

ESRS 1 - 2

Cross-cutting standards

ESRS 1 & 2 (cross-cutting standards)

The cross-cutting reporting requirements will be required of all organizations in scope of the CSRD, while the others will be mandatory for those organizations that consider them material.

- ESRS 1 and 2 serve as an overview for the **general sustainability reporting**, with all basic concepts, requirements, definitions, rules of engagement,...
- ESRS 1 explains
 - Areas, minimum requirements, base-concepts on the sustainability reporting.
- ESRS 2
 - Lists a number of mandatory disclosure requirements, and datapoints, irrespective of the company reporting on sustainability.
 - Explains the relation between business model, strategy, value chain, revenue and minimum disclosure requirements for each company.

ESRS 1 – General requirements

ESRS 1 – General Requirements

The ESRS 1 can be seen as the basic explanation of how to report on sustainability for your company. In this part of the ESRS the different basic topics are identified, and explained, allowing you to:

- Understand the categories of ESRS Standards (as explained in the previous part)
- The qualitative characteristics of your sustainability reporting
- Double materiality concepts (which we delve into later)
- The importance of due diligence
- The importance of value chain in your reporting (which we delve into later)
- Time horizon (what timelines EFRAG suggests for the set-up of your sustainability reporting)
- Preparation & presentation of sustainability information
- Structure of the sustainability statement
- Linkages with other parts of corporate reporting
- Transitional provisions

ESRS 1 – General Requirements

The ESRS also include 7 appendixes, which can serve partly as inspiration, and partly as rules for your own sustainability reporting.

This is supplemented by 7 appendixes:

- **Appendix A: Application Requirements**
- **Appendix B: Qualitative characteristics of information**
- **Appendix C: List of phased-in Disclosure Requirements**
- **Appendix D: Structure of ESRS Sustainability Statement**
- **Appendix E: Flowchart for determining disclosures to be included**
- **Appendix F: Example of structure of ESRS sustainability statement**
- **Appendix G: Example of incorporation by reference**

Qualitative Characteristics

The company must adhere to these characteristics:

- **Fundamental qualitative characteristics:**
 - **Relevance:** relevant for the users of the sustainability statement to make decisions
 - **Faithful representation:** complete, neutral & accurate
- **Enhancing qualities:**
 - **Comparability:** comparison is possible with previous years, supported by consistency
 - **Consistency:** using the same methodologies and approaches, to allow comparability
 - **Verifiability:** if the user of the data is able to corroborate the information, in the way that independent observers could reach consensus:
 - **Understandability:** clear and concise, with avoiding
 - **Generic information**
 - **Duplication of information**
 - **Use clear language**

Time Horizon

The time horizon defines all elements regarding a timeline.

- **Reporting period**
 - Sustainability statement shall be consistent with that of its financial statements
 - Describe the link between historic information and future-oriented information
- **Reporting progress against the base year:**
 - The base year is used as a comparison for the reporting of the current year
 - In-between milestones towards targets can also be defined
- **Short, medium and long-term**
 - Short term: period adopted in the financial statements
 - Medium term: end from short term up to 5 years
 - Long term: more than 5 years
- **Base-year**
 - the year for which the first information is available

Transitional provisions

Transitional provisions are foreseen in certain categories. The idea is that certain information or datapoints can come from other sources, or can be adopted later in time.

- **The provisions describe that:**
 - For entity-specific disclosures the company will see the need decrease over time, but can for the time being rely on GRI or IFRS standards
- **The value chain:**
 - Explain which data was not available through the value chain, even when the business partner or organisation in the value chain is an SME for the first 3 years. From the 4th year this will not exceed the content needed from listed SME's.
- **Comparitive information**
 - The first year comparative information is not required
- **Phase-in**
 - A number of DR's are phased-in, and are thus not applicable in the first year.

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Topical ESRS	Sustainability matters covered in topical ESRS		
	Topic	Sub-topic	Sub-sub-topics
ESRS E1	Climate change	<ul style="list-style-type: none"> Climate change adaptation Climate change mitigation Energy 	
ESRS E2	Pollution	<ul style="list-style-type: none"> Pollution of air Pollution of water Pollution of soil Pollution of living organisms and food resources Substances of concern Substances of very high concern Microplastics 	
ESRS E3	Water and marine resources	<ul style="list-style-type: none"> Water Marine resources 	<ul style="list-style-type: none"> Water consumption Water withdrawals Water discharges Water discharges in the oceans Extraction and use of marine resources
ESRS E4	Biodiversity and ecosystems	<ul style="list-style-type: none"> Direct impact drivers of biodiversity loss 	<ul style="list-style-type: none"> Climate Change Land-use change, fresh water-use change and sea-use change Direct exploitation Invasive alien species Pollution Others
		<ul style="list-style-type: none"> Impacts on the state of species 	Examples: <ul style="list-style-type: none"> Species population size Species global extinction risk
		<ul style="list-style-type: none"> Impacts on the extent and condition of ecosystems 	Examples: <ul style="list-style-type: none"> Land degradation Desertification Soil sealing
		<ul style="list-style-type: none"> Impacts and dependencies on ecosystem services 	

Topical ESRS	Sustainability matters covered in topical ESRS		
	Topic	Sub-topic	Sub-sub-topics
ESRS E5	Circular economy	<ul style="list-style-type: none"> Resources inflows, including resource use Resource outflows related to products and services Waste 	
ESRS S1	Own workforce	<ul style="list-style-type: none"> Working conditions 	<ul style="list-style-type: none"> Secure employment Working time Adequate wages Social dialogue Freedom of association, the existence of works councils and the information, consultation and participation rights of workers Collective bargaining, including rate of workers covered by collective agreements Work-life balance Health and safety
		<ul style="list-style-type: none"> Equal treatment and opportunities for all 	<ul style="list-style-type: none"> Gender equality and equal pay for work of equal value Training and skills development Employment and inclusion of persons with disabilities Measures against violence and harassment in the workplace Diversity
		<ul style="list-style-type: none"> Other work-related rights 	<ul style="list-style-type: none"> Child labour Forced labour Adequate housing Privacy
ESRS S2	Workers in the value chain	<ul style="list-style-type: none"> Working conditions 	<ul style="list-style-type: none"> Secure employment Working time Adequate wages Social dialogue Freedom of association, including the existence of work councils Collective bargaining Work-life balance Health and safety
		<ul style="list-style-type: none"> Equal treatment and opportunities for all 	<ul style="list-style-type: none"> Gender equality and equal pay for work of equal value Training and skills development The employment and inclusion of persons with disabilities Measures against violence and harassment in the workplace Diversity
		<ul style="list-style-type: none"> Other work-related rights 	<ul style="list-style-type: none"> Child labour Forced labour Adequate housing Water and sanitation Privacy

Topical ESRS	Sustainability matters covered in topical ESRS		
	Topic	Sub-topic	Sub-sub-topics
ESRS S3	Affected communities	<ul style="list-style-type: none"> Communities' economic, social and cultural rights 	<ul style="list-style-type: none"> Adequate housing Adequate food Water and sanitation Land-related impacts Security-related impacts
		<ul style="list-style-type: none"> Communities' civil and political rights 	<ul style="list-style-type: none"> Freedom of expression Freedom of assembly Impacts on human rights defenders
		<ul style="list-style-type: none"> Rights of indigenous peoples 	<ul style="list-style-type: none"> Free, prior and informed consent Self-determination Cultural rights
ESRS S4	Consumers and end-users	<ul style="list-style-type: none"> Information-related impacts for consumers and/or end-users 	<ul style="list-style-type: none"> Privacy Freedom of expression Access to (quality) information
		<ul style="list-style-type: none"> Personal safety of consumers and/or end-users 	<ul style="list-style-type: none"> Health and safety Security of a person Protection of children
		<ul style="list-style-type: none"> Social inclusion of consumers and/or end-users 	<ul style="list-style-type: none"> Non-discrimination Access to products and services Responsible marketing practices
ESRS G1	Business conduct	<ul style="list-style-type: none"> Corporate culture Protection of whistle-blowers Animal welfare Political engagement Management of relationships with suppliers including payment practices 	
		<ul style="list-style-type: none"> Corruption and bribery 	<ul style="list-style-type: none"> Prevention and detection including training Incidents

ESRS 2 – General Disclosures

ESRS 2 - General Disclosures

The ESRS 2 explains the disclosure requirements of companies, regardless of their activity. All these datapoints are mandatory, and will need to be included in the set-up of your sustainability reporting.

The ESRS 2 is divided in five elements:

1. **Basis for preparation**
2. **Governance**
3. **Strategy**
4. **Impact, risk and opportunity management**
5. **Metrics and Targets**

The datapoints in ESRS 2

ESRS	Irrespective of MA	Narrative	Semi-Narrative	Numerical	Phase In Year 1
ESRS 2	134	99	15	20	2

The division on datapoints is important to understand how to approach the basics of your sustainability reporting.

You can see the ESRS 2 as a checklist.

What is the goal of each topic?

Basis for preparation

The basis for preparation serves as a way to understand how the company has build up their sustainability report. The topics to describe are:

- Preparation of the sustainability statement, and/or changes in comparison with the previous period
- Scope of consolidation
- Upstream & downstream value chain information
- Option to omit information due to IP, innovation, know-how
- Option to omit based on negotiation, or developments, based on the artikels of Directive 2013/34/EU
- Deviation from time horizon (see definition ESRS 1)
- Metrics for the value chain, when not specific
- Sources of estimation and outcome uncertainty like “measurement uncertainty”
- Reporting errors in prior periods
- Disclosures from other regulations or other sustainability reportings
- Use of phase-ins

What is the goal of each topic?

Governance

The goal is to understand processes, controls and procedures to monitor, manage and oversee sustainability matters.

As one of the goals of CSRD is to ensure transparent, verifiable, clear and trustworthy sustainability insights, governance is high on the agenda. This leads to 5 specific disclosure requirements.

- **Gov-1:** the role of the administrative, management and supervisory bodies
- **Gov-2:** Information provided to and sustainability matters addressed by said bodies
- **Gov-3:** integration of sustainability-related performance in incentive schemes
- **Gov-4:** Statement on due diligence
- **Gov-5:** Risk management and internal controls over sustainability reporting

This governance is very important as companies bear the same legal responsibility as with financial reporting.

What is the goal of each topic?

Strategy

As any company has their specific activity, strategy and business model, this should be disclosed. The materiality assessment – which defines the relevant sustainability matters – is dependent on strategy, business model and value chain.

As one of the goals is to create a clear view on the sustainability impact, risks and opportunities, this means a company must explain the SBM in their reporting.

This translates to three main topics:

- **SBM-1: Strategy, business model and value chain**
- **SBM-2: Interests and views of stakeholders**
- **SBM-3: Material impacts, risks and opportunities and their interaction with strategy and business model**

What is the goal of each topic?

Impact, risk and opportunity (IRO)

The IRO's (Impact, Risk, Opportunity) are central to the sustainability reporting. The goal of the materiality assessment is to determine the impact, risk and opportunity related to each sustainability matter.

This translates to a number of generic IRO DR's that are needed.

- **IRO-1: Description of the process to identify and assess material impacts, risks and opportunities**
- **IRO-2: DR's in ESRS covered by the undertaking's sustainability statement**
- **MDR-P, A:**
 - Minimum Disclosure Requirements for policies, actions are defined here.

What is the goal of each topic?

Metrics and Targets

Both, metrics and targets, are central to the CSRD. The metrics and targets are dependent on the materiality assessment, and on every specific topic.

The undertaking has the option to not disclose targets and metrics, but should disclose ‘why’, ‘how’, and ‘timeline of adoption’.

- MDR – T, M
 - Minimum Disclosure Requirements for metrics and targets are defined here.

ESRS 2 and all sector-agnostic topical standards

ESRS 2 can be seen as an overarching general list of requirements which are applicable on itself, but are also applicable per ESRS.

For each material matter, the standards of ESRS 2 should be applied, in conjunction with the specific DR's of each topic.

A good example is that Gov-3 (Integration of sustainability-related performance in incentive schemes) is directly linked to ESRS E1. This implies that the reduction (and compensation) goals of a company are advised to be integrated in the management, with a clear remuneration for reaching certain targets. As climate change is central to the European Green Deal, this seems quite logical.

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