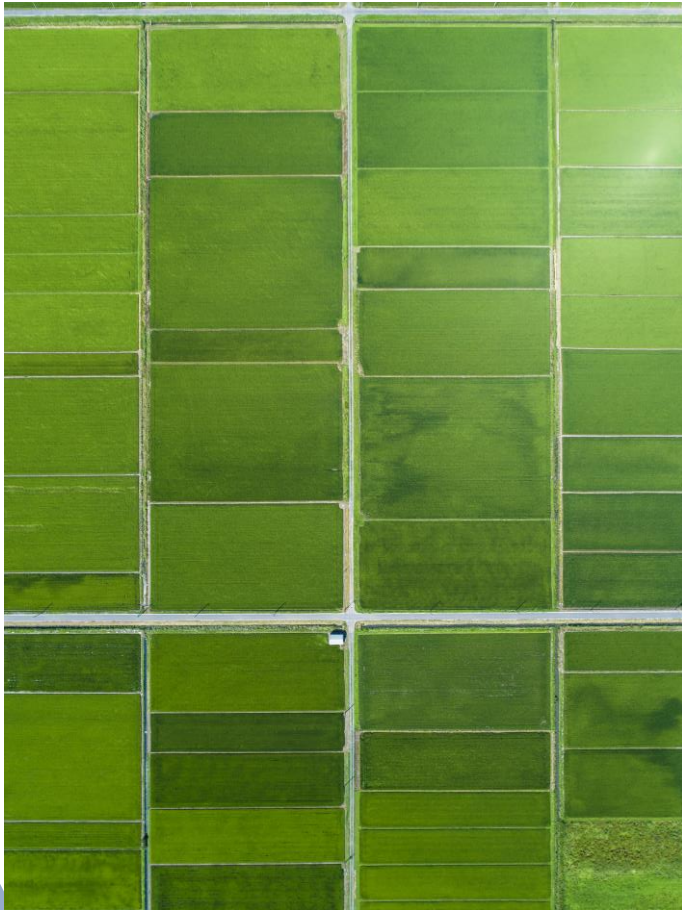


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Diese Sitzungsunterlage wird der Öffentlichkeit für die FA-Sitzung zur Verfügung gestellt, so dass dem Verlauf der Sitzung gefolgt werden kann. Die Unterlage gibt keine offiziellen Standpunkte der FA wieder. Die Standpunkte der FA werden in den Deutschen Rechnungslegungs Standards sowie in seinen Stellungnahmen (Comment Letters) ausgeführt.  
Diese Unterlage wurde von einem Mitarbeiter des DRSC für die FA-Sitzung erstellt.

## FA NB – öffentliche SITZUNGSUNTERLAGE

|            |   |
|------------|---|
| Sitzung:   | 02. FA NB / 01.02.2022 / 14:45 – 16:45 Uhr  |
| TOP:       | 02 – Educational Session zu Cluster 1   |
| Thema:     | Cluster 1 „ <i>Conceptual Guidelines &amp; Cross-cutting Standards</i> “ – Entwürfe der PTF |
| Unterlage: | 02_02a_FA NB_PTF-ESRS_C1_Prä  |



## 1) Overview

## 2) Conceptual Guidelines

- *European Sustainability Reporting Guidelines 2 „Characteristics of information quality” (ESRG 2)*
- *European Sustainability Reporting Guidelines 1 „Double materiality conceptual guidelines for standard setting” (ESRG 1)*

## 3) Cross-cutting Standards / Content Standards

- *European Sustainability Reporting Standards 4 „Sustainability material impacts, risks and opportunities” (ESRS 4)*
- *European Sustainability Reporting Standards 2 „Strategy and Business Model” (ESRS 2)*
- *European Sustainability Reporting Standards 3 „Governance and Organisation” (ESRS 3)*

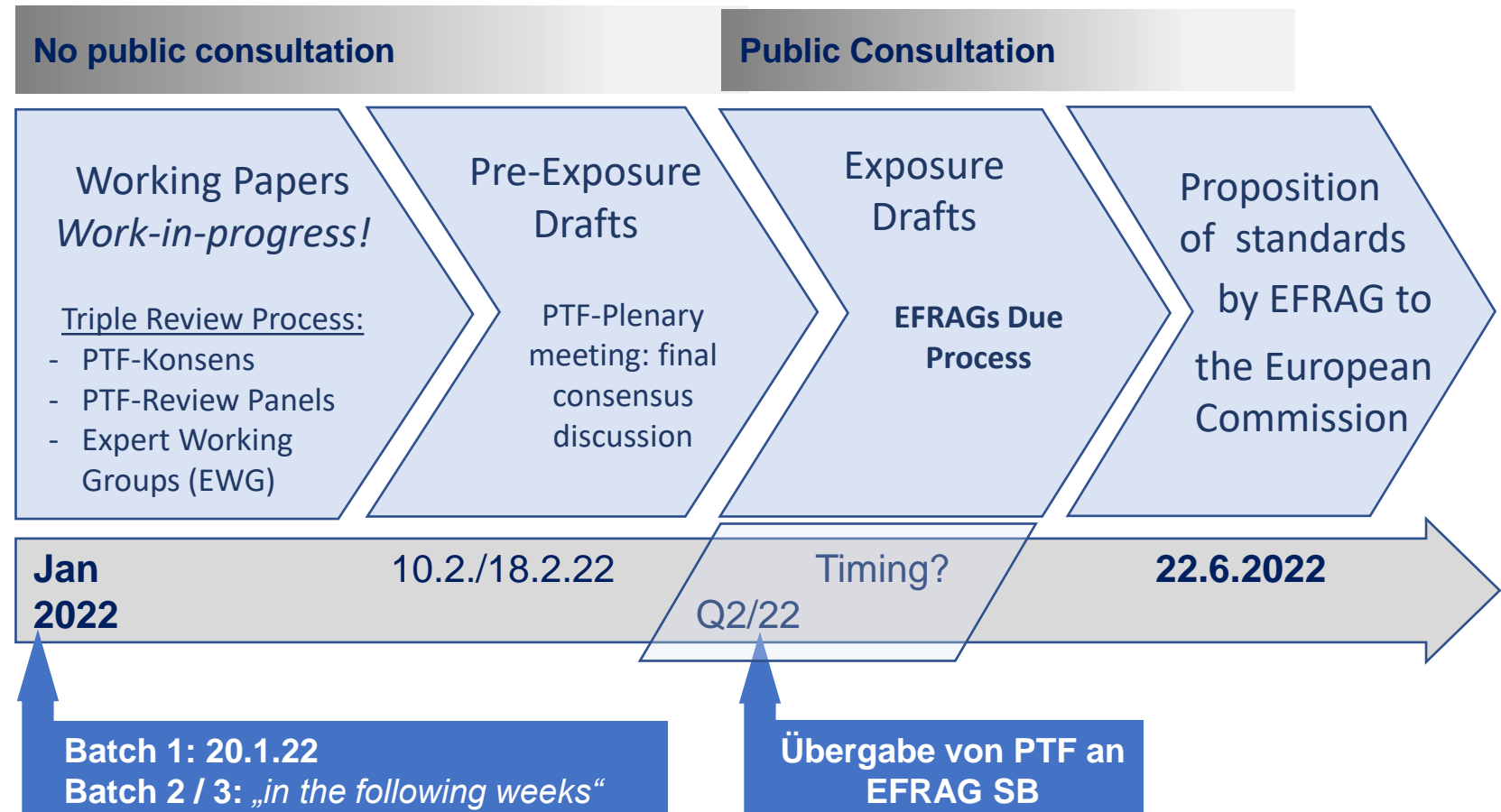
## 4) Cross-cutting Standards / Reference Standard

- *European Sustainability Reporting Standards 5 „Definitions for policies, targets, action plans and resources” (ESRS 5)*

# 1. Overview

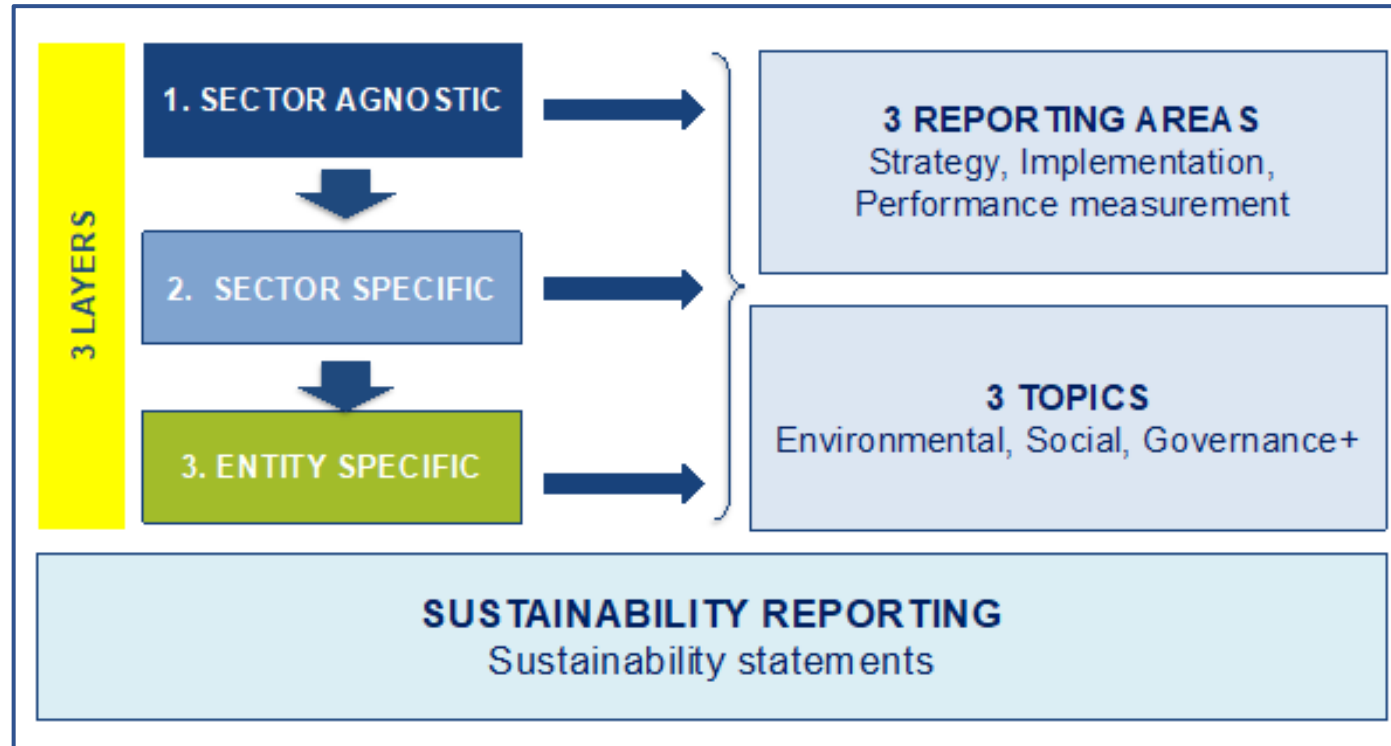
## Timeline PTF and next steps

| EFrag PTF-ESRS<br>18 January 2022  |    |
|--|----|
| <b>PTF-ESRS Batch 1 working papers – Cover note and next steps</b>   |    |
| Table of Contents  |    |
| <i>PTF-ESRS Batch 1 working papers – Cover note and next steps</i>   | 1  |
| Introduction   | 2  |
| General context  | 2  |
| Working papers as work-in-progress documents towards next steps at PTF-ESRS level and future public consultation | 2  |
| Overall architecture and structure of standards  | 3  |
| Batch 1 as part of the overall architecture  | 7  |
| Batch 1 working papers on cross-cutting standards  | 7  |
| Batch 1 working paper on climate change standard   | 8  |
| Additional points to bear in mind when reading the WPs   | 8  |
| List of appendices   | 8  |
| Appendix 1: [Draft] index for the European Sustainability Reporting Standards                                    | 9  |
| Appendix 2: List of appendices available as attached documents   | 10 |



# 1. Overview

## Sustainability Reporting Architecture



(Cover Note, para 15, 16)

# 1. Overview



| Strategy, governance, impacts, risks, opportunities                            |  |   |   | SECTOR-SPECIFIC STANDARDS                       |   | PRESENTATION |
|--|--|---|---|---|---|--------------|
| Environment  | Social   | Governance  | Classification  | ESG sector-specific disclosures                 |   |              |
| <b>ESRS 1</b><br>General provisions  | <b>ESRS E1</b><br>Climate change (mitigation and adaptation) | <b>ESRS S1</b><br>Own workforce – general                   | <b>ESRS G1</b><br>Governance, risk management and internal control                                      | <b>ESRS SEC1</b><br>Sector classification       | <b>ESRS P1</b><br>Sustainability statements |              |
| <b>ESRS 2</b><br>Strategy and business model                                   | <b>ESRS E2</b><br>Pollution                                  | <b>ESRS S2</b><br>Own workforce – working conditions        | <b>ESRS G2</b><br>Products and services, management and quality of relationships with business partners |   |   |              |
| <b>ESRS 3</b><br>Sustainability governance and organisation                    | <b>ESRS E3</b><br>Water & marine resources                   | <b>ESRS S3</b><br>Own workforce – equal opportunities       | <b>ESRS G3</b><br>Responsible business practices  |   |   |              |
| <b>ESRS 4</b><br>Sustainability impacts, risks and opportunities               | <b>ESRS E4</b><br>Biodiversity & ecosystems                  | <b>ESRS S4</b><br>Own workforce – other work-related rights |   |   |   |              |
| <b>ESRS 5</b><br>Definitions for policies, targets, action plans and resources | <b>ESRS E5</b><br>Circular economy                           | <b>ESRS S5</b><br>Workers in the value chain                |   |   |   |              |
|  |  | <b>ESRS S6</b><br>Affected communities                      |   |   |   |              |
|  |  | <b>ESRS S7</b><br>Consumers/ End-users                      |   |   |   |              |
| CONCEPTUAL GUIDELINES  |  |   |   |   |   |              |
| <b>ESRG 1</b><br>Double materiality  | <b>ESRG 2</b><br>Characteristics of information quality      | <b>ESRG 3</b><br>Time horizons                              | <b>ESRG 4</b><br>Boundaries and levels of reporting   | <b>ESRG 5</b><br>EU and international alignment | <b>ESRG 6</b><br>Connectivity               |              |

# 1. Overview



DRSC

| Strategy, governance, impacts, risks, opportunities                            |   |   |   | SECTOR-SPECIFIC STANDARDS                       |   | PRESENTATION |
|--|---|---|---|---|---|--------------|
| Environment  | Social  | Governance  | Classification  | ESG sector-specific disclosures                 |   |              |
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| <b>ESRS 3</b><br>Sustainability governance and organisation                    | <b>ESRS E3</b><br>Water & marine resources              | <b>ESRS S3</b><br>Own workforce – equal opportunities       | <b>ESRS G3</b><br>Responsible business practices  |   |   |              |
| <b>ESRS 4</b><br>Sustainability material impacts, risks and opportunities      | <b>ESRS E4</b><br>Biodiversity & ecosystems             | <b>ESRS S4</b><br>Own workforce – other work-related rights |   |   |   |              |
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## Cross-Cutting Issues

**ESRS 2**  
Strategy and business model

**ESRS 3**  
Sustainability governance and organisation

**ESRS 4**  
Sustainability material impacts, risks and opportunities

**ESRS 5**  
Definitions for policies, targets, action plans and resources

## Conceptual Guidelines

**ESRG 1**  
Double materiality

**ESRG 2**  
Characteristics of information quality

### Aufbau der Standards

Main body

Application Guidance

Basis for Conclusions

Main body

Background research

# 1. Overview

## PTF-ESRS „Batch 1 Working Papers“

### Structure of Cross-Cutting Standards not final

- ESRS 1 General Provisions
  - **General disclosure requirements** to provide an understanding of the overall and detailed architecture and avoid repetition
  - **Due Diligence as a key element** (CSRD, Art. 19a, derived from UN Guiding Principle and OECD Guidelines for Multinational Enterprises)
- ESRS 2-5 separat or (partially) integrated into ESRS 1

### Current review process may introduce amendments re/:

- a. boundaries,
- b. prioritisation,
- c. further harmonisation of forms of expression and definitions,
- d. consolidated reporting,
- e. financial connectivity,
- f. digitisation.

| Strategy, governance, impacts, risks, opportunities                            |
|--|
| <b>ESRS 1</b><br>General provisions  |
| <b>ESRS 2</b><br>Strategy and business model                                   |
| <b>ESRS 3</b><br>Sustainability governance and organisation                    |
| <b>ESRS 4</b><br>Sustainability impacts, risks and opportunities               |
| <b>ESRS 5</b><br>Definitions for policies, targets, action plans and resources |



## 2. Conceptual Guidelines



### ESRG 2 – Characteristics Information Quality

#### Objective (ESRG 2.5-6)

These [draft] guidelines provide definitions, tools and processes related to the requested **characteristics\* relating to the quality of reported sustainability information**, in relation also to the nature of this information. Their purpose is to...

- ...assist the [the Board] in developing ESRS.
- ...provide a reference for [the Board] when it requires undertakings to elaborate entity-specific disclosures
- ...provide a reference for understanding and applying ESRS

\* *'The sustainability reporting standards [...] shall require that the information to be reported is **understandable, relevant, representative, verifiable, comparable, and is represented in a faithful manner.**'* (Article 19b(2) first paragraph)

*'The information ..... shall contain **forward- looking and retrospective information, and qualitative and quantitative information.**'* (Article 19a(3) first paragraph)



## 2. Conceptual Guidelines



### ESRG 2 – Characteristics Information Quality

#### Scope (ESRG 2.7-8)

These [draft] guidelines **define the required characteristics** of the quality of reported sustainability information, i.e. relevance, faithful representation, comparability, verifiability and understandability

These qualitative characteristics are **inspired by, and are fully compatible with**, those required from **financial reporting**, and are designed to **allow a consistent global corporate reporting** (financial reporting and sustainability reporting)

## 2. Conceptual Guidelines



### ESRG 2 – Characteristics Information Quality

#### Content of ESRG 2

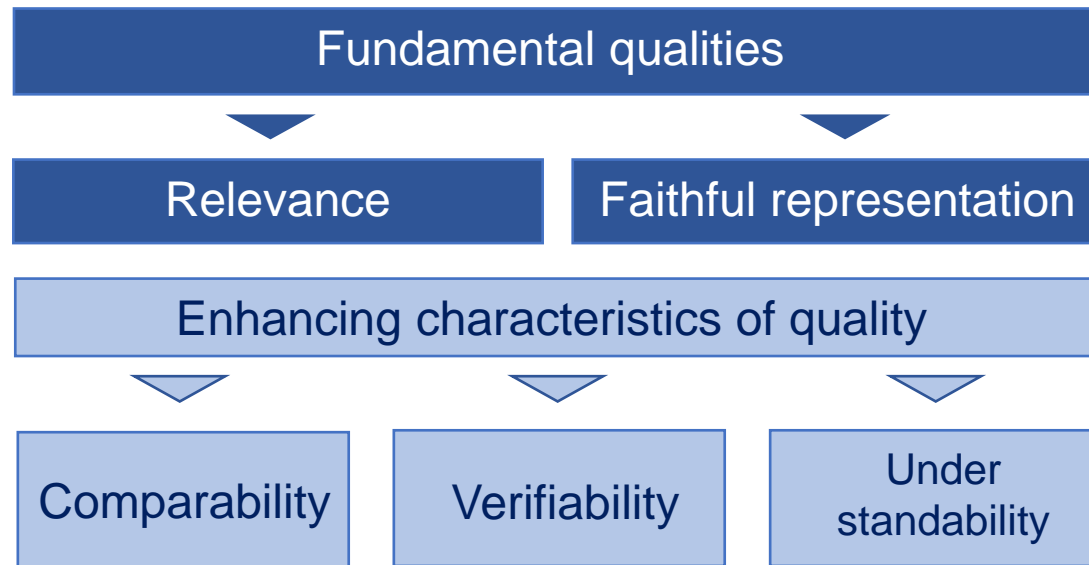
- Introduction
- Background
- **Objective**
- **Scope**
- Guidance for standard-setter
- **Fundamental qualities**
  - **Relevance**
  - *Faithful representation*
- **Enhancing characteristics**
  - Comparability
  - Verifiability
  - Understandability
- **Categories of disclosed information**
  - *Forward-looking information*
  - *Retrospective information*
  - *Qualitative information*
  - *Quantitative information*
- **Underlying organisation for processes and internal control allowing quality of information**
  - *Tone of the Top*
  - *Set-up of a control environment*
  - *Internal control as to documentation*
  - **Cost constraint on useful sustainability information**
  - Appendix: Background research

Contents highlighted in **bold** are addressed in more detail in the presentation

## 2. Conceptual Guidelines

### ESRG 2 – Characteristics Information Quality

### Characteristics (ESRG 2.15-65)



| Fundamental qualitative characteristics  |   |            |                   |
|--|---|------------|-------------------|
| Relevance  | Faithful representation   |            |                   |
| <ul style="list-style-type: none"> <li>information is <b>relevant</b> if it is capable of making a difference to the decisions made by users</li> <li>financial information is capable of making a difference in decisions if it has predictive value or confirmatory value</li> </ul> | <ul style="list-style-type: none"> <li>information must <b>faithfully represent</b> the substance of what it purports to represent</li> <li>a faithful representation is, to the maximum extent possible, complete, neutral and free from error</li> <li>a faithful representation is affected by level of measurement uncertainty</li> </ul> |            |                   |
| Enhancing qualitative characteristics  |   |            |                   |
| Comparability  | Verifiability   | Timeliness | Understandability |
| <ul style="list-style-type: none"> <li>these four qualitative characteristics enhance the usefulness of information</li> <li>but they cannot make non-useful information useful</li> </ul>   |   |            |                   |
| Cost constraint  |   |            |                   |
| <ul style="list-style-type: none"> <li>the benefit of providing the information needs to justify the cost of providing and using the information</li> </ul>  |   |            |                   |

Source: IFRS Conceptual Framework Project Summary, March 2018, p. 6

## 2. Conceptual Guidelines



### ESRG 2 – Characteristics Information Quality

#### Relevance (ESRG 2.15-22) – Decision Usefulness vs. Double Materiality

Sustainability information is relevant when it has substantive **influence** on the **assessments and decisions** (predictive value, confirmatory value or both) of those who use reporting **under a double materiality approach**.

A disclosure is relevant if the information is open, transparent and clear in the **communication about material sustainability matters as a result of the double materiality assessment**. [...]

[The Board] should assess the extent to which **a required disclosure** is capable of providing insight that **is useful** for stakeholders' **decision-making**. [...]

Materiality is an enabling factor of relevance. [...]

## 2. Conceptual Guidelines



### ESRG 2 – Characteristics Information Quality

#### Cost Constraint on Useful Sustainability Information\* (ESRG 2.97-100)

Reporting sustainability information that is relevant and faithfully represents what it purports to represent helps users to make decisions with more confidence in respect of their respective relationship to the undertaking. However, it is **not possible** for sustainability reports **to provide all the information that every user finds relevant**.

In applying the cost constraint, [the **Board**] **assesses whether the benefits** of reporting particular information are likely to **justify the costs** incurred to provide and use that information.

\* *'When adopting delegated acts pursuant to Articles 19b and 19c, the Commission shall take into consideration technical advice from EFRAG, provided such advice has been developed with proper due process, public oversight and transparency and with the expertise of relevant stakeholders, and **is accompanied by cost-benefit analyses** that include analyses of the impacts of the technical advice on sustainability matters.'* (Article 49 (3a))

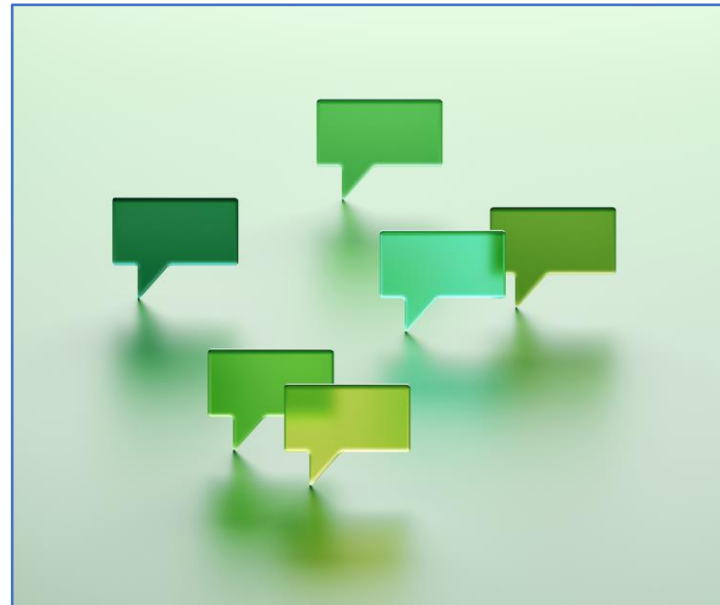
## 2. Conceptual Guidelines

### ESRG 2 – Characteristics Information Quality

#### Categories of Disclosed Information (ESRG 2.66-85)

Forward-looking information  
(ESRG 2.67-76)

Retrospective information  
(ESRG 2.77-78)



Qualitative information  
(ESRG 2.79-82)

Quantitative information  
(ESRG 2.83-85)

## 2. Conceptual Guidelines



### ESRG 2 – Characteristics Information Quality

#### **Underlying Organisation for Processes and Internal Control Allowing Quality of Information (ESRG 2.86-96)**

When elaborating standards, [the Board] should give due **consideration to the processes and internal control** to be put in place by the undertaking for collecting inputs and preparing disclosures. The highest governance body should....

##### **Tone of the Top**

...be ultimately accountable for the quality of the information included in sustainability reporting. In particular, through their oversight, they are expected to make sure that the processes that have led to the preparation of the information included in reports respect the principles of quality of information. Their primary responsibility is to give the 'tone as the top' establishing the direction of travel of the undertaking and the framework of values and principles to be adhered to and complied with.

##### **Set-up of a control environment**

...ensure that the internal control system and aligned processes are effective.

##### **Internal control as to documentation**

... ensure the existence of suitable process-related trails (similar to the trails for financial documentation) that show and document how data and information are and have been collated, recorded, accumulated, eventually calculated, consolidated, transmitted, and communicated from and through different sources to the sustainability reporting

## 2. Conceptual Guidelines

### ESRG 1 – Double Materiality



#### Objective (ESRG 1.6-7)

to provide definitions, guidance, tools and processes that should be **used by the EFRAG Sustainability Standards Board** [the Board] to **determine** which sustainability **topics** or sub-topics are **material**, and therefore necessitate appropriate **disclosures to be defined** by the ESRS

similar task should be **performed by the undertaking** to determine

- (i) which **additional information** it should disclose,\* and
- (ii) whether the **mandatory disclosures** required by the reporting standards are all **relevant** for the undertaking, taking into account its specific circumstances and business context.\*\*

\* The disclosure requirements and guidance for the entity-level materiality determination process are provided in the cross-cutting standard on risks, opportunities and impacts.

\*\* The undertaking should disclose the reasons that justify the absence of relevance of a specific mandatory disclosure and report a 'non-material disclosure'.



## 2. Conceptual Guidelines



### ESRG 1 – Double Materiality

#### Scope (ESRG 1.8-11)

##### Provide...

- ...**in-depth definition** of the double-materiality concept in order to facilitate its application
- ...**step-by-step guidance** to be followed by [the Board] in assessing which sustainability topics or sub-topics are material (for undertakings of all sectors and for undertakings from particular sectors)

##### Do not...

- ...contain comprehensive instructions as to how [the Board] should **design disclosure requirements**
- ...provide disclosure requirements and guidance **for the entity-level materiality determination**

## 2. Conceptual Guidelines

### ESRG 1 – Double Materiality

#### Key Concepts (ESRG 1.12-31)

(1) Materiality

(3) Impact Materiality

(5) Sustainability Matters  
and Topics



(7) Parameters of Adverse  
Impact Materiality

(2) Double Materiality

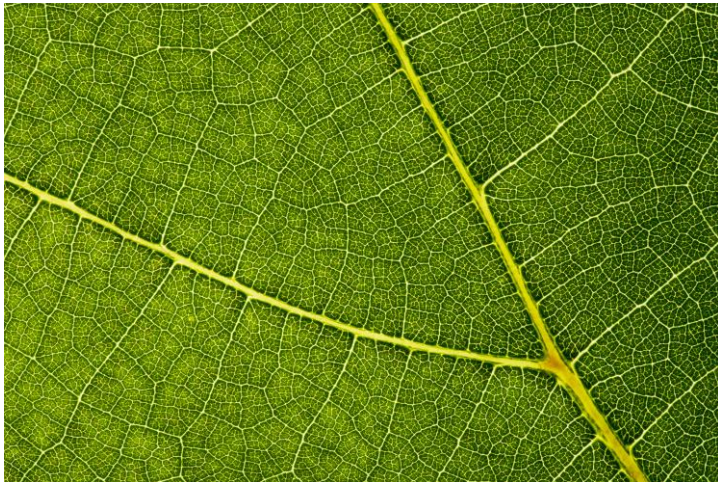
(4) Financial Materiality

(6) Stakeholders

## 2. Conceptual Guidelines

### ESRG 1 – Double Materiality

#### KC1 – Materiality (ESRG 1.12)



...is to be understood as the **criteria for inclusion of specific information** in corporate reports. It reflects

- (i) the **significance** of the information in relation to the phenomenon it purports **to depict or explain**, as well as
- (ii) its capacity to meet the needs and expectations of the stakeholders of an undertaking and of the undertaking itself, allowing for proper **decision-making**, and more generally
- (iii) the needs for **transparency** corresponding **to the public interest**.

## 2. Conceptual Guidelines

### ESRG 1 – Double Materiality

#### KC2 – Double Materiality (ESRG 1.13)



## 2. Conceptual Guidelines



### ESRG 1 – Double Materiality

### KC3 – Impact Materiality (ESRG 1.14-15)

[...] A sustainability topic or information is **material from an impact perspective** if the undertaking is connected to **actual or potential significant impacts on people or the environment** and is related to the sustainability topic **over the short, medium or long term**. This includes

- impacts **directly\*** caused or contributed to by the undertaking and
- impacts **which are otherwise directly\*** linked to the undertaking's upstream and downstream value chain.

\* A negative impact is '**directly** linked to' the undertaking's operations, products or services, if it occurs at any tier of business relationships, provided it occurs as part of the value chain. (e.g. does not refer to the distinction between direct and indirect impacts, as commonly used in differentiating various scopes of GHG emissions; uses cobalt in its products that is mined using child labour)

## 2. Conceptual Guidelines



### ESRG 1 – Double Materiality

#### KC4 – Financial Materiality (ESRG 1.16-18)

[...] A sustainability topic is **material from a financial perspective\*** if it triggers **financial effects on undertakings**, i.e. generates **risks or opportunities** that influence or are likely to **influence** the future **cash flows** and therefore the **enterprise value** of the undertaking **in the short, medium or long term** but are **not captured by financial reporting** at the reporting date. These risks and opportunities may derive from past events or future events and may have effects on future cash flows **in relation**

- (i) to assets and liabilities** already recognised in financial reporting or that may be recognised as a result of future events or
- (ii) to factors of enterprise value creation** that do not meet the accounting definition of assets (liabilities) and/or the related recognition criteria but contribute to the creation/maintenance of enterprise value. The latter are generally defined as «**capitals**» in frameworks promoting a multi-capital approach.

\* Relates to financial materiality in sustainability reporting (differs from the definition of materiality used in financial reporting)

## 2. Conceptual Guidelines



### ESRG 1 – Double Materiality

#### KC5 – Sustainability Matters and Topics (ESRG 1.19-20)

A **sustainability matter** is a specific dimension of sustainability under which an undertaking has an impact on people or the environment or which results in risks or opportunities for the undertaking.

The terms '**topic**' and '**sub-topic**' are used with reference to a subject, a theme, a category or a general area of interest in the context of the specific topical standards to be drafted by [the Board]. Sustainability topics are structured groups of sustainability matters that on the highest structural level are grouped into environmental, social and governance topics, as defined in the (draft) CSRD. The topical standards should further specify sustainability topics and sub-topics into concrete sustainability disclosure requirements.

## 2. Conceptual Guidelines



### ESRG 1 – Double Materiality

#### KC6 – Stakeholders (ESRG 1.21-22)

- ...those who can affect or be **affected** by the undertaking's decisions and actions.
- Two main groups:
  - a. affected stakeholders** – stakeholders who may be positively or negatively **impacted** by the undertaking's activities and through its value chain, and,
  - b. users** – stakeholders with an **interest** in the undertaking's sustainability reporting, including *public authorities, business partners* of the undertakings, *equity investors* (including asset managers) and *lenders* (including asset managers, credit institutions, insurance undertakings), *civil society organisations, trade unions* and *social partners*.
- Some, but not all, stakeholders may belong to both groups.



## 2. Conceptual Guidelines



### ESRG 1 – Double Materiality

#### KC7 – Parameters of Adverse Impact Materiality (ESRG 1.24-31)

Parameters of impact materiality shall include:

- a. the severity of actual negative impact, which is determined by **scale\***, **scope\*\*** and **irremediable character\*\*\*** of the impact, and,
- b. the severity as well as likelihood of potential negative impact.

\* **Scale** of impact is the level of seriousness of negative impacts. (ESRG 1.25-27)

\*\* **Scope** of impact is related to how widespread the impact is. (ESRG 1.28-29)

\*\*\* **Remediability (irremediable character)** concerns whether and to what extent the negative impacts could be remediated, restoring the environment or affected people to their prior state. (ESRG 1.30)

## 2. Conceptual Guidelines

### ESRG 1 – Double Materiality

#### Guidelines (ESRG 1.32-125)

|  |  |  |
|--|--|--|
| (1) Equal Importance   | (2) Identification of Sustainability Topics              | (3) Affected Stakeholders and Users          |
| (4) Value Chain and Time Horizons                            | (5) Sector-agnostic, Sector-specific and Entity-specific | (6) Materiality of Non-mature Topics         |
| (7) Materiality from EU Policies, Objectives and Legislation | (8) Impact Materiality Assessment Process                | (9) Financial Materiality Assessment Process |

## 2. Conceptual Guidelines



### ESRG 1 – Double Materiality

#### G2 – Identification of Sustainability Topics (ESRG 1.39-42)

- [The Board] should **identify sustainability topics** and structure them before performing the materiality assessment.
- The basis for the identification and **categorisation** of sustainability topics is **provided by the CSRD**.

##### **Categorisation levels of sustainability topics**

- *Level 1*: TOPICS (Environment, Social, Governance)
- *Level 2*: SUB-TOPICS (for example: climate change mitigation)
- *Level 3*: SUB-SUB-TOPICS (for example: energy consumption)
- *Below level 3* (optionally): disclosure (requirements)

##### **Take into consideration**

- Research into the current use of sustainability indicators/disclosures
- Multi-stakeholder consultation (in accordance with Guideline 3)
- Identification of particular risks, opportunities and impacts

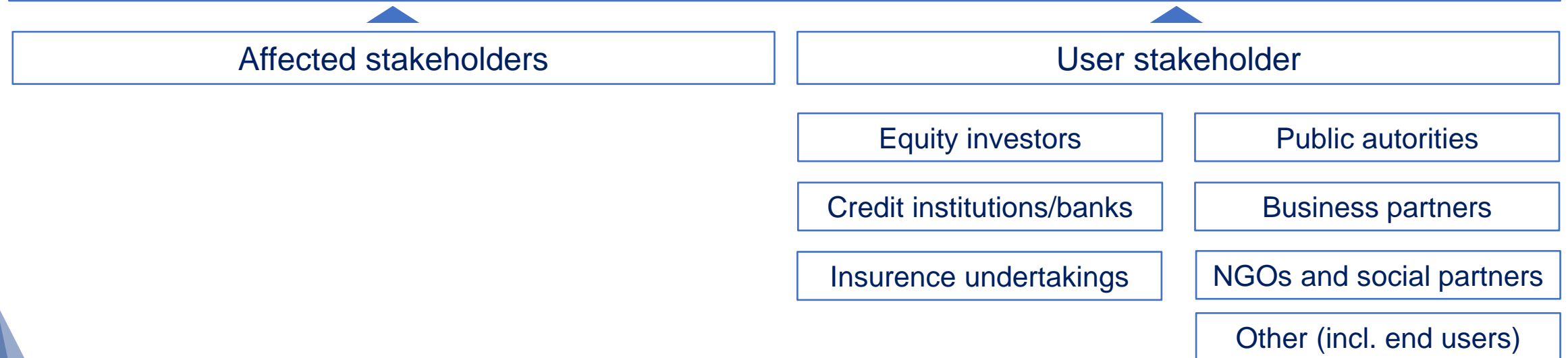
## 2. Conceptual Guidelines



### ESRG 1 – Double Materiality

### G3 – Affected Stakeholders and Users (ESRG 1.43-48)

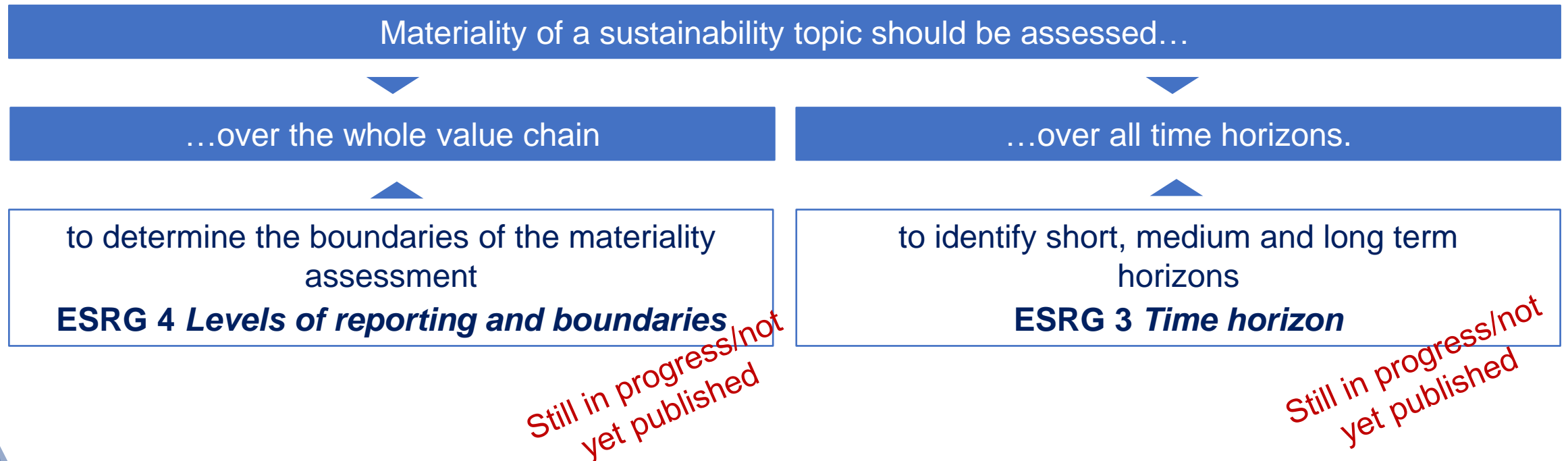
**For each identified sustainability topic, the [the Board] should identify the relevant stakeholders and users and their information needs, as the basis for the process of deciding on the materiality of the topic and the development of related disclosure requirements.**



## 2. Conceptual Guidelines

### ESRG 1 – Double Materiality

### G4 – Value Chain and Time Horizons (ESRG 1.49-51)



## 2. Conceptual Guidelines

### ESRG 1 – Double Materiality

#### G5 – Differentiation Between Sector-agnostic, Sector-specific and Entity-specific Disclosures (ESRG 1.52-59)

**Sector-agnostic level:** material to all undertakings regardless of their sector

**Sector-specific level:** material to most undertakings within specific sectors

**Entity-level:** likely to be material for some or even a significant number of undertakings within a specific sector or across sectors

#### Factors

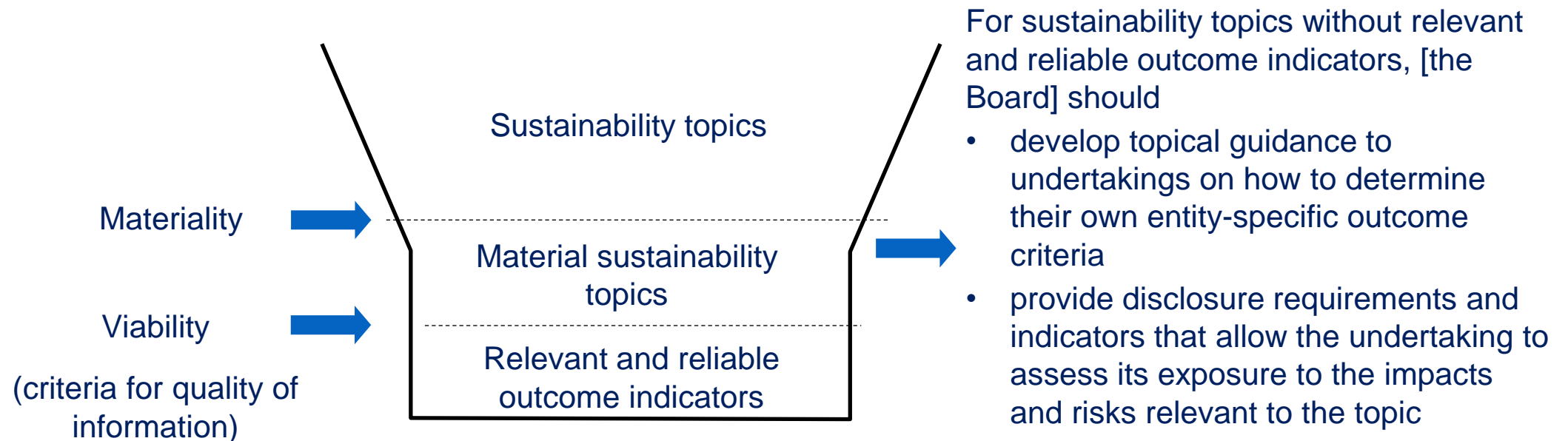
- Existing EU sector legal requirements and sector-specific sustainability goals, international agreements and standards, international agreements and standards (G7)
- Most severe impacts and risks not covered enough by sector-agnostic sustainability reporting
- Widely accepted sector-specific good practice (including sector-specific science-based targets)
- Research into the current use of sustainability indicators/disclosures in widely-applied reporting standards
- Likely to be material for all or a large majority

## 2. Conceptual Guidelines

### ESRG 1 – Double Materiality

### G6 – Materiality of Non-mature Topics (ESRG 1.60-62)

In some situations, a particular sustainability topic may be assessed by [the Board] as **material**, but it is not possible to determine specific disclosure requirements that would ensure **relevant and reliable** information **on outcomes** of undertakings' policies relating to that matter.



## 2. Conceptual Guidelines



### ESRG 1 – Double Materiality

#### G7 – Materiality from EU Policies, Objectives and Legislation (ESRG 1.63-70)

[The Board`s] materiality assessment process should consider reporting obligations stemming from **ESG/sustainability policy initiatives at EU level** as well as at **international level (to the extent they are recognised at EU level)**. This approach takes precedence over the assessment of materiality from the impact perspective and from the financial perspective, as indicated under G1 and further developed under G8 and G9

#### CSRD

content should be presumed to be material for all companies (i.e. sector-agnostic); [the Board] should specify related disclosure requirements at sector-agnostic and sector-specific level, or subject to materiality determination by the undertakings

#### SFDR

[the Board] should ensure coherence and complementarity with SFDR by designating as material the information needed by the financial markets participants to meet their own disclosure obligations



## 2. Conceptual Guidelines



### ESRG 1 – Double Materiality

#### G8 – Impact Materiality Assessment Process to be performed by [the Board] (ESRG 1.71-98)

**Step 1:** Specify the definition of assessed topic



**Step 2:** Assess parameters of impact materiality of the topic (scale, scope, remediability)



**Step 3:** Determine the preliminary impact materiality of the analysed topic

*Preliminary Impact Materiality = Scale of Impact + Scope of Impact + Remediability*



**Step 4:** Perform a judgement on results of steps 2 and 3



**Step 5 (conditional):** performed where Step 4 resulted with topic being assessed as informative, or minimal; perform Steps 2, 3 and 4 for the topic in relation to every sector separately

## 2. Conceptual Guidelines



### ESRG 1 – Double Materiality

#### **G8 – Impact Materiality Assessment Process to be performed by [the Board] (ESRG 1.71-98)**

**Step 2:** Assess parameters of impact materiality of the sustainability topic (scale, scope, remediability)

| Scale of impact |          |
|-----------------|----------|
| 5               | Absolute |
| 4               | High     |
| 3               | Medium   |
| 2               | Low      |
| 1               | Minimal  |
| 0               | None     |

| Scope of impact |              |
|-----------------|--------------|
| 5               | Global/total |
| 4               | Widespread   |
| 3               | Medium       |
| 2               | Concentrated |
| 1               | Limited      |
| 0               | None         |

| Remediability of impact |                                       |
|-------------------------|---------------------------------------|
| 5                       | Non-remediable/irreversible           |
| 4                       | Very difficult to remedy or long-term |
| 3                       | Difficult to remedy or mid-term       |
| 2                       | Remediable with effort (time & cost)  |
| 1                       | Relatively easy to remedy short-term  |
| 0                       | Very easy to remedy                   |

## 2. Conceptual Guidelines



### ESRG 1 – Double Materiality

#### **G8 – Impact Materiality Assessment Process to be performed by [the Board] (ESRG 1.71-98)**

**Step 3:** Determine the preliminary impact materiality of the analysed topic

$$\text{Preliminary Impact Materiality} = \text{Scale of Impact} + \text{Scope of Impact} + \text{Remediability}$$

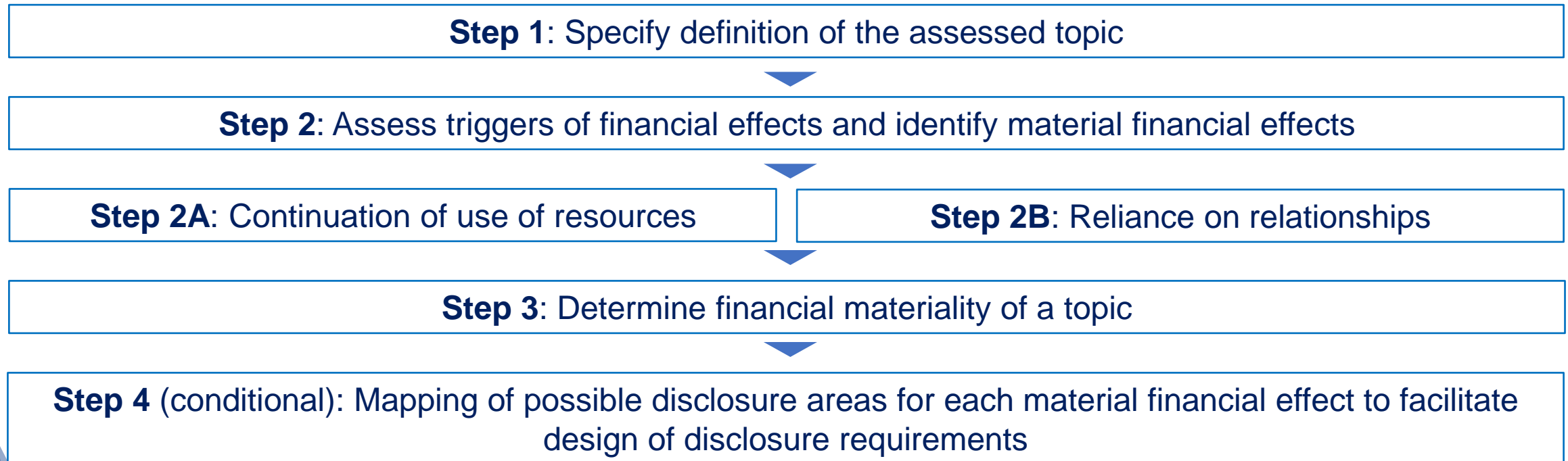
| Preliminary impact materiality |             |
|--------------------------------|-------------|
| ≥ 12                           | Critical    |
| [10,12]                        | Significant |
| [8,10]                         | Important   |
| [5,8]                          | Informative |
| < 5                            | Minimal     |

## 2. Conceptual Guidelines

### ESRG 1 – Double Materiality



### G9 – Financial Materiality Assessment Process (ESRG 1.99-125)



## 2. Conceptual Guidelines



### ESRG 1 – Double Materiality

### G9 – Financial Materiality Assessment Process (ESRG 1.99-125)

#### Step 2A: Continuation of use of resources

| Continuation of use of resources |   | Tick all 'capitals' this trigger relates to: |                    |              |                   |       |                            |
|----------------------------------|---|--|--------------------|--------------|-------------------|-------|----------------------------|
|                                  |   | finan-<br>cial                               | manu-<br>facturing | na-<br>tural | intellec-<br>tual | human | social and<br>relationship |
| 4                                | impossible, very costly or unavailable in the short term  |  |                    |              |                   |       |                            |
| 3                                | possible but costly in the short term, very costly or lacking in the medium term, impossible in the long term |  |                    |              |                   |       |                            |
| 2                                | possible in the short term, costly in the medium term, very costly in the long term                           |  |                    |              |                   |       |                            |
| 1                                | possible in the short, medium and long term   |  |                    |              |                   |       |                            |
| 0                                | without consequence in the short, medium and long term  |  |                    |              |                   |       |                            |

## 2. Conceptual Guidelines



### ESRG 1 – Double Materiality

### G9 – Financial Materiality Assessment Process (ESRG 1.99-125)

#### Step 2B: Reliance on relationships

| Reliance on relationships |  | Check all 'capitals' this trigger relates to: |                    |              |                   |       |                            |
|---------------------------|--|---|--------------------|--------------|-------------------|-------|----------------------------|
|                           |  | finan-<br>cial                                | manu-<br>facturing | na-<br>tural | intellec-<br>tual | human | social and<br>relationship |
| 4                         | strong adverse reaction currently or very likely in the future           |   |                    |              |                   |       |                            |
| 3                         | adverse reaction currently, strong adverse reaction likely in the future |   |                    |              |                   |       |                            |
| 2                         | negative reaction currently, adverse reaction likely in the future       |   |                    |              |                   |       |                            |
| 1                         | signs of negative reaction currently or in the future                    |   |                    |              |                   |       |                            |
| 0                         | neutral / no reaction currently and likely in the future                 |   |                    |              |                   |       |                            |

## 2. Conceptual Guidelines



### ESRG 1 – Double Materiality

#### **G9 – Financial Materiality Assessment Process (ESRG 1.99-125)**

##### **Step 3: Determine financial materiality of a topic**

Financial materiality of the financial effect is determined by the highest of the two scores under Step 2

| Financial materiality |             |
|-----------------------|-------------|
| 4                     | Critical    |
| 3                     | Significant |
| 2                     | Important   |
| 1                     | Informative |
| 0                     | Minimal     |

### 3. Cross-cutting Standards / Content Standards



#### ESRS 4 – Sustainability Material Impacts, Risks and Opportunities

##### Objective (ESRS 4.2)

to support **undertakings** in **identifying material sustainability impacts, risks and opportunities** and to **specify disclosure requirements** for the description by the undertaking of:

- (a) its **processes** to identify material sustainability impacts, risks and opportunities,
- (b) its material sustainability impacts, risks and opportunities that are mandated to be disclosed by **topical standards** or standards that are specific for the **sector** the undertaking is in
- (c) its material, **entity specific** sustainability impacts, risks and opportunities not covered by any standard, as well as
- (d) setting characteristics of quality of entity specific disclosures.



### 3. Cross-cutting Standards / Content Standards



#### ESRS 4 – Sustainability Material Impacts, Risks and Opportunities

#### Disclosure Requirement 1 (ESRS 4.5-9) – Description of Processes to Identify Material Sustainability Impacts, Risks and Opportunities (1/3)

- Assessment in relation to disclosures mandated by relevant sector-agnostic and sector-specific standards and – equally important – assessment of potential additional disclosures necessary at entity-specific level
- Acknowledgement of **double materiality** as the pivotal principle: Sustainability matter can be material due to **impact materiality** or **financial materiality** or both (equally important)
- Materiality is ... the criterion for prioritisation and inclusion of specific information into corporate reports. Materiality reflects:
  - (i) the **significance** of the information in relation to the phenomenon it purports to depict or explain, as well as
  - (ii) its capacity to **meet the needs and expectations** of the stakeholders of the undertaking and of the undertaking itself allowing for proper decision-making and more generally
  - (iii) the needs for **transparency** corresponding to public interest.
- The implementation of materiality may imply the use of thresholds and/or criteria.

### 3. Cross-cutting Standards / Content Standards



#### ESRS 4 – Sustainability Material Impacts, Risks and Opportunities

#### Disclosure Requirement 1 (ESRS 4.5-9) – Description of Processes to Identify Material Sustainability Impacts, Risks and Opportunities (2/3)

##### Process:

- Screen ESRS for sustainability matters and structure them before materiality assessment
- For each sustainability matter, ... identify the relevant stakeholders and users and their information needs, as the basis for the process of determination of the materiality of the matter and if necessary, the development of related entity specific disclosures. ... to ensure that impact on **all affected stakeholders** is taken into account and not only the needs of users.
- Assess materiality of sustainability matter over the value chain and over the **short-, medium- and long-term time horizon**. ... actual or potential significant impacts directly caused or contributed to, by the undertaking, as well as impacts which are otherwise directly linked to the **undertaking's entire upstream and downstream value chain, regardless of the undertaking's contribution to it.**
- impact assessment based on: the **severity of an actual negative impact**, which is determined by **scale, scope** and **irremediable character** of the impact, and, the severity as well as **likelihood** of a potential negative impact.

## 3. Cross-cutting Standards / Content Standards



### ESRS 4 – Sustainability Material Impacts, Risks and Opportunities

#### **Disclosure Requirement 1 (ESRS 4.5-9) – Description of Processes to Identify Material Sustainability Impacts, Risks and Opportunities (3/3)**

##### Disclosures:

- Organisation, process, internal control procedures, decision making steps, incl:
- Due diligence process used to identify potential and actual impacts... and to identify sustainability risks and opportunities that affect or may affect its financial development, performance and position
- Explanation on how materiality of impacts and risks and opportunities was determined
- Explanation of involvement / engagement of stakeholders, internal and external experts
- Latest and future revision dates of the assessment

### 3. Cross-cutting Standards / Content Standards



#### ESRS 4 – Sustainability Material Impacts, Risks and Opportunities

#### Disclosure Requirement 2 (ESRS 4.10-18) – Outcome of Assessment for ESRS Requirements (1/2)

- The undertaking shall provide a description of the outcome of its assessment processes as regards mandatory disclosures under ESRS with a particular emphasis on relevant explanations on **why certain mandatory disclosures are not material** under the undertaking's specific facts and circumstances and therefore disclosed as such.
- Sector-agnostic and sector specific ESRS
- Rebuttable presumption: ESRS mandatory disclosure requirements are material
- Rebuttable on the basis of appropriate **evidence** (for each ESRS disclosure requirement) – undertaking shall establish explicit thresholds / criteria for “not material”
- Compliance by stating: “**not material for the undertaking**” (nil or not meaningful and not decision-useful)
- “**When required by an EU legislation or regulation, or by any other authoritative instrument, a mandatory disclosure requirement cannot be assessed as not material.**” (ESRS 4.15)

### 3. Cross-cutting Standards / Content Standards



#### ESRS 4 – Sustainability Material Impacts, Risks and Opportunities

#### Disclosure Requirement 2 (ESRS 4.10-18) – Outcome of Assessment for ESRS Requirements (2/2)

- In **performing materiality assessment**, consider / disclose a **clear statement** on sustainability matters, incl:
  - Actual and potential, negative and positive impacts (severity, likelihood)
  - Financial risks and opportunities, incl. how:
    - material sustainability-related risks and opportunities have affected the undertaking's financial performance, position and cash flows
    - undertaking expects financial performance, position and cash flows to change over time as a consequence of material sustainability-related risks and opportunities
    - undertaking is exposed to the risk or how the undertaking intends to pursue the opportunity, and
    - the risk and opportunity are measured and monitored, including any uncertainties and assumptions connected to their measurement and monitoring
- **statement** on sustainability matters further includes:
  - List of matters prioritised and monitored directly by highest governing body
  - List of disclosure requirements “not material for the undertaking”, thresholds/criterias, explanations of changes to the list compared to previous period
  - **Note:** “Mandatory disclosures complied with ... are... presumed to be confirmed as ... material”

### 3. Cross-cutting Standards / Content Standards



#### ESRS 4 – Sustainability Material Impacts, Risks and Opportunities

#### Disclosure Requirement 3 (ESRS 4.19-23) – Outcome of Assessment on Entity-specific Level

- Disclose information:
  - about all material impacts, risks and opportunities of the undertaking resulting from the **undertaking's specific facts and circumstances** for which relevant disclosure requirements **do not exist**, and
  - about those among them that due to their importance are prioritised and monitored directly by the undertaking's governing bodies
  - how entity-specific disclosures were identified, why they were considered material
  - describe prioritisation of negative impacts regarding severity / likelihood
  - nature of involvement: through activities or as a result of business relationships
  - ...
  - explanation of the changes of the list compared to previous year.
- Application provision (ESRS 4.30 f.)
  - Transitional measure for first reporting periods when defining entity-specific disclosures:
  - “entity-specific disclosure ... that have been reported ... in prior periods...”

### 3. Cross-cutting Standards / Content Standards



#### ESRS 4 – Sustainability Material Impacts, Risks and Opportunities

#### Disclosure Requirement 4 (ESRS 4.24-29) – Characteristics of Quality of Entity-specific Disclosure

- Disclosing appropriately at entity-specific level implies that disclosures meet the characteristics of quality expected from sustainability information which can be summarised as follows:
  - (a) information shall be **relevant**,
  - (b) information shall give a **faithful representation** of the phenomenon it purports to depict,
  - (c) information shall be **comparable** to the maximum extent possible,
  - (d) information shall be **verifiable**, and
  - (e) information shall be **understandable**.
- Comparability **between undertakings / over time** (consistency of methodologies; explanation of changes)
- **Metric / indicator**: “valuable insight”
  - No unintended consequences of information
  - Indicative capability
  - Measurable without “excessive amount of conjecture and unknowns” (too arbitrary to be of value)
  - Contextualisation: can be interpreted without context

# 3. Cross-cutting Standards / Content Standards



## ESRS 2 – Strategy and Business Model

### Table of content

Objective

Interaction with other ESRS

Disclosure requirements

Appendix A: Defined terms

Appendix B: Application Guidance

Appendix C: Digitisation guidance

Basis for conclusions on ESRS 2

(incl. Existing EU Requirements)

### **Objective**

- 1 The objective of this [draft] standard is to specify disclosure requirements for how a reporting undertaking describes:
  - (a) Its strategy and business model(s) as a context to its sustainability-related reporting;
  - (b) how sustainability-related matters are related to, interact with and inform its strategy and business model(s).

### **Interaction with other ESRS**

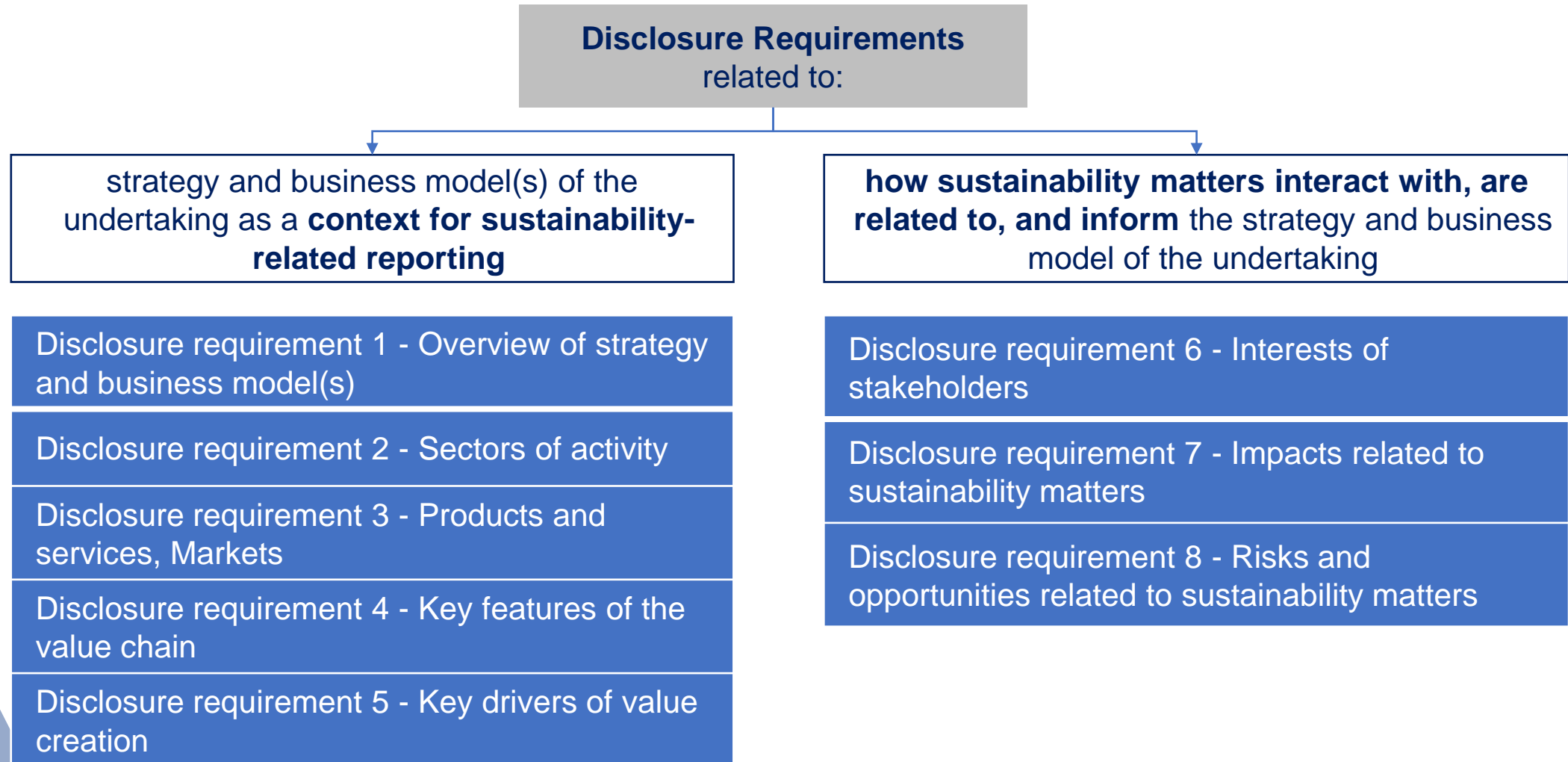
- 2 All requirements related to Strategy and business model are described in this ESRS even when related to specific topics such as Climate, and other environmental or social issues.



### 3. Cross-cutting Standards / Content Standards



#### ESRS 2 – Strategy and Business Model



# 3. Cross-cutting Standards / Content Standards



## ESRS 2 – Strategy and Business Model

|   |  |  |                                     |
|---|--|--|-------------------------------------|
| 1 | <b>Overview of Strategy and business model</b> | An undertaking shall provide a summarised description of its strategy and business model as context to its sustainability-related reporting.   | among others, connected with:       |
| 2 | <b>Sectors of activity</b>                     | An undertaking shall provide a description of the sector(s) it is active in.   | ESRS SEC 1                          |
| 3 | <b>Products and Services, Markets</b>          | An undertaking shall provide a description of its main products and services as well as the main markets it operates in.   | Financial Statements                |
| 4 | <b>Key features of the value chain</b>         | An undertaking shall describe its value chain. ... to provide an understanding of the value chain in which it operates and of its positioning in the process of delivering products and services to end-users.   | Boundaries                          |
| 5 | <b>Key drivers of value creation</b>           | describe how it creates value ...to provide an understanding of the key value creation drivers the undertaking is leveraging to contribute to the overall performance of the value chain it operates in with regard to the respective interests of all stakeholders. | Financial Statements / Time Horizon |

# 3. Cross-cutting Standards / Content Standards



## ESRS 2 – Strategy and Business Model

### 1 Overview of Strategy and business model

### Standard and Application Guidance

#### Standard

- a) Overview of key features of strategy and business model
- b) Summarised description of sustainability related strategies
- c) Mission statement

#### Application Guidance

- a) Mission, vision, core values when defined and goals and purposes in terms of product and services, customer categories, geographic areas and relationships with stakeholders
- b) Assessment of current market positions
- c) Intended direction of travel on the basis of relevant defined time horizons, including main challenges ahead, critical solutions or projects to be put in place, projected outcomes
- d) Key targets expected to reach
- e) Critical inputs and approach to gather, develop and secure those inputs
- f) Key aspects of value creation system, incl. structure and processes
- g) Outputs and outcomes with related current and expected benefits for stakeholders
- h) Link between sustainability strategy to general description
- i) Requirements at undertaking level or at consolidated level, if boundaries differ from financial reporting: reconciliation can be useful

# 3. Cross-cutting Standards / Content Standards



## ESRS 2 – Strategy and Business Model

2

Sectors of activity

ESRS SEC 1

### **SASB Sector Example: Consumer Goods**

#### **Industries of Consumer Goods**

- 1 Apparel, Accessories & Footwear
- 2 Appliance Manufacturing
- 3 Building Products & Furnishings
- 4 E-Commerce
- 5 Household & Personal Products
- 6 Multiline and Specialty Retailers & Distributors
- 7 Toys & Sporting Goods

# 3. Cross-cutting Standards / Content Standards



## ESRS 2 – Strategy and Business Model

3

**Products and services,  
Markets**

(implicit) link to financial statements

### Information on

- 1 Products and services offered
- 2 Markets the undertaking operates in, including the characteristics of those markets, as well as the size and relative importance of those markets to the undertaking, and
- 3 Customer groups targeted by the undertaking,
- 4 Related headcount and major locations,
- 5 Analysis of turnover (by product / service, by market and by geographical area)

### Application Guidance

- 1 New products/services, removed products / services and relative share in sales
- 2 New markets / markets closed and relative shares in sales
- 3 New customer groups / groups not served anymore and relative shares in sales
- 4 Products / services under bans, restrictions or under public debate regarding potential bans

# 3. Cross-cutting Standards / Content Standards



## ESRS 2 – Strategy and Business Model

### 4 Key features of the value chain

### Example Application Guidance

#### Information on

- 1 Main suppliers (upstream value chain) and main customers (downstream value chain)
- 2 Key resources leveraged to perform its operations
- 3 Characteristics of relationship with end-users

#### Application Guidance

- 1 “key features of value chain participants (categories of main direct suppliers, sub-contractors and customers (including their country of origin and **their own value chain**)), indicate their relative importance in financial terms (in income statement terms)...”
- 2 “business relationships with suppliers, sub-contractors, customers and distribution channels together with the related underlying contractual terms (including duration and legal instruments)”
- 3 “The **boundaries** of the value chain cannot be quantitatively defined in a way that suits all undertakings. Rather, the boundaries are defined qualitatively as relative to an undertaking’s material risks, opportunities and impacts. The description of the value chain should be directly linked to the undertaking’s identified risks, opportunities and impacts and to sustainability reporting boundaries....”

# 3. Cross-cutting Standards / Content Standards



## ESRS 2 – Strategy and Business Model

### 5 Key drivers of value creation

Explicit link to financial statements

#### Information on

- 1 Structure of operations and relationships to create value for all stakeholders on the basis of strategy and business model
- 2 Link to relevant information in financial statements shall be provided

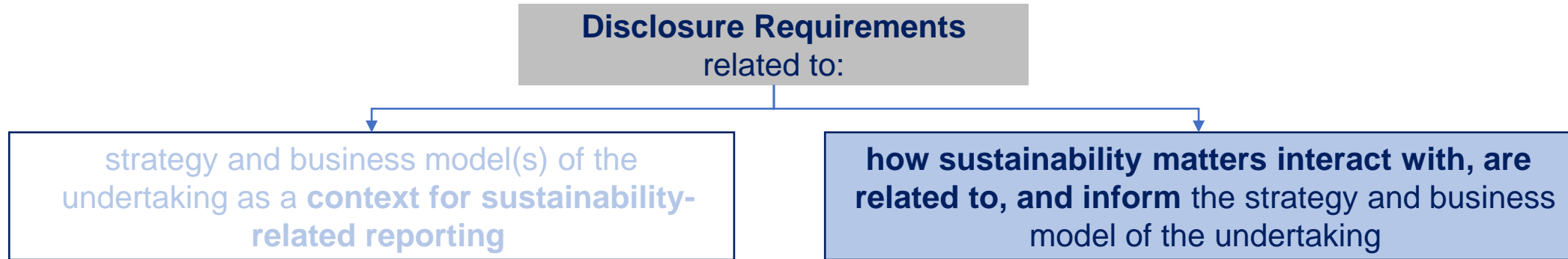
#### Application Guidance

- 1 key drivers of **investor-related value creation**, including potential financial effects of impacts and also the organisation and main processes implemented by the undertaking to generate revenues and manage its cost base in a competitive manner,
- 2 the key drivers of **value creation for other stakeholders**, covering financial and other benefit
- 3 Key driver of investor-related value creation shall be disclosed ... by direct disclosure or by explicit reference to clearly identified indicators located in financial statements or the MC (shareholder and credit institutions/other lenders perspective
- 4 Specific attention shall be given to **forward-looking aspects** ... that reflect stated direction of travel and targets and/or ambitions. That includes: **revenue generation, cost management and control, profitability, capex plans, financial structure and cash flow generation**. Specifying stated time horizons of targets and ambitions.
- 5 **Reconciliation with financial data** should be performed with reference to applicable accounting standards, such as IFRS 8 requirements for entities applying International accounting standards (IAS regulation) or on local GAAP for the others.
- 6 Disclosure based on identification of most important stakeholders...

# 3. Cross-cutting Standards / Content Standards



## ESRS 2 – Strategy and Business Model



|   |  |  |   |
|---|--|--|---|
| 6 | <b>Interests of stakeholders</b>                                 | An undertaking shall describe how the views and interests of its stakeholders inform the undertaking’s strategy and business model(s). | e.g.: principal stakeholders and their views, interests and expectations  |
| 7 | <b>Impacts related to sustainability matters</b>                 | An undertaking shall provide a description of the interaction between its material impacts and its strategy and business model(s).     | e.g. how material impacts originate from / inform strategy & business model / summary of material sust. impacts monitored by highest governing body |
| 8 | <b>Risks and opportunities related to sustainability matters</b> | An undertaking shall provide a description of interaction between material risks and opportunities and its strategy and business model | e.g. how actual and potential risks and opportunities relate to strategy and business model; information on overall resilience                      |



# 3. Cross-cutting Standards / Content Standards



## ESRS 3 – Sustainability Governance and Organisation



### Objective

The objective of this [draft] standard is to specify disclosure requirements for the description by the undertaking of its governance and organisation in relation to sustainability matters.

### Appendix A: Defined terms – Highest governance body

The governance body with the highest decision-making authority in the undertaking. In some jurisdictions, governance systems consist of two tiers, where supervision and management are separated. In such cases, both tiers are included under the definition of highest governance body.

# 3. Cross-cutting Standards / Content Standards



## ESRS 3 – Sustainability Governance and Organisation

### Disclosure Requirements

(1) Roles and responsibilities of governance bodies

- Distribution of roles throughout the organization (highest governance body to operational level) / delegation of specific responsibilities
- Expertise / training
- Sustainability criteria in selection process

(2) Information of governance bodies about sustainability matters

- How governance bodies and senior management executives are being informed?
- description of the process (incl. whom information is received from / frequency)
- ...

(3) Sustainability matters addressed by the undertaking's governance bodies

- Information on whether highest governance body was adequately informed of ... impacts, risks and opportunities arising or developing during the reporting period
- matters addressed? / list
- Prioritised matters: key decisions

(4) Integration of sustain-ability strategies and performance in compensation schemes

- Incentives to properly manage sustain-ability impacts, risks and opportunities and to towards implementing sustain-ability strategy / to whom policies apply
- AG18: how performance is measured (financial / non-financial KPIs, targets), / BC29: share of compensation subject to plan

### 3. Cross-cutting Standards / Reference Standard



#### ESRS 5 – Definitions for policies, targets, action plans and resources

##### Objective (ESRS 5.1-.2)

- This [draft] standard serves therefore as a **reference standard for disclosure on policies, targets, action plans and resources** as mandated by other ESRS or as defined by the undertaking itself for entity-specific impacts, risks and opportunities

##### Interaction with other ESRS (ESRS 5.3-.4)

- This ESRS **does not mandate disclosure requirements per se**, it provides a common reference for the implementation of other ESRS: disclosure requirements related to policies, targets, action plans and resources mandated by other topical ESRS **shall incorporate the disclosure defined in this standard**. As a consequence the undertakings shall disclose such combined information under the respective other ESRS.
- ESRS 2, 3 and 4 define disclosure requirements on how sustainability matters taken as a whole interact with the undertaking's (i) strategy and business model(s), (ii) governance and organisation and (ii) assessment of impacts, risks and opportunities. **The decisions made by the undertaking following such interactions are translated into implementation measures in terms of established policies, targets set, action plans and resources allocated** which shall be described, when required by other ESRS, following the prescriptions of this ESRS.

# 3. Cross-cutting Standards / Reference Standard



## ESRS 5 – Disclosure Reference Contents

### (1) Policies implemented to manage material sustainability matters

- To understand how undertaking intends to address the identified material sustainability impacts, risks and opportunities
- For each policy: description, incl. general objectives; scope (operations, value chain, business relationships); allocation of responsibilities at all relevant operational levels, third-party-standards considered; consideration given to interests of stakeholders

### (2) Measurable targets in relation to policies and progress against those targets

- Disclose undertaking's ambition, formulated as a measurable target, in terms of expected results / progress towards the adopted target over time.
- For each target: scope (incl. limitations as to geographical boundaries or activities); baseline value and/or base year; timeframe incl. milestones; methodologies and significant assumptions used to define targets; any changes in targets or underlying methodologies and assumptions and explanation for those changes and their effect on comparability; overall progress towards the defined target (incl. whether in line with initial plan); analysis of trends or significant changes in performance of the undertaking towards achieving the target.
- AG13: in calculation of targets no netting / offsetting of impacts
- If no target is adopted: e.g. reasons, whether progress is measured without targets

# 3. Cross-cutting Standards / Reference Standard



## ESRS 5 – Disclosure Reference Contents

(3) Actions, action plans and resources in relation to policies and targets

- To understand stand-alone actions and actions plans and the related allocation of resources
- For each action / action plan / transition plan: scope of actions re/ undertaking's activities and value chain; time horizon; expected outcome; examples of key actions
- Resources needed / allocated → AG24: capital expenditure / operating expenditure of relevant time horizon, at minimum for the current reporting year resources