Need to know
European Sustainability Reporting Standards finalised

Contents

For more information please see the following websites:

www.ukaccountingplus.co.uk
www.deloitte.co.uk

This *Need to know* outlines the first set of European Sustainability Reporting Standards (ESRS), adopted by the European Commission (EC) on 31 July 2023 in *Commission Delegated Regulation supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards.*

- The EU **Corporate Sustainability Reporting Directive (CSRD)** requires entities within its scope to provide sustainability information, prepared in accordance with ESRS, in a dedicated section of the management report
- On 31 July 2023, the EC adopted the ESRS by way of a delegated regulation, which it formally transmitted to the European Parliament and to the European Council for scrutiny
- The delegated regulation includes:
  - Two cross-cutting standards, which cover:
    - General requirements that entities should comply with when preparing and presenting sustainability-related information under the Accounting Directive as amended by the CSRD (ESRS 1). This includes the requirement to perform a materiality assessment to identify the material impacts, risks and opportunities to be reported, using the double materiality principle
    - General disclosures that apply to all entities regardless of their sector of activity (i.e. sector agnostic) and across sustainability topics (ESRS 2)
  - Ten topical standards, which cover environmental, social and governance topics from a sector-agnostic perspective
- The **CSRD** specifies the effective date for mandatory disclosure in accordance with ESRS for different types of entity. The first group of entities will be required to apply ESRS for financial years beginning on or after 1 January 2024. The CSRD is currently being transposed into law in each member state, which may include additional local requirements

Background

In December 2022, the **final text of the Corporate Sustainability Reporting Directive (CSRD)** resulting from the process to revise the Non-Financial Reporting Directive (NFRD) was published in the EU Official Journal. 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 Accounting Directive (including the NFRD), the Transparency Directive, the Audit Directive and the corresponding Audit Regulation.

To ensure entities[1] disclose relevant, comparable and reliable information on all material sustainability-related topics, the CSRD requires entities within its scope to apply ESRS.

In accordance with the requirements in the CSRD, the EC adopted the draft standards on 31 July 2023 by way of a delegated regulation. This followed a **draft delegated regulation** which the EC exposed for public comment on 9 June 2023, which in turn was based on draft ESRS developed by the Sustainability Reporting Board (SRB) of EFRAG.

Implication for UK companies

The CSRD will directly affect UK companies if they have securities (shares or debt) listed on EU regulated markets or if they generate more than EUR 150 million net turnover in the EU (for each of the last two consecutive financial years) and have at least one EU subsidiary (large or listed on an EU regulated market) or EU branch (with more than EUR 40 million net turnover in the preceding financial year). It will also apply directly to EU subsidiaries of UK companies. This may be as soon as periods commencing on or after 1 January 2024 for large UK companies with securities listed on an EU regulated market, or for large EU subsidiaries of UK companies that are PIEs, and that have more than 500 employees.

In April 2023, the UK government published a new policy paper, ***Green Finance Strategy—Mobilising Green Investment*** ("the 2023 Strategy"), building on the previous Green Finance Strategy which was published in July 2019. The 2023 Strategy re-emphasises the government's commitment to the sustainability disclosure requirements (SDR) set out in its ***Greening Finance: Roadmap to Sustainable Investing,*** published in October 2021, including its support for UK adoption of the standards being finalised by the ISSB and the development of an endorsement mechanism. The UK has already taken a number of steps in developing the SDR, including the Financial Conduct Authority (FCA)'s Listing Rule for premium and standard listed companies to make disclosures consistent with the TCFD Recommendations, and government legislation to require certain AIM listed and unlisted companies and LLPs to include climate-related financial disclosures in their annual report.

The UK government aims to introduce the SDR in a way that complements the UK's wider non-financial reporting framework, minimises duplication with other forms of corporate reporting and gives businesses enough time to implement the new requirements. However, where the requirements of the CSRD go beyond the reporting requirements in the UK, additional disclosures will need to be made by UK companies in scope of the CSRD to comply with EU requirements. The additional disclosures could be significant, particularly for companies required to apply full ESRS. Furthermore, the disclosure will be subject to mandatory assurance.

Determining whether a company or its subsidiary is in scope and if so, at what level it is required to report, under which set of standards and from what date is complex. The CSRD requires disclosures in accordance with ESRS, but also includes provisions for other standards to be deemed equivalent to ESRS and for the application of standards for third country undertakings or simplified standards for SMEs—both are currently being developed by EFRAG. The EC has yet to determine which standards are deemed equivalent to ESRS.

Given the extensive disclosure requirements, UK companies should consider early how the CSRD may impact them. This extends to consideration of other EU Regulations, such as the EU Taxonomy Regulation which introduces disclosures for companies in scope of the CSRD. Under the EU Taxonomy Regulation, non-financial undertakings must disclose "green" turnover, capex and opex indicators and financial undertakings need to disclose ratios relevant to their industry that relate to the proportion of environmentally sustainable economic activities in their financial activities, such as lending, investment and insurance. Determining what activities are "green" according to the specific technical screening criteria associated with the EU Taxonomy Regulation is not straightforward and will require careful consideration.

For further information, please see:

- ***Need to know*** discussing the final text of the CSRD
- ***Need to know*** discussing the UK Government's Green Finance Strategy—Mobilising Green Investment

1. **ESRS use the term 'undertaking'. Throughout this publication, the terms 'undertaking' and 'entity' are used interchangeably, with the same meaning.**

Next steps

The ESRS delegated regulation has been submitted to the European Parliament and to the Council for scrutiny. If not rejected, the delegated regulation enters into force after the publication in the official journal of the EU. The delegated regulation, and the ESRS contained in its annexes, apply for financial years beginning on or after 1 January 2024, which aligns with the effective date for those entities first in scope of the CSRD. The delegated regulation would be binding in its entirety and directly applicable in all member states.

EFRAG will publish implementation guidance to support the double materiality assessment and value chain concept when applying the first set of ESRS.

In addition, it is expected that EFRAG will publish exposure drafts for the following standards:

- Standards for small and medium-sized entities (SMEs) listed on an EU regulated market
- Standards for non-EU entities (not listed on an EU regulated market) that have more than EUR 150 million turnover in the EU and a large subsidiary or branch in the EU with more than EUR 40 million net turnover
- Standards that require sector-specific disclosures, timing to be confirmed

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 (prepared in accordance with ESRS) that entities are required to include in a dedicated section of the management report (ESRS uses the term sustainability statement to refer to this set of information). Entities 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).

The ESRS use three categories of standards that are intended to complement and interact with each other:

- Cross-cutting standards, which cover the provisions applying to:
  - General requirements that entities should comply with when preparing and presenting sustainability-related information under the Accounting Directive as amended by the CSRD (ESRS 1)
  - General disclosures that apply to all entities regardless of their sector of activity (i.e. sector agnostic) and apply across sustainability topics (ESRS 2)
- Topical standards, which cover a specific sustainability topic from a sector-agnostic perspective
- Sector-specific standards (not yet developed)

The final standards adopted in July 2023 include the following:

Cross-cutting (mandatory irrespective of the materiality assessment)	**ESRS 1** General requirements	**ESRS 2** General disclosure			
Environment	**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
Social	**ESRS S1** Own workforce	**ESRS S2** Workers in the value chain	**ESRS S3** Affected communities	**ESRS S4** Consumers and end-users	
Governance	**ESRS G1** Business conduct				

An annex containing a list of acronyms and a glossary of terms has also been issued.

The European Commission has published **Questions and Answers on its website** which provide information on the development of the standards.

ESRS 1 sets out phasing-in provisions, including for disclosure requirements or datapoints of disclosure requirements across various ESRS standards that may be omitted or that are not applicable in the first year(s) of preparation of the sustainability statement (please see below under **ESRS 1—Transitional provisions).**

ESRS 1 General requirements

Objective

The objective of ESRS 1 is to provide an understanding of the architecture of ESRS, the drafting conventions and fundamental concepts used, and the general requirements for preparing and presenting sustainability information in accordance with the Accounting Directive, as amended by the CSRD.

ESRS specify the information that an entity is required to disclose about its material impacts, risks and opportunities relating to environmental, social and governance sustainability matters.

ESRS do not require an entity to disclose information on environmental, social and governance topics covered by ESRS when a topic is not material, The information disclosed in accordance with ESRS should enable users of the sustainability statement to understand the entity's material impacts on people and environment and the material effects of sustainability matters on the entity's development, performance and position.

Impacts, risks and opportunities

In all ESRS, the term "impacts" refers to the effect an entity has or could have on the environment and people, including effects on their human rights, connected with its own operations and upstream and downstream value chain, including through its products and services, as well as through its business relationships. The impacts can be actual or potential, negative or positive, intended or unintended, and reversible or irreversible. They can arise over the short-, medium-, or long-term. Impacts indicate the entity's contribution, negative or positive, to sustainable development.

The term "risks and opportunities" refers to the entity's sustainability-related financial risks and opportunities

Collectively, these are referred to as "impacts, risks and opportunities".

Stakeholders

Stakeholders are defined as those who can affect or be affected by an entity. ESRS 1 identifies two main groups of stakeholders:

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

Structure of disclosure requirements

The disclosure requirements in ESRS 2, in topical ESRS and in sector-specific ESRS are structured into the following reporting areas:

- Governance: the governance processes, controls and procedures used to monitor, manage and oversee impacts, risks and opportunities
- Strategy: how an entity's strategy and business model interact with its material impacts, risks and opportunities, including how the entity addresses those impacts, risks and opportunities
- Impact, risk and opportunity management: the process(es) by which an entity:
  - Identifies impacts, risks and opportunities and assesses their materiality
  - Manages material sustainability matters through policies and actions
- Metrics and targets: an entity's performance, including targets it has set and progress towards meeting them

Observation

The structure of the disclosure requirements is consistent with the Task Force on Climate-related Financial Disclosures (TCFD) Recommendations and IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, with the exception that instead of 'impact, risk and opportunity management', TCFD and IFRS S1 use the term 'risk management'.

Materiality

Materiality assessment

Performing a materiality assessment is necessary for an entity to identify the material impacts, risks and opportunities to be reported. Under ESRS, an entity is required to report on sustainability matters using the double materiality principle (see below).

Minimum disclosure requirements

Irrespective of the outcome of its materiality assessment, an entity is always required to disclose the information required by ESRS 2. ESRS 2 includes minimum disclosure requirements regarding policies and actions as well as metrics and targets. An entity is required to apply these minimum disclosure requirements together with the corresponding disclosure requirements in topical ESRS, which are are subject to the materiality assessment. For the topical standard on climate change, if the entity concludes that climate change is not material and therefore omits all disclosure requirements in ESRS E1, it is required to provide further disclosures (see box below under **ESRS 2—Impact, risk and opportunity management**).

When an entity assesses that a sustainability matter is material, it is required to disclose information on policies, actions and targets in relation to that sustainability matter as set out in the topical and sector-specific ESRS related to that matter and the corresponding minimum disclosure requirement on policies, actions, and targets required in ESRS 2. If the entity cannot disclose that information because it has not adopted the respective policies, implemented the respective actions or set the respective targets, it is required to state that fact. If the material sustainability matter is not covered by an ESRS or is covered with insufficient granularity, entity-specific disclosures may be required.

Metrics for a material sustainability matter are required to be included if the entity assesses such information to be material. They can otherwise be omitted as long as the metrics are not needed to meet the objective of the relevant disclosure requirement.

If the entity omits the information prescribed by a datapoint that derives from EU legislation listed in Appendix B of ESRS 2 (such as from the Sustainable Finance Disclosure Regulation (SFDR)), it is required explicitly to state that the information in question is "not material" (see box below under **ESRS 2—Impact, risk and opportunity management**).

Double materiality

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

Impact materiality and financial materiality

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

Impact materiality

A sustainability matter is material from an impact perspective when it relates to the entity's material actual or potential, positive or negative impacts on people or the environment over the short, medium or long term. 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. Severity is based on the scale and scope of the impact, and whether the impact is permanent.

Impacts include those connected with the entity's own operations and upstream and downstream value chain, including through its products and services, as well as through its business relationships. Business relationships include those in the entity's upstream and downstream value chain and are not limited to direct contractual relationships.

In identifying and assessing the impacts, risks and opportunities in the value chain to determine their materiality, the entity is required to focus on areas where impacts, risks and opportunities are deemed likely to arise, based on the nature of the activities, business relationships, geographies or other factors concerned.

Financial materiality

The scope of financial materiality for sustainability reporting is an expansion of the scope of materiality used in the process of determining which information should be included in the entity's financial statements.

The financial materiality assessment corresponds to the identification of information that is considered material for primary users of general-purpose financial reports in making decisions relating to providing resources to the entity. In particular, information is considered material for primary users of general-purpose financial reports if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that they make on the basis of the entity's sustainability statement.

Interdependency

ESRS 1 states that impact materiality and financial materiality assessments are interrelated and that an entity is required to consider the interdependencies between the two dimensions. In general, the starting point is the assessment of impacts. A sustainability impact may be financially material from inception or become financially material, when it could reasonably be expected to affect the entity's financial position, financial performance, cash flows, its access to finance or cost of capital over the short, medium or long term. Impacts are captured by the impact materiality perspective irrespective of whether or not they are financially material.

Observation

IFRS S1 states that "[i]n the context of sustainability-related financial disclosures, information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports, which include financial statements and sustainability-related financial disclosures and which provide information about a specific reporting entity."

This is consistent with the description of financial materiality in paragraph 48 of ESRS 1, as set out above.

Qualitative characteristics of information

When preparing its sustainability statement, an entity is required to apply:

- **Fundamental qualitative characteristics** of information: relevance and faithful representation
- **Enhancing qualitative characteristics** of information: comparability, verifiability and understandability

Reporting entity

The reporting entity for the sustainability statement is required to be the same as the one for the financial statements. For example, if a reporting entity is a parent company required to prepare consolidated financial statements, the sustainability statement will be for the group.

However, for the purposes of reporting sustainability information, the scope of the sustainability statement is extended to include information on the material impacts, risks and opportunities connected with the entity through its direct and indirect business relationships in the upstream and/or 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 entity's value chain, for example as suppliers, the entity is required to include information on them consistent with the approach adopted for the other business relationships in the value chain. When determining impact metrics, the data of the associate or joint venture are not limited to the share of equity held but should considered in proportion to the impacts that are connected with the entity's products and services through its business relationships.

Consolidated reporting

If an entity is reporting at a consolidated level, it is required to perform its assessment of material impacts, risks and opportunities for the entire consolidated group, regardless of the group's legal structure.

Reporting period and time horizons

The reporting period for an entity's sustainability statement should be consistent with that of its financial statements.

When preparing its sustainability statement, an entity is required to adopt the following time intervals as at the end of the reporting period:

- Short term: the period adopted by the entity as the reporting period in its financial statements
- Medium term: from the end of the reporting period for short term up to five years
- Long term: more than five years

There may be circumstances when the use of the defined medium- or long-term time horizons would result in information that is not relevant, as the entity uses a different definition for (i) its processes of identification and management of material impacts, risks and opportunities or (ii) the definition of its actions and setting targets. In these circumstances, an entity may adopt a different definition of medium- and long-term time horizons.

Preparation and presentation of sustainability information

ESRS 1 includes general principles for the preparation and presentation of sustainability information including:

- Comparative information
- Sources of estimation and outcome uncertainty
- Events after the reporting period
- Changes in preparing or presenting sustainability information
- Prior period errors

These principles are similar to those typically applied for preparation of financial statements.

Classified or sensitive information

An entity is not required to disclose classified information or sensitive information, even if such information is considered material. Sensitive information is defined as information and data, including classified information, that is to be protected from unauthorised access or disclosure because of obligations laid down in EU or national law, or in order to safeguard the privacy or security of a natural or legal person.

The entity is required to make every reasonable effort to ensure that beyond the omission of the classified information or sensitive information, the overall relevance of the disclosure in question is not impaired.

Linkages with other parts of corporate reporting and connected information

An entity is required to provide information that enables users of its sustainability statement to understand the connections between different pieces of information in the statement, and the connections between the information in the sustainability statement and other information that the entity discloses in other parts of its corporate reporting.

In particular, an entity is required to describe the relationships between different pieces of information. This could require connecting narrative information on governance, strategy and risk management to related metrics and targets. When the sustainability statement includes monetary amounts or other quantitative data points that exceed a threshold of materiality and that are presented in the financial statements (direct connectivity between information disclosed in sustainability statement and information disclosed in financial statements), the entity is required to include a reference to the relevant paragraph of its financial statements where the corresponding information can be found.

Location and structure of the sustainability statement

Information about sustainability matters is required to be presented in a dedicated section of the entity's management report.

The statement should include the disclosures relating to the **Taxonomy Regulation**. An entity is required to ensure that these disclosures are separately identifiable within the sustainability statement. The disclosures relating to each of the environmental objectives defined in the Taxonomy Regulation are required to be presented together in a clearly identifiable part of the environmental section of the sustainability statement.

When an entity includes in its sustainability statement additional disclosures stemming from other legislation which requires the entity to disclose sustainability information, or generally accepted sustainability reporting standards and frameworks, including non-mandatory guidance and sector-specific guidance, published by other standard-setting bodies (such as the International Sustainability Standards Board (ISSB) or the Global Reporting Initiative (GRI)), the entity is required clearly to identify such disclosures with an appropriate reference to the related legislation, standard or framework. In addition, the disclosures must meet the requirements for qualitative characteristics of information specified in ESRS 1.

An entity is required to structure its sustainability statement in four parts, in the following order:

- General information
- Environmental information
- Social information
- Governance information

Incorporation by cross-reference

A disclosure requirement of an ESRS (including a specific datapoint) may be incorporated in the sustainability statement 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
- The universal registration document
- 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 and are clearly identified in the document as addressing the relevant disclosure requirement (or the relevant specific datapoint)

- They are published before or at the same time as the management report
- They are in the same language as the sustainability statement
- They are subject to at least the same level of assurance as the sustainability statement
- They meet the same technical digitalisation requirements as the sustainability statement

In the preparation of its sustainability statement using incorporation by cross-reference, the entity is required to consider the overall cohesiveness of the reported information and ensure that the incorporation by reference does not impair the readability of the sustainability statement. The appendix to ESRS 1 includes an illustrative example of incorporation by cross-reference.

Transitional provisions

Entity-specific disclosures

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

- Introduce in its reporting those entity-specific disclosures that it reported in prior periods, if these disclosures meet or are adapted to meet the qualitative characteristics of information referred to in ESRS 1
- Complement its disclosures prepared on the basis of the topical ESRS with an appropriate set of additional disclosures to cover sustainability matters that are material for the entity in its sector(s), using available best practice and/or available frameworks or reporting standards, such as IFRS industry-based guidance and GRI Sector Standards.

Value chain

For the first three years of the sustainability reporting under ESRS, in the event that not all the necessary information regarding its upstream and downstream value chain is available, the entity is required to explain the efforts made to obtain the necessary information about its value chain, the reasons why not all of the necessary information could be obtained, and its plans to obtain the necessary information in the future.

In addition, for the first three years of the entity's sustainability reporting under ESRS:

- When disclosing information on policies, actions and targets in accordance with ESRS 2 and other ESRS, an entity may limit upstream and downstream value chain information to information available in-house, such as data already available to the entity, and publicly available information
- When disclosing metrics, an entity is not required to include upstream and downstream value chain information, except for datapoints derived from other EU legislation

Disclosure requirements that are phased in

Appendix C of ESRS 1 sets out phase-in provisions for the disclosure requirements or datapoints of disclosure requirements in ESRS that may be omitted or that are not applicable in the first year(s) of preparation of the sustainability statement under ESRS.

These phase-in provisions include an allowance for an entity or group not exceeding on its balance sheet date the average number of 750 employees during the financial year, in its first year(s) of preparation of the sustainability statement under ESRS, to omit the information required by ESRS E4 *Biodiversity and ecosystems,* ESRS S1 *Own workforce,* ESRS S2 *Workers in the value chain,* ESRS S3 *Affected communities* and ESRS S4 *Consumers and end users* in accordance with Appendix C of ESRS 1. However, when applying the relief, the entity is nevertheless required to disclose whether the sustainability topics covered respectively by ESRS E4, ESRS S1, ESRS S2, ESRS S3 and ESRS S4 have been assessed to be material.

If one or more of these topics has been assessed to be material, the entity is required, for each material topic, to:

- Describe briefly any time-bound targets the entity has set related to the matters in question, the progress it has made towards achieving those targets, and whether its targets related to biodiversity and ecosystems are based on conclusive scientific evidence
- Describe briefly its policies in relation to the matters in question
- Describe briefly actions it has taken to identify, monitor, prevent, mitigate, remediate or bring an end to actual or potential adverse impacts related to the matters in question, and the result of such actions
- Disclose metrics relevant to the matters in question

Comparative information

An entity is not required to disclose the comparative information required by ESRS 1 in the first year of preparation of the sustainability statement under ESRS. This provision also applies to phased-in disclosure requirements in the first year of their disclosure.

ESRS 2 *General disclosures*

Objective

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

ESRS 2 states that, irrespective of whether a topic is material, an entity always needs to meet the disclosure requirements in topical standards related to disclosure requirement IRO-1 *Description of the processes to identify and assess material impacts, risks and opportunities.* These are listed in Appendix C of ESRS 2. The other requirements listed in Appendix C, relating to governance and strategy disclosure requirements in topical standards, only need to be provided if the sustainability topic is material based on the entity's materiality assessment.

Basis for preparation

An entity is required to disclose the general basis for preparation of its sustainability statement. The objective of this disclosure requirement is to provide an understanding of how the entity prepares its sustainability statement, including the scope of consolidation, the upstream and downstream value chain information, and, where relevant, whether the entity has used any of the options for omitting information in ESRS 2.

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, ESRS 2 includes specific circumstances when additional disclosure is required, in particular, when:

- The entity has deviated from the medium- or long-term time horizon as defined in ESRS 1
- Metrics include upstream and/or downstream 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
- Material prior period errors are identified
- The entity includes in its sustainability statement information stemming from other legislation or generally accepted sustainability reporting standards and frameworks in addition to the information prescribed by ESRS

When an entity 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 entity is required to disclose the following information to provide an understanding of the governance processes, controls and procedures put in place to monitor, manage and oversee 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 the entity's sustainability-related performance in incentive schemes
- A mapping of the information provided in the entity's sustainability statement about the due diligence process
- The main features of the entity's risk management and internal control system in relation to the sustainability reporting process

Sustainability due diligence
The outcome of the entity's sustainability due diligence process informs the entity's assessment of its material impacts, risks and opportunities. ESRS do not impose any conduct requirements in relation to due diligence, nor do they extend or modify the role of the administrative, management or supervisory bodies of the entity with regard to the conduct of due diligence.

As set out in ESRS 1, sustainability due diligence is the process by which entities identify, prevent, mitigate and account for how they address the actual and potential negative impacts on the environment and people that are connected with their business. These encompass negative impacts connected with the entity's own operations and its upstream and downstream value chain, including through its products or services, as well as through its business relationships. Due diligence is an on-going practice that responds to and may trigger changes in the entity's strategy, business model, activities, business relationships, operating, sourcing and selling contexts.

Strategy
An entity is required to disclose information that enables an understanding of:

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

Impact, risk and opportunity management
Disclosure on the materiality assessment process
An entity is required to:

- Disclose the processes to identify material impacts, risks and opportunities and to assess which ones are material
- Report on the disclosure requirements complied with in the entity's sustainability statement

The objective of the requirement to report on the disclosure requirements an entity has complied with in its sustainability statement is to provide an understanding of the disclosure requirements that are included and of the topics that have been omitted as not material, as a result of the materiality assessment.

The entity is required to include a list of the disclosure requirements complied with in preparing the sustainability statement, following the outcome of the materiality assessment, including the page numbers and/or paragraphs where the related disclosures are located in the sustainability statement. This may be presented as a content index. The entity is also required to include a table of all the datapoints that derive from other EU legislation (e.g. requirements under the SFDR) as listed in Appendix B of ESRS 2, indicating where they can be found in the sustainability statement and including those that the entity has assessed as not material, in which case the entity is required to indicate "not material" in the table.

If the entity concludes that climate change is not material and therefore omits all disclosure requirements in ESRS E1, it is required to disclose a detailed explanation of the conclusions of its materiality assessment with regard to climate change, including a forward-looking analysis of the conditions that could lead the entity to conclude that climate change is material in the future.

If the entity concludes that a topic other than climate change is not material and therefore omits all the disclosure requirements in the corresponding topical ESRS, it may provide a brief explanation of the conclusions of its materiality assessment for that topic.

The entity is required to provide an explanation of how it has determined the material information to be disclosed in relation to the impacts, risks and opportunities that it has assessed to be material, including the use of thresholds and/or how it has implemented the criteria set out in ESRS 1.

Minimum disclosure requirements on policies and actions
ESRS 2 prescribes minimum disclosure requirements to be included when the entity discloses information on its policies and actions to prevent, mitigate and remediate actual and potential material impacts, to address material risks and/or to pursue material opportunities. The entity is required to apply the minimum disclosure requirements defined in ESRS 2 when it discloses the policies it has in place with regard to each sustainability matter identified as material.

If the entity cannot disclose the information on policies and actions required under relevant ESRS, because it has not adopted policies and/or actions with reference to the specific sustainability matter concerned, it is required to disclose this to be the case and provide reasons for not having adopted policies and/or actions. The entity may disclose a timeframe in which it aims to adopt them.

Metrics and targets

ESRS 2 sets out minimum disclosure requirements that are required to be included when the entity discloses information on its metrics and targets related to each material sustainability matter.

As a minimum, an entity is required to disclose any metrics that it uses to evaluate performance and effectiveness, in relation to a material impact, risk or opportunity. In addition, an entity is required to disclose the measurable, outcome-oriented and time-bound targets on material sustainability matters it has set to assess progress.

If the entity cannot disclose the information on targets required under the relevant topical ESRS, because it has not set targets with reference to the specific sustainability matter concerned, it is required to disclose this to be the case and provide reasons for not having adopted targets. The entity may disclose a timeframe in which it aims to adopt them.

Structure of topical ESRS

The adopted ESRS include ten topical standards that are applied together with and in consideration of the cross-cutting standards, ESRS 1 and ESRS 2. The topical standards share a common structure, including an objective and detailed disclosure requirements. They may include certain additional mandatory requirements of a topical nature that complement specific disclosure requirements in ESRS 2, for example on governance or strategy.

Standards that cover environmental topics

ESRS E1 *Climate change*

Objective

The objective of ESRS E1 is to specify disclosure requirements which will enable users of the sustainability statement to understand:

- How the entity affects climate change, in terms of material positive and negative actual and 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 to contribute to limiting global warming to 1.5°C
- The plans and capacity of the entity to adapt its strategy and business model 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 entity, and the result of such actions, to prevent, mitigate or remediate actual or potential negative impacts, and to address risks and opportunities
- 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 financial effects on the entity over the short, medium and long term of risks and opportunities arising from the entity's impacts and dependencies on climate change

Disclosure requirements

Governance

- Whether and how climate-related considerations are factored into the remuneration of members of the administrative, management and supervisory bodies, including if their performance has been assessed against the GHG emission reduction targets reported under ESRS E1 and the percentage of the remuneration recognised in the current period that is linked to climate related considerations

Strategy

- The entity's transition plan for climate change mitigation
- For each material climate-related risk the entity has identified, an explanation of whether the entity considers the risk to be a climate-related physical risk or climate-related transition risk
- A description of the resilience of the entity's strategy and business model in relation to climate change

Impact, risk and opportunity management

- A description of the process to identify and assess climate-related impacts, risks and opportunities
- The policies the entity 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

Metrics and targets

- The climate-related targets the entity has set
- Information on the entity's energy consumption and mix including energy intensity based on net revenue
- The entity's gross Scope 1, Scope 2 and Scope 3 and total greenhouse gas (GHG) emissions including GHG intensity based on net revenue
- GHG removals and storage resulting from projects the entity may have developed in its own operations, or contributed to in its upstream and downstream value chain
- The amount of GHG emission reductions or removals from climate change mitigation projects outside the entity's value chain the entity has financed or intends to finance through any purchase of carbon credits
- Whether the entity 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 anticipated financial effects from material physical and transition risks, and the potential to benefit from material climate-related opportunities

ESRS E2 *Pollution*

Definition

Pollution is defined as the direct or indirect introduction, as a result of human activity, of pollutants into air, water or soil which may be harmful to human health and/or the environment, which may result in damage to material property, or which may impair or interfere with amenities and other legitimate uses of the environment.

Objective

The objective of ESRS E2 is to specify disclosure requirements which will enable users of the sustainability statement to understand:

- How the entity affects pollution of air, water and soil, in terms of material positive and negative actual or potential impacts
- Any actions taken by the entity, and the result of such actions, to prevent or mitigate actual or potential negative impacts, and to address risks and opportunities
- The plans and capacity of the entity to adapt its strategy and business model in line with the transition to a sustainable economy and with the need to prevent, control and eliminate pollution
- 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 the prevention, control, elimination or reduction of pollution, including when these measures result from the application of regulations, and how the entity manages these measures
- The financial effects on the entity over the short, medium and long term of material risks and opportunities arising from the entity's pollution-related impacts and dependencies

Disclosure requirements*

Impact, risk and opportunity management

- A description of the process used by the entity to identify material impacts, risks and opportunities and information on:
  - Whether the entity has screened its site locations and business activities in order to identify its actual and potential pollution-related impacts, risks and opportunities in its own operations and upstream and downstream value chain, and if so the methodologies, assumptions and tools used in the screening
  - Whether and how the entity has conducted consultations, in particular with affected communities
- The policies the entity has adopted to manage its material impacts, risks and opportunities related to pollution prevention and control
- The entity's pollution-related actions and the resources allocated to their implementation

Metrics and targets

- The pollution-related targets the entity has set
- The pollutants the entity emits through its own operations, as well as the microplastics it generates or uses
- 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 articles
- The anticipated financial effects of material pollution-related risks and opportunities

***Even though no specific disclosure requirements for governance and strategy exist, entities are still required to report on pollution-related governance and strategy under ESRS 2 (see above).**

ESRS E3 *Water and marine resources*

Objective

The objective of ESRS E3 is to specify disclosure requirements which will enable users of the sustainability statement to understand:

- How the entity 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, to protect water and marine resources, also with reference to reduction of water consumption, and to address risks and opportunities
- Whether, how and to what extent the entity contributes to the European Green Deal's ambitions for fresh air, clean water, healthy soil and biodiversity as well as to the sustainability of the blue economy and fisheries sectors
- The plans and capacity of the entity to adapt its strategy and business model in line with the promotion of sustainable water use based on long-term protection of available water resources, protection of aquatic ecosystems and restoration of freshwater and marine habitats
- The nature, type and extent of the entity's material risks and opportunities arising from its impacts and dependencies on water and marine resources, and how it manages them
- The financial effects on the entity over the short, medium and long term of material risks and opportunities arising from its impacts and dependencies on water and marine resources

Disclosure requirements*

Impact, risk and opportunity management

- A description of the process to identify material impacts, risks and opportunities and information on:
  - Whether and how the entity has screened its assets and activities in order to identify its actual and potential water- and marine resources-related impacts, risks and opportunities in its own operations and its upstream and downstream value chain, and if so the methodologies, assumptions and tools used in the screening
  - Whether and how the entity has conducted consultations, in particular, with affected communities
- The policies the entity has adopted to manage its material impacts, risks and opportunities related to water and marine resources
- The entity's water- and marine resources-related actions and the resources allocated to their implementation

Metrics and targets

- The water- and marine resources-related targets the entity has set
- Information on the entity's water consumption performance related to its material impacts, risks and opportunities
- The anticipated financial effects of material risks and opportunities arising from water- and marine resources-related opportunities

***Even though no specific disclosure requirements for governance and strategy exist, entities are still required to report on water and marine resources-related governance and strategy under ESRS 2 (see above).**

ESRS E4 *Biodiversity and ecosystems*

Definition

Biodiversity is defined as the variability among living organisms from all sources including terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are a part. This includes variation in genetic, phenotypic, phylogenetic, and functional attributes, as well as changes in abundance and distribution over time and space within and among species, biological communities and ecosystems.

Ecosystems are defined as a dynamic complex of plant, animal and micro-organism communities and their non-living environment interacting as a functional unit.

Objective

The objective of ESRS E4 is to specify disclosure requirements which will enable users of the sustainability statement to understand:

- How the entity affects biodiversity and ecosystems, in terms of material positive and negative, actual and potential impacts including the extent to which it contributes to the drivers of biodiversity and ecosystem loss and degradation
- Any actions taken, and the result of such actions, to prevent or mitigate negative actual or potential impacts and to protect and restore biodiversity and ecosystems, and to address risks and opportunities
- The plans and capacity of the entity to adapt its strategy and business model
- The nature, type and extent of the entity's material risks, dependencies and opportunities related to biodiversity and ecosystems, and how the entity manages them
- The financial effects on the entity over the short, medium and long term of material risks and opportunities arising from the entity's impacts and dependencies on biodiversity and ecosystems

Disclosure requirements*

Strategy

- How the entity's biodiversity and ecosystem impacts, dependencies, risks and opportunities originate from and trigger adaptation of its strategy and business model
- A list of material sites in the entity's own operations, including sites under its operational control. The entity is required to disclose these locations by:
  - Specifying the activities negatively affecting biodiversity-sensitive areas
  - Providing a breakdown of sites according to the impacts and dependencies identified, and to the ecological status of the areas (with reference to the specific ecosystem baseline level) where they are located
  - Specifying the biodiversity-sensitive areas impacted, for users to be able to determine the location and the responsible competent authority with regards to the activities negatively affecting these areas
- Whether the entity has identified material negative impacts with regards to land degradation, desertification or soil sealing
- Whether the entity has operations that affect threatened species

Impact, risk and opportunity management

- A description of the process used by the entity to identify material impacts, risks, dependencies and opportunities
- The policies the entity has adopted to manage its material impacts, risks, dependencies and opportunities related to biodiversity and ecosystems
- The entity's biodiversity- and ecosystems-related actions and the resources allocated to their implementation

Metrics and targets

- The biodiversity- and ecosystem-related targets the entity has set
- Metrics related to the entity's material impacts on biodiversity and ecosystems
- The anticipated financial effects of material biodiversity- and ecosystem-related risks and opportunities

***Even though no specific disclosure requirements for governance exist, entities are still required to report on biodiversity and ecosystems-related governance under ESRS 2 (see above).**

ESRS E5 *Resource use and circular economy*

Definition
Circular economy is defined as an economic system in which the value of products, materials and other resources in the economy is maintained for as long as possible, enhancing their efficient use in production and consumption, thereby reducing the environmental impact of their use, minimising waste and the release of hazardous substances at all stages of their life cycle, including through the application of the waste hierarchy.

Objective
The objective of ESRS E5 is to specify disclosure requirements which will enable users of the sustainability statement to understand:

- How the entity affects resource use, including resource efficiency, avoiding the depletion of resources and the sustainable sourcing and use of renewable resources (referred to in 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 arising from resource use, including the entity's measures to help in decoupling its economic growth from the use of materials, and to address risks and opportunities
- The plans and capacity of the entity 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 entity's material risks and opportunities related to its impacts and dependencies, arising from resource use and the circular economy, and how the entity manages them
- The financial effects on the entity over the short, medium and long term of material risks and opportunities arising from the entity's impacts and dependencies on resource use and circular economy

Disclosure requirements*
Impact, risk and opportunity management
- A description of the process to identify material impacts, risks and opportunities related to resource use and circular economy, in particular regarding resource inflows, resource outflows and waste, and information on:
  - Whether the entity has screened its assets and activities in order to identify its actual and potential impacts, risks and opportunities in its own operations and its upstream and downstream value chain, and if so, the methodologies, assumptions and tools used in the screening
  - Whether and how the entity has conducted consultations, in particular, with affected communities
- The policies the entity has adopted to manage its material impacts, risks and opportunities related to resource use and circular economy
- The entity's resource use and circular economy actions and the resources allocated to their implementation

Metrics and targets
- The resource use and circular economy-related targets the entity has set
- Information on the entity's material resource inflows and outflows (including waste) related to its material impacts, risks and opportunities
- The anticipated financial effects of material risks and opportunities arising from resource use and circular economy-related impacts

***Even though no specific disclosure requirements for governance and strategy exist, entities are still required to report on resource use and circular economy-related governance and strategy under ESRS 2 (see above).**

Standards that cover social topics

ESRS S1 *Own workforce*

Objective

The objective of ESRS S1 is to specify disclosure requirements which will enable users of the sustainability statement to understand the entity's material impacts on its own workforce, as well as related material risks and opportunities, including:

- How the entity 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, and to address risks and opportunities
- The nature, type and extent of the entity's material risks and opportunities related to its impacts and dependencies on its own workforce, and how the entity manages them
- The financial effects on the entity over the short, medium and long term of material risks and opportunities arising from the entity's impacts and dependencies on its own workforce

Disclosure requirements*

Strategy

- How the interests, views and rights of people in the entity's own workforce, including respect for their human rights, inform its strategy and business model (the entity's own workforce is a key group of affected stakeholders)
- Whether and how actual and potential impacts on the entity's own workforce originate from or are connected to the entity's strategy and business model, and inform and contribute to adapting the entity's strategy and business model
- The relationship between the entity's material risks and opportunities arising from impacts and dependencies on its own workforce and its strategy and business model
- Whether all people in the entity's own workforce who could be materially impacted by the entity are included in the scope of its disclosure under ESRS 2—these material impacts should include impacts that are connected with the entity's own operations and its value chain, including through its products or services, as well as through its business relationships

Impact, risk and opportunity management

- The policies the entity has adopted to manage its material impacts on its own workforce, as well as associated material risks and opportunities
- The entity's general processes for engaging with people in its own workforce and workers' representatives about actual and potential impacts on its own workforce
- A description of the processes the entity has in place to provide for or cooperate in the remediation of negative impacts on people in its own workforce that the entity is connected with, as well as channels available to its own workforce to raise concerns and have them addressed
- How the entity takes action to address material negative and positive impacts, and to manage material risks and pursue material opportunities related to its own workforce, and the effectiveness of those actions

***Even though no specific disclosure requirements for governance and strategy exist, entities are still required to report on own workforce-related governance under ESRS 2 (see above).**

Metrics and targets

- The time-bound and outcome-oriented targets the entity may have set related to:
  - Reducing negative impacts on its own workforce
  - Advancing positive impacts on its own workforce
  - Managing material risks and opportunities related to its own workforce
- A description of key characteristics of employees and non-employee workers in the entity's own workforce
- Information on the extent to which the working conditions and terms of employment of the entity's employees are determined or influenced by collective bargaining agreements and on the extent to which its employees are covered in social dialogue in the European Economic Area (EEA) at the establishment and European level
- The gender distribution at top management and the age distribution amongst the entity's employees
- Whether or not the entity's employees are paid an adequate wage (i.e. a wage that provides for the satisfaction of the needs of workers and their families in the light of national economic and social conditions), and if they are not all paid an adequate wage, the countries and percentage of employees concerned
- Whether the entity's employees 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
- The percentage of the entity's own employees with disabilities
- The extent to which training and skills development is provided to the entity's employees
- Information on the extent to which the entity's 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 workforce
- The number of fatalities as a result of work-related injuries and work-related ill health of other workers working on the entity's sites
- The extent to which employees are entitled to and make use of family-related leave
- The percentage gap in pay between the entity's female and male employees and the ratio between the remuneration of its highest paid individual and the median remuneration for its employees
- The number of work-related incidents and/or complaints and severe human rights impacts within the entity's own workforce, and any related material fines, sanctions or compensation for the reporting period

ESRS S2 *Workers in the value chain*

Objective

The objective of ESRS S2 is to specify disclosure requirements which will enable users of the sustainability statement to understand material impacts on value chain workers connected with the entity's own operations and value chain, including through its products or services, as well as through its business relationships, and its related material risks and opportunities, including:

- How the entity 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, and to address risks and opportunities
- The nature, type and extent of the entity's material risks and opportunities, including those related to its impacts and dependencies on workers in the value chain, and how the entity manages them
- The financial effects on the entity over the short, medium and long term of material risks and opportunities, including those arising from the entity's impacts and dependencies on workers in the value chain

Disclosure requirements*

Strategy

- How the interests, views and rights of the entity's value chain workers could be materially impacted by the entity, including respect for their human rights, and inform its strategy and business model (value chain workers are a key group of affected stakeholders)
- Whether and how actual and potential impacts on value chain workers originate from or are connected to the entity's strategy and business model, and inform and contribute to adapting the entity's strategy and business model
- The relationship between the entity's material risks and opportunities arising from impacts and dependencies on value chain workers, and its strategy and business model
- Whether all value chain workers who are likely to be materially impacted by the entity, including impacts that are connected with the entity's own operations and value chain, including through its products or services, as well as through its business relationships, are included in the scope of its disclosure under ESRS 2

Impact, risk and opportunity management

- The policies the entity has adopted to manage its material impacts on value chain workers, as well as associated material risks and opportunities
- The entity's general processes for engaging with value chain workers and their representatives about actual and potential material impacts on them
- A description of the processes the entity has in place to provide for or cooperate in the remediation of negative impacts on value chain workers that the entity is connected with, as well as channels available to value chain workers to raise concerns and have them addressed
- How the entity takes action to address material impacts on value chain workers, and to manage material risks and pursue material opportunities related to value chain workers, and the effectiveness of those actions

Metrics and targets

- The time-bound and outcome-oriented targets the entity may have set related to:
  - Reducing negative impacts on value chain workers
  - Advancing positive impacts on value chain workers
  - Managing material risks and opportunities related to value chain workers

***Even though no specific disclosure requirements for governance exist, entities are still required to report on workers in the value chain-related governance under ESRS 2 (see above).**

ESRS S3 *Affected communities*

Objective

The objective of ESRS S3 is to specify disclosure requirements which will enable users of the sustainability statement to understand material impacts on affected communities connected with the entity's own operations and value chain, including through its products or services, as well as through its business relationships, and its related material risks and opportunities, including:

- How the entity affects communities, in areas where impacts 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, and to address risks and opportunities
- The nature, type and extent of the entity's material risks and opportunities related to its impacts and dependencies on affected communities, and how the entity manages them
- The financial effects on the entity over the short, medium and long term of material risks and opportunities arising from the entity's impacts and dependencies on affected communities

Disclosure requirements*

Strategy

- How the views, interests and rights of affected communities, including respect for their human rights (and their rights as indigenous peoples, where applicable), inform the entity's strategy and business model (affected communities are a key group of affected stakeholders)
- Whether and how actual and potential impacts on affected communities originate from or are connected to the entity's strategy and business model, and inform and contribute to adapting the entity's strategy and business model
- The relationship between the entity's material risks and opportunities arising from impacts and dependencies on affected communities and its strategy and business model
- Whether all affected communities who are likely to be materially impacted by the entity, including impacts that are connected with the entity's own operations and value chain, including its products or services through its business relationships, are included in the scope of its disclosure under ESRS 2

Impact, risk and opportunity management

- A description of the policies the entity has adopted to manage its material impacts on affected communities, as well as associated material risks and opportunities
- The entity's general processes for engaging with affected communities and their representatives about actual and potential material impacts on them
- A description of the processes the entity has in place to provide for or cooperate in the remediation of negative impacts on affected communities that the entity is connected with, as well as channels available to affected communities to raise concerns and have them addressed
- How the entity takes action to address material impacts on affected communities, and to manage material risks and pursue material opportunities related to affected communities and effectiveness of those actions

Metrics and targets

- The time-bound and outcome-oriented targets the entity may have set related to:
  - Reducing negative impacts on affected communities
  - Advancing positive impacts on affected communities
  - Managing material financial risks and opportunities related to affected communities

***Even though no specific disclosure requirements for governance exist, entities are still required to report on affected communities-related governance under ESRS 2 (see above).**

ESRS S4 *Consumers and end-users*

Definitions

Consumers are defined as individuals who acquire, consume or use goods and services for personal use, either for themselves or for others, and not for resale, commercial or trade, business, craft or profession purposes.

End-users are defined as individuals who ultimately use or are intended ultimately to use a particular product or service.

Objective

The objective of ESRS S4 is to specify disclosure requirements which will enable users of the sustainability statement to understand material impacts on consumers and end-users connected with the entity's own operations and value chain, including through its products or services, as well as through its business relationships, and its related material risks and opportunities, including:

- How the entity affects the consumers and/or end-users of its products and/or services (referred to in 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 such actions, to prevent, mitigate or remediate actual or potential negative impacts, and to address risks and opportunities
- 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 financial effects on the entity over the short, medium and long term of material risks and opportunities arising from the entity's impacts and dependencies on consumers and/or end-users

Disclosure requirements*

Strategy

- How the interests, views and rights of the entity's consumers and/or end-users, including respect for their human rights, inform its strategy and business model (consumers and/or end-users are a key group of affected stakeholders)
- Whether and how actual and potential impacts on consumers and/or end-users originate from or are connected to the entity's strategy and business model, and inform and contribute to adapting the entity's strategy and business model
- The relationship between the entity's material risks and opportunities arising from impacts and dependencies on consumers and/or end-users and its strategy and business model
- Whether all consumers and/or end-users who are likely to be materially impacted by the entity, including impacts connected with the entity's own operations and value chain, including through its products or services, as well as through its business relationships, are included in the scope of its disclosure under ESRS 2

Impact, risk and opportunity management

- A description of the policies the entity has adopted to manage its material impacts of its products and/or services on consumers and end-users, as well as associated material risks and opportunities
- The entity's general processes for engaging with consumers and end-users and their representatives about actual and potential impacts on them
- A description of the processes the entity has in place to provide for or cooperate in the remediation of negative impacts on consumers and end-users that the entity is connected with, as well as channels available to consumers and end-users to raise concerns and have them addressed
- How the entity takes action to address material impacts on consumers and end-users, and to manage material risks and pursue material opportunities related to consumers and end-users, and effectiveness of those actions

Metrics and targets

- The time-bound and outcome-oriented targets the entity may have set related to:
  - Reducing negative impacts on consumers and/or end-users
  - Advancing positive impacts on consumers and/or end-users
- Managing material risks and opportunities related to consumers and/or end-users

***Even though no specific disclosure requirements for governance exist, entities are still required to report on consumers and end-users-related governance under ESRS 2 (see above).**

Standard that covers governance topics

ESRS G1 *Business conduct*

Objective

The objective of ESRS G1 is to specify disclosure requirements which will enable users of the entity's sustainability statement to understand the entity's strategy and approach, processes and procedures as well as its performance in respect of business conduct.

Disclosure requirements*

Governance

When disclosing information about the role of the administrative, management and supervisory bodies, an entity is required to cover the following aspects:

- The role of the administrative, management and supervisory bodies related to business conduct
- The expertise of the administrative, management and supervisory bodies on business conduct matters

Impact, risk and opportunity management

- When describing the process to identify material impacts, risks and opportunities in relation to business conduct matters, an entity is required to disclose all relevant criteria used in the process, including location, activity, sector and the structure of the transaction
- The entity is required to disclose:
  - The entity's policies with respect to business conduct matters and how it fosters its corporate culture
  - Information about the management of the entity's relationships with its suppliers and its impacts on its supply chain
  - Information about the entity's system to prevent and detect, investigate, and respond to allegations or incidents relating to corruption and bribery including related training

Metrics and targets

- Information on incidents of corruption or bribery during the reporting period
- Information on the activities and commitments related to exerting the entity's political influence, including its lobbying activities related to its material impacts, risks and opportunities
- Information on the entity's payment practices, especially with respect to late payments to SMEs

***Even though no specific disclosure requirements for strategy exist, entities are still required to report on business conduct-related strategy under ESRS 2 (see above).**

Further information

If you have any questions about the final ESRS, please speak to your usual Deloitte contact.

The Deloitte Accounting Research Tool (DART) is a comprehensive online library of accounting and financial disclosures literature. **GAAP in the UK on DART** allows access to the full IFRS Standards and UK GAAP, linking to and from:

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