EXPOSURE DRAFT

ESRS 2

General, strategy, governance and materiality assessment disclosure requirements

Basis for conclusions

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PTF-ESRS

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EFRAG

DISCLAIMER

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Objective

BC1. The objective of the [Draft] ESRS 2 General, strategy, governance and materiality assessment is to cover sustainability disclosure requirements that are of a general nature, i.e. valid for all the sustainability matter the undertaking reports on (of cross-cutting nature). For cross-cutting information, the objective is to avoid having the need to address them under topical or sector-specific standards and therefore to foster a comprehensive understanding of sustainability-related cross-cutting information. Such an approach is fully aligned with the comprehensive approach of the [Draft] CSRD regarding the topics to be covered.

BC2. [Draft] ESRS 2 therefore covers in its chapter 1 disclosure requirements for general characteristics of the undertaking, an overview of the undertaking's business in the context to sustainability reporting, specific disclosure on compliance and finally requires a general statement of compliance.

BC3. Chapters 2 to 4 cover three of the five reporting areas identified in Art. 19a of the [Draft] CSRD: (i) strategy and business model in relation to sustainability (chapter 2); (ii) governance and organisation in relation to sustainability (chapter 3); and (iii) materiality assessment of the undertaking's sustainability-related impacts, risks and opportunities (chapter 4). The two remaining reporting areas identified by Art. 19a are covered by topical Standards: (iv) implementation measures (which include policies, targets, actions and action plans, allocation of resources); and (v) performance metrics.

Context of the [draft] standard

General approach adopted in developing this [Draft] Standard

BC4. [Draft] ESRS 2 was developed through the following steps:

(a) by first complying with and incorporating the requirements of the [Draft] CSRD;

(b) where necessary, drawing from the principles and requirements of the existing NFRD and its 2017 and 2019 implementation guidelines;

(c) aligning with the needs of financial market participants in accordance with the disclosure requirements specified in the [SFDR], in particular with regards to key performance indicators concerning principal adverse impacts;

(d) analysing the current international frameworks as recital 37 of the [Draft] CSRD requires that "sustainability reporting standards should take account of existing standards and frameworks for sustainability reporting and accounting where appropriate. These include the Global Reporting Initiative (GRI) standards, the Sustainability Accounting Standards Board (SASB) standards, the International Integrated Reporting Council, the International Accounting Standards Board, the Task-Force on Climate-related Financial Disclosures (TCFD) recommendations, the Carbon Disclosure Standards Board, and CDP. Guidance from and coherence with these existing standards and frameworks have been sought;

(e) analysing the current internationally recognised principles and frameworks on responsible business conduct, corporate social responsibility and sustainable developments frameworks, as [recital (39) of the [Draft] CSRD proposal] stipulates that sustainability reporting standards should take account of' such principles and [recital (27)] highlights the objective of ensuring 'consistency with international instruments such as the UN Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidance for Responsible Business Conduct'; and

(f) analysing the concordance and compatibility with the March 2022 [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information of the International Sustainability Standards Board (ISSB).

Overview of the content of [Draft] ESRS 2

BC5. [Draft] ESRS 1 General principles provides a starting point to the rationale of the Disclosure Requirements under this [draft] Standard which builds upon those principles.

BC6. ESRS require the undertaking to disclose information that is necessary to understand the undertaking's impacts on sustainability matters, and information necessary to understand how sustainability matters affect the undertaking's development, performance and position. As a first step to facilitate such understanding, it was considered crucial that the undertaking explains its activities, its context and its organization (chapter 1).

BC7. Strategy, governance, and materiality assessment of sustainability impacts, risks and opportunities are interlinked and together they constitute an overarching set of cross-cutting disclosures that support a proper contextualisation of topical disclosures, allowing as well for a good understanding of why and how the undertaking is reporting sustainability matters in compliance with the [Draft] CSRD objectives. The undertaking's overall strategy, the consequences related to the identification and management of sustainability impacts, risks and opportunities and the governance related to them are designed, adopted and overseen by the administrative, management and supervisory bodies for the undertaking as a whole, whatever the underlying legal structure of the various subsidiaries forming the undertaking might be. It was therefore decided to prescribe disclosures with respect to:

(a) strategy of and business model (chapter 2);

(b) governance and organization (chapter 3); and

(c) materiality assessment of sustainability-related impacts, risks and opportunities (chapter 4)

to be reported on the undertaking as a whole, while implementation disclosures (developed using common definitions as specified by the disclosure principles of ESRS 1 (see chapter 3 of ESRS 1)) and performance measurement disclosures are reported on a topic-by-topic basis under other ESRS.

BC8. For further basis for conclusions on the ESRS reporting areas reference is made to ESRS 1 BC18-19.

Compatibility with the four core contents of TCFD and [Draft] IFRS S1

BC9. The four core contents of the TCFD recommendations are: Governance, Strategy, Risk Management, Metrics and Targets. The same constitute core contents of [Draft] IFRS S1.

BC10. The ESRS are structured in two groups of disclosure areas:

(a) Cross-cutting disclosures (in [Draft] ESRS 2), which include the areas of (i) strategy and business model; (ii) governance and organisation; (iii) materiality assessment of the undertaking's sustainability-related impacts, risks and opportunities (IRO);

(b) Topical disclosures: which includes (iv) implementation measures (policies, targets, actions and action plans, allocation of resources); and (v) performance metrics.

BC11. The contents of Strategy, Governance and Metrics and Targets in TCFD/[Draft] IFRS S1 cover disclosure objectives that are included in the contents required by respectively (i) strategy and business model; (ii) governance and organisation; and (v) performance metric in ESRS (the latter at topical level).

BC12. The contents of Risk Management in [Draft] IFRS S1 are designed to inform about how the reporting entity:

(a) identifies risks and opportunities;

(b) identifies risks for risk management purposes;

(c) identifies, assesses and prioritises opportunities;

(d) monitors and manages them (including policies);

(e) for risks, integrates their identification, assessment and management into its overall risk management; and

(f) for opportunities, integrates their identification, assessment and management into its overall management process.

BC13. The first item (a) identification of impacts, risks and opportunities corresponds to the IRO disclosure requirements in [Draft] ESRS 2. The other elements are covered by ESRS at topical level in (iv) implementation measures (which includes policies, targets, actions and action plans, allocation of resources).

BC14. The structure of the disclosure requirements in ESRS allows to identify three logically sequential steps: (1) cross cutting (strategy, governance and materiality assessment) / (2) implementation at topical level / (3) performance metrics at topical level.

BC15. The location of strategy/governance/IRO in a single cross-cutting standard allows to have a common approach and presentation for all topics, without the risk of duplications between cross-cutting content and topical content. At the same time, topical specifications and application guidance at topical level for cross-cutting disclosure requirements allow to complement the cross-cutting layer with an additional level of specificity at topical level.

BC16. Finally, the sequence in cross-cutting content: strategy/governance/IRO follows a logical sequence that goes from the strategic to the operational levels.

Interaction with ESRS 1

BC17. Some of the general disclosure requirements of chapter 1 give context of how the general principles of ESRS 1 have been applied by the undertaking in the preparation of its sustainability statements. The interaction between general principle and disclosure requirement is illustrated in the following table. The disclosure requirements should be read in conjunction with the related general principles in [Draft] ESRS 1.

Disclosure Requirement	***In relation to general principle in ESRS 1 in chapter***
2-GR 1 – General characteristics of the sustainability reporting of the undertaking Structure of the sustainability statements - Presentation option selected	*6*
2-GR 3 – Key features of the value chain	*2.3*
2-GR 5 – Using approximations on the disclosure in relation to boundary and value chain	*2.3*
2-GR 6 – Disclosing on significant estimation uncertainty	*4.3*
2-GR 7 – Changes in preparation and presentation	*4.5*
2-GR 8 – Prior period errors	*4.6*
2-GR 9 – On other sustainability reporting pronouncements	*4.10*
2-GOV 5 – Statement on due diligence	*2.5*

Disclosure Requirements

Chapter 1: Business card of the undertaking in relation to sustainability

BC18. [Draft] CSRD references (Article 19a – Article 29a) are explicit in terms of disclosures required on Strategy and business models which are covered under “General” or “Business Card” characteristics. Links of the disclosure requirements of this chapter with other standards and guidelines are as follows:

Disclosure Requirements	**[Draft] CSRD references**	**European framework references**	**International framework references**
1.1 General characteristics			
2-GR 1- General characteristics of the sustainability reporting			CDSB REQ-08 IIRC 1.11-1.16 UN GP B1
1.2 Overview of the undertaking’s business in the context to sustainability reporting			

2-GR 2 – Sector(s) of activity	[Draft] CSRD Art. 19a (2) (e) (ii) (products and services)	SFDR Table 1 4 (Exposure to companies active in the fossil fuel sector) and 14 (Exposure to controversial weapons)	[Draft] IFRS S1 14-15 GRI 2-6, 2-7, GRI 201-1 IIRC 2.20-2.29, 4.16-4.17
2-GR 3 – Key features of the value chain	Draft] CSRD Art. 19a (2) (e) (ii) (undertaking's value chain)		[Draft] IFRS S1 15 (b) GRI 2-6 IIRC 2.4-2.9 TCFD Strategy (b) UN GP C2.2
2-GR 4 – Key drivers of value creation			[Draft] IFRS S1 15 (b) IIRC 2.10-2.14 UN GP C2.3
1.3 Specific disclosures on compliance			
For basis for conclusion and reference to CSRD, other EU legislation and recommendations as well as other international framework references for Disclosure Requirement 2-GR 5 to 9 we refer to the related basic for conclusion of ESRS 1.			
1.4 General statement of compliance			
2-GR 10 General statement of compliance			CDP W2.2, [Draft] IFRS S1 91-92 IAS 1.16 GRI 1 – Requirement 7, GRI 2-1, 2-2, 2-3, 2-5

Disclosure Requirement 2-GR 1 - General characteristics of the sustainability reporting of the undertaking

BC19. General characteristics of the sustainability reporting of the undertaking should be disclosed with the intention to set the frame for the content and formal structure of the sustainability report. The understanding of the key jurisdictional and economic settings of the undertaking is important for stakeholders and the assessment of decision usefulness of disclosed sustainability information.

BC20. General characteristics also include key features of its sustainability report. The key features set the stage on the presentation of the sustainability information disclosed by the undertaking. The key feature presentation is inspired and in line with financial reporting guidance on key features to be disclosed, e.g., on accounting principles. Furthermore, presentation requirements including those related to the options of presentation are included in [Draft] ESRS 2 in order to allow an understanding of how to compare information between sustainability reporting of different undertakings.

Disclosure Requirement 2-GR 2 - Disclosure Requirement 2-GR 2 – Sector(s) of activity

BC21. The [Draft] CSRD requires that companies should report information specific to the sector in which a company operates. Sector-specific standards set the disclosure requirements necessary to comply with this requirement of the [Draft] CSRD. To allow the identification of the relevant sector standards to be applied, a specific standard has been designed to define a sector classification approach (ESRS SEC 1 "Sector classification"). [Draft] ESRS SEC 1 will be released together with the related sector-specific disclosures requirements. The use of a common classification approach is designed to facilitate comparability across undertakings. As an undertaking may be active in more than one sector, ESRS 2 DR 2 – GR 2 requires disclosing the significant sectors in which the undertaking operates as illustrated by its revenue split and by its significant inter-group transactions. This information aims to inform users in general terms of which sectors are relevant, as a step preliminary to disclosing sector specific information.

BC22. To understand the exposure of the undertaking to impacts, risks and opportunities, users need to be informed not only about the sectors and country of operations, but also about its products, services, markets, and customers groups. A qualitative information is requested in relation to these elements. They have to be covered at a level of granularity that allows to provide material and relevant information. Accordingly, in principle, the undertaking does not need to cover each and every item per each of these elements. A definition of markets is not provided as this has to be based on facts and circumstances specific to the undertaking and its business approach.

BC23. A breakdown of total revenue by sector and by country is also required. This mandatory disclosure is essential for users to understand how exposed the undertaking is to sustainability impacts, risks and opportunities, as the sector and the country are two crucial dimensions in determining the profile of such exposure. For the same reason, a disclosure of headcount by country is required; this is important for the understanding of the effects on people, which are linked to the working conditions and regulation in each country.

BC24. As the undertaking may have a level of vertical integration, the disclosure of sectors of activity is also extended to activities that relate to internal transactions. This disclosure is necessary as internal transactions, despite being eliminated in monetary terms in the accounting consolidation, do expose the undertaking to specific impacts, risks and opportunities that need to be reported.

BC25. To reduce the burden and produce relevant information, the undertaking does not need to disclose all the sectors of activities, but only the significant sectors. A threshold of 10 percent of the undertaking's financial reporting revenue should be applied to identify the significant sectors to be reported in this Disclosure Requirement. This threshold has been set having in mind the same threshold used under IFRS 8 *Operating Segments*. It is worth to also note that in many cases the operating segments of IFRS 8, being based on a management approach, may differ from the ESRS SEC 1 sector classification.

BC26. Irrespective of the threshold of 10 percent, a sector, a country, a group of products and services, a market or a customer group are considered significant when they are connected to adjustments made to the undertaking's strategy and business model, when the undertaking has or will put in place initiatives to modify its strategy and business model(s), in order to reduce or eliminate the risk or to benefit from the opportunity and/or in order to prevent and mitigate negative material impacts and enhance positive material impacts. It was considered that an adjustment to strategy and business model provides evidence of a sector, a country, a group of products and services, a market or a customer group to be significant and to justify a specific disclosure under this Disclosure Requirement.

BC27. A reconciliation with the amounts disclosed in the financial statements in relation to IFRS 8 is also required (as far as possible), as it represents an important anchor point with the corresponding information of the financial statements.

BC28. AG 12 requires disclosing whether the undertaking is active in specific sectors (fossil fuels, chemical production, controversial weapons). This disclosure is necessary in order to support the information needs of financial market participants subject to Regulation (EU) 2019/2088 as reflecting a mandatory principal adverse impact indicator.

Disclosure Requirement 2-GR 3 - Key features of the value chain

BC29. The [Draft] CSRD explicitly requires disclosure of information on sustainability matters mainly driven by concerns about the impacts and accountability of undertakings, including through their value chain.

BC30. The purpose of this Disclosure Requirement is to provide an understanding of the value chain in which the undertaking operates, of the main ways it is working with its suppliers, sub-contractors and customers and of the undertaking's positioning in the process of delivering products and services to end-users. This is a necessary step for users to understand who the stakeholders (potentially) affected by the undertaking's operations, products, services and relationships are. This is a key information as it drives the identification of material impacts, risk and opportunities and all the subsequent steps in the due diligence process.

BC31. The key features of the value chain are also a basis to determine and assess the boundaries of reporting of the undertaking, since the ESRS 1 concept on boundaries and value chain differs from financial reporting requirements such as IFRS 10 *Consolidated Financial Statements*.

BC32. This Disclosure Requirement does not require an extensive and detailed illustration of each and every component of the undertaking's value chain. The level of granularity of this disclosure has to allow for an understanding of where and how in the value chain material impacts, risks and opportunities arise. The content of such disclosure and its level of granularity has to be consistent with the process and outcome of the materiality assessment (see chapter 4) and with the definition of the reporting boundaries (see [Draft] ESRS 1 paragraph 63).

Disclosure Requirement 2-GR 4 - Key drivers of the value creation

BC33. The purpose of this disclosure is to provide an understanding of the key value creation drivers of the undertaking. The information in this Disclosure Requirement is complementary to the one prepared under DR 2-GR 3 regarding the key features of the value chain.

BC34. The [Draft] CSRD notes that there is currently a lack of forward-looking disclosures in sustainability reporting, which users of sustainability information especially value. Key drivers of value creation are needed to understand sustainability impacts, risks and opportunities of an undertaking; they are the starting point for the undertaking in conducting the due diligence process and assess which impacts, risks and opportunities are material.

BC35. Consistent with the principle of double materiality in the [Draft] CSRD, value creation encompasses both investor-related value creation and other stakeholder-related value creation. For investor-related value creation, this Disclosure Requirement is an anchor point to information generally provided in the management commentary as well as in the financial statements. As such, incorporation by reference of indicators provided in other parts of the management report or financial statements is allowed and reconciliation with monetary amounts presented in the financial statements or the management report is required when appropriate.

BC36. As the time horizon for sustainability reporting may be different than the one in financial statements (principally prepared under a retrospective approach) or the management report, specific emphasis is put in AG19 on the need to appropriately cover the forward-looking dimension of the key drivers of value creation, such as stated direction of travel and targets and/or ambitions. To cover the value creation for all stakeholders, this disclosure should cover not only investor-related objectives but also sustainability-related impact objectives.

BC37. This Disclosure Requirement does not require an extensive and granular disclosure of each and every element of the drivers of value creation. The granularity and perimeter of this disclosure shall be driven by the need to provide an understanding of the value creation for the relevant stakeholders identified in the materiality assessment of chapter 4.

Disclosure Requirements 2-GR 5/6/7/8/9

BC38. The following disclosure requirements:

(a) on using approximations on the disclosure in relation to boundary and value chain,

(b) disclosing on significant estimation uncertainty,

(c) changes in preparation, presentation,

(d) prior period errors; and

(e) on other sustainability reporting pronouncements

support an understanding of users on the quality of information provided (see chapter 2.1 of [Draft] ESRS 1). The principles are inspired by practices and principles used in financial reporting.

Disclosure Requirement 2-GR 10 General statement of compliance

BC39. A compliance statement of the undertaking is in line with compliance statements required under financial reporting. The compliance statement also reinforces the reliability of the sustainability statements.

BC40. [Draft] IFRS S1 91-92 also requires a statement of compliance.

BC41. Paragraph (10) of Article 1 amends Article 34 of the Accounting Directive and requires assurance of sustainability reporting. In particular, it requires the statutory auditor to perform a limited assurance engagement on a company's sustainability reporting, including on the compliance of the sustainability reporting with the reporting standards.

Chapter 2: Strategy and business model

BC42. Links of the disclosure requirements related to sustainability strategy and business model with other standards are as follows:

Disclosure Requirements	[Draft] CSRD references	International framework references
Disclosure Requirement 2-SBM 1 – Overview of strategy and business model	[Draft] CSRD Art. 19a (2) (a) (i)-(ii)	CDP C3.1, F5.1, W7.1 CDSB REQ-02 [Draft] IFRS S1 14-15 GRI 2-22 IIRC 3.3-3.5, 4.10-4.13
Disclosure Requirement 2-SBM 2 – Views, interests and expectations of stakeholders	[Draft] CSRD Art. 19a (2) (a) (iv)	[Draft] IFRS S1 15 (b) IIRC 3.10-3.16 UN GP C2.3 GRI 2-29
Disclosure Requirement 2-SBM 3 – Interactions of impacts and the undertaking's strategy and business model	[Draft] CSRD Art. 19a (2) (a) (v)	CDP C2.4, C3.3, F3.1, F3.2, W2.1, [Draft] IFRS S1 17 IIRC 4.29 UN GP C3
Disclosure Requirement 2-SBM 4 – Interaction of risks and opportunities and the undertaking's strategy and business model	[Draft] CSRD Art. 19a (2) (a) (i)-(ii)	CDP C2.1, C2.2, C2.4, C3.3, F3.1, F3.2, W4.1, W4.2, W4.3 CDSB REQ-03 [Draft] IFRS S1 15 (a) IIRC 4.23-4.26 SASB S (Accounting Metrics) TCFD Strategy (b), (c)

Disclosure Requirement 2-SBM 1 – Overview of strategy and business model

BC43. This is a high-level Disclosure Requirement asking for a general description of the strategy and business model, including the mission, vision and purpose of the undertaking's activities. Strategy and Business model have been kept 'bundled' (as per the CSRD), but in the sub requirements there is a translation into various aspects that can be attributed to business model on the one hand and to strategy on the other. In academic literature and company best practices the boundaries between the two are not always clear. Keeping them bundled avoids confusion about the attribution of specifics aspects to the strategy and business model respectively and allows for flexibility for the undertaking to link disclosures to its specificities.

BC44. While keeping the elements of business model and strategy bundled, it is assumed that business model is focusing on what is the basic economic system of the undertaking, the way it operates and how it creates value for its stakeholders. Business strategy is less granular than the business model, outlining the (high-level) direction of travel and plans to achieve the vision and to set the objectives of the undertaking, which guide the decision-making processes within the undertaking to help achieve its goals. The business model is fundamental to understand the business strategy.

BC45. GRI 2-22 Statement on sustainable development strategy covers this Disclosure Requirement by stating that: "the organization shall report a statement from the highest governance body or most senior executive of the organization about the relevance of sustainable development to the organization and its strategy for contributing to sustainable development. " DR 2–SBM 1 is mostly inspired by the GRI referential.

Disclosure Requirement 2-SBM 2 – Views, interests and expectations of stakeholders

BC46. The purpose of this Disclosure Requirement is to provide an understanding of how stakeholders' (see chapter 2.2. of ESRS 1) views and interests are considered for the undertaking's determination of its strategy and business model(s) and their evolution. Interactions between stakeholders and the undertaking impact deeply on how sustainability matters are considered by the undertaking. This implies information on:

(a) The stakeholders themselves and how their interests have been taken into account.

(b) The relevant processes put in place by the undertaking for proper update and follow-up of the views, interests and expectations of stakeholders.

BC47. GRI 2-29 Approach to stakeholder engagement covers similar requirements. This Disclosure Requirement, compared to GRI 2-29, focuses specifically on how the views of the stakeholders inform the strategy and business model of the undertaking. It is also one of the steps to be considered under due diligence processes.

Disclosure Requirement 2-SBM 3 – Interaction of impacts and the undertaking's strategy and business model and 2-SBM 4 – Interaction of risks and opportunities and the undertaking's strategy and business model

BC48. The purpose of these disclosure requirements is to describe:

(a) how actual and potential material impacts related to sustainability matters originate from the undertaking's strategy and business model(s);

(b) how actual and potential material impacts related sustainability matters inform the undertaking's strategy and business model(s);

(c) how actual and potential material risks and opportunities related to sustainability matters affect the undertaking's strategy and business model(s);

(d) how actual and potential material risks and opportunities related sustainability matters inform the undertaking's strategy and business model(s); and

(e) the overall resilience of the undertaking's strategy and business model(s) regarding its material risks and opportunities.

BC49. These disclosure requirements also result indirectly from [Draft] CSRD article 19a as an element of the "brief description of the undertaking's business model and strategy, including … (a) (iii) the plans of the undertaking to ensure that its business model is compatible with the transition to a sustainable economy and with the limiting of global warming to 1.5°C in line with the Paris agreement … and (f) a description of principal risks to the undertaking related to sustainability matters, including the undertaking's principal dependencies on such matters, and how the undertaking manages those risks".

BC50. GRI 2-22 Statement of sustainable development covers similar disclosures.

BC51. The [Draft] IFRS S1 (paragraphs 14 and 15), as well as the TCFD recommendations, have a substantially disclosure objective equivalent to these two disclosure requirements of [Draft] ESRS 2, with the difference that they do not cover the dimension of material impacts, but only material risks and opportunities.

Chapter 3: Governance

BC52. It was concluded that the disclosure requirements on governance and organisation in relation to sustainability matters should address how the undertaking manages sustainability-related material impacts, risks and opportunities through governance oversight and what the management's role in assessing and managing these challenges is. This conclusion is supported by the UN Guiding Principles on Business and Human Rights, the OECD Due Diligence Guidance for Responsible Business Conduct with respect to impacts, the SDGs, the Fundamental Labour Standards, Bill of Human Rights, EU Pillar of Social Rights and by the 'Climate Prototype' and [Draft] IFRS S1 with respect to risks and opportunities.

BC53. [Draft] CSRD Art. 19b lists several other governance-related disclosures that should be specified in the ESRS, namely:

(a) business ethics and corporate culture, including anti-corruption and anti-bribery,

(b) political engagements of the undertaking, including its lobbying activities,

(c) the management and quality of relationships with business partners, including payment practices, and

(d) the undertaking's internal control and risk management systems, including in relation to the undertaking's reporting process.

BC54. In line with the distinction provided in [Draft] CSRD (recital 44), governance information relating to items (a), (b), and (c) above is not covered by chapter 3, it is addressed by [Draft] ESRS G1 Governance, risk management, internal control. Disclosures relating to item (d) are specified in chapter 4.

BC55. Links of the disclosure requirements of this chapter with other standards and guidelines are as follows:

Disclosure Requirements	[Draft] CSRD references	European framework references	International framework references
Disclosure Requirement 2-GOV 1 – Roles and responsibilities of the administrative, management and supervisory bodies	[Draft] CSRD Art. 19a (2) (c) and Art. 19b (2) (c) (i)	n/a	CDP C1.1, C1.2, C15.1, F4.1, F4.2, W6.2, W6.3, CDSB REQ-01 [Draft] IFRS S1 12-13 GRI 2-9, 2-10, 12, 2-13, 2-17 IIRC 1.20, 4.8 and 4.9 TCDF Governance (a), (b) UN GP A2.1
Disclosure Requirement 2-GOV 2 – Information of administrative, management and supervisory bodies about sustainability matters	[Draft] CSRD Art. 19a (2) (c)	n/a	CDP C1.1, F4.1, W6.2 CDSB REQ-01 [Draft] IFRS S1 12-13 GRI 2-12, 2-14, 2-16 IIRC 4.8 and 4.9 OECD DD 1.2 (d) TCDF Governance (a) UN GP A2.2
Disclosure Requirement 2-GOV 3 – Sustainability matters addressed by the undertaking's administrative,	[Draft] CSRD Art. 19a (2) (e)	n/a	CDP C2.1, F4.1 W6.2, CDSB REQ-01 [Draft] IFRS S1 12-13 GRI 2-14, GRI 3-3

management and supervisory bodies			IIRC 4.8 and 4.9 OECD DD 1.2 (a,b,d), 3.1 (a), 3.2 (a), 4.1 (a), 5.1 (a) UN GP A1
Disclosure Requirement 2-GOV 4 – Integration of sustainability strategies and performance in incentive schemes	[Draft] CSRD Art. 19a (2) (a) (v) (implementation of strategy) and [Draft] CSRD Art. 19a (2) (c) (role of the administrative, management and supervisory bodies)	n/a	CDP C1. 3, C11.1, F4.3, W6.4, CDSB REQ-02 [Draft] IFRS S1 12-13 GRI 2-18, 2-19 IIRC 4.8 and 4.9 OECD DD 1.2 (g) TCDF Governance (b) and Metrics and targets (a) UN GP A2.4
Disclosure Requirement 2-GOV 5 – Statement on due diligence	[Draft] CSRD Art. 19a (2) (e) (i)	Regulation (EU) 2019/2088 related to principal adverse impacts as set out by indicator #10 in Table 3 of Annex 1 of the related Delegated Regulation with regard to disclosure rules on sustainable investments ("Lack of due diligence")	CDSB REQ-01 [Draft] IFRS S1 12-13 SFDR Table 3 10 (Lack of due diligence) UN GP A2.4

BC56. The [Draft] IFRS S1 (paragraphs 12 and 13), as well as the TCFD recommendations, have substantially equivalent disclosure objectives of part of the datapoints covered by the disclosure requirements of [Draft] ESRS 2 – GOV 1, 2 and 4, with the difference that they do not cover the dimension of material impacts, but only of material risks and opportunities. ESRS 2 – GOV 1, 2 and 4 cover as well datapoints not explicitly mentioned in [Draft] IFRS S 1.

Disclosure Requirement 2-GOV 1 – Roles and responsibilities of the administrative, management and supervisory bodies

BC57. The Disclosure Requirement is designed to facilitate a description of the formal role and composition of the governance bodies. Such information is needed to demonstrate how much attention sustainability matters receive from the governance bodies, management, and at operational level. It further specifies data points concerning the administrative, management and supervisory bodies' composition, the nomination and selection of its individual members and their expertise (or access to the expertise) on material sustainability topics. Such information enables the understanding of the governance bodies' ability to provide effective oversight on sustainability matters.

BC58. It was decided to require the description of roles and responsibilities beyond the management level senior executive, to cover also other critical employees at operational level, as this information is important for users to assess to what extent the operational level is involved in the management of material sustainability matters.

BC59. Paragraph 59 focuses on disclosure of roles and responsibilities in relation to sustainability matters that triggered initiatives to modify its strategy and business model(s), as those matters are particularly important for users, in light of their consequences on the undertaking's business, as well as for the likely significant magnitude of their impacts.

Disclosure Requirement 2-GOV 2 - Information of administrative, management and supervisory bodies about sustainability matters

BC60. The Disclosure Requirement addresses the process and frequency by which the administrative, management and supervisory bodies are informed about risks, opportunities, due diligence process and impacts, and – where necessary – by affected stakeholders' views. The disclosure of such a process complements the information provided under the previous Disclosure Requirement in enabling users to understand whether the governance bodies have access to information necessary for the exercise of their role with respect to sustainability matters.

BC61. In addition, the [Draft] CSRD explicitly refers to due diligence and the need to ensure consistency with international principles and frameworks for responsible business conduct, including the UN Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidance (see ESRS 1 chapter 2.5 and its basis for conclusions).

Disclosure Requirement 2-GOV 3 - Sustainability matters addressed by the undertaking's administrative, management and supervisory bodies

BC62. Disclosure Requirements 2-GOV 1 and 2 provide information on the undertaking's governance and organisation from a procedural point of view. This Disclosure Requirement indicates whether and how governance has effectively exercised its role.

BC63. The disclosure of sustainability issues which are individually discussed by the governance bodies facilitates the users' assessment of whether the undertaking's governance engagement in sustainability matters is appropriate, taking into account the description of material risks, opportunities and impacts pursuant the materiality assessment of impacts, risks and opportunities (see chapter 4) and their implication for the undertaking's business model and strategy (see chapter 2). It also provides insight regarding the prioritisation of sustainability matters by the undertaking's leadership.

BC64. The undertaking's strategy and business model may be affected by severe impacts that have been identified. If so, information is specifically required on the governance bodies' assessment, because changes to the business model or strategy require the involvement of that administrative, management and supervisory bodies. This data point complements the disclosure requirements under DR 2-SBM. It is formulated in a flexible way, requiring to report only when the undertaking has or will put in place initiatives to modify its strategy and business model, enabling the undertaking to explain if it does or does not have considered such circumstances.

Disclosure Requirement 2-GOV 4 - Integration of sustainability strategies and performance in incentive schemes

BC65. The disclosure of a link between incentive policies and/or other incentives and the implementation of the undertaking's sustainability strategy and targets, as well as the management of the undertaking's impacts, risks and opportunities is generally considered as a key feature demonstrating the undertaking's efforts towards ensuring that sustainability matters receive appropriate attention from individual members of the administrative, management and supervisory bodies, senior executives and other employees.

BC66. This disclosure also complements information under Disclosure Requirement 2-GOV 1 in that it enables users to understand the correlation between:

(a) the level of a specific office (position), its assigned role and responsibility in relation to sustainability matters and the share of incentive subject to sustainability-related performance; and

(b) the financial and non-financial (sustainability-related) performance criteria used for determining the incentive.

Disclosure Requirement 2-GOV 5 - Statement on due diligence

BC67. [Draft] CSRD Art. 19a (2) (e) (i) requires a description of "the due diligence process implemented with regard to sustainability matters". Due diligence under the [Draft] CSRD is enshrined in a number of ESRS disclosure requirements (see ESRS 1 chapter 2.5) and more fully described in Appendix C of ESRS 1. Sustainability due diligence is a means for undertakings to identify, assess, avoid and address adverse impacts associated with their operations, their supply chain and other business relationships. As due diligence is generally recognised as a pivotal concept in relation to adverse impacts, it was decided to require from undertakings to give a general assessment how the core elements of due diligence are embedded in its governance and management processes and to dedicate a disclosure requirement to this dimension to be included in the sustainability statements.

BC68. The general assessment statement is complementing Disclosure Requirement 2-GR 10 General statement of compliance. It enhances the information quality and usability of the sustainability statements, through the mapping of the main aspects of sustainability due diligence to the relevant disclosures in the undertaking's sustainability statements (see paragraph AG 55).

Chapter 4: Materiality assessment of sustainability impacts, risks and opportunities

BC69. [Draft] CSRD Art. 19a (2) (e) specifies the requirement for undertakings to disclose "… a brief description of the undertaking's business model and strategy, including ...(ii) the opportunities for the undertaking related to sustainability matters; ... (e) a description of: (i) the due diligence process implemented with regard to sustainability matters; (ii) the principal actual or potential adverse impacts connected with the undertaking's value chain, including its own operations, its products and services, its business relationships and its supply chain; (iii) any actions taken, and the result of such actions, to prevent, mitigate or remediate actual or potential adverse impacts; … (f) a description of the principal risks to the undertaking related to sustainability matters, including the undertaking's principal dependencies on such matters, and how the undertaking manages those risks".

BC70. Links of the disclosure requirements of this chapter with other standards and guidelines are as follows:

Disclosure Requirements	[Draft] CSRD references	European framework references	International framework references
Disclosure Requirement 2-IRO 1 – Description of the processes to identify material sustainability impacts, risks and opportunities	[Draft] CSRD Art. 19a (2) (e) (i) and Art. 19a (2) (g)		CDP C2.1, C2.2, F3.1, F3.2, W4.1, CDSB P1, REQ-03 [Draft] IFRS S1 25 GRI 3-1 IIRC 3.18-3.23 and 4.42 SASB CF p 9, S (Accounting Metrics) TCFD Strategy (a) and TCFD Risk management (a)
Disclosure Requirement 2-IRO 2 – Outcome of the undertaking's assessment of material sustainability impacts, risks and opportunities as identified by reference to and in compliance with sector-agnostic and sector-specific level ESRS	[Draft] CSRD Art. 19a (2) (e) (ii) and Art 19a (2) (f)	SFDR Table 3 12 (Operations and suppliers at significant risk of incidents of child labour), and 13 (Operations and suppliers at significant risk of incidents of forced or compulsory labour)	CDP C2.3, C2.4, F2.1, W3.3, W4.2, W4.3 CDSB REQ-03, REQ-04 [Draft] IFRS S1 26 IIRC 3.24-3.27, 3.34-3.35 and 4.23-4.26 SASB CF p 9, S (Accounting Metrics) TCFD Strategy (a)

Disclosure Requirement 2-IRO 3 – Outcome of the undertaking's assessment of material sustainability impacts, risks and opportunities that are not covered by an ESRS (entity-specific level)	[Draft] CSRD Art. 19a (2) (e) (ii) and Art 19a (2) (f)	SFDR Table 3 12 (Operations and suppliers at significant risk of incidents of child labour) and 13 (Operations and suppliers at significant risk of incidents of forced or compulsory labour)	CDP C2.3, C2.4, F2.1, W3.3, W4.2, W4.3, CDSB REQ-03, REQ-04 [Draft] IFRS S1 26 IIRC 3.24-3.27, 3.34-3.35 and 4.23-4.26 GRI 3-3-a, 3-3-b SASB CF p 9, S (Accounting Metrics) TCFD Strategy (a)

BC71. [Draft] IFRS S1 paragraphs 51 to 55 set requirements for identifying sustainability-related risks and opportunities and disclosures. Paragraph 51 requires an entity to refer to IFRS Sustainability Disclosure Standards, including identified disclosure topics, as a source of the possible material sustainability-related risks and opportunities. This approach is similar to the one in [Draft] ESRS 1 paragraph 77, which requires to adopt the disclosure requirements in ESRS (and the relevant sustainability matters) as a starting point for the materiality assessment.

Disclosure Requirement 2-IRO 1 - Description of the processes to identify material sustainability impacts, risks and opportunities

BC72. [Draft] CSRD Art. 19a (2) requires companies to "report the process carried out to identify the information that they have included in the management report in accordance with paragraph 1 and in this process they shall take account of short, medium and long-term horizons". Such process consists of identification of material sustainability impacts, risks and opportunities.

BC73. Consistent with the [Draft] CSRD, this Disclosure Requirement assumes that with respect to material impacts, the materiality determination process for the preparation of sustainability statements is based on sustainability due diligence. This will assure consistency between the information provided to the users and the internal process governing the same objective (identification of material impacts). The purpose of sustainability due diligence is to identify and address adverse impacts with which the undertaking either is or risks being involved through its operations, products or services. Therefore, it is a source of critical inputs for the undertaking's reporting process.

BC74. [Draft] CSRD Recital (27) states that "To ensure consistency with international instruments such as the UN Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidance for Responsible Business Conduct, the due diligence disclosure requirements should be specified in greater detail than is the case in Article 19a(1), point (b), and Article 29a(1), point (b) of Directive 2013/34/EU." Recital (39) also conveys the need to align sustainability reporting standards with relevant OECD Guidelines and the UN Guiding Principles on Business and Human Rights: "Sustainability reporting standards should […] take account of internationally recognised principles and frameworks on responsible business conduct, corporate social responsibility, and sustainable development, including […] the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, the OECD Due Diligence Guidance for Responsible Business Conduct and related sectoral guidelines".

BC75. For further explanations on sustainability due diligence as they are specified in international guidance and principles, please refer to ESRS 1 Appendix C.

BC76. The Global Reporting Initiative has incorporated the sustainability due diligence concept from the UN Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidance in GRI reporting standards. GRI Universal Standards, in GRI 3-1, require undertakings to a) describe the processes they have followed to determine material topics.

BC77. The international reporting standards and frameworks which are based on financial materiality include similar requirements and recommendations on materiality determination as regards the undertaking's risks and opportunities.

BC78. The TCFD recommends disclosing information on an undertaking's processes for identifying and assessing climate-related risks. In highlighting the relevance of describing the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning, the TCFD recommendations also suggest disclosing how risks and opportunities are prioritised.

BC79. Requirement 3 of CDSB's Reporting Framework provides that undertakings should explain processes used to identify, assess and prioritise the risks and opportunities, including any methods or tools used. It further clarifies that information related to the identification, assessment and prioritisation of risks and opportunities is useful where it explains whether and how the processes include engagement with affected stakeholders, their legitimate representatives or subject matter experts, and the types of stakeholders engaged, and the engagement methods used. The requirement also indicates the need to explain any changes to material risks identified and processes by which they were identified with the previous reporting period.

BC80. The Integrated Reporting Framework (section 3D) highlights that an integrated report include information about matters (both risks and opportunities) that substantively affect the organisation's ability to create value over the short-, medium- and long-term, and that in order to prepare and present an integrated report, undertakings should: identify relevant matters based on their ability to affect value creation; evaluate the importance of relevant matters in terms of their known or potential effect on value creation; prioritise the matters based on their relative importance.

BC81. Similar to the general statement of compliance (DR 2-GR 10), it was decided to have a statement of acknowledgement of the double materiality principle as it is the fundamental principle for the assessment of sustainability impacts, risks and opportunities (see paragraph 73).

BC82. The description of the organisation put in place and the resources dedicated to the assessment will enable the user of sustainability reporting to assess the thoroughness and intensity of the assessment process in relation to the undertaking's industry, size and other relevant parameter. For the two elements of double materiality it was then considered necessary to have a description of the assessment and identification process with respect to impact materiality (including the elements of due diligence and the involvement of and engagement with stakeholders and experts) as well as financial materiality combined with an explanation how the undertaking has determined which of the identified impacts, risks and opportunities are material (see paragraph 74).

Disclosure Requirement 2-IRO 2 - Outcome of the undertaking's assessment of material sustainability impacts, risks and opportunities as identified by reference to and in compliance with sector-agnostic and sector-specific level ESRS

BC83. As explained in the "relationship between double materiality and mandatory disclosure requirements" section of ESRS 1 chapter 2.2 and its basis for conclusion it has been decided to have disclosure requirements mandated by the standard-setter based on its double-materiality assessment on a sector-agnostic and a sector-specific general level based on a "typical" (standard) undertaking combined with a materiality assessment for those mandated disclosure requirements performed by the individual reporting undertaking considering its specific facts and circumstances (entity-specific). Along those lines it was considered necessary to have:

(a) first a list of sustainability matters, as addressed by all ESRS, that are material to the undertaking, thereby confirming the materiality assessment performed by the standard-setter for the undertaking based on its specific facts and circumstances;

(b) second a list of sustainability matters, out of those reported under (a) that are of such an importance for the undertaking that it has or will put in place initiatives to modify its strategy and business model(s) to reduce or eliminate the risk or to benefit from the opportunity and/or to prevent and mitigate negative material impacts and enhance positive material impacts. This does not necessarily imply that the undertaking has to report two lists, with the same matter in two lists, but rather that in the first list the undertaking has to specify the matters that triggered adjustments to its strategy and business model; and

(c) third a list of ESRS or group of disclosure requirements related to a specific aspect covered by an ESRS that are complied with a "not material for the undertaking" disclosure based on the rebuttable presumption for the user to understand why and how the undertaking is different from the "typical" (standard) sector-agnostic or sector-specific undertaking the standard-setter had in mind when deciding to make a disclosure mandatory for all undertakings and for undertakings in a specific sector respectively.

BC84. It was not considered compatible with the general approach of setting mandatory disclosure requirements adopted in the preparation of ESRS that an undertaking would simply omit the disclosures mandated by an ESRS or by a group of disclosure requirements in an ESRS, when the rebuttable presumption applies, i.e. without an explicit identification of the disclosures that have been omitted. It was discussed but rejected that omitting the information required by an ESRS or omitting a group of disclosure requirements related to a specific aspect covered by an ESRS provides an implicit confirmation that the ESRS or group of disclosure requirements is “not material for the undertaking”. Therefore, it was considered necessary to comply with those ESRS or group of disclosure requirements with an “explicit” statement “not material for the undertaking” combined with a reason why the presumption has been rebutted.

BC85. At the same time, the implicit statement of non-materiality for omitted disclosures was retained for the level of a single disclosure requirement or an individual datapoint mandated by a disclosure requirement (see paragraph 62 of ESRS 1). It was observed that an undertaking may conclude that a specific disclosure requirement or an individual datapoint mandated by a disclosure requirement in an ESRS that covers matters that are assessed to be material for the undertaking is not material, having considered its own specific facts and circumstances. To reduce the burden for preparers, it was concluded that in these cases the omission would implicitly confirm that the undertaking has assessed the disclosure requirement or the datapoint to be not material. Under a digital format such an implicit conclusion would be translated as “not material for the undertaking” to foster maximum comparability.

BC86. Further explanations of the rationale for adopting the rebuttable presumption in paragraph 57 of ESRS 1 may be found in the Basis for Conclusions of ESRS 1.

Disclosure Requirement 2-IRO 3 - Outcome of the undertaking’s assessment of material sustainability impacts, risks and opportunities that are not covered by an ESRS (entity-specific level)

BC87. Mandated standardised disclosures may in certain cases not be sufficient to explain material sustainability impacts, risks and opportunities and are therefore to be complemented by entity-specific disclosures (see [Draft] ESRS 1 chapter 1.2). As the standard-setter has determined which sustainability matters are material for a “typical” sector-agnostic/sector-specific undertaking and therefore mandated appropriate disclosures defined by the ESRS, a similar task should be performed by the undertaking to determine which additional information it should disclose, taking into account its specific facts and circumstances, including its business context.

BC88. Accordingly, the Disclosure Requirement DR 2-IRO 2 is complemented by DR 2-IRO 3 for entity-specific disclosures also allowing a combination of the two.

BC89. As far as possible and necessary DR 2-IRO 3 mirrors the requirements of DR 2-IRO 2. Accordingly, the list of ESRS or groups of disclosure requirements complied with “not material for the undertaking” as required by paragraph 77(c) is replaced by a summarised description of the substance/objective of the disclosure related to the entity-specific impacts, risks and opportunities to allow the user to better understand the entity-specific sustainability matter.

BC90. The overall approach to the undertaking's assessment of material impacts, risks and opportunities is intended to strike a pragmatic balance between (a) the standard-setter's determination of "typical" material impacts, risks and opportunities at sector-agnostic and sector-specific level and its definition of the related disclosure requirements, (b) the need for the undertaking to determine which of these "typical" disclosure requirements are not material under its specific facts and circumstances following its own materiality assessment and (c) the need to complement mandated disclosures by entity-specific disclosures when duly justified by the undertaking's facts and circumstances. Such a pragmatic balance fosters maximum comparability across sectors and within sectors and relevance as well as the key role to the undertaking's materiality assessment considering its entity specific facts and circumstances taking account of the standard-setter's materiality assessment at a sector-agnostic and sector-specific level.

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