



iGAAP in Focus

European sustainability reporting

EFRAG launches consultation on first set of European Sustainability Reporting Standards

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This *iGAAP in Focus* outlines the [Draft European Sustainability Reporting Standards \(ESRS\) Exposure Drafts \(EDs\)](#) issued for public consultation on 29 April 2022 by the Project Task Force on ESRS (PTF-ESRS).

- EFRAG has launched a public consultation on the Draft ESRS EDs developed by its PTF-ESRS
- The EDs comprise proposals for two cross-cutting standards that cover general provisions, five standards that cover environmental matters, four standards that cover social matters and two standards that cover governance matters
- The EU proposal for a Corporate Sustainability Reporting Directive (CSRD) requires companies to report using EU sustainability reporting standards, developed by EFRAG. The EDs represent the first set of standards that would be required under the proposals. A second set of standards including sector-specific standards is expected in 2023
- The requirements would apply to all large companies and all companies listed on EU regulated markets except listed micro entities. It includes companies not established in the EU that are listed on EU regulated markets and EU subsidiaries of non-EU companies, with an optional exemption if the non-EU parent company publishes consolidated sustainability statements in accordance with equivalent requirements to the EU law
- The EDs have a consultation period of 100 days, ending on 8 August 2022

Background

As set out in our [Purpose-driven Business Reporting in Focus](#), the European Commission (EC) published a proposal for CSRD in April 2021. The objective of the CSRD proposal is to improve sustainability reporting and ensure it is brought into a company's management report to better leverage the potential of the European single market and to contribute to the transition to a fully sustainable and inclusive economic and financial system in line with the European Green Deal and the UN Sustainable Development Goals (SDGs).

For more information please see the following websites:

www.iasplus.com
www.deloitte.com

The proposed legislation expects EU Member States to transpose the CSRD by 1 December 2022 and its provisions to apply to all large companies for financial years starting on or after 1 January 2023. The requirements for listed small and medium-sized entities (SMEs) would apply for financial years starting on or after 1 January 2026.

Proposed architecture of ESRS

The architecture of the standards is guided by the CSRD proposal, which includes a list of sustainability information to be covered by ESRS. Many elements of information contained in that list would apply to all sustainability subject matters—also identified as sustainability topics, subtopics or sub-subtopics in the EDs.

Observation

The CSRD proposal sets out the sustainability information that companies would have to include in their sustainability statements. Companies would need to provide qualitative, quantitative, forward-looking and retrospective information, including on their value chain, covering short-, medium- and long-term time horizons. The information provided is subject to double materiality, i.e. companies would be required to report both on how various sustainability matters affect the company and on the impacts of a company's activities on people and the environment. The information would be mandatory as part of the management report.

EFRAG created the following three categories of standards which complement and interact with each other:

- **Cross-cutting standards**, which cover the general provisions applying to:
 - Sustainability reporting under the CSRD, including principles for disclosures under ESRS (ESRS 1)
 - Sustainability disclosure requirements relating to compliance, strategy, governance and sustainability impacts, risks and opportunities (ESRS 2)
- **Topical standards**, which cover a specific sustainability topic or sub-topic from a sector-agnostic perspective—that is disclosure requirements relating to sustainability impacts, risks and opportunities that are considered to be material for all entities, regardless of the sectors they operate in
- **Sector-specific standards**, which prescribe disclosure of information relating to sustainability risks, impacts and opportunities that are considered to be material for all entities operating in a given sector

The EDs published in April 2022 include proposals for the following ESRS:

Cross-cutting standards:

- ESRS 1 *General principles*
- ESRS 2 *General, strategy, governance and materiality assessment*

Topical standards that cover environmental matters:

- ESRS E1 *Climate change*
- ESRS E2 *Pollution*
- ESRS E3 *Water and marine resources*
- ESRS E4 *Biodiversity and ecosystems*
- ESRS E5 *Resource use and circular economy*

Topical standards that cover social matters:

- ESRS S1 *Own workforce*
- ESRS S2 *Workers in the value chain*
- ESRS S3 *Affected communities*
- ESRS S4 *Consumer and end-users*

Topical standards that cover governance matters:

- ESRS G1 *Governance, risk management and internal control*
- ESRS G2 *Business conduct*

A consultation on sector-specific ESRS is expected in 2023.

Proposed cross-cutting standards

ESRS 1 General principles

Objective

The proposed ESRS 1 prescribes the mandatory concepts and principles that apply for the preparation of sustainability statements under the CSRD proposal. Sustainability statements as a term is defined in the draft standard as a separately identifiable section or the parts of the management report that contain the sustainability information required by the applicable ESRS.

When preparing its sustainability statements, an entity would disclose all material information on its sustainability-related impacts, risks and opportunities in accordance with applicable ESRS. Applicable ESRS mandate reporting under standardised sector-agnostic and sector-specific disclosures. These disclosures are complemented by entity-specific disclosures to be developed as prescribed under the principles established by ESRS 1.

CSRD concepts

In its sustainability statements, an entity would be required to comply with the following concepts contained in the CSRD proposal:

- Information to be reported should be relevant, represented in a faithful manner, comparable, verifiable and understandable (information quality)
- An entity would report the material information necessary to allow users of its sustainability statements to understand its impacts on sustainability matters, and how sustainability matters affect the entity's development, performance and position (double materiality)
- Material actual or potential (adverse) impacts, risks and opportunities connected with the entity's value chain, including its products and services, its business relationships and its supply chain, should be considered (boundaries and value chain)
- Sustainability matters would be considered over an appropriate short, medium and long-term time horizon containing retrospective and forward-looking information (time horizon)
- An entity would disclose information on its sustainability due diligence, which is described as the process that entities carry out to identify, assess, prevent, mitigate and remediate the actual and potential adverse impacts connected with its operations, products or services through its own activities and its business relationships

The most important of these concepts are explained in more detail below.

Double materiality

It is proposed that an entity reports sustainability matters on the basis of the double materiality principle. Materiality reflects the significance of the information in relation to the phenomenon it purports to depict or explain, as well as its capacity to meet the needs of the stakeholders of the entity.

Stakeholders are defined in the proposals as those who can affect or be affected by the entity's decisions and actions. The entity would be required to identify its two main groups of stakeholders:

- Affected stakeholders: individuals or groups that have interests that are affected or could be affected—positively or negatively—by the entity's activities and through its value chain
- Users of sustainability reporting: stakeholders with an interest in the entity:
 - Existing and potential investors, lenders and other creditors (including asset managers, credit institutions, insurance entities)
 - Business partners of the entity, trade unions and social partners, civil society organisations and non-governmental organisations

Double materiality comprises **impact materiality** and **financial materiality**. A sustainability matter therefore meets the criteria of double materiality if it is material from *either* the impact perspective or the financial perspective *or both* perspectives.

The proposals emphasise that impact materiality and financial materiality assessments are intertwined and the interdependencies between the two dimensions should be considered by an entity when making materiality assessments. Impact materiality and financial materiality are characteristics of a sustainability matter or information in relation to an entity.

Impact materiality: A sustainability matter is material from an impact perspective if it is connected to actual or potential significant impacts by the entity on people or the environment over the short, medium or long term. This includes impacts directly caused, or contributed to, by the entity in its own operations, products or services and impacts which are otherwise directly linked to the entity's upstream and downstream value chain, and not limited to contractual relationships.

Financial materiality: For the purposes of preparing sustainability reporting, a sustainability matter is material from a financial perspective if it triggers or may trigger significant financial effects on entity, i.e. it generates or may generate significant risks or opportunities that influence or are likely to influence the future cash flows and therefore the enterprise value of the entity in the short, medium or long term, but it is not captured or not yet fully captured by financial reporting at the reporting date.

In general, the starting point for the materiality assessment is assumed to be the assessment of impact materiality, as a sustainability impact may become financially material when it translates or is likely to translate into financial effects in the short, medium, or long term. In addition, beyond considering the actual and potential financial consequences of its material impacts, the entity would consider how it is affected by sustainability matters which are external to its activities.

ESRS would mandate disclosure requirements for all entities or all entities in a particular sector reflecting double materiality. Therefore, all mandatory disclosure requirements established by ESRS should be presumed to be material and, therefore, justify a full disclosure in accordance with the relevant ESRS. However, this presumption can be rebutted in view of the entity's facts and circumstances and the outcome of its assessment process if based on reasonable and supportable evidence.

The entity would be required to establish explicit thresholds and/or criteria to determine whether information resulting from a disclosure requirement is material for the entity. If it is assessed as not material, the entity would include a statement referencing the disclosure requirement and stating that the resulting information is not material for the entity.

Reporting boundary

The entity's reporting boundary for its sustainability reporting is the one retained for its financial statements, but expanded to its upstream and downstream value chain. Associates and joint ventures accounted for under the equity method are considered as part of the upstream or downstream value chain. Entities accounted for under the proportional consolidation method are considered as part of the boundary for the consolidated portion.

The entity's reporting boundary is expanded when the integration of information on impacts, risks and opportunities on matters connected to the entity by its direct and indirect business relationships in the upstream and/or downstream value chain is necessary to:

- Allow users of sustainability reporting to understand the entity's material impacts and how material sustainability-related risks and opportunities affect the entity's development, performance and position; and
- Produce a set of complete information that meets the qualitative characteristics of information quality

Time horizon

The ED states that an entity would be required to adopt the same reporting period for its sustainability statements as for its financial statements. The entity would link retrospective and forward-looking information in its sustainability statements, to foster a clear understanding of how historical data relates to future-oriented data.

When preparing its sustainability statements, the entity would adopt the following time intervals as of the end of the reporting period:

- One year for short-term
- Two to five years for medium-term
- More than five years for long-term

Due diligence

The proposals include disclosure requirements on due diligence. These are derived from the EC's proposal for a Directive on Corporate Sustainability Due Diligence (CSDDD), which is intended to foster sustainable and responsible corporate behaviour and to anchor human rights and environmental considerations in companies' operations and corporate governance. The CSRD proposal will cover reporting on the due diligence duty. The disclosure requirements in ESRS are organised in the following categories that correspond to the main aspects of due diligence:

- Embedding due diligence in governance and organisation
- Engaging with stakeholders
- Identifying and assessing adverse impacts
- Taking actions to address those adverse impacts
- Tracking the effectiveness of these efforts and communicating

Implementation

The draft standard provides disclosure principles on implementation of the entity's strategy following the decisions taken through its governance processes and the assessment of its impacts, risks and opportunities. The objective of these principles is to specify, from a generic perspective, the key aspects to disclose when the entity describes policies, targets, actions and action plans, and resources in relation to sustainability matters.

Understanding the entity's implementation approach encompasses information on the following aspects:

- The policies adopted by the entity to manage its material sustainability-related impacts, risks and opportunities
- The targets the entity has set to define what it wants to achieve
- The actions and action plans, including transition plans, the entity has put in place
- The resources, operational expenses and capital expenditure the entity is dedicating to the action plans

Preparing and presenting sustainability information

General presentation principles

The entity would be required to report all the applicable disclosures required by ESRS in its sustainability statements. When reporting the disclosures required by sector-agnostic ESRS, the entity would be required to choose one of the following three options:

1. Reporting the disclosures within a single separately identifiable section of the management report. This is the preferred option in the proposals.
2. Aggregating the disclosures into four separately identifiable parts of the management report:
 - General information
 - Environmental information
 - Social information
 - Governance information
3. Aggregating the disclosures required by each ESRS and reporting them as non-separable blocks in identifiable parts of the management report on a standard-by-standard basis

An entity that elects to disclose in line with Options 2 or 3 would report a location table within the management report using a tabular format allowing users to identify where the sector-agnostic disclosures are presented in the management report. Appendices set out the classification of ESRS reporting areas and sub-topics, including the non-separable blocks of disclosures, and illustrate the structure of the sustainability statements applying the three options.

In addition, the entity would be required to report the disclosures pursuant to Article 8 of the Taxonomy regulation (2020/852) in a dedicated and identifiable part of the management report.

The entity may include in its sustainability statements additional disclosures stemming from local legislation, generally accepted sustainability reporting pronouncements of other standard-setting bodies, and non-mandatory guidance (including sector-specific guidance). Such disclosures should be clearly identified with an appropriate reference to the related legislation, pronouncement or guidance and should complement ESRS disclosure requirements.

Elements of information mandated by a disclosure requirement of an ESRS (including a specific datapoint mandated by a disclosure requirement) may be incorporated in the sustainability statements by cross-referencing to another section of the management report, provided that such disclosures constitute separately identifiable information in the other section of the management report as addressing the relevant disclosure requirement (or the relevant specific datapoint mandated by an ESRS disclosure requirement). Incorporation by reference in the sustainability statements from reports other than the management report would not be allowed.

Specific presentation principles

The draft ESRS includes specific presentation requirements that explain how an entity would:

- Present comparative information
- Make estimates under conditions of uncertainty
- Update disclosures about events after the reporting period
- Present changes in preparing or presenting sustainability information
- Report errors in prior periods
- Present adverse impacts and financial risks
- Apply consolidated reporting and the subsidiary exemption
- Include reporting under other sustainability announcements

An entity would also be required to adopt presentation practices that promote cohesiveness between its sustainability statements and the information provided in the other parts of the management report, its financial statements and other sustainability-related regulated information. Financial data and assumptions presented in the sustainability statements should be consistent with the corresponding financial data and assumptions included in the entity's financial statements.

ESRS 2 General, strategy, governance and materiality assessment

General disclosure requirements

Draft ESRS 2 sets out the proposed cross-cutting disclosure requirements of sustainability reporting in accordance with ESRS standards. Those disclosures can be grouped into those that are:

- Of a general nature
- On the strategy and business model of the entity
- On its governance in relation to sustainability
- On its materiality assessment of sustainability impacts, risks and opportunities

Under the proposed general requirements in draft ESRS 2, an entity would disclose:

- Information about its sustainability statements and their structure
- A description of its significant activities, headcount and revenue
- A description of its value chain
- A description of how it creates value
- Information on approximations on the disclosure in relation to boundary and value chain when the entity has used peer group information or sector data
- Information on estimation uncertainty
- An explanation of changes in preparation or presentation
- Information on prior period errors
- A statement of compliance with ESRS

If any of these disclosures are already provided in other parts of the management report or the financial statements, the entity may incorporate them by reference following the approach in ESRS 1 to avoid duplication.

Strategy and business model

The objective of disclosures on the entity's strategy and business model is to specify the disclosure requirements for how an entity describes:

- Its strategy and business model(s) as a context to its sustainability reporting
- How sustainability matters are related to, interact with, and inform its strategy and business model(s)

In particular, an entity would be required to describe:

- How the views, interests and expectations of its stakeholders inform the entity's strategy and business model(s)
- The interaction between its material sustainability impacts and its strategy and business model(s)
- The interaction between its material sustainability risks and opportunities and its strategy and business model(s)

Governance

Draft ESRS 2 specifies the disclosure requirements for the description by the entity of its governance and organisation in relation to sustainability matters. Specifically, an entity would be required to disclose a description of:

- The roles and responsibilities of its governance bodies and management levels with regard to sustainability matters
- How its governance bodies are informed about sustainability matters
- The sustainability matters that were addressed by its administrative, management and supervisory bodies during the reporting period
- The integration of sustainability strategies and performance in incentive schemes
- Its general assessment regarding how it embeds the core elements of due diligence in its sustainability statements

Materiality assessment of sustainability impacts, risks and opportunities

Draft ESRS 2 intends to support entities in identifying material sustainability impacts, risks and opportunities and to specify disclosure requirements for the description by the entity of:

- Its processes to identify material sustainability impacts, risks and opportunities
- The outcome of its assessment of material sustainability impacts, risks and opportunities:
- By reference to mandatory disclosures under ESRS
- That are not addressed under mandatory disclosure and require entity-specific disclosure

Observation

The draft standard includes mandatory application guidance on how to provide the required disclosures. Examples include:

Strategy and business model

A concise description of an entity's strategy and business model(s) would include:

- A description of the mission, vision and core values of the entity, when defined as such, and of the goals and purposes of the entity in terms of products and services, customer categories, geographic areas and relationships with stakeholders
- An assessment of the entity's current market position in relation to its goals or purpose
- A statement on the entity's intended direction of travel on the basis of the time horizon defined in ESRS 1, including main challenges ahead, critical solutions or projects to be put in place and possible or projected or expected outcomes
- The key sustainability targets the entity expects to reach and, where appropriate, the financial targets
- A description of the entity's inputs and its approach to gather, develop and secure those inputs
- A description of the key aspects of the entity's value creation system, including structure and processes, through which it brings added value to the inputs it gathers. This description would require specific attention since it provides explanations on how the entity creates value for stakeholders
- A description of the entity's outputs and outcomes with the related current and expected benefits for stakeholders

Governance

In describing the mandate, roles and responsibilities of the administrative, management and supervisory bodies over sustainability matters, the entity would specify:

- The aspects of sustainability over which oversight is being exercised, covering each one of the environmental, social and governance sustainability-related issues the entity may be facing, including:
 - Assessment of and changes to sustainability-related aspects of the entity's strategy and business model(s)
 - Identification and assessment of material sustainability risks, opportunities and impacts
 - Related policies and targets, action plans and dedicated resources
 - Sustainability reporting
- The form such oversight takes for each of the above aspects: information, consultation or decision-making
- The way such oversight is being organised and formalised, i.e. processes by which the administrative, management and supervisory bodies are engaging on all above aspects

Materiality assessment of impacts, risks and opportunities

When performing its assessment, the entity would consider:

- Its underlying actual and potential, negative and positive impacts on the environment, and people, based on their severity and likelihood, with equal consideration of impacts with which the entity is involved through its activities and as a result of its business relationships
- Its underlying sustainability-related financial risks and opportunities, including how:
 - Material sustainability-related risks and opportunities have affected the entity's performance, position, and cash flows
 - The entity expects performance, position, and cash flows to change over time because of material sustainability-related risks and opportunities
 - The entity is exposed to the risk or how the entity intends to pursue the opportunity
 - The risk and opportunity are measured and monitored, including any uncertainties and assumptions connected to their measurement and monitoring
- Whether it has or will put in place initiatives to modify its strategy and business model(s), to reduce or eliminate the risk or to benefit from the opportunity and/or to prevent and mitigate negative material impacts and enhance positive material impacts. If so, the material impacts, risks and opportunities that triggered such initiatives deserve a specific disclosure focus

Proposed topical standards

EFRAG proposes 11 topical standards that have a common structure. Each standard includes:

- An objective
- Detailed disclosure requirements
- Appendices setting out definitions of terms used and mandatory application guidance

The objectives and disclosure requirements for each standard are set out below.

Standards that cover environmental topics*ESRS E1 Climate change*

Objective	Disclosure requirements
<p>The draft standard specifies disclosure requirements which would enable users of an entity's sustainability statements to understand:</p> <ul style="list-style-type: none"> • How the entity affects climate change, in terms of positive and negative material actual or potential impacts • The entity's past, current, and future mitigation efforts in line with the Paris Agreement (or an updated international agreement on climate change) and limiting global warming to 1.5°C • The plans and capacity of the entity to adapt its business model(s) and operations in line with the transition to a sustainable economy and to contribute to limiting global warming to 1.5°C • Any other actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts • The nature, type and extent of the entity's material risks and opportunities arising from the entity's impacts and dependencies on climate change, and how the entity manages them • The effects of risks and opportunities, related to the entity's impacts and dependencies on climate change, on the entity's development, performance and position over the short-, medium- and long-term and therefore on its ability to create enterprise value 	<p>To achieve the objective, an entity would disclose information about:</p> <ul style="list-style-type: none"> • Its transition plan for climate change mitigation • Its policies implemented to manage climate change mitigation and adaptation • Its measurable targets for climate change mitigation and adaptation • Its climate change mitigation and adaptation action plans and resources • Its energy consumption and mix • Its energy intensity per net turnover • Its total and scope 1, 2 and 3 GHG emissions • Its GHG intensity per net turnover • Its GHG removals in own operations and the value chain • Its GHG mitigation projects financed through carbon credits • Its avoided GHG emissions from products and services (optional) • Potential financial effects from material physical risks, transition risks and climate-related opportunities

ESRS E2 Pollution

Objective	Disclosure requirements
<p>The draft standard specifies disclosure requirements which would enable users of the sustainability statements to understand:</p> <ul style="list-style-type: none"> • How the entity affects pollution of air (both indoor and outdoor), water (including groundwater) and soil, living organisms and food resources (referred to in the standard as "pollution"), in terms of positive and negative material actual or potential impacts • Any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential impacts • The plans and capacity of the entity to adapt its strategy, business model(s) and operations in line with the transition to a sustainable economy concurring with the needs for prevention, control and elimination of pollution, thereby creating a toxic-free environment with zero pollution also in support of the EU Action Plan "Towards a Zero Pollution for Air, Water and Soil" • The nature, type and extent of the entity's material risks and opportunities related to the entity's pollution-related impacts and dependencies, as well as from the prevention, control, elimination or reduction of pollution (including from regulations) and how the entity manages them • The effects of risks and opportunities, related to the entity's pollution-related impacts and dependencies, on the entity's development, performance and position over the short, medium and long term and therefore on its ability to create enterprise value 	<p>To achieve the objective, an entity would disclose information about:</p> <ul style="list-style-type: none"> • Its policies implemented to prevent and control pollution • Its measurable targets for pollution • Its plans and resources to avoid/reduce pollution • Its pollution of air, water and soil • Its substances of concern and most harmful substances • Its pollution-related incidents and deposit impacts and risks, and financial exposure to those • Potential financial effects from pollution-related impacts, risks and opportunities

ESRS E3 Water and marine resources

Objective	Disclosure requirements
<p>The draft standard specifies disclosure requirements which would enable users of the sustainability statements to understand:</p> <ul style="list-style-type: none"> • How the entity affects water and marine resources, in terms of positive and negative material actual or potential impacts • Any actions taken, and the result of such actions, to protect water and marine resources, also with reference to reduction of water withdrawals, water consumption, water use, discharges in water bodies and in the oceans, habitat degradation and the intensity of pressure on marine resources • To what extent the entity is contributing to: <ul style="list-style-type: none"> – The European Green Deal's ambitions for fresh air, clean water, a healthy soil and biodiversity as well as to ensuring the sustainability of the blue economy and fisheries sectors – The EU water framework directive – The EU marine strategy framework – The EU maritime spatial planning directive – The UN Sustainable Development Goals (SDGs) 6 <i>Clean water and sanitation</i> and 14 <i>Life below water</i> – Respect of global environmental limits in line with the vision for 2050 of “living well within the ecological limits of our planet” set out in the 7th Environmental Action Programme, and in the proposal for a decision of the European Parliament and the Council on the 8th Environmental Action Programme • The plans and capacity of the entity to adapt its business model and operations in line with the transition to a sustainable economy as well as with the preservation and restoration of water and marine resources globally • The nature, type and extent of the entity's material risks and opportunities arising from the entity's impacts and dependencies on water and marine resources, and how the entity manages them • The effects of risks and opportunities, arising from the entity's impacts and dependencies on water and marine resources, on the entity's development, performance and position over the short, medium and long term and therefore on its ability to create enterprise value 	<p>To achieve the objective, an entity would disclose information about:</p> <ul style="list-style-type: none"> • Its policies implemented to manage water and marine resources • Its measurable targets for water and marine resources • Its water and marine resources action plans and resources • Its water management performance • Its water intensity performance (optional) • Its marine resources-related performance • Potential financial effects from water and marine resources-related impacts, risks and opportunities

ESRS E4 Biodiversity and ecosystems

Objective	Disclosure requirements
<p>The draft standard specifies disclosure requirements which would enable users of the sustainability statements to understand:</p> <ul style="list-style-type: none"> • How the entity affects biodiversity and ecosystems, in terms of material positive and negative actual or potential impacts • Any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts and to protect and restore biodiversity and ecosystems • To what extent the entity contributes to: <ul style="list-style-type: none"> – The European Green Deal's ambitions for protecting the biodiversity and ecosystems – The EU Biodiversity Strategy for 2030 – The UN SDGs 2 <i>Zero Hunger</i>, 6 <i>Clean water and sanitation</i>, 12 <i>Responsible consumption</i>, 14 <i>Life below water</i> and 15 <i>Life on land</i> – The Post-2020 Global Biodiversity Framework – The respect of global environmental limits (e.g. the biosphere integrity and land-system change planetary boundaries) – The plans and capacity of the entity to adapt its business model and operations in line with the transition to a sustainable economy and with the preservation and restoration of biodiversity and ecosystems in general; and in particular in line with the objective of: – Ensuring that by 2050 all of the world's ecosystems and their services are restored to a good ecological condition, resilient, and adequately protected and – Contributing to achieving the objectives of the EU Biodiversity Strategy by 2030 at latest • The nature, type and extent of the entity's material risks and opportunities related to its impacts and dependencies on biodiversity and ecosystems, and how the entity manages them • The effects of risks and opportunities, related to the entity's impacts and dependencies on biodiversity and ecosystems, on the entity's development, performance and position over the short-, medium- and long-term and therefore on its ability to create enterprise value 	<p>To achieve the objective, an entity would disclose information about:</p> <ul style="list-style-type: none"> • Its transition plan in line with the targets of no net loss by 2030, net gain from 2030 and full recovery by 2050 • Its policies implemented to manage biodiversity and ecosystems • Its measurable targets for biodiversity and ecosystems • Its biodiversity and ecosystems action plans • Its pressure, impact and response metrics • Its biodiversity-friendly consumption and production metrics (optional) • Its biodiversity offsets (optional) • Potential financial effects from biodiversity-related impacts, risks and opportunities

ESRS E5 Resource use and circular economy

Objective	Disclosure requirements
<p>The draft standard specifies disclosure requirements which would enable users of the sustainability statements to understand:</p> <ul style="list-style-type: none"> • How the entity affects resource use, including the depletion of non-renewable resources and the regeneration of renewable resources (referred to in the draft standard as “resource use and circular economy”) in terms of positive and negative material actual or potential adverse impacts • Any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts arising from resource use and circular economy, including its measures to decouple its growth from extraction of natural resources • The plans and capacity of the entity to adapt its business model and operations in line with circular economy principles including the elimination of waste, the circulation of products and materials at their highest value, and the nature’s regeneration • The nature, type and extent of the entity’s material risks and opportunities related to the entity’s impacts and dependencies, including potential negative externalities, arising from resource use and circular economy, and how the entity manages them • The effects of risks and opportunities, related to the entity’s impacts and dependencies on resource use and circular economy, on the entity’s development, performance and position over the short, medium and long term and therefore on its ability to create enterprise value 	<p>To achieve the objective, an entity would disclose information about:</p> <ul style="list-style-type: none"> • Its policies implemented to manage resource use and circular economy • Its measurable targets for resource use and circular economy • Its resource use and circular economy action plans • Its resource inflows and outflows • Its waste • Its resource use optimisation • Its circularity support • Financial effects from resource use and circular economy-related impacts, risks and opportunities

Standards that cover social topics*ESRS S1 Own workforce*

Objective	Disclosure requirements
<p>The draft standard specifies disclosure requirements which would enable users of the sustainability statements to understand:</p> <ul style="list-style-type: none"> • How the entity affects own workforce, in terms of material positive and negative actual or potential impacts • Any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts • The nature, type and extent of the entity's material risks and opportunities related to its impacts and dependencies on own workforce, and how the entity manages them • The effects of risks and opportunities, related to the entity's impacts and dependencies on own workforce, on the entity's development, performance and position over the short, medium and long term and therefore on its ability to create enterprise value 	<p>To achieve the objective, an entity would disclose information about:</p> <ul style="list-style-type: none"> • Its policies related to own workforce • Its processes for engaging with own workers and workers' representatives about impacts • Its channels for own workers and workers' representatives to raise concerns • Its targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities • Taking action on material impacts on own workforce and effectiveness of those actions • Its approaches to mitigating material risks and pursuing material opportunities related to own workforce • The characteristics of its employees • The characteristics of non-employee workers in its own workforce • The training and skills development indicators • The coverage of the health and safety management system • The performance of the health and safety management system • Working hours (optional) • Work-life balance indicators • Fair remuneration • Social security eligibility coverage • The pay gap between women and men • The annual total compensation ratio • The discrimination incidents related to equal opportunities • Employment of persons with disabilities • Differences in the provision of benefits to employees with different employment contract types • Grievances and complaints related to other work-related rights • The collective bargaining coverage • Work stoppages • Social dialogue • Identified cases of severe human rights issues and incidents • Privacy at work

ESRS S2 Workers in the value chain

Objective	Disclosure requirements
<p>The draft standard specifies disclosure requirements which would enable users of the sustainability statements to understand:</p> <ul style="list-style-type: none"> • How the entity affects workers in its value chain through its own operations and its upstream and downstream value chain (including its products and services, its business relationships and its supply chain), in terms of material positive and negative actual or potential impacts • Any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts • The nature, type and extent of the entity's material risks and opportunities related to its impacts and dependencies on workers in the value chain, and how the entity manages them • The effects of risks and opportunities, related to the entity's impacts and dependencies on workers in the value chain, on the entity's development, performance and position over the short-, medium- and long-term and, therefore, on its ability to create enterprise value 	<p>To achieve the objective, an entity would disclose information about:</p> <ul style="list-style-type: none"> • Its policies related to value chain workers • Its processes for engaging with value chain workers about impacts • Its channels for value chain workers to raise concerns • Its targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities • Taking action on material impacts on value chain workers and effectiveness of those actions • Its approaches to mitigating material risks and pursuing material opportunities related to value chain workers

ESRS S3 Affected communities

Objective	Disclosure requirements
<p>The draft standard specifies disclosure requirements which would enable users of the sustainability statements to understand:</p> <ul style="list-style-type: none"> • How the entity affects its local communities through its own operations and its upstream and downstream value chain (including its products and services, its business relationships and its supply chain), in terms of material positive and negative actual or potential impacts • Any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts • The nature, type and extent of the entity's material risks and opportunities related to the entity's impacts and dependencies on affected communities, and how the entity manages them • The effects of risks and opportunities, related to the entity's impacts and dependencies on affected communities, on the entity's development, performance and position over the short-, medium- and long-term and, therefore, on its ability to create enterprise value 	<p>To achieve the objective, an entity would disclose information about:</p> <ul style="list-style-type: none"> • Its policies related to affected communities • Its processes for engaging with affected communities about impacts • Its channels for affected communities to raise concerns • Its targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities • Taking action on material impacts on affected communities and effectiveness of those actions • Its approaches to mitigating material risks and pursuing material opportunities related to affected communities

ESRS S4 Consumer and end-users

Objective	Disclosure requirements
<p>The draft standard specifies disclosure requirements which would enable users of the sustainability statements to understand:</p> <ul style="list-style-type: none"> • How the entity affects the consumers and end-users of its products and/or services (referred to in the draft standard as “consumers and end-users”), in terms of material positive and negative actual or potential impacts • Any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts • The nature, type and extent of the entity's material risks and opportunities related to its impacts and dependencies on consumers and end-users, and how the entity manages them • The effects of risks and opportunities, related to the entity's impacts and dependencies on consumers and end-users, on the entity's development, performance and position over the short-, medium- and long-term and, therefore, on its ability to create enterprise value 	<p>To achieve the objective, an entity would disclose information about:</p> <ul style="list-style-type: none"> • Its policies related to consumers and end-users • Its processes for engaging with consumers and end-users about impacts • Its channels for consumers and end-users to raise concerns • Its targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities • Taking action on material impacts on consumers and end-users and effectiveness of those action • Its approaches to mitigating material risks and pursuing material opportunities related to consumers and end-users

Standards that cover governance topics*ESRS G1 Governance, risk management and internal control*

Objective	Disclosure requirements
<p>The draft standard specifies disclosure requirements which would enable users of an entity's sustainability statements to understand the governance structure of the entity, and its internal control and risk management systems. The requirements are intended to provide information that reinforces users' understanding of the entity's impacts on people and the environment and the effects of risks and opportunities, related to the entity's impacts and dependencies on people and the environment, on the entity's development, performance and position over the short, medium and long term and therefore on its ability to create enterprise value.</p>	<p>To achieve the objective, an entity would disclose information about:</p> <ul style="list-style-type: none"> • Its governance structure and composition • Its corporate governance code or policy • Its nomination process • Its diversity policy • Its evaluation process • Its remuneration policy • Its risk management processes • Its internal control processes • The composition of its administrative, management and supervisory bodies • Meetings and attendance rate

ESRS G2 Business conduct

Objective	Disclosure requirements
<p>The draft standard specifies disclosure requirements which would enable users of an entity's sustainability statements to understand the entity's strategy and approach, processes and procedures as well as its performance in respect of business conduct. The draft standard acknowledges that business conduct covers a wide range of behaviours that support transparent and sustainable business practices to the benefit of all stakeholders. Draft ESRS G2 focuses on a limited number of practices as follows:</p> <ul style="list-style-type: none"> • Business conduct culture • Avoiding corruption, bribery and other behaviours that often have been criminalised as they benefit some in positions of power with a detrimental impact on society • Transparency about anti-competitive behaviour and political engagement or lobbying 	<p>To achieve the objective, an entity would disclose information about:</p> <ul style="list-style-type: none"> • Its business conduct culture • Its policies and targets on business conduct • The prevention and detection of corruption and bribery • Anti-competitive behaviour prevention and detection • Anti-corruption and anti-bribery training • Corruption or bribery events • Anti-competitive behaviour events • Its beneficial owners and control structure • Its political engagement and lobbying activities • Its payment practices

Reconciliation tables

The cover note to the EDs includes appendices, of which two include reconciliation tables of ESRS with [TCFD recommendations](#) and the Exposure Drafts issued by the International Sustainability Standards Board (ISSB): [\[draft\] IFRS S1](#) and [\[draft\] IFRS S2](#).

The ISSB's EDs can be accessed under the following links:

- [\[Draft\] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information](#)
- [\[Draft\] IFRS S2 Climate-related Disclosures](#)

Consultation period

The EDs are open for public consultation until 8 August 2022. Stakeholders are invited to provide comments on the Draft ESRS by way of a consultation survey.

The consultation questions focus on the following three key aspects:

- Relevance of the proposed architecture, implementation of the principles in the CSRD proposal and overall content of each ED
- Alternatives for prioritisation (phasing) in the implementation of the ESRS
- Adequacy of each disclosure requirement mandated by each ED

Further information

If you have any questions about the draft ESRS, please speak to your usual Deloitte contact or get in touch with a contact identified in this *iGAAP in Focus*.

Further information is available in our following publications:

- [Purpose-driven Business Reporting in Focus](#) on the EC's CSRD proposal
- [Purpose-driven Business Reporting in Focus](#) on the creation of the ISSB
- [iGAAP in Focus](#) on the ISSB's EDs

The Deloitte Accounting Research Tool (DART) is a comprehensive online library of accounting and financial disclosures literature.

[iGAAP on DART](#) allows access to the full IFRS Standards, linking to and from:

- Deloitte's authoritative, up-to-date, iGAAP manuals which provide guidance for reporting under IFRS Standards
- Model financial statements for entities reporting under IFRS Standards

In addition, our [Beyond the numbers](#) volume of iGAAP provides guidance on disclosure requirements and recommendations which businesses must consider in light of the broader environmental, social and governance matters which can significantly drive the value of an entity.

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