



iGAAP in Focus

European sustainability reporting

European Commission consults on delegated regulation for European Sustainability Reporting Standards

Contents

Background

The draft regulation

Changes to draft ESRS submitted to the EC by EFRAG

Further information

This *iGAAP in Focus* outlines the [consultation](#) launched by the European Commission (EC) on 9 June 2023 on the draft delegated regulation that supplements the Accounting Directive (Directive 2013/34/EU of the European Parliament and of the Council) for sustainability reporting standards.

- The EC is consulting on a draft regulation to specify the text of European Sustainability Reporting Standards (ESRS) which are to be mandatory for entities, as specified in the Corporate Sustainability Reporting Directive (CSRD)
- The EC has modified the draft ESRS submitted by EFRAG in November 2022 to include:
 - Changes to the materiality approach
 - Further phasing-in of certain requirements
 - The conversion of certain requirements into voluntary datapoints
 - Flexibility in relation to how certain disclosure requirements can be met
 - Technical adjustments to ensure coherence with the EU's legal framework
 - Changes aimed at further interoperability with global standard-setting initiatives
- The draft regulation indicates that ESRS would apply for financial years beginning on or after 1 January 2024 for entities already subject to the Non-financial Reporting Directive (NFRD)
- The draft regulation is open for feedback until 7 July 2023

Background

The EU Accounting Directive (as amended by the Corporate Sustainability Reporting Directive (CSRD)) requires certain entities to include in a dedicated section of their management report the information necessary to understand the entity's impacts on sustainability matters and how sustainability matters affect the entity's development, performance and position.

The CSRD specifies which entities are in scope and the financial year in which they are first required to provide sustainability information. The scope of the CSRD is wide and includes both EU and certain non-EU entities.

For more information please see the following websites:

www.iasplus.com
www.deloitte.com

For further detail on scope and effective dates, see our [iGAAP in Focus—Worldwide reach of the Corporate Sustainability Reporting Directive—final text published in Official Journal](#).

The EC is required to adopt sustainability reporting standards specifying the information that entities are to report in accordance with the CSRD. [Draft European Sustainability Reporting Standards \(ESRS\)](#) have been developed by EFRAG and were submitted to the EC in the form of technical advice in November 2022. The EC consulted with various European agencies and other stakeholders and made further amendments to these draft ESRS before publishing the draft regulation.

Observation

The EC indicates that consultations undertaken confirmed that the draft ESRS broadly meet the mandate of the CSRD and would achieve the intended policy goals in the context of the European Green Deal. At the same time, some respondents drew attention to the challenging nature of many of the disclosure requirements for many entities, and in particular for entities that have not previously been subject to legal requirements to report sustainability information.

In addition, as part of the EC's request to the European Supervisory Authorities (ESAs) to provide an opinion on the draft ESRS, the European Insurance and Occupational Pensions Authority (EIOPA) underlined the importance of avoiding fragmentation of sustainability reporting requirements across jurisdictions. To this end, they stated that compatibility between ESRS and IFRS Sustainability Disclosure Standards should be ensured so that European entities reporting according to ESRS are automatically considered to be compliant with IFRS Sustainability Disclosure Standards.

The draft regulation

To ensure entities disclose relevant, comparable and reliable information on all major sustainability-related topics, the CSRD requires entities within its scope to use ESRS that specify the information to report and, where relevant, specify the structure in which that information should be reported. The draft regulation applies to the first set of sector-agnostic ESRS developed by EFRAG. The additional standards to be developed by EFRAG (i.e. sector-specific standards, standards for listed SMEs and a standard for third-country undertakings) will be adopted through additional delegated acts.

The draft regulation includes the text of the ESRS in two annexes to the draft regulation. Annex I to the draft regulation includes the text of the ESRS, while Annex II includes acronyms and definitions.

The regulation would enter into force four months after the date of adoption. The regulation, and therefore the ESRS, are applicable for financial years beginning on or after 1 January 2024 in line with the requirements in the CSRD. The regulation would be binding in its entirety and directly applicable in all Member States.

The draft regulation is open for feedback until 7 July 2023. Feedback will be taken into account for finalising the draft regulation.

Observation

After the feedback period ends, it is expected that the regulation will be agreed by the EC before the end of August 2023. The scrutiny period by the European Parliament and the European Council would then begin and last for two months (with another possible two-month extension). It is necessary that this timeline is adhered to for ESRS to become effective from 1 January 2024.

Changes to draft ESRS submitted to the EC by EFRAG

To facilitate the correct application of the standards by entities, the EC has introduced modifications to EFRAG's technical advice in the following areas.

Materiality

The draft ESRS submitted to the EC by EFRAG required that, irrespective of the outcome of the materiality assessment, all information required by ESRS 2 *General disclosures* and ESRS E1 *Climate change* should be disclosed, together with certain requirements in ESRS S1 *Own workforce* for certain entities, and datapoints in cross-cutting and topical standards that are required by EU law which stem from other EU legislation.

The EC has changed this in the draft regulation, so that all disclosure requirements and datapoints within each standard will be subject to materiality assessment, except for the disclosure requirements specified in ESRS 2. The EC expects that this measure will lead to a significant reduction in the reporting burden for entities.

Observation

The essential objective of the standards referred to in ESRS 1 *General requirements* continues to be to “specify the information that an undertaking shall disclose about its material impacts, risks and opportunities in relation to environmental, social, and governance sustainability matters”. In addition, the double materiality perspective is retained.

Phasing-in of certain requirements

In addition to the phasing-in of certain requirements proposed by EFRAG, the EC has provided for further phasing-in for all entities in scope with extra reliefs available for entities with less than 750 employees. These are as follows:

	In the first year an entity applies ESRS	In the first two years an entity applies ESRS
Information all entities may omit	Anticipated financial effects related to non-climate environmental issues (pollution, water, biodiversity, and resource use)	
	Certain datapoints related to own workforce (social protection, persons with disabilities, work-related ill-health, and work-life balance)	
Information entities with fewer than 750 employees may omit	Scope 3 GHG emissions data as specified in ESRS E1 The disclosure requirements in ESRS S1	The disclosure requirements in ESRS E4 <i>Biodiversity and ecosystems</i> , ESRS S2 <i>Workers in the value chain</i> , ESRS S3 <i>Affected communities</i> and ESRS S4 <i>Consumers and end-users</i>

Making certain disclosures voluntary

Each disclosure requirement in ESRS consists of one or more distinct datapoints. The term “datapoint” can also refer to a narrative sub-element of a disclosure requirement.

The draft standards submitted by EFRAG already included many voluntary datapoints. In addition to those, the EC has made voluntary several mandatory datapoints proposed by EFRAG. This includes, for example:

- Biodiversity transition plans
- Certain indicators about “non-employees” in the entity’s own workforce
- An explanation of why the entity may consider a particular sustainability topic not to be material

Further flexibilities in certain disclosures

The EC has also introduced additional flexibility with regard to how to meet some requirements. For example, in the following areas:

- Disclosure requirement on financial effects arising from sustainability risks
- Disclosure requirement on engagement with stakeholders
- Methodology to use for the materiality assessment process

Furthermore, the EC has modified datapoints regarding corruption and bribery, and the protection of whistle-blowers.

Coherence with EU legal framework

The EC made technical modifications to ensure better alignment with other provisions in the Accounting Directive and with other relevant parts of EU legislation, for example on the Pay Transparency Directive and the European Pollutant Release and Transfer Register.

Interoperability with global standard-setting initiatives

The EC and EFRAG have continued to engage closely with the International Sustainability Standards Board (ISSB) and the Global Reporting Initiative (GRI) to enhance interoperability with ESRS, and further modifications to the draft ESRS have been made because of that engagement.

Observation

The EC made changes aimed at facilitating interoperability of ESRS with IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*, which the ISSB expects to publish on 26 June 2023. The objective of these changes is to avoid creating a double reporting burden for entities that apply ESRS at the same time as IFRS S1 and IFRS S2.

Editorial and presentational modifications

The EC has made editorial and presentational changes to improve the clarity, usability, and coherence of the standards. This includes, for example, the introduction of a drafting convention to clearly identify all terms for which ESRS includes a precise definition.

Further information

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

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

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

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

To apply for a subscription to iGAAP on DART, click [here](#) to start the application process and select the iGAAP package.

For more information about iGAAP on DART, including pricing of the subscription packages, click [here](#).

Key contacts

Global IFRS and Corporate Reporting Leader

Veronica Poole

ifrsglobalofficeuk@deloitte.co.uk

IFRS Centres of Excellence

Americas		
<i>Argentina</i>	Fernando Lattuca	arifrscoe@deloitte.com
<i>Canada</i>	Karen Higgins	ifrsca@deloitte.ca
<i>Mexico</i>	Kevin Nishimura	mx_ifrs_coe@deloittemx.com
<i>United States</i>	Magnus Orrell Ignacio Perez	iasplus-us@deloitte.com iasplus-us@deloitte.com
Asia-Pacific		
<i>Australia</i>	Anna Crawford	ifrs@deloitte.com.au
<i>China</i>	Gordon Lee	ifrs@deloitte.com.cn
<i>Japan</i>	Kazuaki Furuuchi	ifrs@tohatsu.co.jp
<i>Singapore</i>	Lin Leng Soh	ifrs-sg@deloitte.com
Europe-Africa		
<i>Belgium</i>	Thomas Carlier	ifrs-belgium@deloitte.com
<i>Denmark</i>	Søren Nielsen	ifrs@deloitte.dk
<i>France</i>	Irène Piquin Gable	ifrs@deloitte.fr
<i>Germany</i>	Jens Berger	ifrs@deloitte.de
<i>Italy</i>	Massimiliano Semprini	ifrs-it@deloitte.it
<i>Luxembourg</i>	Martin Flaunet	ifrs@deloitte.lu
<i>Netherlands</i>	Ralph Ter Hoeven	ifrs@deloitte.nl
<i>South Africa</i>	Nita Ranchod	ifrs@deloitte.co.za
<i>Spain</i>	José Luis Daroca	ifrs@deloitte.es
<i>Sweden</i>	Fredrik Walmeus	seifrs@deloitte.se
<i>Switzerland</i>	Nadine Kusche	ifrsdesk@deloitte.ch
<i>United Kingdom</i>	Elizabeth Chrispin	deloitteifrs@deloitte.co.uk



Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities (collectively, the “Deloitte organisation”). DTTL (also referred to as “Deloitte Global”) and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related organisation is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte provides industry-leading audit and assurance, tax and legal, consulting, financial advisory, and risk advisory services to nearly 90% of the Fortune Global 500® and thousands of private companies. Our people deliver measurable and lasting results that help reinforce public trust in capital markets, enable clients to transform and thrive, and lead the way toward a stronger economy, a more equitable society and a sustainable world. Building on its 175-plus year history, Deloitte spans more than 150 countries and territories. Learn how Deloitte’s approximately 415,000 people worldwide make an impact that matters at www.deloitte.com.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms or their related entities (collectively, the “Deloitte organisation”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.

© 2023. For information, contact Deloitte Global.

Designed by Deloitte CoRe Creative Services. RITM1402909