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*This draft has not yet been subject to the English editorial review, which will be performed in the version approved by EFRAG SR TEG when submitted to EFRAG SRB.*

## Log of draft explanations

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## Cross-Cutting

### ID 804 – Investment entities - scope of sustainability statements

#### Category

Cross-cutting

#### Question asked

Is an entity that qualifies as an Investment Entity as per IFRS 10 required to prepare a sustainability statement with the same consolidation scope as the financial statements?

#### ESRS Reference

ESRS 1 paragraphs 62 and 102

#### Key terms

IFRS 10 investment entities; asset managers; scope of consolidation

#### Background

ESRS 1 paragraph 62 states: 'The sustainability statements shall be for the same reporting undertaking as the financial statements. For example, if the reporting undertaking is a parent company required to prepare consolidated financial statements, the sustainability statement will be for the group. ...'

ESRS 1 paragraph 102 states: 'When the undertaking is reporting at a consolidated level, it shall perform its assessment of material impacts, risks and opportunities for the entire consolidated group regardless of its group legal structure. ...'

IFRS 10 *Consolidated Financial Statements* paragraph 4b states: 'A parent that is an investment entity shall not present consolidated financial statements if it is required, in accordance with paragraph 31 of this IFRS, to measure all of its subsidiaries at fair value through profit or loss.'

IFRS 10 paragraph 27 states: 'A parent shall determine whether it is an investment entity. An investment entity is an entity that:

- (a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
- (b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- (c) measures and evaluates the performance of substantially all of its investments on a fair value basis.'

IFRS 10 paragraph 31 states: 'Except as described in paragraph 32, an investment entity shall not consolidate its subsidiaries or apply IFRS 3 when it obtains control of another entity. Instead, an investment entity shall measure an investment in a subsidiary at fair value through profit or loss in accordance with IFRS 9.'

### Answer

Yes, an investment entity in accordance with IFRS 10 *Consolidated Financial Statements* is required to prepare a sustainability statement with the same consolidation scope as the financial statements.

The sustainability statement shall be for the same reporting undertaking as the financial statements (ESRS 1 paragraph 62). This also applies to investment entities as defined in IFRS 10 paragraph 27. As an investment entity shall not present consolidated financial statements in accordance with IFRS 10 paragraph 4b, it presents its investments in subsidiaries at fair value (see IFRS 10 paragraph 31). However, these investments represent business relationships that expose the undertaking to impacts, risks and opportunities.

For the consideration of the investments in subsidiaries of investment entities reference is made to IG 2 *Value Chain*: FAQ 2: *Are financial assets (loans, equity, and debt instruments) considered business relationships that trigger value chain information?*

More detailed guidance is expected in future sector standards.

To note:

As the subsidiaries of investment entities are not consolidated by the investment entity in its financial statement and accordingly are also not reflected in its sustainability statement the subsidiary exemption of the Directive 2013/34/EU (Accounting Directive) Article 19a (9) does not apply.

## ID 906 – Structure of sustainability statement – annex / appendix possible?

### Category

Cross-cutting

### Question asked

Is there a possibility to implement an "Appendix" as another part of the sustainability statement (mainly for the content index, EU datapoint table etc.)?

### ESRS references

ESRS 1 chapter 8.2; ESRS 2 paragraph 56

### Key terms

Structure of sustainability statement; content index; EU-datapoint table; potential appendix

### 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. The undertaking may apply the detailed structure illustrated in Appendix F of this Standard.'

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

No, it is not possible to have the content index and the EU datapoint table as another part of the sustainability statement.

The sustainability statement shall consist of four parts (ESRS 1 paragraph 56). The first part is related to general information. As the content index and the datapoints that derive from other EU legislation are part of the ESRS 2 Disclosure Requirement IRO-2 – *Disclosure Requirements in ESRS covered by the undertaking’s sustainability statement* they need to be included in the part related to general information.

As ESRS are silent on the detailed content of the four parts of the sustainability statement the undertaking has discretion on how to structure the general information part. One option would be to have the content index and the datapoints that derive from other EU legislation as an appendix to the general information part.

#### Question to the SR TEG: Would you concur with this additional option:

ESRS require that the qualitative characteristics of information are met (ESRS 1 chapter 2). As the content index and the datapoints that derive from other EU legislation might be very lengthy, to meet the qualitative characteristics of information it may be warranted to split the general information part as follows into two sections:

- general disclosures related to ESRS 2 excluding the content index and datapoints that derive from other EU legislation; and
- general disclosures: Content index and datapoints that derive from other EU legislation.

The part under (b) above could then be presented at the end of the sustainability statement or even at the end of the management report as an appendix provided proper reference is made in the part mentioned under (a) above.

Reference is made to ID 628 *Content index*.

## ID 910 – Transitional provisions for value chain and Scope 3 GHG emissions

### Category

Cross-cutting

### Question asked

Can the transitional provision in ESRS 1 paragraph 132 to 135 be applied to the reporting of Scope 3 emissions in ESRS E1 paragraph 44 (c)?

### ESRS Reference

ESRS 1 paragraphs 132 to 135, ESRS 1 Appendix C: *List of phased-in Disclosure Requirements*; ESRS 2 Appendix B: *List of datapoints in cross-cutting and topical standards that derive from other EU legislation*; and ESRS E1 paragraph 44 (c)

### Key Terms

Value chain, transitional provisions, Scope 3 GHG emissions

### Background

ESRS E1 paragraph 44 states: 'The undertaking shall disclose in metric tonnes of CO<sub>2</sub>eq its:

- (a) gross Scope 1 GHG emissions;
- (b) gross Scope 2 GHG emissions;
- (c) gross Scope 3 GHG emissions; and
- (d) total GHG emissions.'

ESRS 1 paragraph 133 states: 'For the first 3 years of its sustainability reporting under the ESRS, in order to take account of the difficulties that undertakings may encounter in gathering information from actors throughout their **value chain** and in order to limit the burden for SMEs in the value chain:

- (a) when disclosing information on **policies, actions** and **targets** in accordance with ESRS2 and other ESRS, the undertaking may limit upstream and downstream value chain information to information available in-house, such as data already available to the undertaking and publicly available information; and
- (b) when disclosing **metrics**, the undertaking is not required to include upstream and downstream value chain information, except for datapoints derived from other EU legislation, as listed in ESRS 2 Appendix B.'

### Answer

No, the transitional provisions outlined in ESRS 1 paragraphs 132 to 135 cannot be applied to reporting Scope 3 emissions as required by ESRS E1 paragraph 44 (c).

The transitional provisions in ESRS 1 paragraphs 132 to 135 grant temporary phase-ins to undertakings for information from actors throughout the value chain. ESRS 1 paragraph 133 (b) states that when disclosing metrics, the undertaking is not required to include upstream and downstream value chain information, except for datapoints derived from other EU legislation, as listed in ESRS 2 Appendix B,

Scope 3 emissions, required by ESRS E1 paragraph 44 (c), include both upstream and downstream emissions in the value chain. Accordingly, Scope 3 emissions would qualify for the transitional provision of ESRS 1 paragraph 132 (b). However, the disclosure of Scope 3 emissions is a datapoint derived from EU legislation, as indicated in ESRS 2 Appendix B (Disclosure Requirement and related datapoint: ESRS E1-6 Gross Scope 1, 2, 3 and Total GHG emissions paragraph 44).

Therefore, despite the transitional provisions of ESRS 1 paragraph 133 (b), datapoints derived from EU legislation, such as Scope 3 emissions, shall be reported.

It is however to note that: '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 datapoints on Scope 3 emissions and total GHG emissions for the first year of preparation of their sustainability statement' (see ESRS 1 Appendix C: *List of phased-in Disclosure Requirements*).