

## The European Sustainability Reporting Standards (ESRS)

### 1. What is the ESRS?

The European Sustainability Reporting Standards (ESRS) oblige all companies subject to the [Corporate Sustainability Reporting Directive \(CSRD\)](#) of the European Union to report both on their impacts on people and the environment, and on how social and environmental issues create financial risks and opportunities for the company.

### 2. Who developed the ESRS?

The ESRS were developed by the EFRAG (previously known as the European Financial Reporting Advisory Group) an independent body bringing together various different stakeholders. These standards allow companies to be compliant with the Corporate Sustainability Reporting Directive (CSRD), entered into force in January 2023 to strengthen the rules concerning the social and environmental information that companies have to report. The new reporting rules have to be applied for the first time in the 2024 financial year, for reports published in 2025. By June 2026, the European Commission will broaden the ESRS list by finalising and adopting new sector-specific standards.

### 3. What types of initiatives is the ESRS useful for?

These standards apply to all companies (“undertakings”) subject to the CSRD regardless of the sector they operate in:

- Any listed or non-listed companies that meet two of the following three criteria on any two consecutive balance sheet dates:
  - at least EUR 25 million in total assets
  - at least EUR 50 million in net turnover
  - at least 250 employees (average) during the year
- Any companies listed on an EU-regulated market exchange - except for listed ‘micro undertakings’ -that fail to meet two of these three criteria on consecutive balance sheet dates:
  - at least EUR 450.000 in total assets
  - at least EUR 900.000 in net turnover (revenue)
  - at least 10 employees (average) throughout the year
- Non-EU companies, which generate over EUR 150 million on the EU market

### 4. What are the main objectives of the ESRS?

- Align sustainability reporting for businesses operating within the European Union.
- Standardize ESG reporting and enhance transparency and comparability in Europe. The ESRS align the EU reporting system to the International Sustainability Standards Board (ISSB) and the Global Reporting Initiative (GRI), ensuring a high degree of interoperability between EU and global standards and prevent unnecessary double reporting by companies.

- Implement a double materiality approach, necessitating companies to report on both impact (social and environmental) and financial materiality (e.g., how cash flows, financial position and financial performance are affected).
- Ensure that investors and other stakeholders have access to the information they need to assess the impact of companies on people and the environment.
- Allow investors to assess financial risks and opportunities arising from climate change and other sustainability issues.

## 5. How does it work?

There are 12 reporting standards covering the full range of sustainability issues as shown in the table and explained further.

	CATEGORY	NUMBER	TOPIC
MANDATORY CROSS-CUTTING STANDARDS	Transversal	ESRS 1	General requirements
	Transversal	ESRS 2	General disclosures
NON-MANDATORY TOPICAL STANDARDS	Environmental	ESRS E1	Climate change
	Environmental	ESRS E2	Pollution
	Environmental	ESRS E3	Water and marine resources
	Environmental	ESRS E4	Biodiversity and ecosystems
	Environmental	ESRS E5	Resource use and circular economy
	Social	ESRS S1	Own workforce
	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	

### MANDATORY CROSS-CUTTING STANDARDS

**ESRS 1** defines general principles to be applied for reporting.

**ESRS 2** establishes the basic information that must be provided regardless of the sustainability topic under consideration.

These standards have disclosure requirements on:

1. Governance - board composition, roles, responsibilities, diversity
2. Strategy - how company strategy impacts sustainability
3. Impact, risk and opportunity management (IRO) - how IROs were identified, and which topics were not included due to materiality assessment
4. Metrics and targets - how they will be disclosed for the company's material topics

## NON-MANDATORY TOPICAL STANDARDS

These standards delve into the specifics of **Environmental**, **Social**, and **Governance** (ESG) and have disclosure requirements on:

1. Governance
2. Strategy
3. Risk and opportunity management across the value chain both upstream and downstream. IRO information for each topic should cover policies, actions, metrics, and targets
4. Establish metrics and explain how to disclose targets for each topic

Topical standards are not mandatory as companies must report only relevant information:

**Step 1:** Define relevant ESG topics according to the company's business model and activities.

**Step 2:** Identify and include only those topics that are material from an impact perspective, financial perspective or both.

Hence, companies shall report on sustainability matters based on the **double materiality principle**, the union of **impact materiality** (negative and positive impacts on people and the environment) and **financial materiality** (how social and environmental issues create financial risks and opportunities for the company).

## 6. What skills and knowledge are useful for using the METHOD?

- Understand and assess CSRD scoping, reporting and exemptions
- Understand the ESG criteria and identify ESG topics relevant for the company
- Identify, assess and manage sustainability-related impacts, risks, and opportunities (IROs)
- Perform a double materiality assessment on the company's impact on sustainability:
  - **Impact materiality:** report real and potential impacts (both positive and negative) on people and the environment, over the short, medium, and long term; adopt a multi-stakeholder focus to assess impact on the upstream and downstream value chain; evaluate likelihood and severity of the impact.
  - **Financial materiality:** assess impact on factors that have likely and (potentially) sizable financial risks on the company's short-, medium- and long-term development (cash flows, financial positioning, financial performance, and other matters beyond the company's control)
- Collect, manage, and analyse sustainability data to establish and report on metrics and targets
- Set, track, and report sustainability performance indicators
- Get familiar with software and tools used for sustainability reporting and data analysis
- Disclosure information in an accurate, and comprehensive way
- Keep up-to-date with the latest sustainability reporting trends, progresses of the ESRS and best practices

## 7. USEFUL LINKS AND RESOURCES

## EFRAG Educational videos on European Sustainability Reporting Standards

<https://www.youtube.com/watch?v=IWtruaU-MNo&list=PLMi7Y6P5zOd7qEwijaTMjzELcgKlaE9ha>

### ESRS 1

<https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2F06%2520Draft%2520ESRS%25201%2520General%2520requirements%2520November%25202022.pdf>

### ESRS 2

<https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2F07.%2520Draft%2520ESRS%25202%2520General%2520disclosures%2520November%25202022.pdf>

### ESRS E1

<https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2F08%2520Draft%2520ESRS%2520E1%2520Climate%2520Change%2520November%25202022.pdf>

### ESRS E2

<https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2F09%2520Draft%2520ESRS%2520E2%2520Pollution%2520November%25202022.pdf>

### ESRS E3

<https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2F10%2520Draft%2520ESRS%2520E3%2520Water%2520and%2520marine%2520resources%2520November%25202022.pdf>

### ESRS E4

<https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2F11%2520Draft%2520ESRS%2520E4%2520Biodiversity%2520and%2520ecosystems%2520November%25202022.pdf>

### ESRS E5

<https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2F12%2520Draft%2520ESRS%2520E5%2520Resource%2520use%2520and%2520circular%2520economy.pdf>

### ESRS S1

<https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2F13%2520Draft%2520ESRS%2520S1%2520Own%2520workforce%2520November%25202022.pdf>

### ESRS S2

<https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2F14%2520Draft%2520ESRS%2520S2%2520Workers%2520in%2520the%2520value%2520chain%2520November%25202022.pdf>

### ESRS S3

<https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2F15%2520Draft%2520ESRS%2520S3%2520Affected%2520communities%2520November%25202022.pdf>

### ESRS S4

<https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2F16%2520Draft%2520ESRS%2520S4%2520Consumers%2520end%2520users%2520November%25202022.pdf>

### ESRS G1

<https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2F17%2520Draft%2520ESRS%2520G1%2520Business%2520Conduct%2520November%25202022.pdf>

## EFRAG Data base with useful resources about ESRS

<https://www.efrag.org/lab6?AspxAutoDetectCookieSupport=1>

### Further resources:

<https://alignedincentives.com/preparing-for-european-sustainability-reporting-standards-esrs-what-companies-need-to-know/>

<https://www.coolset.com/academy/european-sustainability-reporting-standards-esrs>



[www.impactacademyproject.eu](http://www.impactacademyproject.eu)



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