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The European Sustainability Reporting Standards (ESRS)

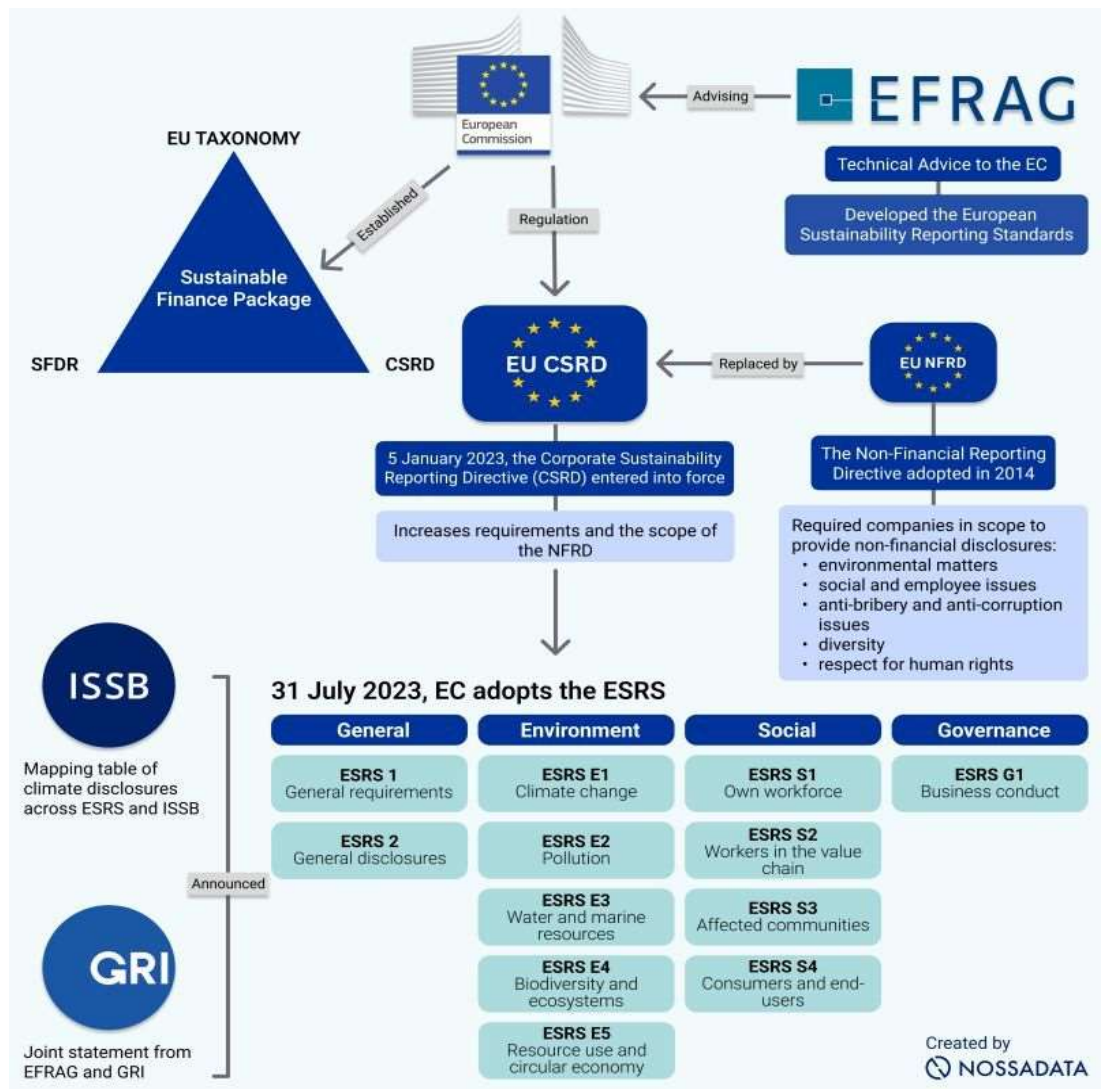
DI Monika Brom, Environment Agency Austria and EFRAG SRB Member

WHERE IS SUSTAINABILITY REPORTING HEADING?

The development of mandatory common sustainability reporting standards is necessary to progress to a situation in which sustainability information has a status comparable to that of financial information."

Recital 32, CSRD (COM(2021) 189 final)





ISSB

Mapping table of climate disclosures across ESRS and ISSB

Announced

GRI

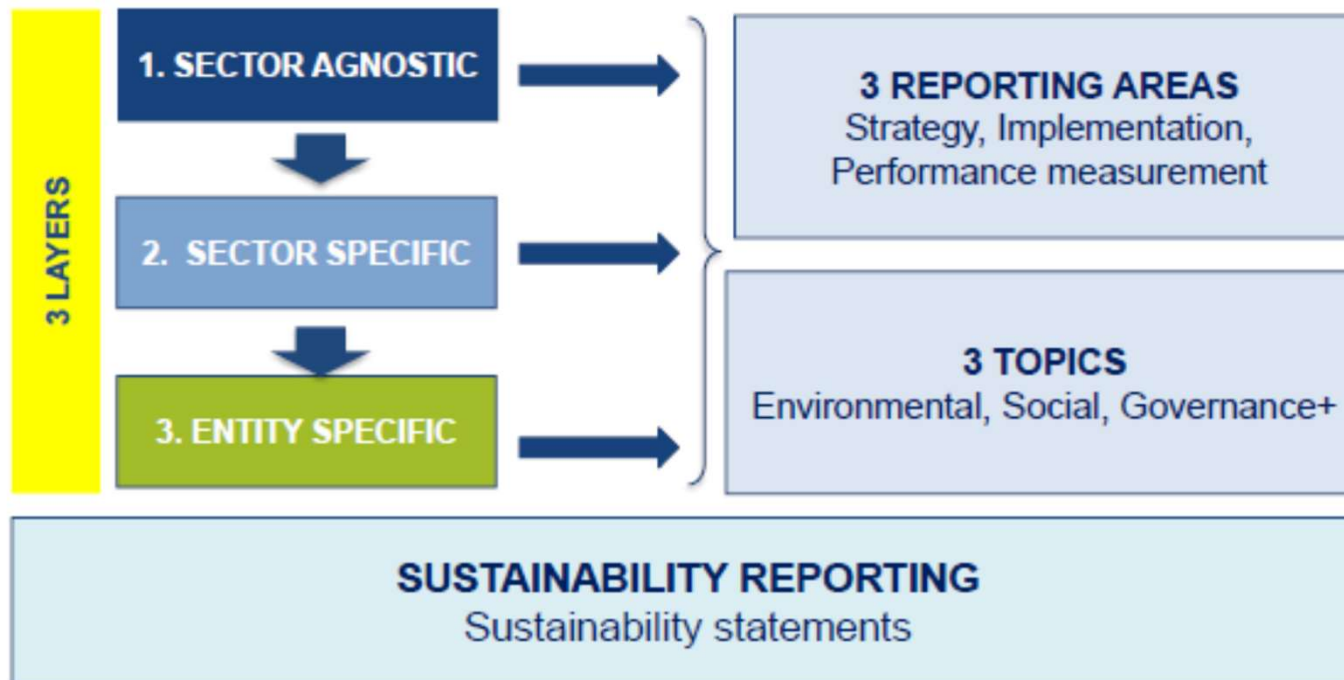
Joint statement from EFRAG and GRI

IMPLEMENTATION OF THE ESRS STANDARDS

- **Sector-agnostic standards**, SET 1 is available
- The Commission has published the general reporting standards as a **delegated act** on 31.07.2023, still waiting for publication in EU Journal
- **Sector-specific standards** currently "on hold" (postponed by at least 2 years)
- **Listed Small Medium Enterprises:** Work in progress –still a way to go
- **Voluntary Small Medium Enterprises:** proposal by EFRAG, discussion and Board decision end of November (29th of November)
- **Focus currently on guidance documents** on Materiality Analysis (approval by 10th of December), Value Chain (approved by SRB) and Implementation Guidance

Cross-cutting standards				
ESRS 1: General requirements			ESRS 2: General disclosures	
Topical standards				
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				

Architecture of ESRS



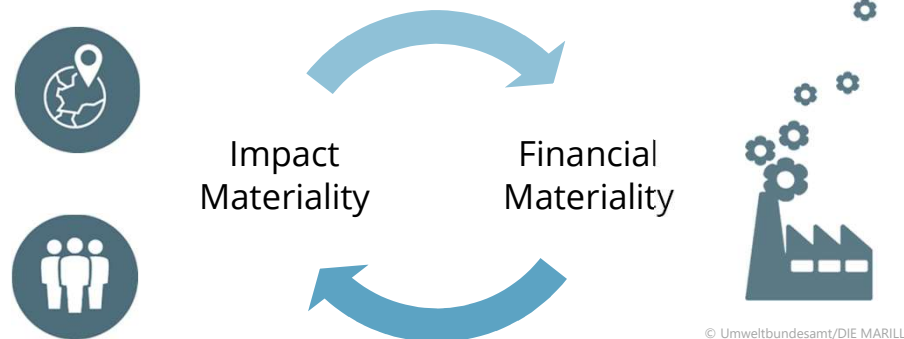
DOUBLE MATERIALITY

Impact Materiality:

material **actual or potential, positive or negative impacts** of the company on **people or the environment** within short, medium or long-term time horizons.

Financial Materiality:

if a sustainability aspect results in material **financial effects** on the company or if these are reasonably to be expected



Topical Standard	Environmental topics that are covered by the ESRS		
	Topic	Sub-topic	Sub-sub-topics
ESRS E1	Climate Change	Climate change adaptation, Climate change mitigation, Energy	
ESRS E2	Pollution	Pollution of air, Pollution of water, Pollution of soil, Pollution of living organisms and food resources, Substances of concern, Substances of very high concern, Microplastics	
ESRS E3	Water and Marine Ressources	Water Marine Ressources	Water consumption, Water withdrawals, Water discharges, Water discharges in the oceans, Extraction and use of marine resources
ESRS E4	Biodiversity and Ecosystems	Direct impact drivers of biodiversity loss, Impacts on the state of species, Impacts on the extent and condition of ecosystems, Impacts and dependencies on ecosystem services	Climate Change, Land-use change, fresh water-use change and sea-use change, Direct exploitation, Invasive alien species, Pollution, Others
			Examples: Species population size, Species global extinction risk
			Examples: Land degradation, desertification, soil sealing
ESRS E5	Circular economy	Resources inflows including resource use Resource outflows related to products and services, Waste	Source: AR16, ESRS 1

ESRS E1 - CLIMATE CHANGE

Governance

- ESRS 2 GOV-3 – Integration of sustainability-related performance in incentive schemes

Strategy

- E1-1 – Transition plan for climate change mitigation
- ESRS 2 SBM-3 – Material impacts, risks and opportunities and their interaction with strategy and business model

Impact, risk and opportunity management

- ESRS 2 IRO-1 – Description of the processes to identify and assess material climate-related impacts, risks and opportunities
- E1-2 – Policies related to climate change mitigation and adaptation
- E1-3 – Actions and resources in relation to climate change policies

Metrics and targets

- E1-4 – Targets related to climate change mitigation and adaptation
- E1-5 – Energy consumption and mix
- E1-6 – Gross Scopes 1, 2, 3 and Total GHG emissions
- E1-7 – GHG removals and GHG mitigation projects financed through carbon credits
- E1-8 – Internal carbon pricing
- E1-9 – Anticipated financial effects from material physical and transition risks and potential climate-related opportunities

ESRS E2 - POLLUTION

Impact, risk and opportunity management

- ESRS 2 IRO-1 – Description of the processes to identify and assess material pollution-related impacts, risks and opportunities
- E2-1 – Policies related to pollution
- E2-2 – Actions and resources related to pollution

Metrics and targets

- E2-3 – Targets related to pollution
- E2-4 – Pollution of air, water and soil
- E2-5 – Substances of concern and substances of very high concern
- E2-6 – Anticipated financial effects from pollution-related impacts, risks and opportunities

- Significant positive and negative actual or potential impacts of the company in terms of air, water and soil pollution.
- Pollution of air, water, soil, substances of concern, including substances of very high concern
- Pollutants and microplastics
- Ecological thresholds
- Environmental footprint

ESRS E3 – WATER AND MARINE RESOURCES

Impact, risk and opportunity management

- ESRS 2 IRO-1 – Description of the processes to identify and assess material water and marine resources-related impacts, risks and opportunities
- E3-1 – Policies related to water and marine resources
- E3-2 – Actions and resources related to water and marine resources

Metrics and targets

- E3-3 – Targets related to water and marine resources
- E3-4 – Water consumption
- E3-5 – Anticipated financial effects from water and marine resources-related impacts, risks and opportunities

- Protection of water and marine resources
- Reduction of water consumption
- European Green Deal targets on fresh air, clean water, healthy soils and biodiversity, and on the sustainability of the blue economy and fisheries sector.
- Keep within planetary boundaries
- Ecological thresholds
- Science-Based Targets Initiative for Nature

ESRS E4 - BIODIVERSITY AND ECOSYSTEMS

Strategy

- E4-1 – Transition plan and consideration of biodiversity and ecosystems in strategy and business model
- ESRS 2 SBM-3 – Material impacts, risks and opportunities and their interaction with strategy and business model

Impact, risk and opportunity management

- ESRS 2 IRO-1 – Description of processes to identify and assess material biodiversity and ecosystem-related impacts, risks and opportunities
- E4-2 – Policies related to biodiversity and ecosystems
- E4-3 – Actions and resources related to biodiversity and ecosystems

Metrics and targets

- E4-4 – Targets related to biodiversity and ecosystems
- E4-5 – Impact metrics related to biodiversity and ecosystems change
- E4-6 – Anticipated financial effects from biodiversity and ecosystem-related risks and opportunities

- Resilience of the strategy and business model in the context of biodiversity and ecosystems
- Alignment of the strategy and business model with relevant local, national and global policy objectives related to biodiversity and ecosystems
- Relationship of the business to terrestrial, freshwater, and marine habitats, ecosystems, and populations of relevant animal and plant species, including diversity within species, between species, and ecosystems, and their interactions with indigenous peoples and other affected communities

ESRS E5 RESOURCE USE AND CIRCULAR ECONOMY

Impact, risk and opportunity management

- ESRS 2 IRO-1 – Description of the processes to identify and assess material resource use and circular economy-related impacts, risks and opportunities
- E5-1 – Policies related to resource use and circular economy
- E5-2 – Actions and resources related to resource use and circular economy

Metrics and targets

- E5-3 – Targets related to resource use and circular economy
- E5-4 – Resource inflows
- E5-5 – Resource outflows
- E5-6 – Anticipated financial effects from resource use and circular economy-related impacts, risks and opportunities

- Resource efficiency, avoidance of depletion of non-renewable resources, sustainable procurement and use of renewable resources.
- Decoupling economic growth from the use of materials.
- Minimizing waste, preserving the highest possible value of products, materials and other resources, and improving their efficient use in production and consumption
- Science-Based Targets Initiative for Nature
- Environmental footprint

Topical Standard	Social topics that are covered by the ESRS		
	Topic	Sub-topic	Sub-sub-topics
ESRS S1	Own Workforce	Working conditions	Secure employment, Working time, Adequate wages, Social dialogue, Freedom of association, the existence of works councils and the information, consultation and participation rights of workers, Collective bargaining, including rate of workers covered by collective agreements, Work-life balance, Health and Safety
		Equal treatment and opportunities for all	Gender equality and equal pay for work of equal value, Training and skills development, Employment and inclusion of persons with disabilities, Measures against violence and harassment in the workplace, Diversity
		Other work-related rights	Child labour, Forced labour, Adequate housing, Privacy
ESRS S2	Workers in the value chain	Working conditions	Secure employment, Working time, Adequate wages, Social dialogue, Freedom of association, including the existence of work councils, collective bargaining, Work-life balance, Health and Safety
		Equal treatment and opportunities for all	Gender equality and equal pay for work of equal value, Training and skills development, the employment and inclusion of persons with disabilities, Measures against violence and harassment in the workplace, Diversity
		Other work-related rights	Child labour, Forced labour, Adequate housing Water and sanitation, Privacy

Source: AR16, ESRS 1

Topical Standard	Social topics that are covered by the ESRS		
	Topic	Sub-topic	Sub-sub-topics
ESRS S3	Affected communities	Communities' economic, social and cultural rights	Adequate housing, Adequate food, Water and sanitation, Land-related impacts, Security-related impacts
		Communities' civil and political rights	Freedom of expression, Freedom of assembly, Impacts on human rights defenders
		Rights of indigenous peoples	Free, prior and informed consent, Self-determination, Cultural rights
ESRS S4	Consumers and endusers	Information-related impacts for consumers and/or end-users	Privacy, Freedom of expression, Access to (quality) information
		Personal safety of consumers and/or end-users	Health and safety, Security of a person, Protection of children
		Social inclusion of consumers and/or end-users	Non-discrimination, Access to products and services, Responsible marketing practices

Source: AR16, ESRS 1

ESRS S1 – OWN WORKFORCE

Strategy

- Disclosure Requirement related to ESRS 2 SBM-2 – Interests and views of stakeholders
- ESRS 2 SBM-3 – Material impacts, risks and opportunities and their interaction with strategy and business model

Impact, risk and opportunity management

- S1-1 – Policies related to own workforce
- S1-2 – Processes for engaging with own workforce and workers' representatives about impacts
- S1-3 – Processes to remediate negative impacts and channels for own workforce to raise concerns
- S1-4 – Taking action on material impacts on own workforce, and approaches to managing material risks and pursuing material opportunities related to own workforce, and effectiveness of those actions

Metrics and targets

- S1-5 – Targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities
- S1-6 – Characteristics of the undertaking's employees
- S1-7 – Characteristics of non-employees in the undertaking's own workforce
- S1-8 – Collective bargaining coverage and social dialogue
- S1-9 – Diversity metrics
- S1-10 – Adequate wages
- S1-11 – Social protection
- S1-12 – Persons with disabilities
- S1-13 – Training and skills development metrics
- S1-14 – Health and safety metrics
- S1-15 – Work-life balance metrics
- S1-16 – Remuneration metrics (pay gap and total remuneration)
- S1-17 – Incidents, complaints and severe human rights impacts

Topical Standard	Governance topics that are covered by the ESRS		
	Topic	Sub-topic	Sub-sub-topics
ESRS G1	Business conduct	Corporate culture, Protection of whistle-blowers, Animal welfare, Political engagement and lobbying activities Management of relationships with suppliers including payment practices	
		Corruption and bribery	Prevention and detection including training, incidents

Source: AR16, ESRS 1

ESRS G1 – GOVERNANCE

- ESRS 2 GOV-1 – The role of the administrative, management and supervisory bodies

Impact, risk and opportunity management

- ESRS 2 IRO-1 – Description of the processes to identify and assess material impacts, risks and opportunities
- G1-1– Business conduct policies and corporate culture
- G1-2 – Management of relationships with suppliers
- G1-3 – Prevention and detection of corruption and bribery

Metrics and targets

- G1-4 – Incidents of corruption or bribery
- G1-5 – Political influence and lobbying activities
- G1-6 – Payment practices (esp. towards SME)

- evaluation of social and environmental performance of suppliers
- training activities on anticorruption
- internal and external expenses of lobbying activities, total amount paid for membership to lobbying associations

Part of the management report	ESRS codification	Title
1. General information	ESRS 2	<i>General disclosures</i> , including information provided under the Application Requirements of topical ESRS listed in ESRS 2 Appendix C.
2. Environmental information	<i>Not applicable</i>	<i>Disclosures pursuant to Article 8 of Regulation (EU) 2020/852 (Taxonomy Regulation)</i>
	ESRS E1	<i>Climate change</i>
	ESRS E2	<i>Pollution</i>
	ESRS E3	<i>Water and marine resources</i>
	ESRS E4	<i>Biodiversity and ecosystems</i>
	ESRS E5	<i>Resource use and circular economy</i>
3. Social information	ESRS S1	<i>Own workforce</i>
	ESRS S2	<i>Workers in the value chain</i>
	ESRS S3	<i>Affected communities</i>
	ESRS S4	<i>Consumers and end-users</i>
4. Governance information	ESRS G1	<i>Business conduct</i>

STRUCTURE OF THE ESRS SUSTAINABILITY STATEMENT

<p>1. General information</p> <p>ESRS 2 General Disclosures</p> <ul style="list-style-type: none"> • Specific topical DR from topical ESRS • Additional DR from sector specific ESRS • List of Disclosure Requirements complied with • Table of all the datapoints deriving from other EU legislation 	<p>3. Social information</p> <p>ESRS S1 Own workforce</p> <ul style="list-style-type: none"> • Impact, risk and opportunity management and Metrics and targets DR from ESRS S1 • Additional DR from sector specific ESRS • Potential additional entity specific information <p>ESRS S2 Workers in the value chain</p> <ul style="list-style-type: none"> • Impact, risk and opportunity management and Metrics and targets DR from ESRS S2 • Additional DR from sector specific ESRS • Potential additional entity specific information <p>ESRS S4 Consumers and end-users</p> <ul style="list-style-type: none"> • Impact, risk and opportunity management and Metrics and targets DR from ESRS S4 • Additional DR from sector specific ESRS • Potential additional entity specific information
<p>2. Environmental information</p> <p>Disclosures pursuant to Article 8 of Regulation 2020/852 (Taxonomy Regulation)</p> <p>ESRS E1 Climate change</p> <ul style="list-style-type: none"> • Impact, risk and opportunity management and Metrics and targets DR from ESRS E1 • Additional DR from sector specific ESRS • Potential additional entity specific information <p>ESRS E5 Resource Use and Circular Economy</p> <ul style="list-style-type: none"> • Impact, risk and opportunity management and Metrics and targets DR from ESRS E5 • Additional DR from sector specific ESRS • Potential additional entity specific information 	<p>4. Governance information</p> <p>ESRS G1 Business conduct</p> <ul style="list-style-type: none"> • Impact, risk and opportunity management and Metrics and targets DR from ESRS G1 • Additional DR from sector specific ESRS • Potential additional entity specific information

EXAMPLE OF STRUCTURE OF ESRS SUSTAINABILITY STATEMENT

NATIONAL IMPLEMENTATION OF THE CSRD

- Amendment of 21 national laws necessary (incl. Corporate Code – UGB)
- Provision of Split Audit and Independent Assurance Service Providers (IASP)
- Authority for IASP not fixed yet (Accreditation Authority in discussion)
- Equivalence has to be ensured

FUTURE CHALLENGES IN MANDATORY SUSTAINABILITY REPORTING

- Management report will be more comprehensive
→ good structuring necessary
- Requirements are sometimes very high (Scope 3 (GHG) emissions), supply chain assessment
- SME are indirectly affected (value chain and by requirements for banks and financial institutions)
- Reporting is not everything → (management) system behind it necessary
- Building up inhouse-expertise becomes crucial!
(2-2,5 FTE/undertaking)



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KONTAKT & INFORMATION

DI Monika Brom

Head of Team Environmental Assessment and Transformation of the Economy

01/31304-5535

monika.brom@umweltbundesamt.at

 www.umweltbundesamt.at

 twitter.com/umwelt_at

 www.linkedin.com/company/umweltbundesamt

Sustainability Reporting and IFRS for
SMEs

Vienna, December 2023