European Sustainability Reporting Standards (ESRS) approved 1/33/23

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The European Sustainability Reporting Standards, which we had been awaiting since the adoption of the Corporate Sustainability Reporting Directive, were approved in late July. The directive aims to provide transparent publicly available information on social and environmental risks facing companies, on new opportunities, on what activities companies are already doing, and on their future goals and ESG results achieved so far. Details of which companies are subject to the directive's requirements can be found here.

ESRS represent a delegated regulation that defines the approach and rules to be observed and followed by companies that are subject to the directive's sustainability reporting requirement.

ESRS include 12 chapters covering a wide range of sustainability areas. The approved standards can be found here:

Standard	Numbering	Topic
Cross-cutting standard	ESRS 1	General reporting requirements
Cross-cutting standard	ESRS 2	General disclosures
Environment	ESRS E1	Climate change
Environment	ESRS E2	Pollution
Environment	ESRS E3	Water and marine resources
Environment	ESRS E4	Biodiversity and ecosystems
Environment	ESRS E5	Resource use and circular economy
Social	ESRS S1	Own workers
Social	ESRS S2	Workers in the value chain
Social	ESRS S3	Affected communities
Social	ESRS S4	Consumers and end-users
Governance	ESRS G1	Business conduct

ESRS 1 defines general reporting requirements that must be applied to reporting under ESRS. It does not lay down requirements for disclosing particular information but it defines necessary preparations, such as conducting a dual materiality assessment, the concept of due diligence, inclusion of the value chain in the reporting framework, the reporting period, conditions for preparing and presenting sustainability information, as well as the structure of the sustainability report. ESRS 2 defines information to be disclosed regardless of the results of a company's dual materiality assessment, such as sustainability impact, risk and opportunity management, and inclusion of sustainability in the company's strategy.

The rest of ESG standards and the indicators and requirements defined in them are subject to the results of the company's dual materiality assessment. This means that companies will be reporting on requirements included in these standards according to the results of their materiality assessment. However, companies should also consider the obligation to provide a detailed explanation of why a particular topic is not treated as material and why relevant indicators are not included in the sustainability report.

ESRS define what information a company has to disclose on ESG factors, for instance:

- Environmental factors – on minimising climate change, including Scope 1, 2 and 3 (in certain cases) GHG emissions, adapting to climate change, water and marine resources, resource use and circular economy, pollution, biodiversity and ecosystems;
- Social rights and human rights factors – on equal treatment of everyone and equal opportunities for everyone, including gender equality and equal pay for equal work, on training and skills development, employment and inclusion of people with a disability, on measures against violence and harassment in the workplace and on diversity, on working conditions, including safe employment, working hours, adequate wages, social dialogue, freedom of association, entering into collective agreements, on workers' entitlement to information, being heard and participation, on the work-life balance, and on health and safety. On observing the human rights, fundamental freedoms, principles of democracy and standards set in the International Bill of Human Rights and other key UN human rights conventions;
- Governance factors – on the role of the company's administrative, governance and supervisory bodies in sustainability matters, on the composition of such bodies, as well as their know-how and skills related to fulfilling this role, or on the availability of such know-how and skills to those bodies. On key features of the company's internal control and risk management systems related to sustainability reporting and decision-making processes. On ethics and corporate culture, including fight against corruption and bribery, and whistle-blower protection. On how the company manages its relationships with customers, suppliers and communities affected by its operations, on the quality of such relationships, and on payment practices, especially late payments to small and medium enterprises.

ESRS are complex and will affect many of the company's internal processes for risk management done so far, the governance model in place and internal processes, by subordinating and expanding them according to sustainability challenges. Companies will have to revise their business strategy and goals to include sustainability aspects, as well as having to adopt processes for efficient collection and aggregation of high-quality sustainability data to ensure this appropriately describes the company's performance towards its sustainability goals.

PwC's team of knowledgeable sustainability experts is ready to help companies by defining their unique strategic approach to sustainability challenges and conducting a dual materiality analysis, as well as preparing their first sustainability reports to the new standards.