



iGAAP in Focus

European sustainability reporting

EFRAG submits first set of draft ESRS to the European Commission

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This *iGAAP in Focus* outlines the first set of draft European Sustainability Reporting Standards (ESRS) developed by EFRAG, which were submitted to the European Commission (EC) on 22 November 2022.

- The EU Corporate Sustainability Reporting Directive (CSRD) requires undertakings to report using EU sustainability reporting standards, developed by EFRAG
- EFRAG has submitted the first set of draft ESRS to the EC. The submitted set of standards includes two cross-cutting standards that cover general provisions, five standards that cover environmental matters, four standards that cover social matters and one standard that covers governance matters
- This completes another milestone towards finalising the standards, following the publication of [Exposure Drafts](#) for public comment in April 2022. The EC will now consult EU bodies and Member States on the draft standards, followed by a scrutiny period by the European Parliament and Council. The CSRD requires that the final standards be adopted as delegated acts by 30 June 2023. Until this time, they will be referred to as 'draft' ESRS
- EFRAG expects to deliver further standards to the EC, including requirements for sectors, SMEs and non-EU entities, for adoption as delegated acts by June 2024

Background

In November 2022, the European Council gave its final approval to the CSRD. The CSRD is a central part of the EU Sustainable Finance package, a comprehensive set of measures aimed to help improve the flow of capital towards sustainable activities across the EU. The CSRD amends the Non-Financial Reporting Directive (NFRD), the Accounting Directive, the Transparency Directive, the Audit Directive and the corresponding Audit Regulation.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

To ensure undertakings disclose relevant, comparable and reliable information on all material sustainability-related topics, the CSRD requires undertakings within its scope to apply ESRS.

To support this requirement, the CSRD mandates that the EC shall adopt:

- By 30 June 2023: the first set of sustainability reporting standards that include cross-cutting and sector-agnostic information
- By 30 June 2024:
 - Standards that require sector-specific disclosures
 - Standards for small and medium-sized undertakings
 - Standards for non-listed, non-EU undertakings that have more than EUR 150 million turnover in the EU and a large subsidiary or branch in the EU

The EC commissioned the Sustainability Reporting Board (SRB) of EFRAG to develop draft ESRS. EFRAG has now submitted the first set to the EC. It is expected that EFRAG will publish exposure drafts for the remaining standards listed above in the second quarter of 2023.

As a next step, the CSRD requires that the EC adopt the draft standards by way of a delegated act, for which a proposal is to be submitted to the European Parliament and Council after having consulted with various EU institutions (i.e. the Member State Expert Group on Sustainable Finance, the European Securities and Markets Authority, the European Banking Authority, the European Insurance and Occupational Pensions Authority, the European Environment Agency, the European Union Agency for Fundamental Rights, the European Central Bank, the Committee of European Auditing Oversight Bodies, and the Platform on Sustainable Finance) on the EFRAG technical advice.

Differences to the exposure drafts

The following are the key differences compared to the exposure drafts issued by EFRAG:

- The number of standards has been reduced from 13 to 12 with the requirements from the exposed draft standard on governance, risk management and internal control having been incorporated in draft ESRS 2
- The draft ESRS now follow the same structure as the Exposure Drafts of the International Sustainability Standards Board (ISSB), which uses content elements of Governance—Strategy—Risk Management—Metrics and Targets consistent with the pillars used by the Task Force on Climate-related Financial Disclosures (TCFD). Adaptions have been made to address the double materiality principle and to enhance interaction between the general disclosures and the topics specified in CSRD that ESRS have to cover
- The draft ESRS have been updated to respond to the CSRD requirement that the EC shall to the greatest extent possible take account of the work of global standard-setting initiatives for sustainability reporting, including in respect of definitions such as financial materiality and value chain, and wording of disclosure requirements
- The proposal for a rebuttable presumption that all mandatory disclosure requirements specified by ESRS are material and, therefore, justify a full disclosure in accordance with the relevant ESRS, has been removed
- In respect of meeting CSRD and other legislative requirements, certain information is required to be disclosed irrespective of the outcome of the materiality assessment
- The number of disclosure requirements has been reduced from 136 to 84 and the number of qualitative and quantitative datapoints has been reduced from 2,161 to 1,144
- Many disclosure requirements have been made subject to a phase-in period, meaning they will have to be reported only one, two or three years after companies are brought into scope of mandatory reporting under CSRD. Reporting that requires obtaining data from across the value chain will not be required for the first three years (during which time undertakings are required to use in-house data to provide insights on their value chain), except when value chain data is needed to enable users to comply with the requirements of other pieces of EU legislation

Architecture of ESRS

The architecture of ESRS is guided by the CSRD, which includes a list of required sustainability information to be covered by ESRS.

Observation

The CSRD sets out the sustainability information that undertakings are required to include in their sustainability statements. Undertakings need to provide qualitative, quantitative, forward-looking and retrospective information, including on their value chain, and covering short-, medium- and long-term time horizons. The information provided is subject to application of double materiality (see below).

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

- Cross-cutting standards, which cover the provisions applying to:
 - General requirements that undertakings should comply with when preparing and presenting sustainability-related information under the Accounting Directive as amended by the CSRD (draft ESRS 1)
 - General disclosures that apply to all undertakings regardless of their sector of activity (i.e. sector agnostic) and apply across sustainability topics (i.e. cross-cutting) (draft ESRS 2)
- Topical standards, which cover a specific sustainability topic from a sector-agnostic perspective—that is disclosure requirements relating to sustainability impacts, risks and opportunities that are considered to be potentially 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 potentially material for all entities operating in a given sector

The draft standards submitted in November 2022 include the following:

Cross-cutting standards

ESRS 1	ESRS 2
General Requirements	General Disclosures

Topical standards

Environment

ESRS E1	ESRS E2	ESRS E3	ESRS E4	ESRS E5
Climate change	Pollution	Water and Marine Resources	Biodiversity and Ecosystems	Resource use and circular economy

Social

ESRS S1	ESRS S2	ESRS S3	ESRS S4
Own Workforce	Workers in the value chain	Affected communities	Consumers and end-users

Governance

ESRS G1
Business conduct

Cross-cutting standards

Draft ESRS 1 General requirements

Objective

The objective of draft ESRS 1 is to set out the general requirements that undertakings should comply with when preparing and presenting sustainability-related information under the CSRD.

Complying with ESRS

An undertaking is required to disclose, in accordance with applicable ESRS, all material information regarding impacts, risks and opportunities in relation to environmental, social and governance (ESG) matters. This information enables the understanding of the undertaking's impacts on those matters and how they affect the undertaking's financial development, performance and position.

In all ESRS, the term “impacts” refers to positive and negative sustainability-related impacts that are connected with the undertaking's business, as identified through an impact materiality assessment process. The term “risks and opportunities” refers to the undertaking's sustainability-related financial risks and opportunities, as identified through a financial materiality assessment process. Collectively, these are referred to as “impacts, risks and opportunities”.

Stakeholders

Stakeholders are defined as those who can affect or be affected by the undertaking. The draft standard identifies two main groups of stakeholders:

- **Affected stakeholders:** Individuals or groups whose interests are affected or could be affected—positively or negatively—by the undertaking's activities and its direct and indirect business relationships across its value chain
- **Users of sustainability statements:** Primary users of general-purpose financial reporting (existing and potential investors, lenders and other creditors, including asset managers, credit institutions, insurance undertakings), as well as other users, including the undertaking's business partners, trade unions and social partners, civil society and non-governmental organisations, governments, analysts and academics

Double materiality

Under ESRS, an undertaking is required to report on sustainability matters using the double materiality principle.

Double materiality has two dimensions: **impact materiality** and **financial materiality**. A sustainability matter is “material” for the undertaking when it meets the criteria defined for impact materiality or financial materiality or both.

Impact materiality vs. financial materiality

Impact materiality and financial materiality are defined in draft ESRS 1 as follows:

Impact materiality

A sustainability matter is material from an impact perspective when it relates to the undertaking's material actual or potential, positive or negative impacts on people or the environment over the short, medium or long term. A material sustainability matter from this perspective includes impacts caused or contributed to by the undertaking and those which are directly linked to the undertaking's own operations, its products, and services through its business relationships. Business relationships are not limited to direct contractual relationships and include those that are upstream and downstream within the undertaking's value chain.

For actual negative impacts, materiality is based on the severity of the impact, while for potential negative impacts it is based on the severity and likelihood of the impact. In assessing impact materiality and determining the material matters to be reported, the undertaking considers the following four steps:

- Understanding the context in relation to its impacts including its activities, business relationships, sustainability context and stakeholders
- Identifying actual and potential impacts (both negative and positive), through engaging with relevant stakeholders and experts. The undertaking may also make use of scientific and analytical research
- Assessing the materiality of its actual and potential impacts
- Determining the material matters, using thresholds to determine which impacts to address in sustainability statements

Financial materiality

A sustainability matter is material from a financial perspective if it triggers or may trigger material financial effects on the undertaking's development, including cash flows, financial position and financial performance, in the short, medium or long term. The draft standard emphasises the importance of risks or opportunities that significantly influence or are likely to significantly influence an undertaking's future cash flows, as they are likely to influence the financial position and financial performance of the undertaking in the short, medium or long term.

To assess financial materiality, an undertaking considers:

- The existence of triggers of financial effects and the materiality of these triggers—that is those that generate or may generate risks or opportunities that have a material influence (or are likely to have a material influence) on the undertaking's cash flows, development, performance, position, cost of capital or access to finance over short-, medium- and long-term time horizons
- The classification of the material triggers as:
 - Risks (contributing to a decrease of future expected cash inflows or increase of future expected cash outflows and/or a reduction of expected change in capitals not recognised in financial statements); or
 - Opportunities (contributing to an increase in future expected cash inflows or a decrease in future cash outflows and/or an increase in expected change in capitals not recognised in financial statements)

Draft ESRS 1 states that impact materiality and financial materiality assessments are interrelated and that an undertaking is required to consider the interdependencies between the two dimensions.

The starting point is the assessment of impacts. A sustainability impact may be financially material from inception or become financially material when it translates or is likely to translate into financial effects in the short, medium, or long term. Under ESRS, all impacts are required to be captured through the impact materiality perspective, irrespective as to whether they are also financially material.

Materiality and disclosure requirements

If an undertaking concludes that a topic is not material and therefore it omits all the disclosure requirements in a draft topical ESRS, it is required to briefly explain the conclusions of its materiality assessment for the topic.

When reporting on metrics, if an undertaking omits information prescribed by either a disclosure requirement or a datapoint of a disclosure requirement in the metrics and targets section of a draft topical ESRS, such information is considered to be implicitly reported as “not material for the undertaking”.

When the undertaking concludes that an impact, risk or opportunity not covered or covered with insufficient granularity by an ESRS is material due to its specific facts and circumstances (based on its materiality assessment), the undertaking is required to provide additional entity-specific disclosures to address this impact, risk or opportunity.

Mandatory disclosure requirements

In respect of meeting CSRD and other legislative requirements, the following information (including related datapoints) is required to be disclosed irrespective of the outcome of the materiality assessment:

- All disclosure requirements in draft ESRS 1
- All disclosure requirements in draft ESRS 2
- All disclosure requirements in draft ESRS E1
- Certain disclosure requirements in draft ESRS S1 for undertakings with 250 or more employees
- Datapoints in cross-cutting and topical standards that are required by EU law which stem from other EU legislation

Sustainability due diligence

As set out in draft ESRS 1, sustainability due diligence is the process by which undertakings identify, prevent, mitigate and account for material actual and potential negative impacts on the environment and people connected with their business. These include impacts directly caused by the undertaking and impacts to which the undertaking contributes through its activities, as well as impacts that are otherwise directly linked to the undertaking's own operations, its products, or services through its business relationships. Sustainability due diligence is an on-going practice that responds to changes in an undertaking's strategy, business model, activities, business relationships, operating, sourcing, and selling contexts.

ESRS do not mandate a sustainability due diligence process per se, nor do they extend or modify the role of governance bodies. However, the outcome of an undertaking's sustainability due diligence process informs the undertaking's assessment of its material impacts, risks and opportunities.

Qualitative characteristics of information

When preparing its sustainability statements, an undertaking applies:

- **fundamental qualitative characteristics** of information: relevance and faithful representation
- **enhancing qualitative characteristics** of information: comparability, verifiability and understandability

Location and structure of sustainability statements

Information about sustainability matters is required to be presented in a dedicated section of the management report prepared under EU directive identified in draft ESRS 1 as the sustainability statements. These statements include the requirements under Article 8 of Regulation 2020/852 (EU Taxonomy) for those undertakings in scope of the CSRD to disclose defined key performance indicators demonstrating the proportion of activities that are environmentally sustainable.

An undertaking may include in its sustainability statements additional disclosures resulting from local legislation and from generally accepted sustainability reporting standards (such as those issued by the ISSB or the Global Reporting Initiative (GRI)). Such disclosures should be clearly identified with an appropriate reference to the related legislation, standard or guidance and should complement ESRS disclosure requirements.

Information prescribed by a disclosure requirement of an ESRS (including a specific datapoint prescribed by a disclosure requirement) may be incorporated in the sustainability statements by reference to:

- Another section of the management report
- The financial statements
- The corporate governance report (if not part of the management report)
- The remuneration report
- Pillar 3 disclosures in the Capital Requirements Regulation (reflecting Basel III rules on capital measurement and capital standards)

Incorporation by reference to these documents is only allowed if the disclosures incorporated by reference meet all of the following criteria:

- They constitute a separate element of information clearly identified as addressing the relevant disclosure requirement (or the relevant specific datapoint prescribed by a disclosure requirement) in the other document
- They are published at the same time as the management report
- They are subject to at least the same level of assurance as the sustainability statements
- They are available with the same technical digitalisation requirements as other information relating to the sustainability statements

Reporting undertaking

In general, the reporting undertaking for the sustainability statements is the same as the one for the related financial statements. However, for the purposes of reporting sustainability information, the scope of the sustainability statements is extended beyond the reporting undertaking to include the material impacts, risks and opportunities of the undertaking's upstream and downstream value chain.

When associates or joint ventures, accounted for under the equity method or proportionally consolidated in the financial statements, are part of an undertaking's value chain, the undertaking is required to include information on them consistent with the approach adopted for other business relationships in the value chain.

Reporting period and time horizons

The reporting period for an undertaking's sustainability statements is consistent with that of its financial statements.

When preparing its sustainability statements, an undertaking adopts the following time intervals as of the end of the reporting period:

- For short-term: the period adopted by the undertaking as the reporting period in its financial statements
- For medium-term: from the end of the reporting period for short-term to five years
- For long-term: more than five years

However, the undertaking may use a different definition of medium- and/or long-term time horizons from those specified to reflect its own processes for identifying and managing its material impacts, risks and opportunities, or for establishing action plans and setting targets.

Preparation and presentation of sustainability information

Draft ESRS 1 includes the following specific presentation requirements:

Comparative information

The undertaking is required to disclose one year of comparative information in respect of all metrics disclosed in the current period, and for narrative sustainability disclosures when relevant to an understanding of the current period's sustainability disclosures. In the year of adoption, an undertaking may defer the presentation of comparative information by one year (see below under 'Transitional provisions').

Estimates under conditions of uncertainty

When metrics, including value chain information, cannot be measured directly and can only be estimated, measurement uncertainty may arise. The use of reasonable assumptions and estimates, including scenario or sensitivity analysis, is an essential part of preparing sustainability-related metrics and does not undermine the usefulness of the information, if the assumptions and estimates are accurately described and explained.

Events after the reporting period

In some cases, an undertaking may receive information after the reporting period but before the management report is approved for issuance. If such information provides evidence or insights about conditions existing at the period end, the undertaking should consider it and, where appropriate, update estimates and sustainability disclosures, in the light of the new information. When such information provides evidence or insights about conditions that arise after the reporting period end, the undertaking should provide qualitative or narrative information indicating the existence, nature, and potential consequences of these post-year end events

Changes in preparing or presenting sustainability information

The definition and calculation of metrics, including metrics used to set and monitor targets, should be consistent over time. If a metric or target is redefined or replaced, an undertaking must provide restated comparative figures, unless it is impracticable to do so

Errors in prior periods

The undertaking is required to correct material prior period errors by restating the comparative amounts for the prior period(s) disclosed, unless it is impracticable to do so.

Consolidated reporting

When the undertaking is reporting at a consolidated level, it should perform its assessment of material impacts, risks and opportunities for the entire consolidated group, regardless of its group legal structure.

Intellectual property, know-how or results of innovation

An undertaking may omit specific information related to intellectual property, know-how or the results of innovation even when it is relevant to meet the objective of a disclosure requirement, if it meets certain criteria, including that it is a secret that has commercial value and the undertaking has taken reasonable steps to keep it secret.

Connected information and connectivity with financial statements

An undertaking is required to describe the relationships between different pieces of information. This includes connecting narrative information on governance, strategy and risk management to related metrics and targets.

When the sustainability statements include monetary amounts or other quantitative data points that are above a threshold for material information and which are directly presented in financial statements, the undertaking is required to include a reference to the relevant part of the financial statements where the corresponding information can be found.

Transitional provisions

Entity-specific disclosures

When defining its entity-specific disclosures, an undertaking may adopt transitional measures for their preparation in the first three annual sustainability statements, under which it should include:

- Those entity-specific disclosures that it reported in prior periods, if those disclosures meet or are adapted to meet the characteristics of quality referred to in draft ESRS 1
- Additional disclosures to cover sustainability matters that are material for the undertaking in its sector(s), using the available best practice and/or available frameworks or reporting standards, such as Appendix B of draft IFRS S2 *Climate-related disclosures* and GRI Sector Standards

Value chain

For the first three years of preparation of its sustainability reporting applying ESRS, in order to limit the burden for small and medium-sized enterprises (SMEs) that are a part of the value chain, information on impacts, risks and opportunities on matters connected to the undertaking by its direct and indirect business relationships in the upstream and/or downstream value chain is not required, except for limited data points or disclosure requirements specified in draft ESRS 2.

If the necessary information regarding the value chain is not all available, the undertaking is required to explain the efforts made to obtain the value chain information, the reasons why this information could not be obtained, and the plans of the undertaking to obtain such information in the future. In any case, for the first three years, the undertaking is expected to use available in-house value chain information when applying draft ESRS 1.

Comparative information

To ease the first-time application of draft ESRS 1, an undertaking may defer the presentation of comparative information by one year. Draft ESRS 1 also sets phase-in provisions for the disclosure requirements or datapoints of disclosure requirements in topical ESRS that may be omitted or that are not applicable in the first year(s) of preparation of the sustainability statements applying ESRS.

Draft ESRS 2 General disclosures

Objective

Draft ESRS 2 sets out the disclosure requirements that apply to all undertakings regardless of their sector of activity (i.e. sector agnostic) and apply across sustainability topics (i.e. cross-cutting).

Basis for preparation

An undertaking is required to disclose the general basis for preparation of its sustainability statements. The objective of this disclosure requirement is to specify how the undertaking prepares its sustainability statements, including the scope of consolidation, the value chain information, and the disclosure exemption for subsidiaries as permitted by CSRD, where relevant.

Disclosure exemption

The CSRD stipulates that subsidiaries of a non-EU parent do not have to disclose information if the parent reports under ESRS or standards that are deemed to be equivalent by the EC and the consolidated sustainability report including the assurance opinion is publicly available. What may be deemed 'equivalent' is yet to be determined by the EC.

In relation to the basis for preparation, the draft standard includes specific circumstances when additional disclosure is required, in particular, when:

- The undertaking has deviated from the medium- or long-term time horizon as defined in draft ESRS 1
- Metrics include value chain data estimated using indirect sources, such as sector-average data or other proxies
- Significant estimation uncertainty or significant outcome uncertainty exists
- Changes in the preparation and presentation of sustainability information occur compared to the previous reporting period, such as the redefinition or replacement of a metric or target
- Material prior period errors exist
- The undertaking includes in its sustainability statements information based on local legislation on generally accepted sustainability reporting in addition to the information prescribed by ESRS

When the undertaking incorporates information by reference, it is required to disclose a list of ESRS disclosure requirements (or the specific datapoints mandated by a disclosure requirement) that have been incorporated by reference.

Governance

An undertaking is required to disclose the following information to provide an understanding of the governance processes, controls and procedures put in place to monitor and manage sustainability matters:

- The composition of the administrative, management and supervisory bodies, their roles and responsibilities and access to expertise and skills with regard to sustainability matters
- How the administrative, management and supervisory bodies are informed about sustainability matters and how these matters were addressed during the reporting period
- Information about the integration of its sustainability-related performance in incentive schemes
- An overview of the location of the information provided in its sustainability statements about the sustainability due diligence process(es)
- The main features of its risk management and internal control system in relation to the sustainability reporting process

Strategy

An undertaking is required to disclose:

- The elements of the undertaking's strategy that relate to or affect sustainability matters, its business model(s) and its value chain
- How the interests and views of stakeholders are taken into account in the undertaking's strategy and business model(s)
- The outcome of the undertaking's assessment of material impacts, risks and opportunities, including how that assessment informs its strategy and business model(s)

Impact, risk and opportunity management

Disclosure on the materiality assessment process

An undertaking is required to disclose:

- The processes to identify material impacts, risks and opportunities
- The information that the undertaking has assessed to be material for reporting on those impacts, risks and opportunities
- The list of disclosure requirements complied with in preparing the sustainability statements, following the outcome of the materiality assessment

Reporting on opportunities

When reporting on opportunities, the disclosures should consist of descriptive information allowing the user to understand the opportunity for the undertaking and/or the entire sector. When assessing the materiality of information to be disclosed, the undertaking considers, among other factors:

- Whether the opportunity is currently being pursued and is incorporated in the undertaking's general strategy
- Whether the inclusion of quantitative measures of financial effects is appropriate

Disclosure content on policies and actions

For every material topic, an undertaking is required to apply cross-cutting disclosure requirements to disclose information on policies, actions, metrics and targets as applicable. These disclosure requirements are further specified in the topical standards but also apply to topics that may be identified by the entity itself.

Metrics and targets

Metrics in relation to material sustainability-related matters

An undertaking is required to disclose metrics that it uses to evaluate performance and effectiveness, in relation to a material impact, risk or opportunity.

Metrics are addressed in topical and sector-specific ESRS. They include those metrics defined in any applicable ESRS, as well as metrics identified from other sources, and those developed by an undertaking itself.

An undertaking is required to disclose whether the measurement of a metric is validated by an external body other than the assurance provider and, if so, which body. The undertaking should label metrics using meaningful, clear and precise names and descriptions. When currency is specified as the unit of measure, the undertaking should use the presentation currency of its financial statements.

Tracking effectiveness of policies and actions through targets

Cross-cutting requirements apply to disclosures on targets, including defining targets, reporting on progress and tracking effectiveness of policies and actions through targets.

These requirements should be applied together with the disclosure requirements, including application requirements, provided in the relevant topical ESRS. They also apply when the undertaking prepares entity-specific disclosure on targets.

Topical standards

The first set of draft ESRS submitted to the EC includes 10 topical standards, that have a common structure. Each draft standard includes:

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

The topical draft ESRS include additional specific mandatory requirements of a topical nature that complement specific disclosure requirements in draft ESRS 2.

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

Standards that cover environmental topics

Draft ESRS E1 Climate change

Objective	Disclosure requirements
<p>All disclosure requirements (including their datapoints) of draft ESRS E1 are mandatory information as set out in draft ESRS 1.</p> <p>The objective of draft ESRS E1 is to specify disclosure requirements which will enable users of sustainability statements to understand:</p> <ul style="list-style-type: none"> • How the undertaking affects climate change, in terms of material positive and negative actual and potential impacts • The undertaking'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 undertaking to adapt its strategy and business model(s) in line with the transition to a sustainable economy and to contribute to limiting global warming to 1.5°C • Any other actions taken by the undertaking, and the result of such actions, to prevent, mitigate or remediate actual or potential negative impacts • The nature, type and extent of the undertaking's material risks and opportunities arising from the undertaking's impacts and dependencies on climate change, and how the undertaking manages them • The financial effects on the undertaking over the short-, medium- and long-term time horizons of risks and opportunities arising from the undertaking's impacts and dependencies on climate change 	<p>To achieve the objective, an undertaking is required to disclose:</p> <ul style="list-style-type: none"> • Whether the performance of members of the administrative, management and supervisory bodies has been assessed against the GHG emission reduction targets reported • Its transition plan for climate change mitigation • A description of the resilience of its strategy and business model(s) in relation to climate change • A description of the process to identify and assess climate-related impacts, risks and opportunities • The policies it has adopted to manage its material impacts, risks and opportunities related to climate change mitigation and adaptation • Its climate change mitigation and adaptation actions and the resources allocated for their implementation • The climate-related targets it has adopted • Information on its energy consumption and mix • Its gross Scope 1, Scope 2 and Scope 3 and total greenhouse gas (GHG) emissions • Its GHG emissions intensity (total GHG emissions per net revenue) • GHG removals and storage from its own operations and its upstream and downstream value chain it may have developed • The amount of GHG emission reductions or removals from climate change mitigation projects outside its value chain it has financed through any purchase of carbon credits • Whether it applies internal carbon pricing schemes, and if so, how these support its decision making and incentivise the implementation of climate-related policies and targets • The potential financial effects from material physical and transition risks, and potential climate-related opportunities

Draft ESRS E2 Pollution

Objective	Disclosure requirements
<p>The objective of draft ESRS E2 is to specify disclosure requirements which will enable users of the sustainability statements to understand:</p> <ul style="list-style-type: none"> • How the undertaking affects pollution of air, water and soil, in terms of material positive and negative actual or potential impacts • Any actions taken, and the result of such actions, to prevent or mitigate actual or potential material negative impacts • The plans and capacity of the undertaking to adapt its strategy and business model(s) in line with the transition to a sustainable economy including the prevention, control and elimination of pollution. • The nature, type and extent of the undertaking's material risks and opportunities related to the undertaking's pollution-related impacts and dependencies, as well as the prevention, control, elimination or reduction of pollution (including from regulations) and how the undertaking manages them • The financial effects on the undertaking over the short-, medium- and long-term time horizons of material risks and opportunities arising from the undertaking's pollution-related impacts and dependencies 	<p>To achieve the objective, an undertaking is required to disclose:</p> <ul style="list-style-type: none"> • A description of the process to identify and assess material impacts, risks and opportunities and information on: <ul style="list-style-type: none"> – The methodologies, assumptions and tools used to screen its site locations and business activities in order to identify its actual and potential pollution-related physical and transition risks in its own operations and value chain – The interconnection between risks and opportunities arising from impacts and dependencies – The process for conducting consultations and in particular with affected communities • The policies it has implemented to manage its material impacts, risks and opportunities related to pollution prevention and control • Its pollution-related actions and the resources allocated for their implementation • The pollution-related targets it has adopted • The pollutants that are generated or used during production processes or that are procured, and that leave its facilities as emissions, as products, or as part of products or services • Information on the production, use, distribution, commercialisation and import/export of substances of concern and substances of very high concern on their own, in mixtures or in products • The potential financial effects of material risks and opportunities arising from pollution-related impacts

Draft ESRS E3 Water and marine resources

Objective	Disclosure requirements
<p>The objective of draft ESRS E3 is to specify disclosure requirements which will enable users of the sustainability statements to understand:</p> <ul style="list-style-type: none"> • How the undertaking affects water and marine resources, in terms of material positive and negative actual or potential impacts • Any actions taken, and the result of such actions, to prevent or mitigate material actual or potential negative impacts and to protect water and marine resources, including reduction of water consumption • Whether, how and to what extent the undertaking is contributing to 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. Other initiatives include: the EU water framework directive, the EU marine strategy framework, the EU maritime spatial planning directive, SDG 6 <i>Clean water and sanitation</i> and SDG 14 <i>Life below water</i>, and respect of global environmental limits (e.g. the biosphere integrity, ocean acidification, freshwater use, and biogeochemical flows planetary boundaries) 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 • Any plans and capacity of the undertaking to adapt its strategy and business model(s) in line with the preservation and restoration of water and marine resources globally • The nature, type and extent of its material risks and opportunities arising from the undertaking's impacts and dependencies on water and marine resources, and how the undertaking manages them • The financial effects on the undertaking over the short-, medium- and long-term time horizons of material risks and opportunities arising from (i.e. those related to the undertaking's impacts and dependencies on water and marine resources) 	<p>To achieve the objective, an undertaking is required to disclose:</p> <ul style="list-style-type: none"> • A description of the process to identify material impacts, risks and opportunities and information on: <ul style="list-style-type: none"> – The methodologies, assumptions and tools used to screen its assets and activities in order to identify its actual and potential water and marine resources-related physical and transition risks in its own operations and value chain – The interconnection between risks and opportunities arising from impacts and dependencies – The process for conducting consultations and in particular with affected communities • The policies it has implemented to manage its material impacts, risks and opportunities related to water and marine resources • Its water and marine resources-related actions and the resources allocated to their implementation • The water and marine resources-related targets it has adopted • Information on its water consumption performance related to its material impacts, risks and opportunities • The potential financial effects of material risks and opportunities arising from water and marine resources-related impacts

Draft ESRS E4 Biodiversity and ecosystems

Objective	Disclosure requirements
<p>The objective of draft ESRS E4 is to specify disclosure requirements which will enable users of the sustainability statements to understand:</p> <ul style="list-style-type: none"> • How the undertaking affects biodiversity and ecosystems, in terms of material positive and negative actual and potential impacts • Any actions taken, and the result of such actions, to prevent or mitigate actual or potential adverse impacts and to protect and restore biodiversity and ecosystems • The plans and capacity of the undertaking to adapt its strategy and business model(s) in line with (i) respecting the planetary boundaries of the biosphere integrity and land-system change, targets outlined in the Post-2020 Global Biodiversity Framework of no net loss by 2030, net gain from 2030 and full recovery by 2050, the EU Biodiversity Strategy for 2030 with the targets set under the EU Nature Restoration Plan and Enabling Transformative Change and comparable amended or new frameworks and strategies • The nature, type and extent of the undertaking's material risks and opportunities related to the undertaking's impacts or dependencies on biodiversity and ecosystems, and how the undertaking manages them • The financial effects on the undertaking over the short-, medium- and long-term time horizons of material risks and opportunities arising from the undertaking's impacts and dependencies on biodiversity and ecosystems 	<p>To achieve the objective, an undertaking is required to disclose:</p> <ul style="list-style-type: none"> • Its plan to ensure that its business model and strategy are compatible with the respect of planetary boundaries of the biosphere integrity and land-system change and relevant targets outlined in the Post-2020 Global Biodiversity Framework of no net loss by 2030, net gain from 2030, full recovery by 2050, and the EU Biodiversity Strategy for 2030 • A description of the resilience of its strategy and business model(s) in relation to biodiversity and ecosystems • A description of the process to identify material impacts, risks and opportunities • The policies it has implemented to manage its material impacts, risks and opportunities related to biodiversity and ecosystems • Its biodiversity and ecosystems-related actions and the resources allocated to their implementation • A description of the biodiversity and ecosystem-related targets it has adopted • Metrics related to its material impacts that result in biodiversity and ecosystem change • The potential financial effects of material risks and opportunities arising from biodiversity- and ecosystem-related impacts and dependencies

Draft ESRS E5 Resource use and circular economy

Objective	Disclosure requirements
<p>The objective of draft ESRS E5 is to specify disclosure requirements which will enable users of the sustainability statements to understand:</p> <ul style="list-style-type: none"> • How the undertaking affects resource use, including the depletion of non-renewable resources and the regenerative production of renewable resources (referred to in draft ESRS E5 as “resource use and circular economy”) in terms of material positive and negative actual or potential impacts • Any actions taken, and the result of such actions, to prevent or mitigate actual or potential negative impacts in relation to resource use and the circular economy, including its measures continue to grow as a business while reducing use of materials • The plans and capacity of the undertaking to adapt its strategy and business model in line with circular economy principles including but not limited to minimising waste, maintaining the value of products, materials and other resources at their highest value and enhancing their efficient use in production and consumption • The nature, type and extent of the undertaking’s material risks and opportunities related to its impacts and dependencies, arising from resource use and the circular economy, and how the undertaking manages them • The financial effects on the undertaking over the short-, medium- and long-term time horizons of material risks and opportunities arising from the undertaking’s impacts and dependencies on resource use and the circular economy 	<p>To achieve the objective, an undertaking is required to disclose:</p> <ul style="list-style-type: none"> • A description of the process to identify material impacts, risks and opportunities related to resource use and the circular economy and information on: <ul style="list-style-type: none"> – The methodologies, assumptions and tools used to screen its assets and activities in order to identify its actual and potential risks in its own operations and value chain – The interconnection between risks and opportunities arising from impacts and dependencies – The process for conducting consultations and in particular with affected communities • The policies it has implemented to manage its material impacts, risks and opportunities related to resource use and circular economy • Its resource use and circular economy-related actions and the resources allocated to their implementation • The resource use and circular economy-related targets it has adopted • Information on its material resource inflows • Information on its material resource outflows, including waste • The potential financial effects of material risks and opportunities arising from resource use and circular economy-related impacts

Standards that cover social topics*Draft ESRS S1 Own workforce*

Objective	Disclosure requirements
<p>The objective of draft ESRS S1 is to specify disclosure requirements which will enable users of the sustainability statements to understand the undertaking's material impacts on its workforce, as well as related material risks and opportunities, including:</p> <ul style="list-style-type: none"> • How the undertaking affects its 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 negative impacts • The nature, type and extent of the undertaking's material risks and opportunities related to its impacts and dependencies on its own workforce, and how the undertaking manages them • The financial effects on the undertaking over the short-, medium- and long-term time horizons of material risks and opportunities arising from the undertaking's impacts and dependencies on its own workforce 	<p>To achieve the objective, an undertaking is required to disclose:</p> <ul style="list-style-type: none"> • How the interests, views, rights and expectations of (actual and potential) materially affected own workers, including respect for their human (including labour) rights, inform its strategy and business model(s) • Whether and how actual and potential impacts on its own workforce (i) originate from or are connected to the undertaking's strategy and business model(s) and (ii) inform and contribute to adapting the undertaking's strategy and business model(s) • The relationship between its material risks and opportunities arising from impacts and dependencies on own workforce and its strategy and business model(s) • Whether all of its own workers who can be materially impacted by the undertaking, are included in the scope of its disclosure under draft ESRS 2 • The policies it has implemented address the management of its material impacts on own workforce, as well as associated material risks and opportunities • A summary of the content of the policies • Its general processes for engaging with its own workers and workers' representatives about actual and potential material impacts on its own workforce • A description of the processes it has in place to provide for or cooperate in the remediation of negative impacts on own workers that the undertaking has identified it has caused or contributed to, as well as channels available to own workers to raise concerns and have them addressed • Its approaches to taking action on material negative and positive impacts, and to mitigating material risks and pursuing material opportunities related to own workers and effectiveness of those actions • The time-bound and outcome-oriented targets it may have related to: <ul style="list-style-type: none"> – Reducing negative impacts on its own workforce; and/or – Advancing positive impacts on its own workforce; and/or – Managing material risks and opportunities related to its own workforce • A description of key characteristics of employees in its own workforce • A description of key characteristics of non-employee workers in its own workforce • Information on the extent to which the working conditions and terms of employment of its own workforce are determined or influenced by collective bargaining agreements and the extent to which its employees are covered in social dialogue in the European Economic Area (EEA) at the establishment and European level

Draft ESRS S1 Own workforce (continued)

Objective	Disclosure requirements
	<ul style="list-style-type: none"> • The gender distribution at top management and the age distribution amongst its employees • Whether or not all workers in its own workforce are paid an adequate wage (i.e. a wage that provides for the satisfaction of the needs of the worker and their family in the light of national economic and social conditions), in line with applicable benchmarks, and if not, which type of workers do not receive an adequate wage and what percentage of its own workforce is paid below the adequate wage • Whether its own workers are covered by social protection against loss of income due to major life events, and, if not, the countries where this is not the case and the percentages of workers in those countries that are not protected • The percentage of people with disabilities in its own workforce • The extent to which training and skills development is provided to its employees • Information on the extent to which its own workforce is covered by its health and safety management system and the number of incidents associated with work-related injuries, ill health and fatalities of its own workers • The number of fatalities as a result of work-related injuries and work-related ill health of other workers working on the undertaking's sites • The extent to which employees are entitled to and make use of family-related leave • The percentage gap in pay between women and men and the ratio between the compensation of its highest paid individual and the median compensation for its employees • The number of work-related incidents and/or complaints and severe human rights impacts and incidents within its own workforce and any related material fines or sanctions for the reporting period

Draft ESRS S2 Workers in the value chain

Objective	Disclosure requirements
<p>The objective of draft ESRS S2 is to specify disclosure requirements which will enable users of the sustainability statements to understand material impacts on workers in the value chain caused or contributed to by the undertaking, as well as material impacts which are directly linked to the undertaking's own operations, products and services through its business relationships and its related material risks and opportunities, including:</p> <ul style="list-style-type: none"> • How the undertaking affects workers in its value 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 negative impacts • The nature, type and extent of the undertaking's material risks and opportunities related to its impacts and dependencies on workers in the value chain, and how the undertaking manages them • The financial effects on the undertaking over the short-, medium- and long-term time horizons of material risks and opportunities arising from the undertaking's impacts and dependencies on workers in the value chain 	<p>To achieve the objective, an undertaking is required to disclose:</p> <ul style="list-style-type: none"> • How the interests, views, rights and expectations of (actual or potential) materially affected workers in the value chain, including respect for their human (including labour) rights, inform its strategy and business model(s) • Whether and how actual and potential impacts on workers in the value chain (i) originate from or are connected to the undertaking's strategy and business model(s), and (ii) inform and contribute to adapting the undertaking's strategy and business model(s) • The relationship between its material risks and opportunities arising from impacts and dependencies on workers in the value chain and its strategy and business model(s) • Whether all workers in the value chain who can be materially impacted by the undertaking, including impacts that are caused or contributed by the undertaking or directly linked to its own operations, products or services through its business relationships, are included in the scope of its disclosure under draft ESRS 2 • The policies it has implemented that address the management of its material impacts on workers in the value chain, as well as associated material risks and opportunities • A summary of the policies • Its general processes for engaging with workers in the value chain and their representatives about actual and potential material impacts on them • A description of the processes it has in place to provide for or cooperate in the remediation of negative impacts on workers in the value chain that the undertaking has identified it has caused or contributed to, as well as channels available to workers in the value chain to raise concerns and have them addressed • Its approaches to taking action on material impacts on workers in the value chain, and to mitigating material risks and pursuing material opportunities related to workers in the value chain and effectiveness of those actions • The time-bound and outcome-oriented targets related to: <ul style="list-style-type: none"> – Reducing negative impacts on workers in the value chain; and/or – Advancing positive impacts on workers in the value chain; and/or – Managing material risks and opportunities related to workers in the value chain

Draft ESRS S3 Affected communities

Objective	Disclosure requirements
<p>The objective of draft ESRS S3 is to specify disclosure requirements which will enable users of the sustainability statements to understand material impacts on communities affected by the undertaking, as well as material impacts which are directly linked to the undertaking's own operations, products or services through its business relationships and its related material risks and opportunities, including:</p> <ul style="list-style-type: none"> • How the undertaking affects communities, in areas where risks are most likely to be present and severe, 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 negative impacts • The nature, type and extent of the undertaking's material risks and opportunities related to its impacts and dependencies on affected communities, and how the undertaking manages them • The financial effects on the undertaking over the short-, medium- and long-term time horizons of material risks and opportunities arising from the undertaking's impacts and dependencies on affected communities 	<p>To achieve the objective, an undertaking is required to disclose:</p> <ul style="list-style-type: none"> • How the views, interests, rights and expectations of (actual or potential) materially affected communities, including respect for their human rights (and their rights as indigenous peoples, where applicable), inform its strategy and business model(s) • Whether and how actual and potential impacts on affected communities (i) originate from or are connected to the undertaking's strategy and business model(s), and (ii) inform and contribute to adapting the undertaking's strategy and business model(s) • The relationship between its material risks and opportunities arising from impacts and dependencies on affected communities and its strategy and business model(s) • Whether all affected communities who can be materially impacted by the undertaking, including impacts that are caused or contributed by the undertaking or directly linked to its own operations, products or services through its business relationship, are included in the scope of its disclosure under draft ESRS 2 • A description of the policies it has implemented that address the management of its material impacts on communities, as well as associated material risks and opportunities • A summary of the policies • Its general processes for engaging with affected communities and their representatives about actual and potential material impacts on them • A description of the processes it has in place to provide for or cooperate in the remediation of negative impacts on affected communities that the undertaking has identified it has caused or contributed to, as well as channels available to affected communities to raise concerns and have them addressed • Its approaches to taking action on material impacts on affected communities, and to mitigating material risks and pursuing material opportunities related to affected communities and effectiveness of those actions • The time-bound and outcome-oriented targets related to: <ul style="list-style-type: none"> – Reducing negative impacts on affected communities; and/or – Advancing positive impacts on affected communities; and/or – Managing material financial risks and opportunities related to affected communities

Draft ESRS S4 Consumers and end-users

Objective	Disclosure requirements
<p>The objective of draft ESRS S4 is to specify disclosure requirements which will enable users of the sustainability statements to understand material impacts which are directly linked to the undertaking's own operations, products or services through its business relationships and its related material risks and opportunities, including:</p> <ul style="list-style-type: none"> • How the undertaking affects the consumers and/or end-users of its products and/or services (referred to in draft ESRS S4 as "consumers and end-users"), in terms of material positive and negative actual or potential impacts • Any actions taken, and the result of those actions, to prevent, mitigate or remediate actual or potential negative impacts • The nature, type and extent of the undertaking's material risks and opportunities related to its impacts and dependencies on consumers and/or end-users, and how the undertaking manages them • The financial effects on the undertaking over the short-, medium- and long-term time horizons of material risks and opportunities arising from the undertaking's impacts and dependencies on consumers and/or end-users. 	<p>To achieve the objective, an undertaking is required to disclose:</p> <ul style="list-style-type: none"> • How the interests, views, rights and expectations of (actual or potential) materially affected consumers and/or end-users, including respect for their human rights, inform its strategy and business model(s) • Whether and how actual and potential impacts on consumers and/or end-users : (i) originate from or are connected to the undertaking's strategy and business models, and (ii) inform and contribute to adapting the undertaking's strategy and business model(s) • The relationship between its material risks and opportunities arising from impacts and dependencies on consumers and/or end-users and its strategy and business model(s) • Whether all consumers and/or end-users who can be materially impacted by the undertaking, including impacts caused or contributed by the undertaking or directly linked to its own operations, products or services through its business relationships, are included in the scope of its disclosure under draft ESRS 2 • A description of the policies it has implemented that address the management of its material impacts of its products and/or services on consumers and end-users, as well as associated material risks and opportunities • A summary of the policies • An explanation of its general processes for engaging with consumers and end-users and their representatives about actual and potential material impacts on them • A description of the processes it has in place to provide for or cooperate in the remediation of negative impacts on consumers and end-users that the undertaking has identified it has caused or contributed to, as well as channels available to consumers and end-users to raise concerns and have them addressed • Its approaches to taking action on material impacts on consumers and end-users, and to mitigating material risks and pursuing material opportunities related to consumers and end-users and effectiveness of those actions • The time-bound and outcome-oriented targets related to: <ul style="list-style-type: none"> – Reducing negative impacts on consumers and/or end-users; and/or – Advancing positive impacts on consumers and/or end-users; and/or – Managing material risks and opportunities related to consumers and/or end-users

Standards that cover governance topics

Draft ESRS G1 Business conduct

Objective	Disclosure requirements
The objective of draft ESRS G1 is to specify disclosure requirements which will enable users of the undertaking's sustainability statements to understand the undertaking's strategy and approach, processes and procedures as well as its performance in respect of business conduct.	<p>To achieve the objective, an undertaking is required to disclose:</p> <ul style="list-style-type: none"> • Its initiatives to establish, develop and promote a corporate culture as well as its policies with respect to business conduct matters • Information about the management of its relationships with its suppliers and its impacts on its supply chain • Information about its system to prevent and detect, investigate, and respond to allegations or incidents relating to corruption and bribery including related training • Information on confirmed incidents of corruption or bribery during the reporting period • Information on the activities and commitments related to its political influence, including its lobbying activities related to its material impacts • Information on its payment practices to support transparency about these practices given the importance of timely cash flows to business partners, especially with respect to late payments to small and medium enterprises (SMEs)

Reconciliation tables

EFRAG's package accompanying the draft ESRS includes appendices, notably reconciliation tables comparing the draft ESRS with the [TCFD recommendations](#); and with the International Sustainability Standard's Board (ISSB's) [Exposure Drafts \(EDs\) on General Requirements for Disclosure of Sustainability-related Financial Information and Climate-related Disclosures](#). The ISSB's EDs can be accessed at the following links:

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

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 [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

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