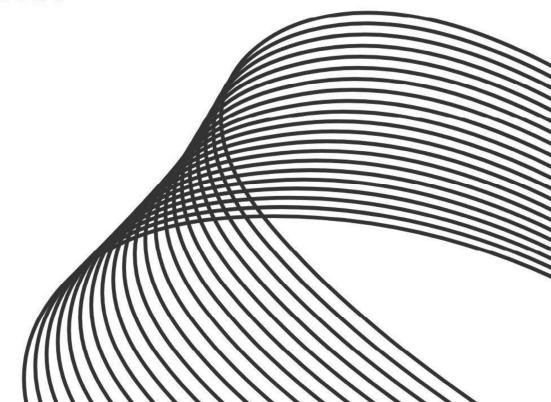


ESRS IMPLEMENTATION Q&A PLATFORM

Compilation of Explanations

Auszug

JANUARY-MAY 2024



- (a) following the outcome of its due diligence process and of its materiality assessment; and
- (b) in accordance with any specific requirements related to the value chain in other ESRS.'

Answer

ESRS 1 paragraph 62 clarifies that the sustainability statement shall be prepared for the same reporting undertaking as the financial statements. Therefore, the scope of own operations for an insurance company is guided by the financial reporting requirements, which reflect the business model, and is not necessarily the same as under Solvency II. Reference is made also to IG 2 *Value chain* chapter 2.3).

Following the definition of business relationship in Annex 2 of the ESRS Delegated Act, the investments (including those related to insurances with profit participation) fall under the scope of an undertaking's business relationships. Therefore, investments are considered part of the value chain and are subject to consideration in the materiality assessment of impacts, risks and opportunities as established in ESRS 1 paragraph 63. Also refer to IG 2 *Value chain* FAQ 2. When the undertaking has identified material impacts, risks or opportunities that are connected to an investment business relationship, it must disclose them (ESRS 1 chapter 5 Value chain).

Regarding investment activities, the sector-agnostic ESRS do not provide Disclosure Requirements concerning specific metrics apart from GHG Scope 3. For GHG Scope 3, Category 15 (Investments) is to be provided, if it is determined to be a significant category in accordance with ESRS E1 paragraphs 44(c), AR 39(a), AR 46 and AR 48.

EFRAG expects to add more guidance on these aspects in the forthcoming sector ESRS.

Question ID 148 - Scope of consolidation for non-EU and unconsolidated subsidiaries

Release date

May 2024

Question asked

Shall the (consolidated) sustainability statement of a parent company include all its subsidiaries even if some of them:

- (a) are located outside of the EU; and/or
- (b) if some are not consolidated for financial statements purposes?

ESRS reference

ESRS 1 paragraph 62

Key terms

Non-EU subsidiaries, non-consolidated subsidiaries

Background

[The following question was received: 'Does the (consolidated) sustainability statement of a parent company have to include all its subsidiaries even if some of them are located outside of the EU and/or if some are not (financially/legally) consolidated?' and changed it to the above for clarity.]

ESRS 1 paragraph 62 states: 'The sustainability statement 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 90 states: 'Data and assumptions used in preparing the sustainability statement shall be consistent to the extent possible with the corresponding financial data and assumptions used in the undertaking's financial statements.'

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.'

The scope of consolidation of financial statements for undertakings organised as a group is determined by either IFRS or national accounting laws, considering the requirements of the Accounting Directive (Directive 2013/34/EU, specifically Article 21). Exemptions from the consolidation of subsidiaries in the financial statements are provided under Article 23(9) and (10) of the Accounting Directive.

In addition to these provisions in practise subsidiaries sometimes may not be included in the financial consolidation, based on materiality considerations, even though the legal obligation to consolidate them exists.

Answer

The starting point of the sustainability statement is the perimeter used for financial reporting.

The consolidated sustainability statement of a parent company must include all its subsidiaries in line with the scope of consolidation in financial reporting, even if some of them are located outside of the EU.

The undertaking performs its assessment of material impacts, risks and opportunities based on the business model for the entire consolidated group. Subsidiaries that are immaterial for financial statements and therefore are excluded from the consolidated perimeter when preparing financial statements on an exceptional basis for practical considerations, or in line with national accounting law from, may still be material from a double materiality point of view. When this happens, they shall be included in the reporting boundaries of the consolidated sustainability statement, despite them being deemed immaterial for the consolidated financial statements.

See also 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?

Question ID 217 - Prudential consolidation

Release date

March 2024