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Log B of draft explanations

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ID 29 – Voluntary reporting requirements

Category

Social

Question asked

What is the meaning of a "may disclose" in ESRS; how does that relate to a "shall disclose"? Can you explain based on Disclosure Requirement S1-12?

In addition, the following more specific questions have been received in ID 261 related to "voluntary reporting requirements":

1. Does the materiality assessment take precedence over ESRS 1 paragraph 18?
2. Is an undertaking required to disclose a datapoint that is not material, if it is a "shall disclose" datapoint?
3. Can an undertaking disregard the disclosure of a "may disclose" datapoint, if the datapoint is material?
4. What is the relevance of ESRS 1 paragraph 18 if materiality takes precedence over ESRS 1 paragraph 18?

ESRS reference

ESRS 1 paragraph 18; ESRS S1 paragraph 77, ESRS S1 paragraph 80

Key terms;

Voluntary disclosure requirements ("may disclose").

Background

ESRS 1 paragraph 18 states: "ESRS uses 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."

ESRS S1 paragraph 77 states: "The undertaking shall disclose the percentage of its own employees with disabilities." and paragraph 80 states: "The undertaking may disclose the percentage of employees with disabilities with a breakdown by gender."

ESRS S1 paragraph 80 is voluntary and asks: "the undertaking may disclose the percentage of employees with disabilities with a breakdown by gender."

Answer

The drafting convention used in the ESRS are defined in ESRS 1 Chapter 1.3. The terms "shall disclose" and "may disclose" are used to distinguish the degree of obligation on the undertaking to disclose information, these are defined as follows in paragraph 18:

- (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."

The objective of the ESRS is to specify the information that an undertaking shall disclose about its material impacts, risks and opportunities and information (ESRS 1 paragraph 2). The materiality assessment is the process to determine material matters and material information. Therefore, the terms “shall disclose” and “may disclose” are to be interpreted and applied within the wider materiality framework of the ESRS (refer to ESRS 1 Chapter 3.2 to 3.5). In particular:

- a) All the “shall” datapoints in ESRS 2 General Disclosures are to be reported, as they are outside the materiality assessment. This includes the datapoints in topical standards that relate to ESRS 2 Disclosure Requirement IRO-1 *Description of the process to identify and assess material impacts, risks and opportunities* (see ESRS 2 Appendix C *Disclosure/Application Requirements in topical ESRS that are applicable jointly with ESRS 2 General Disclosures*). When defining the granularity of the content of the information provided for these datapoints, the undertaking applies paragraph 31 of ESRS 1.
- b) If a topic is not material for the undertaking, the “may” and “shall” datapoints in the corresponding topical standard are not reported, as the undertaking does not report on non-material topics.
- c) If a topic is material for the undertaking, the undertaking discloses the information corresponding to the “shall” datapoints in the topical standard in relation to Policies, Actions and Targets, as well as the information corresponding to the datapoints in ESRS 2 MDR-P, MDR-A and MDR-T. When defining the granularity of the content of the information provided for the “shall” datapoints, the undertaking applies paragraph 31 of ESRS 1. If the undertaking cannot disclose the information on policies, actions and targets required under relevant topical ESRS, because such policies, actions and targets (PAT) are not in place with reference to a given material matter, it shall disclose this to be the case, and provide reasons for not having PAT. The undertaking may disclose a timeframe in which it aims to adopt them.
- d) If a topic is material for the undertaking, the undertaking discloses the information corresponding to the “shall” datapoints in the topical standard in relation to metrics, if that information is assessed to be material (refer to ESRS 1 paragraph 34). The materiality of the information is assessed applying the criteria in ESRS 1 paragraph 31.
- e) In relation to the “may” datapoints: if the “may” datapoint relates to a matter that is material to the undertaking, for example ESRS S1 para 89 related to a voluntary disclosure on non-employee data on health and safety metrics, and this information on non-employee is material for the undertaking, the undertaking decides whether to include it or not, as it a “may” disclosure; however, it is encouraged to disclose it as good practice.

ID 78 – GHG protocol and organizational boundaries

Question asked

For GHG emissions reporting, how are organizational boundaries determined under the ESRS and how is this determination compatible with the GHG protocol?

ESRS reference

ESRS 1 paragraph 62 to paragraph 67

ESRS E1 paragraph 46 and paragraph 50 (b), ESRS E1 paragraphs AR 39, AR40, AR46(h)

Key words: GHG protocol, organizational boundaries.

Background

ESRS 1 paragraph 62 provides that the sustainability statement shall be for the same reporting undertaking as the financial statements (financial control).

ESRS 1 paragraph 63 to paragraph 67 that the sustainability statements information shall be extended to include information related to material impacts, risks and opportunities connected with the undertaking's upstream and downstream value chain.

For GHG emission accounting, ESRS E1 paragraph 46 extends the financial control boundary required in ESRS 1 paragraph 62 to the operational control – to the extent of that operational control – of 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).

ESRS E1 paragraph 50(b) clarifies that this reporting is to happen in a disaggregated form, clearly separating what is the consolidated accounting group (the parent and subsidiaries, define by the financial control approach) and the other entities included due to the extension of the boundary for operational control.

ESRS E1 paragraphs AR 39, AR40 and AR46(h) further clarify the reporting according to the extended organizational boundary (financial control + operational control) in the context of the operational boundaries (Scope 1, 2 and 3).

Answer

For GHG accounting, ESRS E1 requires to include entities, sites and assets that are under operational control in addition to the entities in the financial consolidation scope.

This contrasts with the GHG Protocol where undertakings may elect one of the two control approaches to determine their emissions. For further information, please refer to Chapter 2.3 of the Value Chain Implementation Guidance.

ID 243 – Reference to financial statement

Category

Social

Question asked

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

ESRS reference

ESRS S1-6 paragraph 50(f)

Key terms; Financial Statement; Number of employees

Background

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

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

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

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

Answer

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

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

Given that ESRS S1-6 provides flexibility in terms of methodology for calculation the number of employees (i.e., average or at the end of the year), the undertaking is required to disclose the methodology used as per paragraph 50 (d) ii). If an undertaking that uses a different methodology for calculating the headcount between the note the financial statements (i.e., average) and this

datapoint in ESRS S1-6 (i.e., end of the year), it shall explain the difference in the basis following the principle of connectivity defined in ESRS 1.

Another scenario could be that the total of average employees during the year disclosed in the note to the financial statements differs from the quantitative disclosure in paragraph 50 (a) as there is a de minimis threshold of 50 employees representing at least 10% of the total employees in ESRS S1-6 which is not contemplated in Article 16 of the Directive 2013/34/EU. In this case, such difference in the headcount shall be explained according to the connectivity principle.