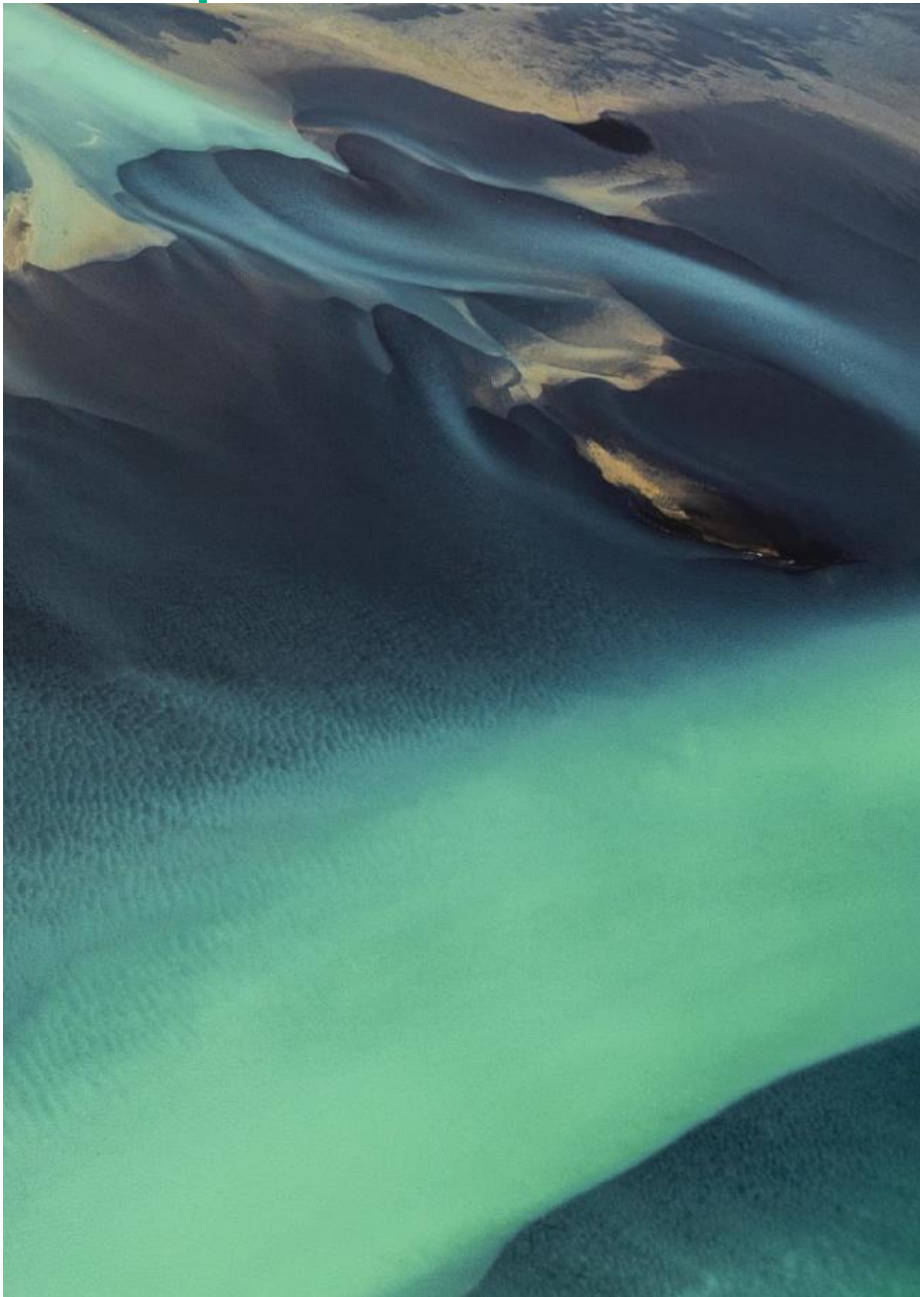


# ESG

## EUROPEAN SUSTAINABILITY REPORTING STANDARDS (ESRS)

VdA EXPERTISE



January 2024

**The Delegated Act approving the first set of European Sustainability Reporting Standards (herein “ESRS”) was published on 22 December 2023, after the Commission adopted its final text on 31 July 2023.**

**Background**

The Corporate Sustainability Reporting Directive (hereinafter “CSRD”), entered into force on 5 January 2023, imposing reporting obligations for a large number of companies operating within the EU concerning sustainability information.

The information to be disclosed, must be reported in accordance with the ESRS, which specify the concrete information that a company shall disclose regarding its material impacts, risks and opportunities in environmental, social, and governance sustainability matters under CSRD.

**Scope**

The first set of ESRS will initially be applicable to large publicly traded companies with more than 500 employees, certain financial institutions and insurance companies that will be obliged to report sustainability information under the CSRD, starting in the 2024 financial year. Gradually, the CSRD and consequently the ESRS will become applicable to all other large companies (2025), to publicly traded SMEs (2026) and to companies headquartered outside the EU with significant operations within the EU (2028).

This first set of ESRS consist of:

- **Two cross-cutting standards** that are applicable to all sustainability topics, corresponding to general requirements regarding the organization of reports (ESRS 1) and general disclosures (ESRS 2)
- **Ten thematic standards**, which companies will have to report on depending on a double materiality exercise and which are divided as follows:

- 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;
- ESRS S1 – Own workforce;
- ESRS S2 – Workers in the value chain;
- ESRS S3 – Affected communities;
- ESRS S4 – Consumers and end-users;
- ESRS G1 – Business conduct.

Each thematic standard includes several disclosure requirements to which companies will have to respond to by gathering and reporting comprehensive information on each topic.

The information that ought to be disclosed concerning each thematic standard essentially concerns material impacts, risks, opportunities, the actions implemented and to be implemented by the company, policies and the involvement of members of the management and supervisory bodies on each area.

**Materiality Assessment and the importance of double materiality**

The determination of which thematic standards shall be reported on by companies depends on a materiality assessment, that will also need to be disclosed by companies.

## **The determination of which thematic standards shall be reported on by companies depends on a materiality assessment, that will also needs to be disclosed by companies and that ought to be based on the concept of double materiality.**

This materiality assessment shall consider double materiality, meaning that both the company's impact on the thematic areas at hand, as well as the impact of such matters on the company's development should be assessed. These impacts may either be connected with the activity of the company or its financial record, present or future, or connected with its upstream or downstream value chain.

### **Exemptions**

In order to simplify the implementation of the ESRS, in comparison with the initial proposals of the text, the following exemptions were introduced:

- During the first reporting year, companies will be exempted from reporting on "climate change" (ESRS E1) and on "own workforce" (ESRS S1) if they conclude, in a justified manner, that these standards are not material;
- During the first reporting year, companies with less than 750 employees may omit the reporting on "own workforce" (ESRS S1) and the disclosure concerning their scope 3 greenhouse gas emissions;
- During the first two reporting years, companies with less than 750 employees will be exempted from reporting on "biodiversity and ecosystems" (ESRS E4), "workers in the value chain" (ESRS S2), "affected communities" (ESRS S3) and "consumers and end-users" (ESRS S4).

### **Next steps**

The ESRS entered into force on 25 December 2023 and are applicable from 1 January 2024, with 2024 being the first relevant financial year for reporting obligations.

On the same date of 22 December 2023, EFRAG (European Financial Reporting Advisory Group) published three draft ESRS Implementation Guidance:

- Draft EFRAG IG 1: Materiality assessment implementation guidance;
- Draft EFRAG IG 2: Value chain implementation guidance;
- Draft EFRAG IG 3: Detailed ESRS datapoints implementation guidance.

The purpose of these guidelines drawn up by EFRAG is to offer practical instructions on how to implement the ESRS or how to read the reports under these standards. They are thus not binding.

Of particular note is the Materiality assessment implementation guidance (Draft EFRAG IG 1), which describes the ESRS' approach to materiality and illustrates how the materiality assessment should be carried out. It also includes FAQs on impact and financial materiality, the materiality assessment process, stakeholder engagement and reporting, among other things.

These draft guidelines are out for public feedback until 2 February 2024.

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