

[Draft] European Sustainability Reporting Standard P1 Sustainability Statements

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This working paper should therefore not be interpreted in any way whatsoever as representing the views of the PTF-ESRS as a whole at this stage, nor the position of relevant co-construction partners. Also, the content of this working paper is the sole responsibility of the PTF-ESRS and can under no circumstances be regarded as reflecting the position of the European Union or European Commission DG Financial Stability, Financial Services and Capital Markets Union (DG FISMA).

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European Sustainability Reporting Standard (ESRS) P1 – Sustainability statements

Objective

- 1 The objective of this [draft] Standard is to provide the basis for the presentation of sustainability reporting within the management report in accordance with article 19a and 29a of the [draft] Corporate Sustainability Reporting Directive.

Interactions with other ESRS

- 2 ESRS 1 *General provisions* explains the key concepts applicable for the preparation of Sustainability reporting including how to comply with the full set of ESRS Standards. ESRS 1 requires undertakings to present sustainability reporting in the Sustainability Statements within the management report.
- 3 ESRS P1 *Sustainability statements* complements ESRS 1 by specifying the content and structure of the sustainability statements building upon the disclosure requirements of all ESRS.

Content of the Sustainability Statements

- 4 The undertaking shall report all the applicable disclosures (sector-agnostic, sector-specific and entity-specific) required by the ESRS within identifiable parts of the management report named Sustainability Statements.
- 5 The undertaking shall report within the Sustainability Statements the disclosures pursuant to Article 8 of Regulation 2020/852 on the establishment of a framework to facilitate sustainable investment.
- 6 The undertaking may report other standardised sustainability-related information required by European Union laws and regulations within the Sustainability Statements.
- 7 The undertaking shall not report any other information within the Sustainability Statements.

Structure of the Sustainability Statements

Principles for the presentation of the disclosure required by sector-agnostic European Sustainability Reporting Standards

- 8 When reporting the disclosures required by sector-agnostic ESRS, the undertaking shall choose one of the following three options:
 - (a) Reporting the disclosures within a single separately identifiable section of the management report;
 - (b) Aggregating the disclosures into four separately identifiable parts of the management report:
 - (i) General information;
 - (ii) Environment;
 - (iii) Social;
 - (iv) Governance.
 - (c) Aggregating the disclosures on an ESRS by ESRS basis and reporting them within identifiable parts of the management report.

- 9 Option 8 (a) is the preferred option. Any undertaking that elects to apply the options laid down in paragraphs 8 (b) and 8 (c) shall report, as part of the sustainability statements, a location table allowing to identify where the sector-agnostic disclosures referred to in paragraph 4 are presented in the management report.

Principles for the presentation of the disclosures required by sector- specific European Sustainability Reporting Standards

- 10 When reporting the disclosures required by sector-specific ESRS, the undertaking shall aggregate those disclosures by cross-cutting reporting areas and, where applicable, by sustainability sub-topics and report them alongside the relevant sector-agnostic disclosures.

Principles for the presentation of the entity-specific disclosures required by the European Sustainability Reporting Standards

- 11 When the undertaking determines that it shall need to disclose for entity-specific material sustainability impacts, risks and opportunities in accordance with the undertaking's assessment defined in ESRS 4 *Impacts, risks and opportunities*, judgment will be applicable and it shall report those disclosures in the most relevant part of the Sustainability Statements alongside the standardised sector-agnostic and sector-specific disclosures.

Principles for the presentation of the disclosures pursuant to article 8 of the Taxonomy regulation (2020/852)

- 12 The undertaking shall report the disclosures pursuant to article 8 of the Taxonomy regulation (2020/852) alongside the ESRS disclosures that relate to the environmental topics as per the ESRS classification laid down in in appendix C.

Disclosure Requirements (possibly to be transferred to ESRS 1)

[Disclosure requirement 1] – Sector-agnostic presentation option

- 13 **The undertaking shall disclose the presentation option selected from paragraph 8.**

[Disclosure requirement 2] – Location table

- 14 **Any undertaking that elects to apply the options set out in paragraphs 8 (b) and 8 (c) shall disclose the location table referred to in paragraph 9.**

Appendix A: Defined terms

This appendix is integral part of the [draft] ESRS.

Sustainability Statements	Separately identifiable section or parts of the management report that contain the sustainability information required by the applicable ESRS.
Location table	A tabular list of the parts of the management report that contain sustainability information required by ESRS standards indicating their location within the management report.

Working paper

Appendix B: Application Guidance

This appendix is an integral part of the proposed [draft] ESRS P1 Sustainability Statements. It provides further guidance on the structure of the Sustainability Statements set forth in paragraphs [8-12] and it describes the application of the disclosure requirements set forth in paragraphs [13-14]. Application Guidance has the same authority as the other parts of the [draft] ESRS.

Presentation of disclosures required by sector-agnostic European Sustainability Reporting Standards

Reporting all sector-agnostic disclosures within a single section of the management report (Paragraph 8 (a))

- AG1. Any undertaking applying the option in paragraph 8 (a) shall apply the requirement in paragraphs AG2 through AG7.
- AG2. The single section of the management report referred to in paragraph 8 (a) shall only include the information referred to in paragraphs 4 to 6.
- AG3. As a basis, the undertaking shall group together the disclosures required by each sector-agnostic ESRS and report them as non-separable blocks. The disclosures should appear within the Sustainability Statements in the order outlined in the sector-agnostic standards.
- AG4. Notwithstanding paragraph AG3, when a topical ESRS standard provides specific presentation guidance for a disclosure requirement, this specific requirement shall prevail.
- AG5. The undertaking shall group together the blocks referred to in paragraph AG3 relating to the cross-cutting standards in the following order:
- (a) ESRS 1 *General provisions*;
 - (b) ESRS 2 *Strategy and Business Model*;
 - (c) ESRS 3 *Governance and organisation*;
 - (d) ESRS 4 *Material impacts, risks, and opportunities*.
- AG6. The undertaking shall group together the blocks referred to in paragraph AG3 relating to the topical sector-agnostic standards into identifiable parts of the management report applying the ESRS classification of sustainability topics and sub-topics as required in Appendix C.
- AG7. The undertaking shall report the cross-cutting sustainability information referred to in paragraph AG 5 and the topical sustainability information referred to in paragraph AG 6 within a single identifiable section of the management report in the following order:
- (a) General information (as defined in AG 5);
 - (b) Environmental information;
 - (c) Social information;
 - (d) Governance information

Aggregation of the sector agnostic disclosures into four identifiable parts of the management report (Paragraph 8 (b))

- AG8. Any undertaking applying the option in article 8 (b) shall apply the requirement in paragraphs AG3 through AG6 and therefore disaggregate the presentation described in AG 7 into four parts.

Aggregation of sector agnostic disclosures on an ESRS by ESRS basis (Paragraph 8 (c))

AG9. Any undertaking applying the option laid down in article 8 (c) shall apply the requirements in paragraphs AG3 to AG4.

Presentation of the disclosures required by sector-specific European Sustainability Reporting Standards (Paragraph 10)

AG10. The undertaking shall apply ESRS SEC1 *Sector Classification* to determine the sector-specific standards it shall report against.

AG11. The undertaking shall group together the disclosures required by sector-specific European Sustainability Reporting Standards that relate to each of the reporting areas “strategy and business model”, “sustainability governance and organization” and “material impacts, risks and opportunities” and report them alongside the blocks referred to in paragraph AG 3 that these relate to immediately after the cross-cutting disclosures.

AG12. The undertaking shall group together the disclosures required by sector-specific European Sustainability Reporting Standards that relate to each of the sustainability sub-topics covered in appendix C and report them together within the corresponding blocks in accordance with paragraph AG3.

Presentation of the entity-specific disclosures required by European Sustainability Reporting Standards (Paragraph 11)

AG13. When applying paragraph 11, the undertaking shall group together the entity-specific disclosures that relate to a sustainability matter and report within the most relevant blocks in accordance with paragraph AG3 after the sector-specific disclosures.

Presentation of the disclosures pursuant to article 8 of the Taxonomy regulation (Paragraph 12)

AG14. Any undertaking that elects to apply the options in paragraph 8 (a) or 8 (b) shall report the disclosures pursuant to article 8 of the Taxonomy regulation (2020/852) within the topical statement “Environmental information” in accordance with paragraph AG 7 (b).

AG15. Any undertaking that elects to apply the option in paragraph 8 (c) shall complement the location table referred to in paragraph 9 to report where the disclosures pursuant to article 8 of the Taxonomy regulation are presented in the sustainability statements.

Disclosure requirements (Paragraphs 13-14)

[Disclosure requirement 1] – Sector-agnostic presentation option

AG16. The undertaking shall disclose the presentation option chosen in accordance with paragraph 8.

[Disclosure requirement 2] – Sector-agnostic location tables

AG17. Any undertaking applying the options in paragraphs 8 (b) or 8 (c) shall further disclose where the location tables referenced respectively in paragraphs AG18 and AG19 are presented in the management report.

AG18. Any undertaking applying the option in paragraph 8 (b) shall report a location table within the management report using a tabular format that includes the following information:

- (a) the four separately identifiable parts listed in paragraph 8 (b);
- (b) the location of the required disclosures within the management report.

AG19. Undertakings applying the option in paragraph 8 (c) shall report a location table within the management report using a tabular format that includes the following information:

- (a) the list of ESRS standards;
- (b) the location of the required disclosures within the management report.

Appendix C: Classification of ESRS Sustainability topics and sub-topics

Sustainability topics	Sustainability sub-topics	ESRS codification
1. Environment	1. Climate (mitigation and adaptation)	ESRS E1
	2. Pollution	ESRS E2
	3. Water and marine resources	ESRS E3
	4. Biodiversity and ecosystems	ESRS E4
	5. Circular economy	ESRS E5
2. Social	1. Own workforce: general	ESRS S1
	2. Own workforce: working conditions	ESRS S2
	3. Own workforce: equal opportunities	ESRS S3
	4. Own workforce: other work-related rights	ESRS S4
	5. Workers in the value chain	ESRS S5
	6. Affected communities	ESRS S6
	7. Consumers/ End-users	ESRS S7
Governance	1. Governance, risk management, internal control	ESRS G1
	2. Products and services, management and quality of relationships with business partners	ESRS G2
	3. Responsible business practices	ESRS G3

Basis for conclusions

- BC1. This [draft] Basis for conclusions accompanies, but is not part of [draft] ESRS P1 Sustainability Statements. It explains the considerations and references of the [EFRAG Sustainability Standards Board (the 'Board')] in developing the contents of the [draft] standard. [Individual Board members may give greater weight to some factors than to others.]
- BC2. The general approach followed by (the Board) covers the following steps:
- (a) complying with the requirement of the draft CSRD,
 - (b) specifying the specific objectives of the standard on presentation,
 - (c) analysing the existing disclosure requirements in the management report arising from EU law;
 - (d) reviewing the presentation guidance in current international sustainability reporting frameworks,
 - (e) considering the extent of sustainability information to be reported in the sustainability statements,
 - (f) considering the principles to present the disclosures arising from sector agnostic standards
 - (g) considering the principles to present the disclosures arising from sector-specific standards
 - (h) considering the principles to present material sustainability information not covered by ESRS standards,

Objective of the [draft] standard

- BC3. The Board noted that Article 1 (3) of the proposal for a CSRD mandates that sustainability reporting is included in the management report and eliminates the prior option in the Non-Financial Reporting Directive (2014/95/UE) to publish a separate report. The Board further noticed that recital 50 of the proposal for a CSRD highlights the objectives to:
- (a) enhance the availability of information that connects financial and sustainability matter information;
 - (b) facilitate discoverability and accessibility for users;
 - (c) strengthen the reliability of sustainability information.
- BC4. The Board also considered Article 1 (4) of the proposal for a CSRD that provides that *“European sustainability standards [...] where relevant shall specify the structure in which that information shall be reported”*. The Board noted that at the time the proposal for a CSRD was published, the European Commission did not include further provisions about the location and structure of sustainability information thus leaving flexibility to the Board on the presentation requirements for sustainability information.
- BC5. The Board noted in the March 2021 report pursuant to the request for technical advice from the Commission dated 25 June 2020, the EFRAG Lab Project Task Force on preparatory work for the elaboration of possible EU non-financial reporting standards (PTF NFRS) that standardised sustainability information is preferably reported in a separate and clearly identifiable section of the management report named 'sustainability statements'. The stated objectives for such presentation were:
- (a) enhance comparability across entities;
 - (b) ease access to information and avoid fragmentation;

- (c) distinguish the standardised part of the management report from other unstandardized narrative reporting which expresses the views of governance and management on the performance and developments of the business from a general perspective ;and
 - (d) highlight the interconnections between the various dimensions of corporate information.
- BC6. The Board also considered the implications of article 3 (12) of the proposal for a Corporate Sustainability Reporting Directive whereby “*Member States shall require statutory auditors and audit firms to carry out the assurance of sustainability reporting in compliance with assurance standards adopted by the Commission*” and of Article 1 (10) of the proposal for a CSRD which requires the statutory auditor or an independent assurance services provider to express an opinion based on a limited assurance engagement on:
- (a) the compliance of the sustainability reporting with the CSRD and the European sustainability reporting standards;
 - (b) the process carried out to identify the information reported pursuant to the reporting standards;
 - (c) the compliance with the requirement to mark-up sustainability reporting; and
 - (d) the compliance with the reporting requirements in Article 8 of Regulation (2020/852).
- BC7. The Board noted that the level of assurance underpinning sustainability reporting would be higher than for other information in the management report covered by Article 34 of the Accounting Directive (2013/34/UE).
- BC8. Article 34 of the Accounting Directive provides that statutory auditors shall express an opinion on whether the management report is consistent with the financial statements for the same reporting year and whether the management report has been prepared in accordance with the applicable regulatory requirements. Furthermore, statutory auditors shall state whether, in the light of the knowledge and understanding of the undertaking and its environment obtained during the course of their audit, they have identified material undisclosed matters in the management report, and shall give an indication of the nature of such matters, if any.
- BC9. With regard to the Corporate Governance Statement, article 20 (3) of the Accounting Directive, it states that statutory auditors shall express an opinion on whether in the light of their knowledge and understanding of the undertaking and its environment, they have identified material misstatements in relation to:
- (a) the description of the main features of the undertaking’s internal control and risk management systems over financial reporting; and
 - (b) the information pursuant to the directive on take-over bids¹.
- BC10. Furthermore, the statutory auditors shall ensure other disclosures required by Article 20 have been provided.
- BC11. The Board concluded that the presentation requirements should allow users to identify sustainability reporting and clearly distinguish it from other information with different levels of assurance.
- BC12. Finally, the Board considered that ensuring consistency between the general presentation of sustainability information within the management report and the structure used in the European Sustainability Reporting Taxonomy of disclosure requirements would facilitate the mark-up of sustainability reporting in accordance with Commission Delegated Regulation 2019/815 on the specification of the single electronic reporting format.

¹ Significant direct and indirect shareholding, the holders of securities with special control rights and a description of those rights, any restrictions on voting rights, the rules governing the appointment and replacement of Board Members, the powers of board members, and in particular the power to issue or buy back shares

Existing EU disclosure requirements in the management report

Requirement for all entities²

- BC13. The minimum content of the management report is laid down in Article 19 of the Accounting Directive (2013/34/UE). The management report shall incorporate a balanced and comprehensive analysis of the development and performance of the undertaking's business and of its position, together with a description of its principal risks and uncertainties. In providing the analysis, the management report, where appropriate, includes references to, and additional explanations of, amounts reported in the annual financial statements. The management report also gives an indication of the undertaking's likely future developments, the activities in the field of research and development, the information about the acquisition of own shares, the existence of branches of the undertaking and the information about hedging instruments and policies.
- BC14. The Board noted the complementary nature of the general disclosures in the management report about principal risks and uncertainties and the undertaking's likely future developments and the disclosure requirements in ESRS standards.
- BC15. Article 8 of Regulation 2020/852 on the establishment of a framework to facilitate sustainable investment also provides that undertakings within the scope of article 19a and 29a of the Accounting Directive shall include in their non-financial statement information on how and to what extent their activities are associated with economic activities that qualify as environmentally sustainable. The reporting requirements are detailed in the Commission Regulation 2021-4987 and include a specific tabular presentation format. Articles 1 (3) and 1 (7) of the Commission's proposal for a Corporate Sustainability Reporting Directive amend articles 19a and 29a and delete the reference to the Non-Financial Statement replacing it with "Sustainability Reporting". Article 1 (2) of the proposal defines "Sustainability Reporting" as information related to sustainability matters in accordance with Articles 19a, 19d and 29a of the Corporate Sustainability Directive.
- BC16. The Board observed that the CSRD proposal would remove the reference to the non-financial statement in paragraph 19a of directive 2013/34/UE and considered the implications on the presentation of the disclosures pursuant to article 8 of the Taxonomy Regulation. The Board noted that after the adoption of the CSRD, it would be evident that article 8 referred to the reporting requirements in article 19a of directive 2013/34/UE and therefore article 8 disclosures should be reported alongside other sustainability-related disclosures as required by that Article.
- BC17. The Board concluded that undertakings shall report the disclosures pursuant to article 8 of regulation 2020/852 alongside the disclosure requirements in ESRS standards.

Specific requirements for entities with securities listed on an EU regulated market

- BC18. In addition, article 20 of the Accounting Directive requires entities with securities listed on an EU regulated market to include a Corporate Governance Statement in the management report. The corporate governance statement contains information related to:
- (a) the corporate governance code that the undertaking mandatorily or voluntarily applies and the corporate governance practices applied over and above the requirements of domestic law;
 - (b) an explanation of any departure from the aforementioned corporate governance code;
 - (c) a description of the main features of the undertaking's internal control and risk management systems in relation to the financial reporting process;
 - (d) information pursuant to the directive on take-over bids;
 - (e) a description of the operation of the shareholder meeting, a description of shareholders' rights;

² Except when Member States elect to exempt small undertakings applying article 19.3 of Directive 2013/34/UE

- (f) the composition and operation of the administrative, management and supervisory bodies and their committees;
 - (g) a description of the diversity policy applied in relation to the undertaking's administrative, management and supervisory bodies.
- BC19. Paragraph 5 of article 1 of the Proposal for a Corporate Sustainability Reporting (CSRD) Directive amends the Accounting Directive to allow listed undertakings to report the information about internal control and risk management systems in relation to the financial reporting process (c), the composition and operation of the administrative, management and supervisory bodies (f) and the diversity policy applied in relation to the undertaking's administrative, management and supervisory bodies (g) as part of their sustainability reporting.
- BC20. The Board concluded that the amendment in paragraph 5 of article 1 of the CSRD proposal would largely avoid the overlapping risks between ESRS disclosure requirements and mandatory disclosures. The Board further noted that any overlap between ESRS standards and article 20 (a) and 20 (b) is addressed directly in the relevant ESRS topical standards.
- BC21. Furthermore, Article 4 of the Transparency Directive 2004/109/EC provides that the management report of entities with securities listed on an EU regulated market is a part of the annual financial report that issuers of securities listed on an EU regulated market are required to publish no later than 4 months after the end of each financial year.
- BC22. In accordance with article 9 of the prospectus regulation (2017/1129), listed entities may submit a universal registration document (URD) each financial year describing the company's organisation, business, financial position, earnings and prospects, governance and shareholding structure. An issuer that received approval for, and filed, a URD for two consecutive years is permitted to file its subsequent URD without prior approval. The issuer is thereafter identified as a 'frequent issuer' and benefits from a faster prospectus approval process. Article 9 (12) of the Prospectus regulation provides that where the URD is made public, no later than four months after the end of the financial year, and includes the information required by article 4 of the Transparency Directive, the issuer is deemed to have fulfilled its obligation to publish the annual financial report.
- BC23. Article 16 of the prospectus regulation requires that a prospectus includes the issuer specific risks factors that are material to the prospectus user for making informed investment decisions. The materiality of risks factors should be assessed based on the probability of occurrence and magnitude of probable impact(s) on the issuer and the security.
- BC24. The content of the Universal Registration Document is detailed in Annex 1 and 2 of Regulation 2019/980 and includes among other information, the following:
- (a) the business overview of the issuer (section 5) : description of the principal activities, the principal markets, the strategy and objectives, the investments, and environmental issues that may affect the issuer's utilisation of the tangible fixed assets;
 - (b) the administrative, management and supervisory bodies and senior management (section 12): names, addresses, functions, principal activities carried-on outside of the issuer, expertise and experience, and conflicts of interests;
 - (c) the remuneration and benefits of administrative, management and supervisory bodies (section 13); and
 - (d) board practices (section 14): date of expiration of the current term office, contracts with the issuer, audit committee, compliance with a corporate governance code, and potential material impacts on the corporate governance.
- BC25. The Board noted that, when undertakings elect to file a Universal Registration Document, regulation 2019/980 provides the flexibility to report the required disclosures within the management report. The Board considered that the disclosure required by regulation 2019/980 could be combined with the disclosures required by ESRS standards in the management report thus reducing risks of overlap.

Reviewing the presentation guidance in current international sustainability reporting frameworks

Exposure Draft “Management Commentary”

- BC26. In May 2021, the International Accounting Standard Board (IASB) published its Exposure Draft (ED) “Management Commentary” where it set out its proposals for a revised IFRS Practice Statement. The ED defined management commentary as a report that complements an entity’s financial statement and provides management’s insights into factors that have affected or could affect an entity’s ability to create value and generate cash flows in the future. The “Management Commentary” practice statement is not part of IFRS Standards and the ED highlighted that it would be for lawmakers and regulators to decide whether to require entities to comply with the Practice Statement. The IASB therefore envisaged that entities could apply the Practice Statement alongside local laws or regulations and in conjunction with narrative reporting requirements addressing specific topics such as environmental, social or other sustainability matters. The ED further highlighted that in the future, entities might be able to apply standards issued by the International Sustainability Standard Board (ISSB) to identify sustainability information needed to comply with the practice statement.
- BC27. The Exposure Draft “Management Commentary” proposes an objectives-based approach covering six areas of contents:
- (a) the entity’s business model : how the entity creates value and generates cash flows;
 - (b) management’s strategy for sustaining and developing that business model, including the opportunities management has chosen to pursue;
 - (c) the resources and relationships on which the business model and strategy depend, including resources not yet recognised as assets in the entity’s financial statements;
 - (d) risks that could disrupt the business model, strategy, resources or relationships;
 - (e) factors and trends in the external environment that have affected or could affect the business model, strategy resources, relationships or risks; and
 - (f) the entity’s financial performance and financial position, including how they have been affected or could be affected by the matters discussed for the other areas of content.
- BC28. After considering the Exposure Draft, the Board concluded that the scope of the Practice Statement was significantly broader than the mandate given to EFRAG by the European Commission, which was limited to sustainability disclosures within the existing structure of the management report outlined in the Accounting Directive.

Prototype of General Requirements for Disclosure of Sustainability-related Financial Information Prototype

- BC29. In November 2021, the Technical Readiness Working Group (TRWG) chaired by the IFRS Foundation published a Prototype of General Requirements for Disclosure of Sustainability-related Financial Information. The TRWG aimed to provide recommendations to the International Sustainability Standards Board (ISSB) for consideration. The Prototype was built on the prototype of a climate-related financial disclosure standard published in December 2020 by the Carbon Disclosure Project (CDP), the Climate Disclosure Standards Board (‘CDSB’), the Global Reporting Initiative (‘GRI’), the Integrated Reporting (‘IR’) Framework and the Sustainability Accounting Standards Board (‘SASB’), and on IAS 1: *Presentation of Financial Statements* standard.
- BC30. The prototype contained requirements about how to disclose sustainability-related financial information as part of an entity’s general purpose financial reporting including materiality, reporting boundaries, connectivity, governance, strategy, risk management, metrics and targets, frequency of reporting, fair presentation, using financial data and assumption and errors. While, the prototype explored various channels through which undertakings could report sustainability-related financial information, it did not include specific presentation requirements.

BC31. The Board concluded that the scope of the prototype was covered by ESRS Standards such as ESRS 1 General provisions, ESRS 2 Strategy and Business Model, ESRS 3 Sustainability Governance and organisation, ESRS 4 Sustainability material impacts, risks and opportunities and ESRS 5 Definitions for policies, targets, action plans and resources.

The Global Reporting Initiative (GRI) framework

BC32. The GRI Standards are a modular system of three series of interconnected standards: Universal Standards, Sector Standards, and Topic Standards. They allow organizations to report the impacts of their activities in a structured way. Organisations can either use the GRI Standards to prepare a report on sustainability topics in accordance with the Standards or use selected Standards, or parts of their content, to report information for specific users or purposes. Using these Standards, organisations determine what topics are material (relevant) to report on and indicate their contributions – positive or negative – towards sustainable development.

BC33. Reports using the GRI Standards may be published in various formats (e.g., electronic or paper-based) and made accessible across one or more locations (e.g., standalone sustainability report, webpages, or annual report). Reports must contain a GRI content index allowing for reported information traceability and increasing the report's credibility and transparency. The content index lists the location, such as a page number or URL, for all disclosures that the undertaking has used to report on its material topics. The content index can also help a user understand what the organisation has not reported. The organization must specify in the content index when a 'reason for omission' is being applied. In addition, the disclosure or the requirement that the organisation cannot comply with, along with a clear and complete explanation, must be noted in the content index. If GRI Sector Standards apply to the organization, GRI Sector Standard reference numbers provide a unique identifier for each disclosure listed in a GRI Sector Standard.

BC34. The Board noted that many European companies with securities listed on regulated markets are accustomed to applying the GRI standards and disclosing the content index. Furthermore, it noted that the content index allowed entities to enjoy flexibility in the presentation of standardised sustainability information while making the standardised information identifiable within the management report.

The Sustainable Accounting Standard Board (SASB) standards

BC35. The SASB standards identify sustainability topics and related performance metrics that are likely to have financially material impacts on companies in seventy-seven industries. Entities can voluntarily use SASB standards to support internal and external reporting on sustainability topics. It is the entity's decision to determine the means by which it reports SASB information depending on its own circumstances and local disclosure requirements. The SASB standards include:

- (a) disclosure topics: a minimum set of industry-specific disclosure topics likely to constitute material information and a description of how management or mismanagement of each topic may affect value creation;
- (b) accounting metrics: a set of quantitative and qualitative accounting metrics to measure performance on each topic;
- (c) technical protocols that provide guidance on definition, scope, implementation, compilation and presentation;
- (d) activity metrics: a set of metrics that quantify the scale of company's business and are intended for use in conjunction with accounting metrics to normalise data and facilitate comparisons.

BC36. Furthermore, the "SASB Standards Application Guidance" establishes guidance applicable to the use of all industry standards and applies to the definition, scope, implementation, compilation and presentation of the metrics in the industry standards. A reporting entity should state that it uses SASB standards, highlight and explain any omission of required information, discuss areas of uncertainty in measurement and in estimations. Furthermore, entities should consider including a narrative description of material factors necessary to ensure completeness, accuracy and comparability of the reported information. This description might include:

- (a) the entity's governance around the risks and opportunities related to the topic, including board oversight of and management's role in assessing and managing such risks and opportunities;
- (b) the entity's strategic approach regarding actual and potential impacts of topic-related risks and opportunities on the organization's businesses, strategy, and financial planning, over the short, medium, and long term;
- (c) the entity's process to identify, assess, and manage topic-related risks, and how these risks are integrated into the entity's overall risk management process; and
- (d) the entity's use of metrics or targets to assess and manage topic-related risks and opportunities.

BC37. The Board concluded that the SASB framework only contained optional guidance on presentation that would fail to achieve the objectives set out in BC 5 and BC 10.

International Integrated Reporting Council

BC38. The IIRC was formed in August 2010 to create a globally accepted framework for a process that results in communications by an entity on its value creation over time. After a consultation process, the IIRC published the first version of its 'International Integrated Reporting <IIR> Framework' (<IR> Framework) in December 2013.

BC39. The primary purpose of an integrated report is to explain to users how an organization creates, preserves, or erodes value over time. The IIRC Framework establishes guiding principles and content elements that govern the content of an integrated report and explains the fundamental concepts that underpin them. The IIRC Framework is written primarily in the context of the private sector and for-profit entities (of any size) but can be adapted and applied by the public sector and not-for-profit organizations. The Framework identifies information to be included in an integrated report to achieve its intended objective; however, it does not set benchmarks, such as the quality of an entity's strategy or the level of its performance. In the IIRC Framework, reference to the creation of value over time includes instances when value is preserved and when it is eroded.

BC40. The guiding principles that underpin the preparation of an integrated report relate to the content of the report and how information is presented. This includes strategic focus and future orientation, connectivity of information, stakeholder relationships, materiality, conciseness, reliability and completeness, consistency and comparability

BC41. The key categories of information required to be included in an integrated report under the IIRC Framework include organizational overview and external environment, governance, business model, risks and opportunities, strategy and resource allocation, performance, outlook, basis of preparation and presentation. The category "basis of preparation and presentation" includes information about an undertaking's materiality determination process, a description of the reporting boundary, a summary of the significant frameworks and methods used to quantify or evaluate material matters.

BC42. The Board concluded that ESRS 1 General provisions reflect the guiding principles of the IIRC framework, whereas the cross-cutting standards ESRS 2 Strategy and Business Model, ESRS 3 Sustainability Governance and organisation and ESRS 4 Material risks, opportunities and impacts specify the essential categories of information required for the integrated report. The Board further noted that the current corporate practice of using graphics, within an integrated report, to illustrate and explain their business model would create challenges in the digitization of such sustainability disclosures formats.

Considering the extent of sustainability information to be reported as part of the sustainability statements

BC43. Having determined that sustainability information should preferably be reported within a single identifiable section of the management report, the Board considered what sustainability information should be included in that single identifiable section. Considering the objective laid down in BC 5 (c) the Board concluded that it should not allow undertakings to commingle the assertions and views provided by management with the standardised disclosures required by ESRS standards.

BC44. Consistent with the mandate assigned by the Commission to draft sustainability disclosure requirements, the Board determined that, as a minimum, the single section should include the disclosures required by ESRS standards as well as entity specific sustainability information *as per ESRS 4 and ESRS 1*.

- BC45. For the reasons noted in BC15 and 16, the Board concluded that undertakings should report the disclosure pursuant to Article 8 of the Taxonomy regulation (2020/852) alongside the disclosures required by ESRS standards.
- BC46. The Board noted that the Sustainable Finance Disclosure Regulation (2019/2088) requires financial market participants to report on their websites information about their policies on the integration of sustainability risks in their investment decision-making process, their policies on the integration of sustainability risks in their investment advice or insurance advice, and a statement on due diligence policies with respect to the principal adverse impacts of investments decisions on sustainability factors. The Board further noted that reporting those disclosures within the management report would not relieve financial market participants from reporting them on their website using the layout defined in Commission Regulation 2022/XXX. The Board concluded that it should not require undertakings to report the SFDR disclosures in a single sustainability-related section of the management report. It granted the option to include some disclosures in the single sustainability related section of the management report.
- BC47. The Board also considered the disclosure requirements pursuant to article 434 of regulation 575/2013 on prudential requirements for credit institutions and investment firms but noted that article 434 includes both sustainability-related and prudential disclosures while requiring undertakings to report those disclosures under an electronic format in a single medium or location. The Board concluded that the sustainability-related disclosures pursuant to article 449a could not be separated from the prudential disclosures. The Board decided to provide the option to report those disclosures within the sustainability statements.
- BC48. In light of the ambitious agenda set out by the European Commission (EC) in its renewed sustainable finance strategy³ and the likely overlaps on disclosure requirements for corporates, the Board concluded that it should include a general presentation option to include in the sustainability statements the sustainability disclosures required directly by EU law.

Considering the principles to present the disclosure requirements arising from sector-agnostic standards

General considerations

- BC49. The Board first considered the presentation of disclosure requirement from sector-agnostic standards. They include:
- (c) the four content cross-cutting standards covering general provisions, strategy and business model, governance and organisation, and impacts, risks and opportunities;
 - (d) the sector-agnostic topical standards covering structured groups of sustainability matters according to the ESRS classification of sustainability topics and sub-topics.

³ Press release 6 July 2021 https://ec.europa.eu/commission/presscorner/detail/en/ip_21_3405

Environment	Social	Governance
Climate (mitigation and adaptation)	Own workforce: general	Governance, risk management, internal control
Pollution	Own workforce: working conditions	Products and services, management and quality of relationships with business partners
Water and marine resources	Own workforce: equal opportunities	Responsible business practices
Biodiversity and ecosystems	Own workforce: other work-related rights	
Circular economy	Workers in the value chain	
	Affected communities	
	Consumers/ End-users	

BC50. Consistent with the objectives set out in BC 5, the Board considered requiring that standardised sustainability information be reported in a separate and clearly identifiable section of the management report which would be presented as 'Sustainability Statements'. However, as highlighted in BC4, the Board also considered that article 1 (4) of the proposal for a CSRD was indicative of the willingness from the European Commission to allow companies flexibility in the presentation of sustainability information within the management report.

BC51. The Board also considered the scope of the proposal for a CSRD which would cover both public interest entities already reporting sustainability information in accordance with the Non-Financial Reporting Directive (2014/95/UE) and large undertakings that were previously not subject to sustainability disclosure requirements. For the former, the requirement to report sustainability information within a single section of the management report might significantly differ from current reporting practices and be burdensome. On the other hand, for the latter, the Board observed that providing more detailed provisions about how to present the standardised disclosures within a single section of the management report might facilitate the implementation of the European sustainability reporting standards. The Board therefore decided to allow three reporting options to undertakings.

First option: single section in the management report

BC52. Consistent with its preferred approach, the Board indicated undertakings should report all the disclosures required by ESRS Standards in a single identifiable section of the management report.

BC53. To allow users to identify specific standardised sustainability information within the management report, the Board further decided to prescribe the structure and order of the disclosures within the single section of the management report

BC54. Consistent with the architecture of ESRS Standards, the Board concluded that the disclosures in the management report should be presented in a way that reflects the decision-making and reporting process of undertakings. Consequently, the Board mandated that undertakings report first the disclosures required by the cross-cutting

standards covering the general provisions, strategy and business model, governance and organisation and impacts, risks and opportunities applied in the following order:

- (a) ESRS 1 *General provisions*;
- (b) ESRS 2 *Strategy and Business Model*;
- (c) ESRS 3 *Sustainability Governance and organisation*;
- (d) ESRS 4 *Material impacts, risks and opportunities*).

BC55. For "policies, targets, actions plan, allocated resources and performance metrics", the Board observed that ESRS 5 Definitions for policies, targets, action plans and resources was a reference standard. The Board further noted that the ESRS classification of sustainability topics and sub-topics would provide a systematic and consistent basis for undertakings to disclose on the reporting areas. The Board concluded that undertakings should group together their disclosures by topics and sub-topics reported in the following order:

- (a) Environment
 - (i) ESRS E1: Climate (mitigation and adaptation);
 - (ii) ESRS E2: Pollution;
 - (iii) ESRS E3: Water and marine resources;
 - (iv) ESRS E4: Biodiversity and ecosystems;
 - (v) ESRS E5: Circular economy.
- (b) Social:
 - (i) ESRS S1: Own workforce: general
 - (ii) ESRS S2: Own workforce: working conditions;
 - (iii) ESRS S3: Own workforce: equal opportunities;
 - (iv) ESRS S4: Own workforce: other work-related rights.
 - (v) ESRS S5: Workers in the value chain;
 - (vi) ESRS S6: Affected communities;
 - (vii) ESRS S7: Consumers/ End-users.
- (c) Governance:
 - (i) ESRS G1: Governance, risk management, internal control;
 - (ii) ESRS G2: Products and services, management and quality of relationships with business partners;
 - (iii) ESRS G3: Responsible business practices.

BC56. The Board recognised sector agnostic topical standards include specific disclosure requirements relating to the implementation of the cross-cutting standards. The rationale is such that any subtopic requirements in relation to the cross-cutting standards is also included within the relevant subtopic with a provision that such requirements are disclosed alongside the cross-cutting disclosures that it complements. For instance, the disclosure requirement 1 *Transition plan in line with the Paris Agreement* in ESRS E1 *Climate* is designed to complement the disclosure requirements 7 *Impacts related to sustainability matters* and 8 *Risks and opportunities related to sustainability matters* of ESRS 2 *Strategy and business model*. The Board concluded that a reference to that element of the ESRS architecture was also to be included in ESRS P1.

BC57. Consequently, before grouping together the disclosures required by topical ESRS, as mandated in paragraph AG 3 of ESRS P1 *Sustainability Statements*, the Board concluded that undertakings first consider the presentation guidance in the topical standard and, if applicable, group the topical disclosure requirements with the relevant cross-cutting disclosure requirements.

Second option: aggregation of disclosures on an ESRS by ESRS basis

- BC58. For the reasons highlighted in BC 49, the Board concluded it should grant an option that provides public interest entities flexibility when presenting sustainability information in the management report. When considering the option, the Board strived to strike a balance between the need for flexibility and the objectives required in BC5 and BC10. The Board first considered the practice of European undertakings applying GRI standards to report an index allowing users to identify where the disclosures required by the GRI framework appear in their reports. The Board concluded this approach could lead to excessive fragmentation of disclosures within the management report thus impairing understandability. Therefore, the Board decided that it should provide a minimum aggregation requirement of sustainability-related disclosures to ensure consistency in reporting practices
- BC59. The Board considered whether it should limit the scope of this option to public interest entities only. The Board observed that some large European undertakings might already publish sustainability information on a purely voluntary basis. The Board concluded that it should not restrict the scope of the option to such public interest entities.
- BC60. The Board considered the structure of ESRS to identify the possible levels of aggregation for sustainability-related disclosures. It identified two levels of aggregations that could apply to all disclosure requirements contemplated in ESRS standards:
- (a) the disclosure requirement;
 - (b) the standard.
- BC61. The Board considered aggregation at a disclosure requirement level would be similar to the GRI index and would raise the risk of excessive fragmentation of sustainability information within the management report. It therefore discarded this approach. The Board then considered requiring undertakings to group their disclosures at the level of each sector-agnostic ESRS standard. In this, it noted that undertakings could then report up to 20 sustainability-related statements in their management report. The Board noted that this maximum number is reasonable and could allow undertakings to integrate sustainability information with the other mandatory disclosures requirements arising from the Accounting Directive. The Board concluded that undertakings should aggregate the disclosures arising from ESRS by standard and report them as non-separable blocks. The Board further concluded that undertakings report a location table in the management report in order to allow users to identify where the blocks appear in the management report.
- BC62. Notwithstanding BC62, and considering the rationale in BC54, the Board concluded that it should retain the requirement that undertakings present the specific disclosures arising from topical sector agnostic standards that relate to the implementation of the cross-cutting standards on the reporting areas strategy and business model, governance & organisation and impacts, risks and opportunities alongside the disclosures, from the cross-cutting standards. .

Third option: aggregation of disclosures into four separately identifiable parts

- BC63. After permitting the option to aggregate disclosures by standards for the presentation in the management report, the Board expected a significant number of undertakings to further aggregate the sustainability statements to reflect the generally accepted classification of sustainability information across the ESG dimensions: environment, social and governance. In order to ensure consistency and comparability in the presentation of sustainability information, the Board decided to encourage entities to apply the ESRS classification of sustainability topics and sub-topics, and thereby grant an option to group together the sustainability information required by the ESRS standards into the reporting areas of the General requirements (i.e., cross-cutting standards) or topics (i.e. topical standards) consistent with the following classification:
- (a) Sustainability information required by ESRS 1 *General provisions*, ESRS 2 *Strategy and business model*, ESRS 3 *Sustainability governance and organisation* and ESRS 4 *Material impacts, risks and opportunities* should be grouped within an identifiable part of the management report called “*General information*”.

- (b) Sustainability information required by ESRS E1 *Climate*, ESRS E2 *Pollution*, ESRS E3 *Water and Marine resources*, ESRS E4 *Biodiversity and ecosystems*, ESRS E5 *Circular Economy* should be grouped within an identifiable part of the management report called “*Environment*”.
- (c) Sustainability information required by 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* and ESRS S7 *Consumers and end-users* should be grouped within an identifiable part of the management report called “*Social*”.
- (d) Sustainability information required by ESRS G1: *Governance, risk management, internal control*, ESRS G2 *Products and services, management, and quality of relationships with business partners* and ESRS G3 *Responsible business practices* should be grouped within an identifiable part of the management report called “*Governance*”.

Principles for the presentation of disclosure requirements arising from sector-specific European Sustainability Reporting Standards

- BC63. The Board further considered the presentation requirements applicable to the disclosures mandated by sector-specific standards. The Board intended that the sector-specific requirements would complement the sector-agnostic disclosures and be presented in a consistent structure. The Board concluded that sector-specific standards should adopt a structure consistent with the classification of topics and sub-topics used when developing sector-agnostic standards. The Board concluded that undertakings should aggregate the disclosure requirements in sector-specific standards as follows:
- (a) the disclosure requirements that relate to the reporting areas “strategy and business model”, “governance and organisation” and “material impacts, risks and opportunities” are to be grouped by reporting areas and reported within the relevant cross-cutting blocks after the sector-agnostic disclosures.
 - (b) the disclosure requirements that relate to sustainability sub-topics as per the ESRS classification of sustainability topics and sub-topics are to be grouped by sub-topics and reported within the corresponding blocks of sector agnostic disclosures.

Principles for the presentation of entity-specific disclosures required by ESRS standards

- BC64. The Board observed that ESRS 4 requires that undertakings develop disclosures for entity-specific sustainability matters not covered by standardised disclosures. The Board noted that such disclosures might complement the standardised disclosures in ESRS standards and decided to adopt the same presentation principles as in the sector-specific standards.
- BC65. The Board acknowledged that it had not included in ESRS standards an explicit definition of each sustainability topic and sub-topic that would allow undertakings to univocally assign the entity-specific sustainability information to sector agnostic standards. The Board concluded that undertakings should exercise judgment and report such disclosures within the most relevant sector agnostic standard after the sector-specific disclosures.

Disclosure requirements

- BC66. The Board noted that the three options permitted for reporting the disclosures required by sector-agnostic reporting standards would increase the complexity for users to identify where specific pieces of information appear in the management report. The Board concluded that undertakings should provide additional disclosures explaining the basis for the presentation of sustainability information.
- BC67. The Board concluded that undertakings are required to disclose the option chosen for the presentation of sector-agnostic disclosure requirement (disclosure requirement 1) to provide transparency for users of the sustainability reporting.
- BC68. The Board observed that undertakings applying the option to group sector-agnostic disclosures by standards or by reporting areas and sustainability topics may report

standardised sustainability information in various locations within the management report. The Board therefore decided to require undertakings to report a location table (Disclosure requirement 2) allowing users to understand the location of the various parts of the Sustainability statements. The Board noted that this disclosure requirement is consistent with the GRI Index.

Working paper