DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS

Explanatory note of how draft ESRS take account of the initiatives and legislation listed in Article 1 (8) of the CSRD adding article 29 (b) -5 to the Accounting Directive

November 2022

EFRAG

Contents

PURPOSE OF THIS DOCUMENT AND GENERAL APPROACH

This document accompanies the EFRAG advice to the European Commission for the adoption of the first set of draft European Sustainability Reporting Standards (ESRS), released on 22 November 2022.

According to the Directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting ('CSRD'), when adopting delegated acts pursuant to Articles 29b and 29c, the Commission shall take into consideration technical advice from EFRAG, provided that such advice (i.e. the draft ESRS included in the first set of standards released in November 2022 to the European Commission) is accompanied by an explanation of how the advice takes account of the initiatives and legislation listed in Article 1 (8) of CSRD that is introducing article 29b in the Accounting Directive 2013/34/EU (in the rest of document referred to as Article 29b).

This document explains how the initiatives and legislation listed in Article 29b (5) have been incorporated and/or referenced to by EFRAG in the preparation of the first set of draft ESRS.

This explanatory note is accompanied by an annex which contains

- Table A referring to the legislation cited in Article 29 b) 5, b) to j).
- Table B referring to initiatives and legislation relevant for the Social Standards (ESRS S1/S4).

This explanatory note has to be read in conjunction with Appendix III – Datapoints in accordance with EU laws in the ESRS, Appendix IV – TCFD Recommendations and ESRS reconciliation table, Appendix V- IFRS Sustainability Standards and ESRS reconciliation table.

In developing the draft ESRS, the EFRAG SRB endeavoured to, the greatest extent possible to take account of the EU legislation and international instruments detailed in the aforementioned Article 29b.

The approach taken was to embed the indicators and/or datapoints stemming from the initiatives and legislation when possible or, when not possible, to ensure that the information requested by the specific EU legislation described therein would be easily identified in the draft ESRS Disclosure Requirements (DRs).

SPECIFIC INITATIVES, LEGISLATION, AND REFERENCES

1. Regulation (EU) 2019/2088 – Sustainability related disclosures in the financial services sector (SFDR)

All the SFDR Principal Adverse Impacts indicators have been incorporated in the relevant cross cutting (draft ESRS 2 *General disclosures*) or topical standards (draft ESRS E1/E5, S1/S4, G1). This includes the indicators in Table 1 (applicable to investments in investee companies), Table 2 (additional climate and other environment-related indicators) and Table 3 (additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters).

In order to create the necessary data infrastructure for financial market participants to be able to fulfil their SFDR obligations, the draft ESRS mandate the disclosure of all these indicators in all circumstances, irrespective of the outcome of the materiality assessment.
To facilitate their identification in the text of the draft ESRS, Appendix D of ESRS 2 General disclosures identifies the corresponding datapoints in all the draft ESRS.

2. Regulation (EU) 2020/852- Sustainable Finance Taxonomy

The undertakings subject to the scope of the CSRD are also obliged to disclose information required by Article 8 of the Regulation (EU) 2020/852 (Taxonomy Regulation) in conjunction with the Commission Delegated Regulation (EU) 2021/2178 and in conjunction with upcoming technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to the protection and restoration of biodiversity and ecosystems. Also, the Taxonomy Regulation in its Article 8(2) requires undertakings to disclose information on the proportion of the turnover, capital expenditure (‘CapEx’) and operating expenditure (‘OpEx’) or on their green asset ratio associated with economic activities that qualify as environmentally sustainable (‘Taxonomy disclosure’).

The draft ESRS do not impose additional obligations to the undertakings in connection with these Regulations, nor interfere with the content of the definitions and specifications contained in the Regulatory Technical Standards. At the same time, the sustainability statements prepared in compliance to draft ESRS offer a location for the Taxonomy disclosure that will facilitate their understanding in the context of the undertaking’s overall sustainability reporting. Consistent with this approach, draft ESRS 1 General requirements contains a sort of ‘place-holder’ for the Taxonomy disclosure (draft ESRS 1 Paragraph 115), in requiring that the undertaking reports the disclosures pursuant to Article 8 of the Taxonomy regulation (2020/852) in an identifiable part of the management report.

In addition, to facilitate a cohesiveness between the Taxonomy regulation and specific content of draft ESRS:

- draft ESRS E1 *Climate change* when disclosing Action Plans (DR E1-4) requires disclosing significant monetary amounts (CapEx and OpEx) to i) the relevant financial statements line items; ii) the key performance indicators required under Article 8 of Taxonomy Regulation (EU) 2020/852; and iii) the CapEx plan required by Commission delegated regulation (EU) 2021/2178;

- draft ESRS E2 *Pollution* when disclosing on action plans (DR E2-3) refers to the Do-No-Significant-Harm criteria according to the EU Taxonomy Regulation and its Delegated Acts;
- draft ESRS S1 *Own workforce*, ESRS S2 *Workers in the value chain*, draft ESRS S3 *Affected communities* and ESRS S4 *Consumers and end-users* have been designed to comply with the UNGPs and the OECD for MNE and, therefore, are aligned with the 'minimum safeguards'.

3. EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks

In order to allow for the implementation of the obligations related to the EU Climate Transition Benchmarks, draft ESRS E1 *Climate change* has a specific Disclosure Requirement (E1-1 Transition plan for climate change mitigation) that requires the undertaking shall disclose its plans to ensure that its business model and strategy are 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 with the objective of achieving climate neutrality by 2050 and where relevant, the exposure of the group to coal, oil and gas-related activities. To be noted also that ESRS E1 is mandatory for all the undertakings in the scope of CSRD, irrespective of the outcome of their materiality assessment.

Refer to Appendix II for the EU Benchmark.

4. Capital requirements regulation (CRR)

The prudential requirements for credit institutions and investment firms require undertakings that are under the CRR to disclose specific sustainability-related information about their lending and investment portfolios, as defined in the relevant implementing standards developed by EBA.

In order to support the creation of the necessary data infrastructure for credit institutions and investment firms to meet the CRR obligations, draft ESRS incorporate a limited number of specific datapoints required by the EBA implementing standards. In particular, such datapoints have been identified to reflect the sector-agnostic nature of the draft standards included in the first set of draft ESRS, i.e. applicable to all undertakings irrespective of their sector. EFRAG expects to advise the European Commission to incorporate the remaining datapoints in the EBA implementing standards in the draft Sector specific ESRS that will be developed in the coming years.

Accordingly, the following three datapoints have been included in ESRS E1:

- E1-1 Para 15 (f), Undertakings excluded from Paris-aligned Benchmarks, and AR 6 (Article 449a Capital Requirements Regulation – CRR; Template 1: Banking book-Climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity);

- E1-6 Para 41 and Para 48, Emissions intensity metrics in terms of turnover;

- E1-9 Para 63 (a), (c). Disaggregation of monetary amounts by acute and chronic physical risk, and AR 64 (a) (ii); and

- E1- 9 Location of significant assets at material physical risk, draft ESRS E1 paragraphs. 63 (c) and AR 64 (a) (i). (Article 449a CRR; Final draft ITS, paragraphs 46 and 47; Template 5: Banking book - Climate change physical risk: Exposures subject to physical risk).

These datapoints are always mandatory, i.e. applicable irrespective of the outcome of the materiality assessment.

5. Commission Recommendation of 9 April 2013 on the use of common methods to measure and communicate the life cycle environmental performance of products and organisations

The Commission Recommendation of 9 April 2013 promotes the use of environmental footprint methods in relevant policies and schemes related to the measurement or communication of the life cycle environmental performance of products and organisations.

Draft ESRS E1 *Climate change* does not refer directly to the organisational and products environmental footprint (OEF and PEF) methods for alignment reasons with international frameworks (GHG Protocol and ISO 14064-1). These methods that are more detailed are however mentioned in the Basis for conclusions and may will be considered by EFRAG in the development of draft sector specific, in particular to assess products' impacts through the PEF method.

Drafts ESRS E3 *Water and marine resources*, ESRS E2 *Pollution* and ESRS E5 *Resource use and circular economy* recommend an undertaking to consider the Commission Recommendation (EU) 2021/2279 of 15th December 2021 on the use of the Environmental Footprint methods to measure and communicate the life cycle environmental performance of products and organisations when conducting its materiality assessment. This methodology is included in the draft ESRS as recommendation only (not as a requirement), in light of the outcome of public consultation and to reflect the CSRD amended proposal to phase-in implementation of value chain information. Hence no metric within these three standards requires environmental footprint analysis.

Draft ESRS E4 *Biodiversity and ecosystems* E4-5 *Impact metrics related to biodiversity and ecosystems* requires those undertakings in scope of draft ESRS E4-1 to disclose the material land-use change and / or the state of ecosystems matters and also to disclose the Life Cycle Assessment that considers the dimension of land-use.

6. EU Emissions Trading Scheme (EU-ETS)

This Directive establishes a scheme for greenhouse gas emission allowance trading within the Community in order to promote reductions of greenhouse gas emissions in a cost effective and economically efficient manner.

The content of the EU-ETS has been embedded in the draft ESRS E1 *Climate change*. Specifically, in draft ESRS E1-6 *Gross scope 1 of GHG emission and the percentage of Scope 1 GHG emissions from regulated emissions trading schemes*, and ESRS E1-9 *Financial effects from material climate-related risks: potential liabilities linked to EU-ETS.*

7. European Climate Law

This Regulation establishes a framework for the irreversible and gradual reduction of anthropogenic greenhouse gas emissions by sources and enhancement of removals by sinks regulated in Union law.

Such regulation has been embedded in draft ESRS E1 *Climate change* in the following DRs:

- E1-6 *Gross Scope 1 GHG emissions and the percentage of Scope 1 GHG emissions from regulated emission trading schemes*; and
- E1-9 on *Financial effects from material climate-related risks includes disclosures regarding the potential liabilities linked to EU ETS*.

8. EMAS III

EMAS III (Voluntary participation by organisations in a community eco-management and audit scheme) is mainly addressed to improve the environmental protection and provide organizations, supervisory authorities and citizens (to the general public) with a tool through which it is possible to obtain information on the environmental performance of organizations.

The draft ESRS E1 takes account of EMAS III in the content of the following DRs:

- E1-5 on energy consumption, ESRS E1-6 on GHG emissions in relation to Annex IV, C.2. c) (i) and (vi);
- E1-2 on climate-related policies with Annex IV B. B) and (g) of EMAS III;
- E1-3 on action plans in relation to Annex IV B.(d); and
- E1-4 on climate-related targets in relation to Annex IV B. (d).

The draft ESRS E4 DR E4-5 *Impact metrics related to biodiversity and ecosystems change* (AR 38) is compatible with EMAS Annex IV, C, 2 (v).

9. EU Whistleblowing Directive

The Directive establishes a legal and institutional framework to protect persons who, in the context of their industrial relations, draw attention to violations or to threats to the public interest or make information on them public.

The following DRs embed the principles of this Directive:

- draft ESRS S1, S2, S3 and S4: DR 3 on *Processes to remediate negative impacts and channels to raise concerns*;
- draft ESRS G1-1 *Corporate culture and business conduct policies*.

10. Global standard-setting initiatives for sustainability reporting, and existing standards and frameworks for natural capital accounting and for greenhouse gas accounting, responsible business conduct, corporate social responsibility, and sustainable development

a) Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

Draft ESRS E1 Climate change covers all the disclosure recommended in the TCFD; as such, EU undertakings that comply with ESRS E1 are expected also to be able to claim compliance with the TCFD. Appendix IV reports a list of the relevant paragraphs and DRs in draft ESRS E1 that cover respectively the core contents of TCFD (Strategy, Risk Management, Metrics and targets).

In addition, the architecture of the draft ESRS mirrors the TCFD four core contents. This will facilitate understanding from undertakings and users already familiar with the TCFD approach.

b) GHG Protocol

Draft ESRS E1 has primarily based the calculation guidance of the GHG emissions (Disclosure requirement E1-6 and related AR37 to 48) on the GHG Protocol. When preparing the information for reporting GHG emissions, the undertaking shall consider the principles, requirements and guidance provided by the GHG Protocol Corporate Standard (version 2004). Definitions of scope 1, 2 and 3 in Appendix A are adapted from the GHG Protocol and its different supplements.

The major difference with the GHG Protocol relates to the definition of the reporting boundaries. The GHG Protocol proposes 3 options for defining the boundaries outside the financially controlled perimeter: equity share, financial control and operational control. Draft ESRS E1 aims at promoting a higher degree of comparability between the undertakings in scope of the CSRD, by requiring the operational control option in all cases. Accounting for GHG emissions from associates, joint ventures, unconsolidated subsidiaries and contractual arrangements in joint arrangements that are not structured through an entity (i.e., jointly controlled operations and assets) shall be based on the criteria of having the ability to control the operational activities and relationships of these entities and activities.
Another small difference is the presentation option of the scope 3 categories of the GHG Protocol grouped in 5 overarching Scope 3 categories to highlight the major sources of emissions in the value chain in a clearer and more readable manner and to avoid obscuring these sources. This presentation remains a voluntary option in addition of the presentation of the full 15 categories of scope 3 emissions sources of the GHG Protocol.

c) Transparent Project and Natural Capital Protocol

[Draft] ESRS E4 chose not to follow a natural-capitals themed approach, but to build the standard around the underlying ecological themes of ecosystems, ecosystem services and species. This makes an alignment with globally accepted framework agreements and concepts such as the Post- 2020 Global Biodiversity Framework or planetary boundaries conceptually and practically possible.

Structurally, [draft] ESRS E4 reflects TNFD's LEAP-Approach, which also establishes its link to the Natural Capital Protocol as well as the EU Transparent Project:

- Consideration of Natural Capital Protocol: In particular the Step "A(ssess)" of TNFD's LEAP-Approach points to the NatCap-Protocol for implementation and application guidance. [Draft] ESRS E4 therefore takes the NatCap Protocoll into account where it is most sensible and suitable.
- Consideration of EU Transparent Project: The EU Transparent Project is developing a methodology specifically for natural-capital-based management accounting and thus decision-making. The methodology addresses impacts on natural capitals and ecosystems by consolidating and developing impact measurement and best practice in valuation. As impact measurement and valuation play a significant role especially with regard to disclosure on risks and transition plans and pathways, the methodological scope, scale and key definitions of ESRS E4 align with EU Transparent where sensible.

d) Recommendations of the Task Force for Nature Related Financial Disclosure (TNFD)

TNFD and TCFD are built using the same architecture. As draft ESRS E1 and draft ESRS E4 are structured the same, draft ESRS E4 Biodiversity and ecosystems is structurally compliant with TNFD. Furthermore, the draft standard references TNFD extensively. The materiality assessment has been restructured to follow the sequence of the Locate, Evaluate, Assess and Prepare (LEAP) framework.

e) Global Reporting Initiative (GRI) Standards

Across all the standards definitions, concepts and disclosures have been built leveraging on the GRI Standards and are fully or, when full alignment was not possible due to the content of the CSRD mandate, closely aligned with GRI. A detailed description of how each draft ESRS has taken into consideration the corresponding disclosures in GRI Standards will be included in the Basis for Conclusions that will be published in December 2022 (updating the corresponding Basis for Conclusions that accompanied the Exposure Drafts). Below we report the key features of the alignment:

- In terms of general approach to materiality, while ESRS adopt double materiality, GRI Standards have a single materiality perspective, the impact materiality. The core definition, criteria and steps for impact materiality are aligned.
- The ESRS deviate from the scope of materiality assessment, due to the list of datapoints that are always mandatory due to EU legislations (in addition to ESRS E1 climate change being always applicable). This is due to the necessity to create the data infrastructure for SFRD, EBA Pillar 3 and Benchmark Regulation indicators.
- Similarly to the GRI Standards, ESRS require to include value chain information. However, differently from GRI, ESRS do not allow to omit information when the information is unavailable or incomplete. This reflects the principle that all the

information included in sustainability reporting shall meet the qualitative characteristics of the information. This is a pre-requisite to allow sustainability reporting to develop with the appropriate quality and be close to the maturity of financial reporting. Implicitly, this principle encourages the estimates using market or sector data.

- Similarly to the GRI Standards, ESRS 2 *General disclosures* set DRDR applicable across the topics that are not subject to materiality assessment.

- Language on sustainability due diligence has been aligned to the international instruments and, in this way, to GRI Standards.

- GRI allows incorporation by reference to information published in any location. ESRS allow incorporation by reference to other sections of the management report, the financial statements and a limited number of other reports prepared pursuant EU regulations, provided that they meet certain conditions. The approach in ESRS respond to the necessity to ensure that digitalization and assurance are practicable, as foreseen by the CSRD. At the same time, the conditions for the incorporation by reference in ESRS introduce a discipline that allows to respect the principle of understandability and cohesiveness of the information.

Draft ESRS 2

In relation to GRI 2 General Disclosures, draft ESRS 2 has been designed to align with this GRI Universal Standard. In summary, draft ESRS cover the five chapters of GRI 2 General Disclosures as follows:

- GRI 2, Chapter 1 -The organization and its reporting practices. The Basis for preparation section of draft ESRS 2 covers the same areas with the exception of those aspects that are already defined in the main text of the CSRD (for example, frequency of reporting, or level of assurance)

- GRI 2, Chapter 2 – Activities and workers. The majority of GRI disclosure requirements are included in the draft ESRS 2 within the Strategy section. However, the workers' related disclosures (i.e. GRI 2-7 Employees and 2-8 Workers who are not employees) are located within the mandatory requirements for those undertakings with 250 or more employees of draft ESRS S1 *Own workforce* (ie S1-6 *Characteristics of the undertaking's employees* and S1-7 *Characteristics of non-employee workers in the undertaking's own workforce*). Draft ESRS S1-7 covers non-employee workers who are either individuals with contracts with the undertaking to supply labour ("self-employed workers") or workers provided by undertakings primarily engaged in "employment activities" (NACE Code N78), while GRI 2-8 has a broader scope and covers workers who are not employees and whose work is controlled by the organization.

- GRI 2, Chapter 3- Governance. The Governance section of draft ESRS 2 is aligned with the GRI 2 disclosures that relate to the governance of sustainability matters as this is the scope of the draft ESRS as per the final text of the CSRD. Therefore, the key difference between the GRI governance related disclosures from the Universal Standards and the draft ESRS 2 lies on the scope of the governance matters (note: the ESRS cover the governance of sustainability matters both from an impact materiality and financial materiality perspective). In addition, Disclosure 2-21 Annual total compensation ratio is located within ESRS S1-16 *Compensation indicators* and it has been aligned with the SFDR PAI on the same subject.

- GRI 2, Chapter 4- Strategy, policies and practices. The draft ESRS 2 includes a number of the GRI disclosures within the various sections of this cross-cutting standard (i.e. Governance, Strategy, IRO Management) following the four pillar architecture of the draft ESRS. The disclosures on the policy commitment to respect human rights (under GRI 2-23) and the processes to remediate negative impacts (GRI 2-25) are included in the ESRS S1-S4 social standards as a mandatory disclosure requirement for those undertaking with 250 employees or more.

- GRI 2, Chapter 5- Stakeholder engagement. The GRI 2-29 *Approach to stakeholder engagement* has been covered within the stakeholder engagement related disclosures of the draft ESRS 2 (i.e. SBM 2- *Interests and views of stakeholders*) and the Disclosure contents on policies, actions and resources. In addition, for the draft ESRS S1-S4, the social standards include a disclosure requirement on stakeholder engagement (i.e. ESRS S1/S2/S3/S4 Processes for engaging with own workers and workers' representatives/workers in the value chain/affected communities/consumers and end-users about impacts). In addition, GRI 2-30 *Collective bargaining agreements* has been reflected in draft ESRS S1-8 *Collective bargaining and social dialogue* as a mandatory disclosure requirement for those undertaking with 250 employees or more.

- GRI 3 – SMB-3 and IRO disclosures are based on the GRI 3 disclosures, when it comes to impact materiality. The ESRS Disclosure Content policies, actions and resources and targets have been designed to comply with the requirements set out in the final text of the CSRD which, in turn, embed the due diligence principles, also core to GRI 3-3 *Management of material topics*.

f) Exposure Drafts (ED) IFRS S1 and IFRS S2

The content of draft ESRS 1, draft ESRS 2 and draft ESRS E1 has been built in order to integrate to the maximum extent possible the content of the ED IFRS S1 and S2. The disclosures prepared under ESRS are expected to be capable of corresponding to disclosures required by IFRS S1 and S2. In order to respect the content of the CSRD and the compatibility with the EU regulation and the EU ambitions in the Green Deal, in ESRS additional datapoints are included. Tables of reconciliation of ESRS 1 and 2 to IFRS S1 and of ESRS E1 to IFRS S2 that has been prepared by EFRAG is presented in Appendix V.

EFRAG expects to work on a more detailed mapping once the IFRS Sustainability Standards will be finalized, that would allow the investors to clearly identify within the ESRS disclosures, the specific requirements that correspond to the disclosures required by IFRS S1 and S2.

We report below the key features of the alignment in the draft ESRS:

- ESRS adopt the principle of double materiality, while IFRS Sustainability Disclosure Standards are intended to meet the needs of investors and thus are closer to the concept of financial materiality used in ESRS. As such, impacts are covered indirectly in IFRS (to the extent that they are relevant to investor decision making), while they represent a key disclosure content in ESRS. The IFRS Sustainability Disclosure Standards also require that information be provided only when it is material to investors (ie when it is reasonably certain if obscured, omitted or misstated to influence investor decisions).

- The financial materiality perspective of the ESRS materiality assessment is intended to be aligned, with the IFRS investor materiality focus. In particular, the double materiality assessment in ESRS is intended to include the investor materiality assessment of IFRS and the primary users of general-purpose financial reporting are identifiable as stakeholders' category in ESRS 1. The concept of 'connected information' is aligned, as well as the definition of 'value chain'.

- Flexibility has been introduced in the definition of time horizons, to enhance interoperability with IFRS S1.
- The architecture of ESRS 2 and of the other standards has been modified following the public consultation to mirror the IFRS (and TCFD) architecture, in that content is allocated in the four core areas: Governance-Strategy-Impact/risk/opportunity management-Metrics and Targets.
- The qualitative characteristics of the information, a fundamental element of the reporting, are fully aligned.
- EFRAG has sought to include all of the disclosures of IFRS S1 ED in ESRS 2, while the principles in IFRS S1 have been included in ESRS 1.
- EFRAG has sought to include the disclosures of IFRS S2 ED in ESRS E1, ESRS 1 and ESRS 2.

11. UN Sustainable Development Goals

The UN Sustainable Development Goals (SDGs) are reflected in a number of ESRS DRs. A description of how the SDGs have been embedded at topical level (E, S and G) is summarised below.

Environmental

SDG 3 relates to ensuring healthy lives and promote well-being for all at all ages. It has been considered within draft ESRS E2 *Pollution*. Specifically, the disclosures E2-1 on Policies, E2-3 on Actions and resources and E2-4 on Targets, which relate to pollution of water, and also pollution of air and soil.

SDG 6 relates to ensuring the availability and sustainable management of water and sanitation for all. It has been taken into account by draft ESRS E3 *Water and marine resources*. Specifically, its disclosures E3-1 on Policies, E3-2 on Actions and resources and E3-4 on Water, which are related to water stressed locations. This SDG is also connected with SDG 14 regarding conservation and sustainable use of the oceans, seas and marine resources for sustainable development. Draft ESRS E3 *Water and marine resources* covers the same aspects in the disclosures detailed above.

SDG 7 relates to affordable and clean energy. It includes a target to increase substantially by 2030 the share of renewable energy in the global energy mix. In that respect, draft ESRS E1 requires undertakings to disclose information on their energy consumption and mix (E1-5), including a disaggregation of their total energy consumption from non-renewable and renewable sources.

SDG 12 aims at ensuring sustainable consumption and production patterns. These aspects are covered in ESRS E5 *Circular economy and resource use*. In particular, the undertaking's management of material matters related to circular economy and resource use are to be disclosed as per E5-1 on Policies, E5-2 on Actions and resources and E5-3 on Targets. In addition, metrics related to resource inflows (E5-4) and resource outflows, including waste, (E5-5) are also to be disclosed.

SDG 13 of the UN Sustainable Development Goals ("Climate Action") refers to the Paris Agreement's goal of reducing global greenhouse gas emissions to limit the global temperature increase to 2 degrees Celsius while pursuing efforts to limit the increase to 1.5 degrees Celsius above pre-industrial levels. Draft ESRS E1 requires undertakings to disclose information on their transition plans for climate change mitigation, to enable an understanding of their efforts to ensure that its strategy and business model(s) are 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 with the objective of achieving climate neutrality by 2050 (DR E1-1 Transition plan for climate change mitigation).

In line with that, target 13.1 of the UN SDG is set to strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries. Draft ESRS E1 requires undertakings to describe the resilience of its strategy and business model(s) in relation to climate change (DR related to ESRS 2 SBM-3 – Material impacts, risks and opportunities and their interaction with strategy and business model(s)). Target 13.2 of the UN SDG seeks to integrate climate change measures into national policies, strategies and planning. Draft ESRS E1 requires undertakings to disclose their policies (DR E1-2), action plans and resources (DR E1-3), and targets (DR E1-4) related to climate change mitigation and adaptation. In particular, the undertaking is required to disclose whether and how it has set GHG emissions reduction targets and/or any other targets to manage material climate-related impacts, risks and opportunities (DR E1-4).

SDG 15 related to protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss. It is considered within draft ESRS E4 Biodiversity and ecosystems. Specifically in its disclosures ESRS 2 - IRO1 on materiality assessment, E4-2 on Actions and E4-5 on Targets. The undertaking shall describe material impacts, risks and opportunities related to protected areas, threatened species and deforestation.
In addition, draft ESRS E4 *Biodiversity and ecosystem* may also contribute to other objectives, such as SDG 2 Zero Hunger, SDG 6 Clean water and sanitation, SDG 14 Life below water, SDG 15 Life on Land.

It should be noted that aspects of SDG 11 on Sustainable cities and communities are also addressed in the different environmental standards, in particular with regards to environmental targets on safeguarding natural heritage (11.4), reducing impacts of water disasters (11.5), paying attention to air quality and waste (11.6), adaptation to climate change (11.b), utilisation of local materials (11.c).

Social

Draft ESRS S1-13 *Compensation indicators* (pay gap and total compensation), which includes datapoints for both the male-female wage gap and the ratio between the remuneration of the highest-paid individual and the median worker remuneration, is relevant for the SDG 8.5 target of equal pay for work of equal value, the SDG 10.2 target to empower and promote the social, economic and political inclusion of all, and the SDG 10.4 target to progressively achieve greater equality. Draft ESRS S1-15 *Diversity indicators*, which includes data points on the percentage of women in management positions and the age distribution of the workforce, are also relevant for the SDG 10.2 target of inclusion for all and SDG 10.4 target to progressively achieve greater equality. This is supported by draft ESRS 2 GOV-1 *The role of the* *administrative, supervisory and management bodies* that require information about the percentage of such bodies by gender and other aspects of diversity the undertaking considers.

Draft ESRS S1-14 *Incidents and complaints and severe cases of human rights issues and incidents*, which includes data points on human-rights related incidents and complaints, is relevant for SDG 5 Goal 5 to achieve gender equality and empower all women and girls, the SDG 8.7 target to take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, and the SDG 16.2 target to end abuse, exploitation, trafficking and all forms of violence against and torture of children.

The SDGs are further reflected in draft ESRS S2, draft ESRS S3 and draft ESRS S4, in the Application Requirements:

- draft ESRS S2 para AR37 indicates that undertakings may explain whether any initiatives or processes whose primary aim is to deliver positive impacts for value chain workers are designed also to support the achievement of one or more of the UN Sustainable Development Goals (SDGs), providing an example which refers to UN SDG 8 “Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all”;
- draft ESRS S3 para AR36 indicates that undertakings may explain whether any initiatives or processes whose primary aim is to deliver positive impacts for affected communities are designed also to support the achievement of one or more of the UN Sustainable Development Goals, providing an example which refers to UN SDG 5 " Achieve gender equality and empower all women and girls”;
- draft ESRS S4 para AR33 indicates that undertakings may explain whether any initiatives or processes whose primary aim is to deliver positive impacts for consumers and end-users are designed also to support the achievement of one or more of the UN Sustainable Development Goals, providing an example which refers to UN SDG 3 “Ensure healthy lives and promote well-being for all at all ages”.

Governance

The SDG 16.5 target to reduce corruption and bribery in all their forms and target 16.6 to develop effective, accountable and transparent institutions at all levels are supported by ESRS G1-3 *Prevention and detection of corruption or bribery,* ESRS G1-4 *Confirmed incidents of corruption or bribery* and ESRS G1-1 *Corporate culture and business conduct policies.* The latter requires:

- Description of mechanisms to identify unlawful behaviour or contrary to the undertaking’s code of conduct or similar;
- Admittance if it has no policies on anti-corruption or anti-bribery consistent with the United Nations Convention against Corruption (an SFDR PAI indicator);
- Describing policies around whistleblowing protection and specifically acknowledging where it does not have such policy.

Draft ESRS G1-2 *Management of relationships with suppliers* indirectly supports the SDG 17 Partnerships to achieve the Goal and specifically the targets around Trade and Capacity building. ESRS G1-2 has as objective to allow procurement process management and the fair behaviour with suppliers. This covers policies to prevent late payment to SMEs as well as its strategy with respect to its supplier relationship management, ESG criteria considered (if any) when selecting suppliers and practices to support vulnerable suppliers and improve their social and environmental performance.

12. UN Guiding Principles on Business and Human Rights

Draft ESRS 1

The architecture of draft ESRS 1 has been designed to align with the UN Guiding Principles on Business and Human Rights (UNGPs), and in particular reflecting due diligence as the key process by which undertakings identify, prevent, mitigate and account for material actual and potential negative impacts on people connected to their business. Due diligence is reflected in draft ESRS 1, section 4 Sustainability Due Diligence. The section describes how sustainability due diligence informs an undertaking's assessment of material impacts, risks and opportunities.

Draft ESRS 1 section 3.4 describes impact materiality. The definition of impact materiality draws significantly on content from the UNGPs:

- A sustainability matter is material from an impact perspective when it pertains to the undertaking's material actual or potential, positive or negative impacts on people or the environment. UN Guiding Principle 17 states that a company must assess and address their actual and potential human rights impacts.
- A material sustainability matter from an impact perspective includes impacts caused or contributed to by the undertaking and impacts which are directly linked to the undertaking's own operations, its products, and services through its business relationships. Business relationships includes entities in the undertaking's upstream and downstream value chain and are not limited to direct contractual relationships. UN Guiding Principle 13 similarly describes how companies can be involved with impacts.
- In line with the UNGPs, for actual negative impacts, materiality is based on the severity of the impact, while for potential negative impacts it is based on the severity and likelihood of the impact. Severity is based on (a) the scale; (b) scope; and (c) irremediable character of the impact. This is derived from UN Guiding Principle 14 which states (its commentary) that severity of impacts will be judged by their scale, scope and irremediable character.

Engagement with affected stakeholders is a central component in all steps of an undertaking's due diligence processes, as set out in UNGPs 18 – 21, and in particular 18 b that requires companies to involve meaningful consultation with potentially affected groups and other relevant stakeholders (as appropriate to the size of the business enterprise and the nature and context of the operation). The focus on engagement with affected stakeholders is reflected in draft ESRS 1 section 3.1, Double materiality as the basis for sustainability disclosures as well as in the description of sustainability due diligence process, draft ESRS 1 section 4.

Section 4 also makes reference to the international instruments from which the concept of due diligence is derived, where UNGPs are the original source of the concept.

Draft ESRS 2

The core elements of due diligence are reflected directly in DRs set out in ESRS 2 as illustrated below:

a) embedding sustainability due diligence in governance, strategy and business model. This is addressed under:

    i. DR 2 GOV-2: *Information provided to, and sustainability matters addressed by, the undertaking's administrative, management and supervisory bodies*;

    ii. DR 2 GOV-3: *Integration of sustainability strategies and performance in incentive schemes*; and

    iii. DR 2 SBM-3: *Material impacts, risks and opportunities and their interaction with strategy and business model(s).*

b) engaging with affected stakeholders. This is addressed under:

    i. DRDR 2 SBM-2: *Interests and views of stakeholders;*

    ii. DR 2 IRO-1: *Description of the processes to identify and assess material sustainability impacts, risks and opportunities;*

    iii. iv. Disclosure Content – Policies adopted to manage material sustainability matters; and

    iv. Topical ESRS: reflecting the different stages and purposes of stakeholder engagement throughout the sustainability due diligence process.

c) identifying and assessing negative impacts on people and the environment. This is addressed under:

    i. DR 2 IRO-1: *Description of the processes to identify and assess material sustainability impacts, risks and opportunities*; and

    ii. DR 2 SBM-3: *Material impacts, risks and opportunities and their interaction with strategy and business model(s)*;

d) taking action to address negative impacts on people and the environment. This is addressed under:

    a. Disclosure Content – Actions: Actions and resources in relation to material impacts, risks and opportunities; and

    b. Topical ESRS: reflecting the range of actions, including transition plans through which impacts are addressed; and

e) tracking the effectiveness of these efforts. This is addressed under:

    i. Disclosure Content – Targets: Tracking effectiveness of policies and actions through metrics and targets; and

    ii. Topical ESRS: regarding performance metrics and targets.

ESRS S1-4: The Social standards

The architecture of the social standards has been designed to reflect both the UN Guiding Principles on Business and Human Rights (UNG) and the OECD Guidelines for Multinational Enterprises.

The disclosure of policies under draft ESRS S1/S2/S3/S4-1 Policies is relevant for UN Guiding Principle 15, which states that enterprises should have in place policies and processes in order to meet their responsibility to respect human rights. In addition, UN Guiding Principle 16 stresses the need for undertakings to have a statement of policy to as part of their commitment to meet their human rights responsibilities. Application Requirements for draft ESRS 2 SBM-3 are relevant for UN Guiding Principle 18, which states that businesses need to identify and assess any actual or potential adverse human rights impacts, which they may be involved either through their own activities or as a result of their business relationships.

S1/S2/S3/S4-3 Processes to remediate negative impacts and channels for own workers/workers in the value chain/affected communities/end-users and consumers to raise concerns is relevant for UN Guiding Principle 29, which states that business enterprises should establish or participate in effective operational-level grievance mechanisms; UN Guiding Principle 30, which stresses that industry, multi-stakeholder and other collaborative initiatives based on respect for human rights-related standards should ensure that effective grievance mechanisms are available; and UN Guiding Principle 31, which outlines effectiveness criteria for non-judicial grievance mechanisms.

Draft ESRS S1/S2/S3/S4-4 Taking action on material impacts on own workforce, and approaches to mitigating material risks and pursuing material opportunities related to the Social stakeholder groups, and effectiveness of those actions has relevance for a number of Guiding Principles: UN Guiding Principle 19, which states that undertakings should integrate the findings from their impact assessments and take appropriate actions; UN Guiding Principle 20, which stresses that business enterprises should track the effectiveness of their responses to verify whether adverse human rights impacts are being addressed; and UN Guiding Principle 22, which states that businesses should provide for or cooperate in remediation when they identify that they have caused or contributed to adverse impacts.

As mentioned above, draft ESRS G1-1 *Corporate culture and business conduct policies* requires a description of its policies around whistleblowing protection and specifically acknowledging where it does not have such policy. This reflects UN Guiding Principle 29, which states that businesses should establish or participate in effective operational-level grievance mechanisms for individuals and communities.

13. OECD Guidelines for Multinational Enterprises

Draft ESRS S1-2

The architecture of draft ESRS 1 and draft ESRS 2 has been aligned to the greatest extent with the OECD Guidelines for Multinational Enterprises, as it largely incorporates the content of the UN Guiding Principles on Business and Human Rights (UNGPs) as it relates to human rights. In particular, the concept of due diligence outlined in the OECD Guidelines for Multinational Enterprises chapter IV, principle 5 and commentary paragraph 45 are reflected in ESRS 1, section 4 Sustainability Due Diligence, which describes how sustainability due diligence informs an undertaking’s assessment of material impacts, risks and opportunities.

Impact materiality, described in draft ESRS 1 section 3.4; a sustainability matter is material from an impact perspective when it pertains to the undertaking's material actual or potential, positive or negative impacts on people or the environment. OECD Guidelines for Multinational Enterprises, chapter IV, principle 5, paragraph 45 outlines that companies have to account for their actual and potential adverse human rights impacts.

The core elements of due diligence are reflected directly in DRDRs set out in draft ESRS 2, mirroring the core content of due diligence as set out in OECD Guidelines for Multinational Enterprises, chapter IV, principles 1-6.

Draft ESRS S1-4: Social standards

The ESRS Social standards have been designed on the contents of the OECD Guidelines for Multinational Enterprises and therefore these are reflected in a number of DRDR across the draft ESRS 2 and also the topical standards.

At cross-cutting level, the application Requirements for draft ESRS 2 SBM-3 are relevant for V.1c-d, which state that MNEs should contribute to the abolition of child and forced or compulsory labour. Draft ESRS S1/S2/S3-1 *Policies* reflect the need under IV.4 and Commentary IV para. 44 for MNEs to have a policy commitment to respect human rights; actions and targets related to child labour and forced or compulsory labour material impacts are to be disclosed under draft ESRS S1/S2/S3-5 Targets and under draft ESRS S1/S2/S3-4 Actions. In draft ESRS S1 *Own workforce*, disclosures on the number of identified cases of severe human rights impacts and incidents are required in S1-17 Incidents, complaints and severe human rights impacts and incidents.

The Guideline II.A-14 on engaging with relevant stakeholders is reflected in the Application Requirements for draft ESRS 2 GOV 3 and draft ESRS S1/S2/S3/S4-2 Processes for engaging with the social stakeholder groups about impacts. OECD Guidelines IV.6, which states that companies should provide for or co-operate through legitimate processes in the remediation of adverse human rights impacts where they identify that they have caused or contributed to these impacts, is reflected in draft ESRS S1/S2/S3/S4-3 Processes to remediate negative impacts and channels for own workers to raise concerns.

Guidelines II.A.1, 11 & 12, IV.2 and IV.3, which stress MNE's responsibility to contribute to positive impacts and avoid negative impacts, are relevant for S1/S2/S3/S4-4 *Taking action on material impacts on, and approaches to mitigating material risks and pursuing material opportunities related to own workforce, and effectiveness of those actions*. Guideline V.4c states that MNEs should take adequate steps to ensure occupational health and safety in their operations, which is relevant for S1-9 *Health and safety indicators*.

Guideline III 3(a) to (c) which deals with business conduct, policies and codes of conduct and its performance related to such statements and codes which is covered partially in draft ESRS G1-1 which focuses on policies related to business conduct as defined in the standard.

Guideline III 3(e) on relationships with workers and other stakeholders are covered in ESRS S1/S2/S3/S4 – 2 on processes with engaging with own workers, workers in the value chain, affected communities and consumer and end-users.

Guideline VII 1 to 7 are covered by the corruption and bribery DRDR in draft ESRS G1-3 and 4 as well as the political contribution aspects in draft ESRS G1-5.

Chapter VI of the OECD Guidelines for Multinational Enterprises describe recommendations for environmental matters. The following recommendations within Chapter VI are relevant for the Environmental disclosures:

- Recommendation no. 1 refers to the collection and evaluation of adequate and timely information regarding the environmental impacts of their activities, the establishment of measurable objectives and targets for improved environmental performance and resource utilisation (where appropriate, targets should be consistent with relevant national policies and international environmental commitments), and the regular monitoring and verification of progress towards those targets. The draft ESRS E1-E5 standards include a DR on Impact, risk and opportunities management from draft ESRS 2 (i.e. ESRS 2- IRO1) which is directly related to the assessment or evaluation of environmental impacts. In addition, all Environmental standards follow the ESRS architecture whereby material policies, actions and targets are to be disclosed.

- Recommendation no. 2 specifically addresses the importance of providing the public with adequate, measurable, verifiable (where applicable) and timely information on the potential environment, impacts of the activities of the enterprise. As referred above, the undertakings are to disclose policies and targets on material impacts, risks and opportunities within draft ESRS E1 *Climate change*, draft ESRS E2 *Pollution*, draft ESRS E3 *Water and marine resources*, draft ESRS E4 *Biodiversity and ecosystems* and draft ESRS E5 *Circular economy and resource use*.

  In particular, for draft ESRS E1 *Climate change*, the undertaking's GHG emissions (E1-6) are to be disclosed. Regarding the GHG emission reduction targets (E1-4), undertakings shall state whether these are compatible with limiting global warming to 1.5°C and shall at least include target values for the year 2030 and, if available, for the year 2050. To measure performance, undertakings shall disclose its current base year and baseline value, and from 2030 onwards, update the base year for its GHG emission reduction targets after every five-year period thereafter. Draft ESRS E1 also requires undertakings to explain how their transition plan is embedded in and aligned with the undertaking's overall business strategy and financial planning.

- Recommendation no. 3 refers to the assessment and addressment in decision-making of the foreseeable environmental impacts associated with the processes, goods and services of the enterprise over their full life cycle with a view to avoiding or, when unavoidable, mitigating them. The linkage between material impacts, risks and opportunities and how these interact with the undertaking's strategy and business model is to be disclosed under draft ESRS 2- SBM 3.

- Recommendation no. 6 refers to seeking improvement in corporate environmental performance, at the level of the enterprise and, where appropriate, of its supply chain, "for instance by developing strategies for emission reduction, efficient resource utilisation and recycling, substitution or reduction of use of toxic substances, or strategies on biodiversity". These points have been considered together with the other recommendations as described above.

14. UN Global Compact

UN Global Compact principles on Human Rights (1-2) and Labour (3-6), which stress commitments to human rights in general and freedom of association, the abolition of child and forced labour and discrimination in particular, are reflected in S1/S2/S3/S4-1 *Policies related to own workforce/workers in the value chain/affected communities/end-users and consumers* and S1-14 *Incidents and complaints and severe cases of human rights issues and incidents*.

With regards to draft ESRS S2, S3 and S4, the following UN Global Compact principles are relevant:

- Draft ESRS S1 *Own workforce* and draft ESRS S2 *Workers in the value chain*:
    - Principle 1 stresses that businesses should support and respect the protection of internationally proclaimed human rights, which is reflected in DR S2-1 Policies related to workers in the value chain as well as S1-1 Policies for own workers. Additionally the Principle 1 to respect human rights is reflected in the overall structure and architecture of the ESRS 1, 2 and all S1-4 standards that incorporate reporting requirements on due diligence.
    - Principle 2 refers to ensuring that companies are not complicit in human rights abuses, which is reflected in the DR on Policies in draft ESRS S1-S4 and further reflected through the integration in S2-4 of SFDR PAI 14 (Table 3 of Annex 1) “Number of identified cases of severe human rights issues and incidents”;
    - Principles 3 (Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining) and 6 (Business should uphold the elimination of discrimination in respect of employment and occupation) are reflected in the overall structure and architecture of draft ESRS S1 and draft ESRS S2, which requires undertakings to report on material impacts, risks and opportunities, including on freedom of associations, collective bargaining and non-discrimination, inclusion and diversity where material); and
    - Principle 2 (Business should uphold the elimination of all forms of forced and compulsory labour) is reflected through the integration of SFDR PAI indicators #12 and #13 in Table 3 of Annex 1 (respectively “Operations and suppliers at significant risk of incidents of child labour” and “Operations and suppliers at significant risk of incidents of forced or compulsory labour”).
- Draft ESRS S3 *Affected communities* :
    - Principle 1 stresses that business should support and respect the protection of internationally proclaimed human rights, which is reflected in DR S3-1 Policies related to affected communities; and
    - Principle 2 refers to making sure that companies are not complicit in human rights abuses, reflected through the integration in S3-4 of SFDR PAI 14 (Table 3 of Annex 1) “Number of identified cases of severe human rights issues and incidents”.
- Draft ESRS S4 *Consumers and end-users*:
    - Principle 1 stresses that business should support and respect the protection of internationally proclaimed human rights, which is reflected in DR S4-1 Policies related to consumers and end-users;

- Principle 2 refers to making sure that companies are not complicit in human rights abuses, reflected through the integration in S2-4 of SFDR PAI 14 (Table 3 of Annex 1) “Number of identified cases of severe human rights issues and incidents”.

• Draft ESRS G1 *Business conduct*:

  - Principle 10 on Businesses should work against corruption in all its forms, including extortion and bribery are covered by ESRS G1-3 and G1-4 referred to above.

15. *Tripartite Declaration of Principles of the International Labour Organisation concerning Multinational Enterprises and Social Policy, and the Fundamental Principles and Rights at Work (ILO core conventions)*

The Tripartite Declaration offers guidance to MNEs based on principles contained in international labour Conventions and Recommendations. These are relevant in particular for S1-1 Policies related to own workforce.

The same applies to draft ESRS S2-1 *Policies related to workers in the value chain*, S3-1 *Policies related to affected communities*, and S4-1 *Policies related to consumers and end-users*. The declaration also emphasises the need for access to remedy and grievance mechanisms (paragraphs 64-66), which is reflected in DRDRs S1-4 DR 3 (grievance / remedy).

We provide the following description of how the draft ESRS covers Fundamental Principles and Rights at Work in the ILO:

- Freedom of association and the effective recognition of the right to collective bargaining, and the elimination of discrimination in respect of employment and occupation are reflected in the overall structure and architecture of draft ESRS S1 *Own workforce* and draft ESRS S2 *Workers in the value chain*, which require undertakings to report on material impacts, risks and opportunities, including on freedom of associations, collective bargaining and non-discrimination where material. In addition, draft ESRS S1-9 *Collective bargaining coverage* requires undertakings to disclose the percentage of own workers whose working conditions are determined by collective bargaining agreements;

- The elimination of all forms of forced and compulsory labour and child labour are reflected through the integration of SFDR PAI indicators #12 and #13 in Table 3 of Annex 1, respectively “Operations and suppliers at significant risk of incidents of child labour” and “Operations and suppliers at significant risk of incidents of forced or compulsory labour”;

- Occupational health and safety is covered in particular in draft ESRS S1-14 *Health and safety indicators*, including the percentage of workforce covered by a health and safety management system and a number of indicators on fatalities, accidents and ill health, and days of work lost.

- Non-discrimination is also covered by the breakdowns by gender and type of employment contract in draft ESRS S1-6 *Characteristics of own employees* and Paragraph 26 of draft ESRS S1 *Own workforce*, which requires disclosure of diversity policies. In addition, disclosure on incidents related to discrimination are required by S1- 17 Incidents, complaints and sever human rights impacts and incidents.

- Other topics included in the ILO Conventions and Recommendations listed in the Declaration, which are in draft ESRS S1, include adequate housing (listed as a sustainability matter in the Objectives section and social protection), social protection (DR S1-11 Social protection) and training (in DR S1-13 Training and skills development indicators).

16. ISO 26000 standard on social responsibility

The ISO 26000 standard on social responsibility contains a number of clauses addressing core subjects of social responsibility. Various of its principles and core subjects are reflected in the ESRS:

- Organizational governance is reflected in draft ESRS 2 GOV-1
- Human rights are reflected in the overall structure and architecture of draft ESRS S1 *Own workforce*, draft ESRS S2 *Workers in the value chain*, draft ESRS S3 *Affected communities*, draft ESRS S4 *Consumers and end-users*
- Labour practices are reflected in the overall structure and architecture of draft ESRS S1 *Own workforce* and draft ESRS S2 *Workers in the value chain*
- Environment is reflected in the five environmental standards (draft ESRS E1-5). In particular draft ESRS E2 *Pollution* covers the issue of Prevention of pollution, draft ESRS E5 *Circular economy and resource use* covers the sustainable resource use, draft ESRS E1 *Climate change* covers Climate change mitigation and adaptation and draft ESRS E3 *Water and marine resources* and draft ESRS E4 *Biodiversity and ecosystems* are the state of nature standards that cover the issue of protection of the environment, biodiversity and restoration of natural habitats
- Fair operating practices are reflected in draft ESRS G1 *Business Conduct*, in particular the DRDRs: G1-2 *Management of relationships with suppliers*, G1-3 *Prevention and detection of corruption/bribery* G1-4 *Confirmed incidents of corruption or bribery*
- Consumer issues are reflected in the overall structure and architecture of draft ESRS S4 *Consumers and end-users*
- Community involvement and development is reflected in the overall structure and architecture of draft ESRS S3 *Affected Communities*.

The Principle of Transparency (ISO 26000 4.3) emphasizes the importance of organizations to disclose impacts on society and environment, reflected in the overall structure and architecture of the CSRD and entire ESRS.

17. UN Principles for Responsible Investment

The six UN Principles for Responsible Investment, which were developed for institutional investors, are statements of commitment for responsible behaviour as they are voluntary aspirational. In this respect, the ESRS cover such principles on E, S and G issues across the various draft Standards.

Specifically, draft ESRS 2 at cross-cutting level covers how E, S and G are considered and affect the undertaking’s governance mechanisms, its strategy and business model and now such factors are managed. Whereas the topical standards provide the detailed disclosures for those material E,S and G impacts, risks and opportunities for the undertaking with quantitative and qualitative information for both: i) policies, actions and resources and ii) targets and metrics.

18. ICGN Global Governance Principles

The ICGN Global Governance Principles serve as the standard for well-governed companies. They also inform governments on internationally accepted standards to help inspire the evolution of national corporate governance codes.

ESRS 2 GOV DRDRs are important to meet the following principles:

- Principle 1: Board role and responsibilities - specifically draft ESRS 2 GOV-1
- Principle 2: Leadership and independent - specifically draft ESRS 2 GOV-1
- Principle 3: Composition and appointment – the section on nomination and appointments is included in companies; governance statements (where relevant) rather than sustainability statements.
- Principle 4 on corporate culture is covered by draft ESRS G1-1 while principles 8 and 10 will be covered under the governance statements.
- Principle 5: Remuneration as a whole is covered in the governance statements, while aspects relating to sustainability is covered in draft ESRS 2 GOV-3
- Principle 6: Risk oversight - specifically draft ESRS 2 GOV-1 with ESRS 2 GOV-2 *Information provided to and sustainability matters addressed by the undertaking’s administrative, management and supervisory bodies*
- Principle 7: Corporate reporting – draft ESRS 2 GOV-5 covers the sustainability reporting process.