

EFRAG: European Sustainability Reporting Standards (ESRS)

Talking points for episode 133



These talking points summarise the [European Sustainability Reporting Standards](#) (ESRS) released for comment by the European Financial Reporting Advisory Group (EFRAG).

ESRS consists of 2 **cross-cutting standards**, and 11 **topical standards**. The topical standards are split between environmental, social and governance related disclosures. These requirements will consist of a **three layer approach** to capture sector specific disclosures, non-sector specific disclosures and non-standardised reporting.

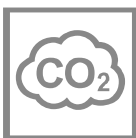
The **scope of the ESRS** expands the current scope under the non-financial directive. Examples include:

- All **large entities** and all parents of large groups, **regardless of any listing**;
- Large (**as defined by EU accounting rules**) where two of three criteria are met for two consecutive years (i.e. €20M total assets, €40M turnover more than 250 employees);
- Small medium entities, if they are listed in the EU regulated market;
- These rules apply also for subsidiaries of non-EU entities; and
- Reporting would also be required for a **non-EU company** at a global consolidated level on a later timeline if its consolidated net turnover (revenue) generated in the EU exceeds €150 million for each of the last two consecutive fiscal years and also has one of the following:
 - one or more large subsidiaries in the EU or subsidiaries listed on an EU-regulated exchange; or
 - at least one branch that generates revenue of €40 million (about \$42 million as of June 30) or more in the preceding year.



The reporting structure used within the cross-cutting standards focuses on **strategy, implementation and performance** measurement. ESRS 1 provides guidance on the application of the fundamental concepts of the CSRD proposal which includes **information quality, double materiality, boundaries and value chain, time horizon and sustainability due diligence**. ESRS 2 contains 22 disclosure requirements covering and providing a common context for all topical disclosure requirements. These requirements are **not rebuttable**.

Double materiality is one of the key concepts introduced in the ESRS, which is different from materiality from a financial reporting perspective. It requires consideration of 1) how the reporting entity is **impacted by** outside factors; and 2) how the reporting entity **impacts its surroundings and its stakeholders**. The rationale is that this will result in more decision useful disclosures. However, it raises challenges for **practical implementation** as there is no defined benchmark or boundary when considering the impact of the business.



Proposed disclosure requirements in the climate exposure draft include the following:

- An analysis of the **resiliency of a company's strategy and business model** in response to climate-related risks.
- A scenario analysis to identify **physical and transition risks** over the **short, medium, and long term**.
- **Performance measures**, including scope 1, scope 2, and scope 3 greenhouse gas emissions ('GHG') emissions, and GHG emissions per dollar of net revenue (GHG intensity).



The CSRD proposes **mandatory assurance** on reported sustainability information, which will begin with limited assurance, and will expand to reasonable assurance in the future.

The deadline to respond to the comment letter is **8 August**. The draft ESRS is expected to be presented to the European Commission by Q4 of 2022. The first application is expected for FY 2024 reporting.

PwC's [June EU Newsletter](#) provides a summary of what you need to know about the EFRAG's exposure drafts.

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2021-01-12_RITM4431934