the topic of water is relevant in the value chain. In the ESRS E3 standard, the topic of water in the value chain is covered by datapoints in the areas of Policies, Targets and Actions. However, the associated metric relates exclusively to the company’s own business activities (ESRS E3 paragraph 28-29). Can it now be deduced from paragraph 30(b) in ESRS 1 that the company must develop an entity-specific metric for this matter because there is insufficient “granularity” here, or has the EU deliberately limited the metric to its own business activities so that no metric for water use in the value chain has to be explicitly developed?’

ESRS 1 paragraph 11 states: ‘In addition to the disclosure requirements laid down in the three categories of ESRS, when an undertaking concludes that an impact, risk or opportunity is not covered or not covered with sufficient granularity by an ESRS but is material due to its specific facts and circumstances, it shall provide additional entity-specific disclosures to enable users to understand the undertaking’s sustainability-related impacts, risks or opportunities. Application requirements AR 1 to AR 5 provide further guidance regarding entity-specific disclosures.’

ESRS 1 paragraphs AR 1 and AR 2 state:

‘AR 1. The entity-specific disclosures shall enable users to understand the undertaking’s impacts, risks and opportunities in relation to environmental, social or governance matters.

AR 2. When developing entity-specific disclosures, the undertaking shall ensure that:

- (a) the disclosures meet the qualitative characteristics of information as set out in chapter 2 Qualitative characteristics of information; and
- (b) its disclosures include where applicable all material information related to the reporting areas of governance; strategy; impact, risk and opportunity management; and metrics and targets (see ESRS 2 chapters 2 to 5).’

ESRS 1 paragraph 65 states: ‘The undertaking shall include material value chain information when this is necessary to:

- (a) allow users of sustainability statements to understand the undertaking’s material impacts, risks and opportunities; and/or



- (b) produce a set of information that meets the qualitative characteristics of information (see Appendix B of this Standard).’

### Answer

Entity-specific disclosure shall be provided in addition to the Disclosure Requirements laid down in the three categories of ESRS (i.e., cross-cutting, topical and sector-specific standards) when an undertaking concludes that an impact, risk or opportunity is not covered or not covered with sufficient granularity by an ESRS but is material due to its specific facts and circumstances (ESRS 1 paragraph 11).

If an undertaking has concluded that a topic is material in its value chain, but the relevant topical standard only requires to disclose metrics related to own operations, the provision of metrics that covers specifically the value chain shall be considered and provided if such metrics are necessary according to paragraph 11 of ESRS 1. Sector ESRS may include additional metrics, including on the value chain.

### Supporting material

ESRS 1 chapter 5.2 on ‘Estimation using sector averages and proxies’.

## ID 482 – Breakdown of total revenue – financial institutions

### Question asked

1. How is the total revenue of a credit institution defined?
2. How is it divided into ESRS sectors? Is it the sector ‘credit institution’ or the sectors for the business portfolio, i.e., the sectors of the financed portfolio?

### ESRS Reference

ESRS 2 paragraph 40

### Key terms

Breakdown of total revenue; financial institutions

### Background

[To note: The submitter asked the following question, which was amended as stated above to align it with the wording of ESRS 2 paragraph 40: ‘How is total income of a credit institution defined and how is it divided into ESRS sectors? Is it the sector ‘credit institution’ or the sectors for the business portfolio, i.e., the sectors of the financed portfolio?’]

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 2 paragraph AR 12 states: ‘To provide the information on sectors required by paragraph 40, the undertaking shall map its significant activities in accordance with ESRS sectors. If a code for a subsector does not exist, the caption “others” shall be used.’

ESRS do not use the term ‘net turnover’ as used by the Accounting Directive (Directive 2013/34/EU Article 2 (5)). The Accounting Directive defines ‘net turnover’ (Directive 2013/34/EU Article 2 (5)): ‘net turnover’ means the amounts derived from the sale of products and the provision of services after deducting sales rebates and value added tax and other taxes directly

linked to turnover; however, for **insurance undertakings** referred to in point (a) of the first subparagraph of Article 1(3) of this Directive, 'net turnover' shall be defined in accordance with Article 35 and point 2 of Article 66 of Council Directive 91/674/EEC; for **credit institutions** referred to in point (b) of the first subparagraph of Article 1(3) of this Directive, 'net turnover' shall be defined in accordance with point (c) of Article 43(2) of Council Directive 86/635/EEC; ...'

Council Directive 86/635/EEC of December 1991 on the annual accounts and consolidated accounts of banks and other financial institutions, Article 43(2) point (c), states: 'The information referred to in the first two indents of Article 9(2) of Directive 83/349/EEC, namely ... [that] the net turnover shall be replaced by ... the sum of items ... B 1, B 2, B 3, B 4 and B 7 in Article 28 of this Directive.'

Council Directive 86/635/EEC Article 28 states:

- 'B. *Income*
1. Interest receivable and similar income, showing separately that arising from fixed-income securities
  2. Income from securities:
    - (a) Income from shares and other variable-yield securities
    - (b) Income from participating interests
    - (c) Income from shares in affiliated undertakings
  3. Commissions receivable
  4. Net profit on financial operations
  - (...)
  7. Other operating income ...'

## Answer

### 1. *How is total revenue of a credit institution defined?*

Total revenue of a credit institution, according to ESRS 2 paragraph 40, is a proxy for 'net turnover' as defined in the Accounting Directive (Directive 2013/34/EU) Article 2(5).

ESRS use the terms 'revenue', 'total revenue' and 'net revenue' as synonyms. ESRS 2 refers to 'revenue' or 'total revenue' (see ESRS 2 Disclosure Requirement SBM-1 – *Strategy, business model and value chain*) whereas ESRS E1 and the other environmental ESRS refer mostly to 'net revenue'. The three terms are referred to in ESRS in a more generic way as a proxy for 'net turnover' as defined by the Accounting Directive by considering the revenue as defined by the financial reporting framework on which the financial statements of the undertaking are prepared, acknowledging in whatever way possible revenues that are defined under the applicable GAAP.

### 2. *How is it divided into ESRS sectors? Is it the sector 'credit institution' or the sectors for the business portfolio, i.e., the sectors of the financed portfolio?*

Credit institutions should not refer to the sectors of the financed portfolio for the purposes of ESRS 2 paragraph 40. For presenting the revenue breakdown by ESRS sector, they should refer to the sectors in which they directly operate, not the sectors in which their clients operate.

Reference is made to ID 395 Revenue / net revenue and ID 39 SBM-1 sector breakdown and phase-in.

## **ID 504 – Disclosure Requirements on material metrics when information is not available**

[To note: The SRB Working Group asked to flag the following for the SRB, noting that this is a real concern for preparers and auditors: ESRS do not provide for the situation where for a metrics datapoint the undertaking is 1) not able to collect the data directly and 2) not able to estimate the data with sufficient precision to meet the qualitative characteristics but nevertheless requires from undertakings an estimate in those situations.]

### **Category**

Cross-cutting

### **Question asked**

If the undertaking cannot disclose information regarding policies, actions or targets, it shall then disclose this to be the case and may report on a timeframe to have these in place. Is this also the case for metrics?

### **ESRS Reference**

ESRS 2 BP-2 – Disclosures in relation to specific circumstances, paragraph 11 Sources of estimation and outcome uncertainty

### **Key terms**

Unavailability of information on material metrics

### **Background**

According to ESRS 1 paragraph 33, if the undertaking has not established policies, taken actions or set targets for the topic, then it shall disclose this to be the case and may report a timeframe in which it aims to have these in place (see also ESRS 1 Appendix E: Flowchart for determining disclosures under ESRS).

According to ESRS 1 paragraph 34, the undertaking shall disclose information on metrics if the Disclosure Requirement or the individual datapoints are assessed to be material.

Clarification is needed in the case where the information of a Disclosure Requirement or datapoint on metrics is assessed as material but the undertaking does not have the information available.

ESRS 2 paragraph 11 requires disclosures on sources of estimation and outcome uncertainty.

### **Answer**

No, this is not the case for metrics. The treatment of paragraph 33 of ESRS 1 is limited to policies, actions and targets and cannot be applied by analogy to metrics – to which paragraph 34 applies instead. Material metrics are to be reported. If the metric cannot be determined through direct data collection, it shall be estimated.

The level of measurement uncertainty of metrics is not a reason for omitting them. According to ESRS 2 BP-2, if a metric is subject to a high level of measurement uncertainty, the undertaking shall disclose information about the sources of measurement uncertainty (for example, availability and quality of data) and disclose the assumptions, approximations and judgments that the entity has made in measuring it.

## ID 517 – Disclosure of thresholds

### Question asked

1. How is threshold-setting to be documented?
2. How is one to disclose on threshold-setting? Is it enough to just generally explain how the thresholds for the materiality assessment are set, or is it necessary to explain each threshold separately?

### ESRS Reference

ESRS 2 paragraph 59 (IRO-2) and 53 (c) ii (IRO-1)

### Key terms

Disclosure of thresholds

### Background

[The question received, ‘How to document on setting thresholds? Is it enough to just generally explain how the thresholds for the materiality assessment are set or is it necessary to explain each threshold separately?’ was reworded for the sake of clarity into the question above.]

ESRS 2 paragraph 53(b) and (c) states: ‘The undertaking shall disclose:

- (...)
- (b) an **overview of the process** to identify, assess, prioritise and monitor the undertaking’s potential and actual impacts on people and the environment, informed by the undertaking’s due diligence process, including an explanation of whether and how the process:
  - (...)
  - (iv) prioritises negative impacts based on their relative severity and likelihood (see ESRS 1 section 3.4 Impact materiality) and, if applicable, positive impacts on their relative scale, scope and likelihood, and determines which sustainability matters are material for reporting purposes, including the qualitative or quantitative thresholds and other criteria used as prescribed by ESRS 1 section 3.4 Impact materiality;
- (c) an **overview of the process** used to identify, assess, prioritise and monitor risks and opportunities that have or may have financial effects. The disclosure shall include:
  - (...)
  - (ii) how the undertaking assesses the likelihood, magnitude and nature of effects of the identified risks and opportunities (such as the qualitative or quantitative thresholds and other criteria used as prescribed by ESRS 1 section 3.3 Financial materiality) ...’

ESRS 2 paragraph 59 states: ‘The undertaking shall provide an explanation of how it has determined the material information to be disclosed in relation to the impacts, risks and opportunities that it has assessed to be material, including the use of thresholds and/or how it has implemented the criteria in ESRS 1 section 3.2 Material matters and materiality of information.’

### Answer

1. *How is threshold-setting to be documented?*

ESRS do not set behavioural requirements. As explained in (draft) IG 1 Materiality Assessment Implementation Guidance FAQ 12 *Should the materiality assessment be documented/evidenced?* the ESRS do not prescribe specific documentation. However, it is reasonable to expect that a certain level of documentation will need to be produced. This will probably be used for internal control purposes and requested by the assurance providers of the undertaking's sustainability statement.

**2. How is one to disclose on threshold-setting? Is it enough to just generally explain how the thresholds for the materiality assessment are set, or is it necessary to explain each threshold separately?**

Disclosing or explaining each threshold separately is not necessarily required in all circumstances. ESRS 2 requires disclosing an overview of the process to identify, assess, prioritise and monitor:

- (a) impacts ... including an explanation of whether and how the process ... determines which sustainability matters are material ... including the qualitative or quantitative thresholds and other criteria ... and
- (b) risks and opportunities ... including how the undertaking assesses ... risks and opportunities such as the qualitative or quantitative thresholds and other criteria ...'

Depending on its specific facts and circumstances, the description and disclosure of thresholds may be more or less granular. Information about thresholds, as well as information about the materiality process in general and its components, may be aggregated when this is compatible with paragraphs 54 to 57 of ESRS 1.

## **ID 552 – Comparative information**

### **Question asked**

Does the company need to report data from previous years?

### **Reference**

ESRS 1 chapters 7.1, 10.3 and 6.3

### **Key terms**

Comparative information; base year

### **Background**

ESRS 1 paragraph 83 states: 'The undertaking shall disclose comparative information in respect of the previous period for all quantitative **metrics** and monetary amounts disclosed in the current period. When relevant to an understanding of the current period's sustainability statement, the undertaking shall also disclose comparative information for narrative disclosures.'

ESRS 1 paragraph 85 states: 'Sometimes it is impracticable to adjust comparative information for one or more prior periods to achieve comparability with the current period. For example, data might not have been collected in the prior period(s) in a way that allows for either retrospective application of a new definition of a metric or target or retrospective restatement to correct a prior period error and it may be impracticable to recreate the information (see ESRS 2 BP-2). When it is impracticable to adjust comparative information for one or more prior periods, the undertaking shall disclose this fact.'

ESRS 1 paragraph 86 states: ‘When an ESRS requires the undertaking to present more than one comparative period for a metric or datapoint, the requirements of that ESRS shall prevail.’

Some requirements (i.e., targets) provide the disclosure of the **base year** (see chapter 6.3 of ESRS 1), defined as the historical reference date or period for which information is available and against which subsequent information can be compared over time. In this context, comparative information is required in respect of the base year for amounts reported in the current period when reporting the developments and progress towards a target unless the relevant Disclosure Requirement already defines how to report on progress.

ESRS 1 paragraph 136 states: ‘To ease the first-time application of this Standard, the undertaking is not required to disclose the comparative information required by section 7.1 Presenting comparative information in the first year of preparation of the sustainability statement under the ESRS.’

### Answer

Yes, the undertaking shall always report comparative information in respect of the previous period for all quantitative metrics and monetary amounts disclosed in the current period. Narrative disclosures shall only be disclosed for previous periods when relevant to an understanding of the current period’s sustainability statement.

Special provisions apply when it is impracticable to disclose comparative information (ESRS 1 paragraph 85).

Some requirements (e.g., targets) request the disclosure of the base year when reporting on progress towards a target. Comparative information is required in respect of the base year for amounts reported in the current period when reporting the developments and progress towards a target (ESRS 1 chapter 6.3).

A phase-in provision exists exempting undertakings for the first year of preparation of the sustainability statement to provide comparative information (ESRS 1 paragraph 136).

## ID 628 – Content index

### Question asked

‘Content index’: How are companies to format this disclosure? Are companies expected to use reference codes to the DR codes? Is it to be published as a Reference Table/Index or can it be formatted more narratively in the management reports such as in the TCFD’s?

### ESRS Reference

ESRS 1 chapter 8; ESRS 2 IRO-2

### Key terms

Content index

### Background

ESRS 2 paragraph 56 states: ‘The undertaking shall include a list of the Disclosure Requirements complied with in preparing the sustainability statement following the outcome of the materiality assessment (see ESRS 1 chapter 3), including the page numbers and/or paragraphs where the related disclosures are located in the sustainability statement. This may be presented as a **content index**. The undertaking shall also include a table of all the datapoints that derive from other EU

legislation as listed in Appendix B of this Standard, indicating where they can be found in the sustainability statement and including those that the undertaking has assessed as not material, in which case the undertaking shall indicate “not material” in the table in accordance with ESRS 1 paragraph 35.’

### **Answer**

The undertaking shall include:

- a list of the Disclosure Requirements complied with, including the page numbers and/or paragraphs where the related disclosures are in the sustainability statement (ESRS 2 paragraph 56). This may be presented as a **content index**.
- a table of all the datapoints that derive from other EU legislation as listed in ESRS 2 Appendix B, indicating where they can be found in the sustainability statement and those that the undertaking has assessed as not material, in which case the undertaking shall indicate “not material” in the table in accordance with ESRS 1 paragraph 35.

There is no predefined format for this disclosure or for the content index. To structure the disclosure, inspiration can be drawn from the digital ESRS XBRL Taxonomy to structure the sustainability statement and to disclose the information.

## ***Environment***

### **ID 186 – Substances of very high concern**

#### **Question asked**

One of the requirements in the ESRS E2 Pollution Standard is to describe the phase-out of substances of very high concern (SVHCs). How can undertakings identify SVHCs that are to be phased out?

#### **ESRS reference**

ESRS E2 paragraph 6; Disclosure Requirement E2-1 paragraph 15(b)

#### **Key terms**

Substances of very high concern; SVHCs

#### **Background**

Disclosure Requirement E2-1 mandates that the undertaking disclose how its policies address the substitution and minimisation of substances of concern (SoC) as well as the phase-out of substances of very high concern (SVHCs) within its own operations and throughout its supply chain.

The main goal of the EU policies regarding SVHCs is to ensure a high level of protection for human health and the environment by phasing them out where possible.

As explained in Annex II to Commission Delegated Regulation (EU) 2023/2772, Substances of Very High Concern (SVHCs) are those that meet the criteria laid down in Article 57 of Regulation (EC) No 1907/2006 (REACH) and that were identified in accordance with Article 59(1) of that Regulation.

The European Chemical Agency (ECHA) website includes a public registry for intentions, which lists the intentions and Annex XV restriction proposals received by the ECHA. Once an Annex XV



SVHC dossier has been prepared and the scientific evidence for identifying a substance as a SVHC has been outlined, a consultation of the Member States and interested parties is required, as specified in Article 59 of REACH. Further details on this consultation process are available on the ECHA website at <http://echa.europa.eu/proposals-to-identify-substances-of-very-high-concern>.

At the end of the process laid down in Article 59 of REACH, the substance may be included in the Candidate List – which is the list relevant for the identification of SVHCs (please see ID 301).

As the inclusion of substances in the Candidate List results in a number of immediate legal obligations on listing substances on their own, in mixtures and in articles, it is an indication that these substances are of concern to authorities and that they might be prioritised for further regulation.

### **Answer**

The requirement in ESRS E2 paragraph 15(b) is to indicate whether and how the undertaking's policy aligns with the public policy objectives of phasing out SVHCs as outlined in REACH and in line with the ambitions of the Chemicals Strategy for Sustainability.

To identify SVHCs, undertakings consult the Candidate List of Substances of Very High Concern managed by the European Chemicals Agency pursuant to Article 59(10) of Regulation (EC) No 1907/2006 (REACH). The Candidate List is provided by the ECHA on its official website and can be directly consulted by undertakings for information purposes.

Please refer also to explanations ID 226 and ID 301 for further information on Substances of (Very High) Concern.

## **ID 201 – Oil spills – Chemical spills**

### **Question asked**

Are oil/chemical spills to be reported under DR E2-4 paragraph 28 or elsewhere?

### **ESRS reference**

ESRS E2 Disclosure Requirement E2-4 paragraph 28; ESRS E4 Disclosure requirements IRO-1 paragraph AR 9(b)(i); ESRS S1 Disclosure Requirement SBM-3 paragraph 14(b); ESRS S2 Disclosure Requirement SBM-3 paragraph 11(c); ESRS S3 Disclosure Requirement SBM-3 paragraph 9(b)

### **Key terms**

Oil spill; chemical spill; pollution of air, water and soil; incident

### **Background**

ESRS E2 Disclosure Requirement IRO-1 requires undertakings to explain how they determined the materiality of pollution-related impacts, risks and opportunities.

ESRS 1 paragraph 33 states: 'When disclosing information on policies, actions and targets in relation to a sustainability matter that has been assessed to be material, the undertaking shall include the information prescribed by all the Disclosure Requirements and datapoints in the topical and sector-specific ESRS related to that matter.'

ESRS E2 Disclosure Requirement E2-4 paragraph 28 requires undertakings to disclose pollutants emitted to air, water and soil.

ESRS E2 paragraph 41 states: 'The undertaking shall disclose any relevant contextual information including a description of material incidents and deposits whereby pollution had negative impacts on the environment and/or is expected to have negative effects on the undertaking's financial

cash flows, financial position and financial performance with short-, medium- and long-term time horizons.'

ESRS E2 paragraph 28(a) further addresses disclosures on pollutants by referencing relevant regulation: 'disclose the amounts of ... each pollutant listed in Annex II of **Regulation (EC) No 166/2006** ... emitted to air, water and soil.' To this end, the European Pollutant Release and Transfer Register (E-PRTR) Regulation mentions 'spilling' as a particular type of pollutant 'release' (Article 2 (10)). Article 5(2) of E-PRTR Regulation specifies that operators have to 'include information on releases and transfers resulting as totals of all deliberate, accidental, routine and non-routine activities.'

Spills are not, however, an issue addressed by ESRS E2 disclosure only. Under the section 'Interaction with other ESRS', ESRS E2 paragraph 7 and 8 make clear its interaction with other environmental and social topics. As an example, ESRS E2 paragraph 7(c) indicates 'Pollution as a direct impact driver of biodiversity loss' (ESRS E4) when considering other environmental impacts, and ESRS E4 (biodiversity and ecosystem) refers to '**Spills of polluting effluents**' as an example of policy transition risk (E4-IRO-1 paragraph AR9(b)(i)).

Oil spills also have social implications, and 'incidents' and 'spills' are referred to in ESRS S1-SBM-3 paragraph 14(b), ESRS S2-SBM-3 paragraph 11(c), and ESRS S3-SBM-3 paragraph 9(b). These paragraphs indicate the requirements to disclose on the social implications of spillages, in addition to the environmental ones in E2, in alignment with the principle that ESRS mutually interact with one another.

ESRS 2 paragraph 61 states: 'The corresponding disclosures shall be located alongside disclosures prescribed by the relevant ESRS. When a single policy or the same actions address several interconnected sustainability matters, the undertaking may disclose the required information in its reporting under one topical ESRS and cross reference to it in its reporting under other topical ESRS.'

### Answer

Where spills can result in material pollution-related impacts, undertakings shall provide disclosure in accordance with the provisions of ESRS E2 Disclosure Requirement related to ESRS 2 IRO-1 (materiality assessment) and ESRS E2 Disclosure Requirement E2-1 (policies), E2-2 (actions) and E2-3 (targets).

Concerning quantitative information on oil and chemical spills, undertakings shall also disclose metrics by reporting on chemical releases to air, water and soil as prescribed by ESRS E2 Disclosure Requirement E2-4, referring to the E-PRTR (European Pollutant Release and Transfer Register) Regulation, which mentions 'spilling' as a particular type of pollutant 'release' in Art. 2(10). In this regard, undertakings are also to provide complementary contextual information on incidents if these had negative environmental impacts and whenever they resulted in, or are expected to have, (material) financial effects (ESRS Disclosure Requirement E2-6 paragraph 41). If applicable, undertakings shall develop entity-specific metrics, too, in accordance with ESRS 1 paragraph 11 and ESRS 2 Metrics MDR-M.

Furthermore, spills can have material adverse impacts on water availability, ecosystems and human health. Therefore, undertakings shall report those impacts in accordance with the relevant disclosures under ESRS E3, ESRS E4, ESRS S1, ESRS S2, and ESRS S3 if material.

Reporting the impacts of spills under the several aforementioned ESRS topics may result in undertakings needing to work with different metrics; for example: for pollution, amounts of pollutants; for biodiversity, metrics that measure changes in the number of individuals of a species; for own workforce, the number of fatalities or number of days lost to work-related injuries or ill health; etc. Currently, there are no specific metrics concerning spills in the sector-agnostic ESRS, nor are there requirements related to the spillage of complex substances that may

trigger pollution through different types of pollutants. The forthcoming sector standards may develop sector-specific disclosures related to spills.

In terms of the presentation of disclosures, the undertaking can first provide specific information within the scope of one topical standard (e.g., pollution), then cross-reference this information to other interconnected topical standards (e.g., ESRS E4, S1) when addressing sustainability matters that are interconnected (ESRS 2 paragraph 61).

### Supporting material

[Regulation \(EC\) No 166/2006 of the European Parliament and of the Council of 18 January 2006 concerning the establishment of a European Pollutant Release and Transfer Register.](#)

## ID 226 and 301– Substances of (very high) concern and hazard classes

### Category

Environment

### Question asked

1. What is the difference between ‘substances of concern’ (SoCs) and ‘substances of very high concern’ (SVHCs) in ESRS E2 Disclosure Requirement E2-5?
2. What are the lists of substances of concern (SoC) and substances of very high concern (SVHCs) to be considered?
3. What are their respective main hazard classes?

### ESRS Reference

ESRS E2 Disclosure Requirement E2-5 paragraph 34

ESRS Glossary ‘Substances of Concern (SoC)’ and ‘Substances of Very High Concern (SVHCs)’

### Key terms

Substances of concern; SoC; substances of very high concern; SVHC

### Background

[To note: ID 226 and 301 were both on Substances of (Very High) Concern. As they have related answers, they were combined in the questions above. To better answer the questions addressed by the submitters, it was agreed to change the questions received from ID 226 *What is the difference between ‘substances of concern’ and ‘substances of very high concern’ in ESRS E2 Disclosure Requirement E2-5?* and ID 301 *What is the list of substances of high concern to be considered? Is the list of substances of Very High Concern the one in Annex XIV of REACH? What are the main hazard classes of substances of concern and very high concern that must be considered for reporting under paragraph 34?* to the questions above.]

As per the definition in ESRS Glossary in Annex II of the Commission Delegated Regulation (EU) 2023/2772, a substance of concern (SoC) is a ‘substance that meets at least one of three criteria:’

- 1) ‘meets the criteria laid down in Article 57 and is identified in accordance with Article 59(1) of Regulation (EC) No 1907/2006 of the European Parliament and of the Council (REACH) – this group of substances corresponds to Substances of Very High Concern;

### *Log of explanations*

- 2) is classified in Part 3 (which lists hazardous substances for which harmonised classification and labelling have been established at Community level) of Annex VI (Harmonised classification and labelling for certain hazardous substances) to Regulation (EC) No 1272/2008 of the European Parliament and of the Council (Regulation on classification, labelling and packaging (CLP) of substances) in one of the following hazard classes or hazard categories:
- a) carcinogenicity categories 1 and 2;
  - b) germ cell mutagenicity categories 1 and 2;
  - c) reproductive toxicity categories 1 and 2;
  - d) endocrine disruption for human health;
  - e) endocrine disruption for the environment;
  - f) Persistent, Mobile and Toxic or Very Persistent, Very Mobile properties;
  - g) Persistent, Bioaccumulative and Toxic or Very Persistent, Very Bioaccumulative properties;
  - h) respiratory sensitisation category 1;
  - i) skin sensitisation category 1;
  - j) chronic hazard to the aquatic environment categories 1 to 4;
  - k) hazardous to the ozone layer;
  - l) specific target organ toxicity, repeated exposure categories 1 and 2;
  - m) specific target organ toxicity, single exposure categories 1 and 2;
- 3) or negatively affects the re-use and recycling of materials in the product in which it is present, as defined in relevant Union product-specific ecodesign requirements.'

The ESRS Glossary defines substances of very high concern (SVHCs) as substances 'that meet the criteria laid down in Article 57 of Regulation (EC) No 1907/2006 (REACH)' and that are 'identified in accordance with Article 59(1) of that Regulation'.

Following Article 57 of REACH, the substances described below may be identified as SVHC:

- a) under the Regulation (EC) No 1272/2008 (CLP) as: a) carcinogenic of category 1A and 1B; b) mutagenic category 1A and 1B; c) toxic for reproduction category 1A and 1B;
- b) under Annex XIII of REACH as: d) persistent, bioaccumulative and toxic; e) very persistent and very bioaccumulative;
- c) other substances for which there is scientific evidence of probable serious effects to human health or the environment, which give rise to an equivalent level of concern to those other substances listed above, and which are identified on a case-by-case basis, such as those having endocrine disrupting properties.

The list that is relevant for the identification of SVHCs is the '[Candidate List of substances of very high concern for Authorisation](#)', which compiles the list of substances that are potential candidates for inclusion in Annex XIV (Authorisation list).

Concerning SoCs, these will include the SVHCs in the lists above (criterion 1) as well as all substances corresponding to criterion 2 – but for which, at this stage, a comprehensive list cannot be presented. Nevertheless, substances regulated under CLP would have information that could

allow their assessment as being SoCs. Furthermore, ECHA provides a database to filter Annex VI by specific hazard classes: the [C&L Inventory](#). As to criterion 3, it is still not yet fully regulated and, hence, there is currently no specific list of chemicals for these criteria. However, ESRS 1 paragraph 11 states that ‘... when an undertaking concludes that an impact, risk or opportunity is not covered or not covered with sufficient granularity by an ESRS but is material due to its specific facts and circumstances, it shall provide additional entity-specific disclosures to enable users to understand the undertaking’s sustainability-related impacts, risks or opportunities.’ Additionally, existing standard product specification from CEN/CENELEC, academic literature or other sources could provide valuable guidance to assess the risks of use of certain substances in products that may potentially fall within criterion 3; nonetheless, no list can be provided at this stage.

## Answer

### 1. *What is the difference between ‘substances of concern’ (SoCs) and ‘substances of very high concern’ (SVHCs) in ESRS E2 Disclosure Requirement E2-5?*

As per the ESRS Glossary in Annex II of the Commission Delegated Regulation (EU) 2023/2772, Substances of Concern constitute a broader group of substances, including:

- a) the Substances of Very High Concern meeting the criteria laid down in Art. 57 and 59 of the REACH regulation;
- b) the substances classified in one of the hazard classes or hazard categories listed in Part 3 (Table 3.1) of Annex VI of CLP; and
- c) substances that negatively affect the reuse and recycling of materials in the products in which they are present, as defined in the relevant EU product-specific ecodesign requirements (forthcoming).

### 2. *What are the lists of substances of concern (SoC) and substances of very high concern (SVHC) to be considered?*

The list of substances covered by point (a) is available by consulting the ‘[Candidate List of substances of very high concern for Authorisation](#)’ managed by the European Chemicals Agency (ECHA), pursuant to Article 59(10) of the REACH Regulation.

The list of substances covered by point (b) is available by consulting the table of harmonised entries in Annex VI to CLP, containing all updates<sup>1</sup> to the harmonised classification and labelling of hazardous substances, which are available in [Table 3 of Annex VI to the CLP Regulation](#), managed by the ECHA. The ECHA also provides a database ([C&L Inventory](#)) to filter Annex VI by specific hazard classes.

As for point (c), currently there are no Union product-specific ecodesign requirements available; hence, there are no published lists for these substances. Nonetheless, undertakings are to follow ESRS 1 indications on entity-specific disclosures should they conclude that a related impact, risk or opportunity is material although not explicitly covered by the ESRS.

### 3. *What are their respective main hazard classes?*

Undertakings may refer to the regulatory sources – the REACH and CLP regulations – to identify information on the definitions and lists of substances as well as for further indications on hazard classes. Please also see background information.

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<sup>1</sup> Please note that the most recent updates made to Table 3 of Annex VI to CLP are not necessarily already included in the most recent consolidated version of CLP but can be found in the respective Commission Delegated Regulations amending that Table.

Please also refer to explanations ID 186 and ID 226 for further information on Substances of (Very High) Concern.

Lastly, please also refer to ID 186 for further information on Substances of (Very High) Concern.

### Supporting material

[Regulation \(EC\) No 1907/2006 of the European Parliament and of the Council of 18 December 2006 concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals \(REACH\).](#)

[Regulation \(EC\) No 1272/2008 of the European Parliament and of the Council of 16 December 2008 on classification, labelling and packaging of substances and mixtures \(CLP\).](#)

## *Social*

### **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 to users?

*The question above has been reworded as follows to be clearer:*

1. Are both FTE and head count figures to be reported?
2. Can FTE be used as a proxy for head counts if 99% of the workforce is full-time?

#### ESRS reference

ESRS S1 paragraphs 50(a), (b) and (d); 52(a) and (b); 55(b)(i); AR 55; and 34

#### Key terms

Methodology to compile data; FTE

#### Background

ESRS S1 Disclosure Requirement S1-6 on the characteristics of the undertaking's employees requires information on the number of employees and the number of breakdowns. The objective of S1-6 is for the undertaking to provide insight into its approach to employment, to provide contextual information that facilitates an understanding of the information reported in other disclosures and to serve as the basis for calculating quantitative metrics to be disclosed under other disclosure requirements in this Standard.

ESRS S1 paragraph 50(a) requires the disclosure of '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'. This requirement on the number of employees is consistent with ESRS 2 SBM-1 paragraph 40(a)(iii) whereby head count data is also required.

ESRS S1 Disclosure Requirement S1-6 (paragraph 50(b)) allows the undertaking to choose between two methodologies to calculate the number of employees, which are either by head count or full-time equivalent (FTE) of:

## *Log of explanations*

- (i) permanent employees and breakdown by gender;
- (ii) temporary employees and breakdown by gender; and
- (iii) non-guaranteed hours employees and breakdown by gender.'

The voluntary disclosures in ESRS S1 paragraph 52(a)(b) follow the same approach as detailed above whereby there is the option of disclosing information on full-time and part-time employees by either head count or FTE.

ESRS S1 paragraph 50(d) requires 'a description of the methodologies and assumptions used to compile the data, including whether the numbers are reported:

- (i) in head count or full-time equivalent (FTE) (including an explanation of how FTE is defined) ...'.

Furthermore, ESRS S1 paragraph AR55, Table 3 and Table 4 provide the relevant tables to present this information in (Table 3: 'Template for presenting information on employees by contract type, broken down by gender (head count or FTE)'; and Table 4: 'Template for presenting information on employees by contract type, broken down by region (head count or FTE)').

ESRS S1 paragraph AR60 states: 'Where data is not available for detailed information, the undertaking shall use an estimation of the employee number or ratios, in accordance with ESRS 1, and clearly identify where the use of estimates has taken place.'

### **Answer**

#### **1. Are both FTE and head count figures to be reported?**

The datapoint on the total number of employees (ESRS 1 paragraph 50(a)) shall be reported in terms of head count, since head count is the relevant metric for labour law and social policy (as head count triggers many rights in social and labour law), and this is also consistent with the requirements in ESRS 2 SBM-1 paragraph 40 (a)(iii).

Recognising that it is common in some countries to report detailed employee information in full-time equivalent (FTE) terms, S1-6 allows undertakings the option to report other datapoints (permanent, temporary and non-guaranteed hours contract types as well as full- and part-time contract types) in either head count or full-time equivalent (FTE) terms.

According to ESRS S1 paragraph 50(b) and paragraph 52(a)(b), the undertaking has two options to report information on employees by contract type: head count or full-time equivalent. (ESRS S1 paragraph AR 55, tables 3 and 4 contain the templates that undertakings shall use to disclose this information.)

The option to report employee numbers with either head count or FTE metrics is explicitly allowed only in S1-6 and in S1-7 when reporting on non-employees within own workforce. For the other metrics in ESRS S1 (i.e., from ESRS S1-8 to ESRS S1-17), the disclosure requirements and their related application requirements define the methodology to be followed for calculating quantitative information on employees (for example, ESRS S1-14 AR80 on health and safety).

#### **2. Can FTE be used as a proxy for head counts if 99% of the workforce is full-time?**

For ESRS S1 paragraph 50(a), there is no option with respect to the unit of account. The undertaking is expected to comply with the text of ESRS by providing a figure according to the unit of account as defined in the Disclosure Requirement. Still, an undertaking may refer to ESRS S1 paragraph AR60 on the use of estimates and ratios.



## ID 340 – Entitlement to family-related leave

### Question asked

Does the metric ‘family-related leave’ presume that an employee is entitled to every concept of family-related leave?

### ESRS Reference

ESRS S1-15 paragraphs 93, AR96, and AR97

### Key terms

Work-life balance; entitlement to take family-related leave

### Background

Family-related leave is addressed in ESRS S1 Disclosure Requirement S1-15; specifically, ESRS S1 paragraph 93 requires a disclosure of ‘(a) the percentage of employees entitled to take family-related leave ...’

The relevant definitions can be found in ESRS S1 paragraph AR96, explaining that ‘family-related leave includes maternity leave, paternity leave, parental leave and carer’s leave that is available under national law or collective agreements. For the purposes of this Standard, these concepts are defined as:

- (a) maternity leave (also called pregnancy leave): employment-protected leave of absence for employed women directly around the time of childbirth (or, in some countries, adoption);
- (b) paternity leave: leave from work for fathers or, where and insofar as recognised by national law, for equivalent second parents, on the occasion of the birth or adoption of a child for the purposes of providing care;
- (c) parental leave: leave from work for parents on the grounds of the birth or adoption of a child to take care of that child, as defined by each Member State;
- (d) carer’s leave from work: leave for workers to provide personal care or support to a relative, or a person who lives in the same household, in need of significant care or support for a serious medical reason, as defined by each Member State.’

Furthermore, ESRS S1 paragraph AR97 clarifies: ‘... employees entitled to family-related leave are those who are covered by regulations, organisational policies, agreements, contracts or collective bargaining agreements that contain family-related leave entitlements and have reported their entitlement to the undertaking or the undertaking is aware of the entitlement.’

### Answer

Yes, family-related leave is defined as including maternity leave, paternity leave, parental leave and carer’s leave (ESRS S1 paragraph AR 96). The focus of the Disclosure Requirement is family-related leave covered by regulations (for example, government’s social protection), organisational policies, agreements, contracts or collective agreements (ESRS S1 paragraph AR97) that contain family-related leave entitlements. Such entitlements may differ at a country level.

Being entitled to take family-related leave would thus mean, based on national law or collective agreements, for female employees to be entitled to take maternity, parental and carer’s leave and for male employees to be entitled to paternity, parental and carer’s leave. The scope of family leave may vary across countries, and such contextual information may be relevant to users (for example, that employees are entitled to maternity leave but not to paternity leave in a given country). If based on national law or collective agreements female/male employees are not

entitled to all the respective female/male types of family-related leave, then they would not qualify to be considered in the metric.

## **ID 356 – Sub-contractors Scope S1, S2**

### **Question asked**

Are subcontractors included in own workforce, or are they to be included within the S2-disclosures?

### **ESRS Reference**

ESRS S1 paragraph 4; ESRS S1 paragraph 5

### **Key terms**

Own workforce; workers in the value chain

### **Background**

The question received, *Are sub-consultants included in own workforce, or are they to be included within the ESRS S2-disclosures?* has been reworded into the above question to be clearer.

ESRS S1 paragraph 4 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 5 states: ‘This Standard does not cover workers in the undertaking’s upstream or downstream value chain; these categories of workers are covered in ESRS S2 Workers in the value chain.’

### **Answer**

The definition of ‘non-employees’ only includes individual contractors supplying labour to the undertaking (self-employed people) and people provided by undertakings primarily engaged in employment activities (NACE Code N78). If they are not included in this definition, they shall be considered workers in the value chain (ESRS S2).

## ***Governance***

## **ID 560 – Level of detail of ESRS G1 disclosures**

### **Question asked**

Undertakings are required, for financial or in-kind political contributions, to report the total monetary value of financial and in-kind political contributions made directly and indirectly by the undertaking, aggregated by country or geographical area where relevant, as well as the type of recipient/beneficiary. Does that include a requirement to disclose the exact name of the beneficiary or simply its type?

### ESRS Reference

ESRS G1-5

### Key terms

In-kind political contributions

### Background

ESRS G1-5 paragraph 29 states the following: 'The disclosure required by paragraph 27 shall include ... (b) for financial or in-kind political contributions: (i) the total monetary value of financial and in-kind political contributions made directly and indirectly by the undertaking, aggregated by country or geographical area where relevant, as well as type of recipient/beneficiary ...'

### Answer

The Disclosure Requirement refers to the type of recipient/beneficiary and does not extend to the name of the beneficiary.

## XBRL

### ID 326 – Implementation of datapoints

#### Question asked

Why are some ESRS paragraphs and Application Requirements (AR) implemented as separate datapoints in IG 3 – List of ESRS Datapoints and some are not?

#### ESRS Reference

IG 3 – List of ESRS datapoints

#### Key terms

List of datapoints

#### Background

ESRS 1 paragraph 16 states: 'ESRS structure the information to be disclosed under Disclosure Requirements. Each Disclosure Requirement consists of one or more distinct datapoints. The term "datapoint" can also refer to a narrative sub-element of a Disclosure Requirement.'

ESRS 1 paragraph 18 states: 'ESRS use the following terms to distinguish between different degrees of obligation on the undertaking to disclose information:

- (a) "shall disclose" – indicates that the provision is prescribed by a Disclosure Requirement or datapoint;
- (b) "may disclose" – indicates voluntary disclosure to encourage good practice.

In addition, ESRS use the term "shall consider" when referring to issues resources or methodologies that the undertaking is expected to take into account or to use in the preparation of a given disclosure if applicable.'

IG 3 (Implementation Guidance 3 – List of ESRS Datapoints) and the [draft] ESRS XBRL Taxonomy provide non-authoritative implementation guidance on the datapoints required by ESRS. It supports the application of sector-agnostic ESRS adopted as delegated act on 31 July 2023 (see

## Log of explanations

EFRAG IG 3: *List of ESRS datapoints – Explanatory note*, Chapter 1 Content and objective of this Implementation Guidance).

ESRS E1 paragraph 36 states: ‘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.’

ESRS E1 paragraph AR36 states: ‘When preparing the information on energy intensity required under paragraph 40, the undertaking shall:

- (a) calculate the energy intensity ratio using the following formula: ...’

ESRS E1 paragraph AR38 states: ‘The reconciliation of net revenue from activities in high climate impact sectors to the relevant financial statements line item or disclosure (as required by paragraph 43) may be presented either:

- (a) by a cross-reference to the related line item or disclosure in the financial statements; or
- (b) if the net revenue cannot be directly cross-referenced to a line item or disclosure in the financial statements, by a quantitative reconciliation using the below tabular format. ...’

### Answer

IG 3 *List of Data Points* (as well as the ESRS XBRL Taxonomy) have dedicated and separate items only for the individual datapoints of ESRS Disclosure Requirements. The datapoints are often indicated by terms equal or similar to ‘shall disclose’, ‘shall describe’ or ‘may disclose’. All paragraphs of ESRS 1, and some paragraphs and Application Requirements of the other topical ESRS, provide objectives, methodological guidance or other guidance that are to be considered when preparing or disclosing sustainability statements according to ESRS. Those paragraphs are not implemented as separate datapoints.

The following examples illustrate when paragraphs in ESRS are considered separate datapoints or not:

- ESRS E1 paragraph 36: Not a datapoint because it describes the objective of the disclosure requirement E1-5 on Energy Consumption.
- ESRS E1 paragraph AR 36: Not a data point because it provides calculation guidance on the energy consumption.
- ESRS E1 paragraph AR 38, implemented as separate data point, due to the character of the Application Requirement which defines how the reconciliation of net revenue from activities in high climate impact sectors to the relevant financial statements line item or disclosure may be presented.
- Application Requirements that are part of the narrative disclosure of their associated Disclosure Requirements or datapoint are not designated as separate datapoints. An example would be ESRS E1 paragraph 20(a) and the related AR 9, detailing the information to be provided under ESRS E1 paragraph 20(a).
- Application Requirements marked with ‘*shall consider*’ have not been included as separate datapoints, e.g., ESRS 2 paragraph AR 14 relating to ESRS 2 paragraph 42.

### Supporting material

Explanatory note of the ESRS IG1 List of Datapoints, 22 December 2023

[Methodology and Architecture of the \[Draft\] ESRS XBRL Taxonomy as approved from the SRB on 26 April 2023.](#)

*Log of explanations*

EFRAG IG 3: *List of ESRS Datapoints – Explanatory Note* [to be published in May 2024]

[Draft ESRS Set 1 XBRL Taxonomy - Explanatory Note and Basis for Conclusions \(chapter A1.2\), 8 February 2024](#)