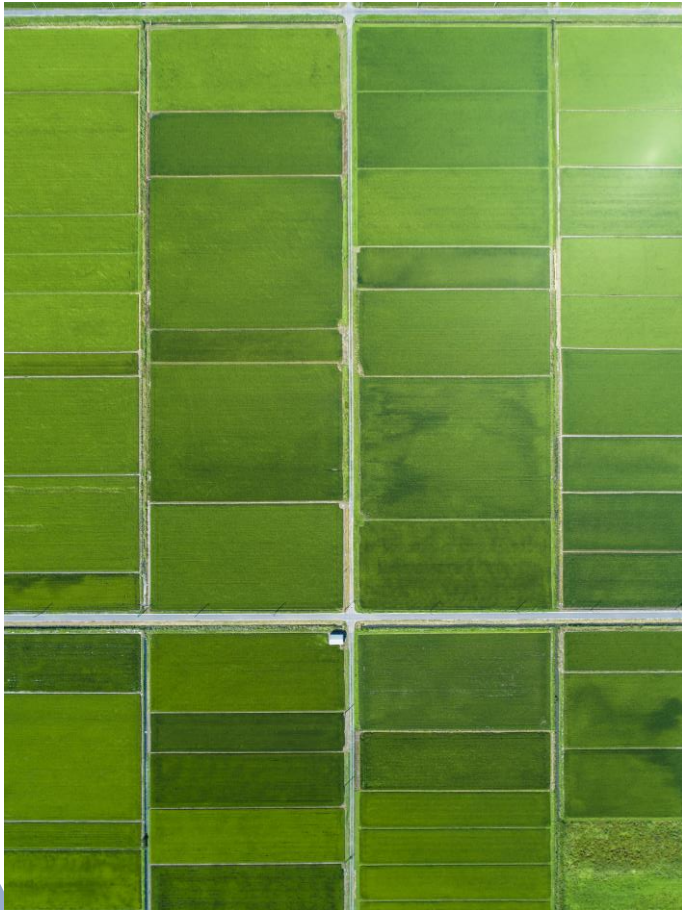


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Diese Sitzungsunterlage wird der Öffentlichkeit für die FA-Sitzung zur Verfügung gestellt, so dass dem Verlauf der Sitzung gefolgt werden kann. Die Unterlage gibt keine offiziellen Standpunkte der FA wieder. Die Standpunkte der FA werden in den Deutschen Rechnungslegungs Standards sowie in seinen Stellungnahmen (Comment Letters) ausgeführt.
Diese Unterlage wurde von einem Mitarbeiter des DRSC für die FA-Sitzung erstellt.

FA NB – öffentliche SITZUNGSUNTERLAGE

Sitzung:	03. FA NB / 02.03.2022 / 16:45 – 17:45 Uhr
TOP:	03 – Educational Session zu Batch 1
Thema:	ESRS 2 – ESRS 5
Unterlage:	03_03a_FA NB_EFRAG-Batch1_Prä



1) Overview

2) **Cross-cutting Standards / Content Standards**

- *European Sustainability Reporting Standards 4 „Sustainability material impacts, risks and opportunities” (ESRS 4)*
- *European Sustainability Reporting Standards 2 „Strategy and Business Model” (ESRS 2)*
- *European Sustainability Reporting Standards 3 „Governance and Organisation” (ESRS 3)*

3) **Cross-cutting Standards / Reference Standard**

- *European Sustainability Reporting Standards 5 „Definitions for policies, targets, action plans and resources” (ESRS 5)*

1. Overview



DRSC

Strategy, governance, impacts, risks, opportunities	Environment			Social			Governance			SECTOR-SPECIFIC STANDARDS		PRESENTATION
	ESRS E1 Climate change	ESRS E2 Pollution	ESRS E3 Water & marine resources	ESRS E4 Biodiversity & ecosystems	ESRS E5 Circular economy	ESRS S1 Own workforce – general	ESRS S2 Own workforce – working conditions	ESRS S3 Own workforce – equal opportunities	ESRS S4 Own workforce – other work-related rights	ESRS S5 Workers in the value chain	ESRS S6 Affected communities	
ESRS 1 General provisions	ESRS G1 Governance, risk management and internal control	ESRS SEC1 Sector classification	ESRS P1 Sustainability statements									
ESRS 2 Strategy and business model	ESRS G2 Products and services, management and quality of relationships with business partners											
ESRS 3 Sustainability governance and organisation	ESRS G3 Responsible business practices											
ESRS 4 Sustainability material impacts, risks and opportunities												
ESRS 5 Definitions for policies, targets, action plans and resources												
CONCEPTUAL GUIDELINES												
ESRG 1 Double materiality	ESRG 2 Characteristics of information quality	ESRG 3 Time horizons	ESRG 4 Boundaries and levels of reporting	ESRG 5 EU and international alignment	ESRG 6 Connectivity							

Cross-Cutting Issues

ESRS 2
Strategy and business model

ESRS 3
Sustainability governance and organisation

ESRS 4
Sustainability material impacts, risks and opportunities

ESRS 5
Definitions for policies, targets, action plans and resources

Conceptual Guidelines

ESRG 1
Double materiality

ESRG 2
Characteristics of information quality

Aufbau der Standards

Main body

Application Guidance

Basis for Conclusions

Main body

Background research

1. Overview

PTF-ESRS „Batch 1 Working Papers“

Structure of Cross-Cutting Standards not final

- ESRS 1 General Provisions
 - **General disclosure requirements** to provide an understanding of the overall and detailed architecture and avoid repetition
 - **Due Diligence as a key element** (CSRD, Art. 19a, derived from UN Guiding Principle and OECD Guidelines for Multinational Enterprises)
- ESRS 2-5 separat or (partially) integrated into ESRS 1

Current review process may introduce amendments re/:

- a. boundaries,
- b. prioritisation,
- c. further harmonisation of forms of expression and definitions,
- d. consolidated reporting,
- e. financial connectivity,
- f. digitisation.

Strategy, governance, impacts, risks, opportunities
ESRS 1 General provisions
ESRS 2 Strategy and business model
ESRS 3 Sustainability governance and organisation
ESRS 4 Sustainability impacts, risks and opportunities
ESRS 5 Definitions for policies, targets, action plans and resources



2. Cross-cutting Standards / Content Standards



ESRS 4 – Sustainability Material Impacts, Risks and Opportunities

Objective (ESRS 4.2)

to support **undertakings** in **identifying material sustainability impacts, risks and opportunities** and to **specify disclosure requirements** for the description by the undertaking of:

- (a) its **processes** to identify material sustainability impacts, risks and opportunities,
- (b) its material sustainability impacts, risks and opportunities that are mandated to be disclosed by **topical standards** or standards that are specific for the **sector** the undertaking is in
- (c) its material, **entity specific** sustainability impacts, risks and opportunities not covered by any standard, as well as
- (d) setting characteristics of quality of entity specific disclosures.

2. Cross-cutting Standards / Content Standards



ESRS 4 – Sustainability Material Impacts, Risks and Opportunities

Disclosure Requirement 1 (ESRS 4.5-9) – Description of Processes to Identify Material Sustainability Impacts, Risks and Opportunities (1/3)

- Assessment in relation to disclosures mandated by relevant sector-agnostic and sector-specific standards and – equally important – assessment of potential additional disclosures necessary at entity-specific level
- Acknowledgement of **double materiality** as the pivotal principle: Sustainability matter can be material due to **impact materiality** or **financial materiality** or both (equally important)
- Materiality is ... the criterion for prioritisation and inclusion of specific information into corporate reports. Materiality reflects:
 - (i) the **significance** of the information in relation to the phenomenon it purports to depict or explain, as well as
 - (ii) its capacity to **meet the needs and expectations** of the stakeholders of the undertaking and of the undertaking itself allowing for proper decision-making and more generally
 - (iii) the needs for **transparency** corresponding to public interest.
- The implementation of materiality may imply the use of thresholds and/or criteria.

2. Cross-cutting Standards / Content Standards



ESRS 4 – Sustainability Material Impacts, Risks and Opportunities

Disclosure Requirement 1 (ESRS 4.5-9) – Description of Processes to Identify Material Sustainability Impacts, Risks and Opportunities (2/3)

Process:

- Screen ESRS for sustainability matters and structure them before materiality assessment
- For each sustainability matter, ... identify the relevant stakeholders and users and their information needs, as the basis for the process of determination of the materiality of the matter and if necessary, the development of related entity specific disclosures. ... to ensure that impact on **all affected stakeholders** is taken into account and not only the needs of users.
- Assess materiality of sustainability matter over the value chain and over the **short-, medium- and long-term time horizon**. ... actual or potential significant impacts directly caused or contributed to, by the undertaking, as well as impacts which are otherwise directly linked to the **undertaking's entire upstream and downstream value chain, regardless of the undertaking's contribution to it.**
- impact assessment based on: the **severity of an actual negative impact**, which is determined by **scale, scope** and **irremediable character** of the impact, and, the severity as well as **likelihood** of a potential negative impact.

2. Cross-cutting Standards / Content Standards



ESRS 4 – Sustainability Material Impacts, Risks and Opportunities

Disclosure Requirement 1 (ESRS 4.5-9) – Description of Processes to Identify Material Sustainability Impacts, Risks and Opportunities (3/3)

Disclosures:

- Organisation, process, internal control procedures, decision making steps, incl:
- Due diligence process used to identify potential and actual impacts... and to identify sustainability risks and opportunities that affect or may affect its financial development, performance and position
- Explanation on how materiality of impacts and risks and opportunities was determined
- Explanation of involvement / engagement of stakeholders, internal and external experts
- Latest and future revision dates of the assessment

2. Cross-cutting Standards / Content Standards



ESRS 4 – Sustainability Material Impacts, Risks and Opportunities

Disclosure Requirement 2 (ESRS 4.10-18) – Outcome of Assessment for ESRS Requirements (1/2)

- The undertaking shall provide a description of the outcome of its assessment processes as regards mandatory disclosures under ESRS with a particular emphasis on relevant explanations on **why certain mandatory disclosures are not material** under the undertaking's specific facts and circumstances and therefore disclosed as such.
- Sector-agnostic and sector specific ESRS
- Rebuttable presumption: ESRS mandatory disclosure requirements are material
- Rebuttable on the basis of appropriate **evidence** (for each ESRS disclosure requirement) – undertaking shall establish explicit thresholds / criteria for “not material”
- Compliance by stating: “**not material for the undertaking**” (nil or not meaningful and not decision-useful)
- “**When required by an EU legislation or regulation, or by any other authoritative instrument, a mandatory disclosure requirement cannot be assessed as not material.**” (ESRS 4.15)

2. Cross-cutting Standards / Content Standards



ESRS 4 – Sustainability Material Impacts, Risks and Opportunities

Disclosure Requirement 2 (ESRS 4.10-18) – Outcome of Assessment for ESRS Requirements (2/2)

- In **performing materiality assessment**, consider / disclose a **clear statement** on sustainability matters, incl:
 - Actual and potential, negative and positive impacts (severity, likelihood)
 - Financial risks and opportunities, incl. how:
 - material sustainability-related risks and opportunities have affected the undertaking's financial performance, position and cash flows
 - undertaking expects financial performance, position and cash flows to change over time as a consequence of material sustainability-related risks and opportunities
 - undertaking is exposed to the risk or how the undertaking intends to pursue the opportunity, and
 - the risk and opportunity are measured and monitored, including any uncertainties and assumptions connected to their measurement and monitoring
- **statement** on sustainability matters further includes:
 - List of matters prioritised and monitored directly by highest governing body
 - List of disclosure requirements “not material for the undertaking”, thresholds/criterias, explanations of changes to the list compared to previous period
 - **Note:** “Mandatory disclosures complied with ... are... presumed to be confirmed as ... material”

2. Cross-cutting Standards / Content Standards



ESRS 4 – Sustainability Material Impacts, Risks and Opportunities

Disclosure Requirement 3 (ESRS 4.19-23) – Outcome of Assessment on Entity-specific Level

- Disclose information:
 - about all material impacts, risks and opportunities of the undertaking resulting from the **undertaking's specific facts and circumstances** for which relevant disclosure requirements **do not exist**, and
 - about those among them that due to their importance are prioritised and monitored directly by the undertaking's governing bodies
 - how entity-specific disclosures were identified, why they were considered material
 - describe prioritisation of negative impacts regarding severity / likelihood
 - nature of involvement: through activities or as a result of business relationships
 - ...
 - explanation of the changes of the list compared to previous year.
- Application provision (ESRS 4.30 f.)
 - Transitional measure for first reporting periods when defining entity-specific disclosures:
 - “entity-specific disclosure ... that have been reported ... in prior periods...”

2. Cross-cutting Standards / Content Standards



ESRS 4 – Sustainability Material Impacts, Risks and Opportunities

Disclosure Requirement 4 (ESRS 4.24-29) – Characteristics of Quality of Entity-specific Disclosure

- Disclosing appropriately at entity-specific level implies that disclosures meet the characteristics of quality expected from sustainability information which can be summarised as follows:
 - (a) information shall be **relevant**,
 - (b) information shall give a **faithful representation** of the phenomenon it purports to depict,
 - (c) information shall be **comparable** to the maximum extent possible,
 - (d) information shall be **verifiable**, and
 - (e) information shall be **understandable**.
- Comparability **between undertakings / over time** (consistency of methodologies; explanation of changes)
- **Metric / indicator**: “valuable insight”
 - No unintended consequences of information
 - Indicative capability
 - Measurable without “excessive amount of conjecture and unknowns” (too arbitrary to be of value)
 - Contextualisation: can be interpreted without context

2. Cross-cutting Standards / Content Standards



ESRS 2 – Strategy and Business Model

Table of content

Objective

Interaction with other ESRS

Disclosure requirements

Appendix A: Defined terms

Appendix B: Application Guidance

Appendix C: Digitisation guidance

Basis for conclusions on ESRS 2

(incl. Existing EU Requirements)

Objective

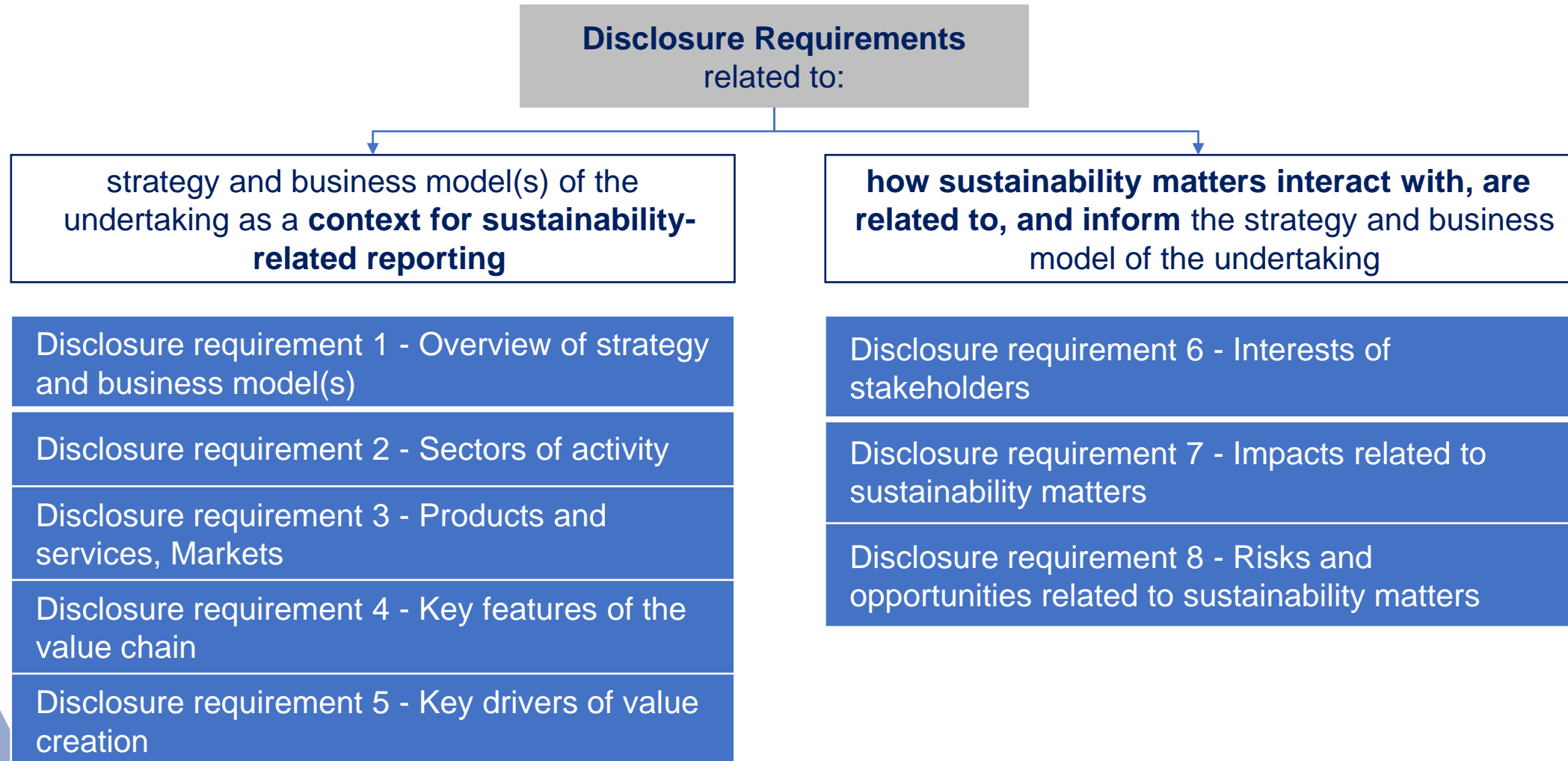
- 1 The objective of this [draft] standard is to specify disclosure requirements for how a reporting undertaking describes:
 - (a) Its strategy and business model(s) as a context to its sustainability-related reporting;
 - (b) how sustainability-related matters are related to, interact with and inform its strategy and business model(s).

Interaction with other ESRS

- 2 All requirements related to Strategy and business model are described in this ESRS even when related to specific topics such as Climate, and other environmental or social issues.

2. Cross-cutting Standards / Content Standards

ESRS 2 – Strategy and Business Model



2. Cross-cutting Standards / Content Standards



ESRS 2 – Strategy and Business Model

1	Overview of Strategy and business model	An undertaking shall provide a summarised description of its strategy and business model as context to its sustainability-related reporting.	among others, connected with:
2	Sectors of activity	An undertaking shall provide a description of the sector(s) it is active in.	ESRS SEC 1
3	Products and Services, Markets	An undertaking shall provide a description of its main products and services as well as the main markets it operates in.	Financial Statements
4	Key features of the value chain	An undertaking shall describe its value chain. ... to provide an understanding of the value chain in which it operates and of its positioning in the process of delivering products and services to end-users.	Boundaries
5	Key drivers of value creation	describe how it creates value ...to provide an understanding of the key value creation drivers the undertaking is leveraging to contribute to the overall performance of the value chain it operates in with regard to the respective interests of all stakeholders.	Financial Statements / Time Horizon

2. Cross-cutting Standards / Content Standards



ESRS 2 – Strategy and Business Model

1 Overview of Strategy and business model

Standard and Application Guidance

Standard

- a) Overview of key features of strategy and business model
- b) Summarised description of sustainability related strategies
- c) Mission statement

Application Guidance

- a) Mission, vision, core values when defined and goals and purposes in terms of product and services, customer categories, geographic areas and relationships with stakeholders
- b) Assessment of current market positions
- c) Intended direction of travel on the basis of relevant defined time horizons, including main challenges ahead, critical solutions or projects to be put in place, projected outcomes
- d) Key targets expected to reach
- e) Critical inputs and approach to gather, develop and secure those inputs
- f) Key aspects of value creation system, incl. structure and processes
- g) Outputs and outcomes with related current and expected benefits for stakeholders
- h) Link between sustainability strategy to general description
- i) Requirements at undertaking level or at consolidated level, if boundaries differ from financial reporting: reconciliation can be useful

2. Cross-cutting Standards / Content Standards



ESRS 2 – Strategy and Business Model

2

Sectors of activity

ESRS SEC 1

SASB Sector Example: Consumer Goods

Industries of Consumer Goods

- 1 Apparel, Accessories & Footwear
- 2 Appliance Manufacturing
- 3 Building Products & Furnishings
- 4 E-Commerce
- 5 Household & Personal Products
- 6 Multiline and Specialty Retailers & Distributors
- 7 Toys & Sporting Goods

2. Cross-cutting Standards / Content Standards



ESRS 2 – Strategy and Business Model

3

**Products and services,
Markets**

(implicit) link to financial statements

Information on

- 1 Products and services offered
- 2 Markets the undertaking operates in, including the characteristics of those markets, as well as the size and relative importance of those markets to the undertaking, and
- 3 Customer groups targeted by the undertaking,
- 4 Related headcount and major locations,
- 5 Analysis of turnover (by product / service, by market and by geographical area)

Application Guidance

- 1 New products/services, removed products / services and relative share in sales
- 2 New markets / markets closed and relative shares in sales
- 3 New customer groups / groups not served anymore and relative shares in sales
- 4 Products / services under bans, restrictions or under public debate regarding potential bans

2. Cross-cutting Standards / Content Standards



ESRS 2 – Strategy and Business Model

4 Key features of the value chain

Example Application Guidance

Information on

- 1 Main suppliers (upstream value chain) and main customers (downstream value chain)
- 2 Key resources leveraged to perform its operations
- 3 Characteristics of relationship with end-users

Application Guidance

- 1 “key features of value chain participants (categories of main direct suppliers, sub-contractors and customers (including their country of origin and **their own value chain**)), indicate their relative importance in financial terms (in income statement terms)...”
- 2 “business relationships with suppliers, sub-contractors, customers and distribution channels together with the related underlying contractual terms (including duration and legal instruments)”
- 3 “The **boundaries** of the value chain cannot be quantitatively defined in a way that suits all undertakings. Rather, the boundaries are defined qualitatively as relative to an undertaking’s material risks, opportunities and impacts. The description of the value chain should be directly linked to the undertaking’s identified risks, opportunities and impacts and to sustainability reporting boundaries....”

2. Cross-cutting Standards / Content Standards



ESRS 2 – Strategy and Business Model

5 Key drivers of value creation

Explicit link to financial statements

Information on

- 1 Structure of operations and relationships to create value for all stakeholders on the basis of strategy and business model
- 2 Link to relevant information in financial statements shall be provided

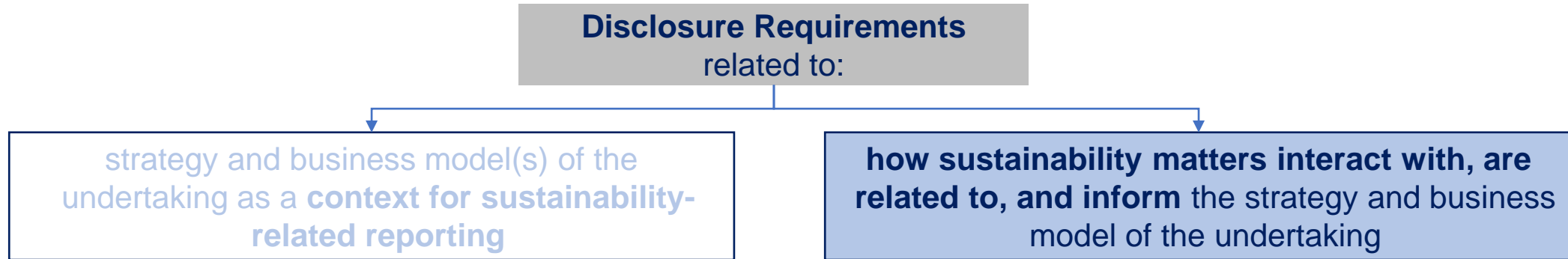
Application Guidance

- 1 key drivers of **investor-related value creation**, including potential financial effects of impacts and also the organisation and main processes implemented by the undertaking to generate revenues and manage its cost base in a competitive manner,
- 2 the key drivers of **value creation for other stakeholders**, covering financial and other benefit
- 3 Key driver of investor-related value creation shall be disclosed ... by direct disclosure or by explicit reference to clearly identified indicators located in financial statements or the MC (shareholder and credit institutions/other lenders perspective
- 4 Specific attention shall be given to **forward-looking aspects** ... that reflect stated direction of travel and targets and/or ambitions. That includes: **revenue generation, cost management and control, profitability, capex plans, financial structure and cash flow generation**. Specifying stated time horizons of targets and ambitions.
- 5 **Reconciliation with financial data** should be performed with reference to applicable accounting standards, such as IFRS 8 requirements for entities applying International accounting standards (IAS regulation) or on local GAAP for the others.
- 6 Disclosure based on identification of most important stakeholders...

2. Cross-cutting Standards / Content Standards



ESRS 2 – Strategy and Business Model



6	Interests of stakeholders	An undertaking shall describe how the views and interests of its stakeholders inform the undertaking's strategy and business model(s).	e.g.: principal stakeholders and their views, interests and expectations
7	Impacts related to sustainability matters	An undertaking shall provide a description of the interaction between its material impacts and its strategy and business model(s).	e.g. how material impacts originate from / inform strategy & business model / summary of material sust. impacts monitored by highest governing body
8	Risks and opportunities related to sustainability matters	An undertaking shall provide a description of interaction between material risks and opportunities and its strategy and business model	e.g. how actual and potential risks and opportunities relate to strategy and business model; information on overall resilience

2. Cross-cutting Standards / Content Standards



ESRS 3 – Sustainability Governance and Organisation



Objective

The objective of this [draft] standard is to specify disclosure requirements for the description by the undertaking of its governance and organisation in relation to sustainability matters.

Appendix A: Defined terms – Highest governance body

The governance body with the highest decision-making authority in the undertaking. In some jurisdictions, governance systems consist of two tiers, where supervision and management are separated. In such cases, both tiers are included under the definition of highest governance body.

2. Cross-cutting Standards / Content Standards



ESRS 3 – Sustainability Governance and Organisation

Disclosure Requirements

(1) Roles and responsibilities of governance bodies

- Distribution of roles throughout the organization (highest governance body to operational level) / delegation of specific responsibilities
- Expertise / training
- Sustainability criteria in selection process

(2) Information of governance bodies about sustainability matters

- How governance bodies and senior management executives are being informed?
- description of the process (incl. whom information is received from / frequency)
- ...

(3) Sustainability matters addressed by the undertaking's governance bodies

- Information on whether highest governance body was adequately informed of ... impacts, risks and opportunities arising or developing during the reporting period
- matters addressed? / list
- Prioritised matters: key decisions

(4) Integration of sustain-ability strategies and performance in compensation schemes

- Incentives to properly manage sustain-ability impacts, risks and opportunities and to towards implementing sustain-ability strategy / to whom policies apply
- AG18: how performance is measured (financial / non-financial KPIs, targets), / BC29: share of compensation subject to plan

3. Cross-cutting Standards / Reference Standard



ESRS 5 – Definitions for policies, targets, action plans and resources

Objective (ESRS 5.1-.2)

- This [draft] standard serves therefore as a **reference standard for disclosure on policies, targets, action plans and resources** as mandated by other ESRS or as defined by the undertaking itself for entity-specific impacts, risks and opportunities

Interaction with other ESRS (ESRS 5.3-.4)

- This ESRS **does not mandate disclosure requirements per se**, it provides a common reference for the implementation of other ESRS: disclosure requirements related to policies, targets, action plans and resources mandated by other topical ESRS **shall incorporate the disclosure defined in this standard**. As a consequence the undertakings shall disclose such combined information under the respective other ESRS.
- ESRS 2, 3 and 4 define disclosure requirements on how sustainability matters taken as a whole interact with the undertaking's (i) strategy and business model(s), (ii) governance and organisation and (ii) assessment of impacts, risks and opportunities. **The decisions made by the undertaking following such interactions are translated into implementation measures in terms of established policies, targets set, action plans and resources allocated** which shall be described, when required by other ESRS, following the prescriptions of this ESRS.

3. Cross-cutting Standards / Reference Standard



ESRS 5 – Disclosure Reference Contents

(1) Policies implemented to manage material sustainability matters

- To understand how undertaking intends to address the identified material sustainability impacts, risks and opportunities
- For each policy: description, incl. general objectives; scope (operations, value chain, business relationships); allocation of responsibilities at all relevant operational levels, third-party-standards considered; consideration given to interests of stakeholders

(2) Measurable targets in relation to policies and progress against those targets

- Disclose undertaking's ambition, formulated as a measurable target, in terms of expected results / progress towards the adopted target over time.
- For each target: scope (incl. limitations as to geographical boundaries or activities); baseline value and/or base year; timeframe incl. milestones; methodologies and significant assumptions used to define targets; any changes in targets or underlying methodologies and assumptions and explanation for those changes and their effect on comparability; overall progress towards the defined target (incl. whether in line with initial plan); analysis of trends or significant changes in performance of the undertaking towards achieving the target.
- AG13: in calculation of targets no netting / offsetting of impacts
- If no target is adopted: e.g. reasons, whether progress is measured without targets

3. Cross-cutting Standards / Reference Standard



ESRS 5 – Disclosure Reference Contents

(3) Actions, action plans and resources in relation to policies and targets

- To understand stand-alone actions and actions plans and the related allocation of resources
- For each action / action plan / transition plan: scope of actions re/ undertaking's activities and value chain; time horizon; expected outcome; examples of key actions
- Resources needed / allocated → AG24: capital expenditure / operating expenditure of relevant time horizon, at minimum for the current reporting year resources