Chapter 5: Foundations of sustainability reporting

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5.1 Foundations of sustainability reporting — Overview

This chapter discusses the basis of presentation and other foundational concepts of sustainability reporting that are applicable to all entities under the European Sustainability Reporting Standards (ESRS) issued by the European Commission (EC) and the IFRS® Sustainability Disclosure Standards issued by the International Sustainability Standards Board (ISSB).

These general requirements are detailed in:

- ESRS 1 *General requirements*, which sets out the general requirements, and ESRS 2 *General disclosures*, which outlines the disclosure requirements that apply to all entities and across sustainability topics, for sustainability reporting in accordance with ESRS[1]

- IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1), which provides the broad requirements for sustainability reporting in accordance with the IFRS Sustainability Disclosure Standards

One of the foundational points of alignment between the disclosures required by ESRS and the ISSB standards is the incorporation of the key 'pillars' of sustainability reporting established by the Task Force on Climate-related Financial Disclosures (TCFD): governance, strategy, risk management, and metrics and targets. Leveraging this popular framework provides a point of continuity with voluntary reporting and unites the disclosure frameworks through key themes. See SRG 1.6.1 for additional background on TCFD.

In addition to the broad alignment of topics, ESRS and the ISSB standards share underlying similarities related to the basis for preparation and general disclosure requirements. This chapter discusses the key concepts underlying sustainability reporting as follows:

- Qualitative characteristics of sustainability information (SRG 5.2)

- Connectivity with the financial statements (SRG 5.3)

- Measurements in sustainability reporting (SRG 5.4)

- ESRS — General disclosure requirements (SRG 5.5)

- ISSB standards — General requirements for reporting (SRG 5.6)

The qualitative characteristics of sustainability information, connectivity with the financial statements, and approach to measurements in sustainability reporting form the general basis for presentation of sustainability reporting in accordance with ESRS and the ISSB standards. These concepts are generally aligned across the frameworks, providing common foundations for reporting, although certain structural elements of reporting vary, as further discussed in this chapter.

5.1.1 About this chapter

This chapter outlines general concepts and detailed reporting requirements for sustainability reporting in accordance with ESRS and the ISSB standards. The concepts and requirements discussed in this chapter should be considered in the context of ESRS 1, ESRS 2, and IFRS S1 as well as the overall reporting requirements discussed in SRG 3, *Boundaries of sustainability reporting*, SRG 4,

[1] ESRS 1 *General requirements,* paragraph 1; ESRS 2 *General disclosures*, paragraph 1.

Materiality for sustainability reporting, and SRG 6, *Pillars of sustainability reporting*.

The sustainability reporting landscape continues to rapidly evolve. The content of this chapter is based on information available as of 15 December 2024. Accordingly, certain aspects of this publication may be superseded as new guidance or interpretations emerge. Entities are therefore cautioned to stay abreast of — and evaluate the effect of — developments in sustainability reporting.

5.1.2 Terminology used throughout this guide

Throughout this *Sustainability reporting guide* (SRG), we use certain terminology to facilitate combined discussion of the requirements of ESRS and the IFRS Sustainability Disclosure Standards. We also leverage the drafting conventions and nomenclature used in ESRS and the ISSB standards, where applicable. This section highlights certain of the common terms used in this guide.

Impacts, risks, and opportunities (as applicable)

The materiality assessment is the starting point for an entity's sustainability reporting. The scope and details of this assessment, however, vary between reports prepared in accordance with ESRS and the IFRS Sustainability Disclosure Standards:

- ESRS — uses a double materiality approach to identify an entity's material sustainability-related impacts as well as risks and opportunities[2]
- ISSB standards — focus only on risks and opportunities that could reasonably be expected to affect the entity's prospects (that is, its cash flows, its access to finance, or cost of capital) over the short-, medium-, and long-term[3]

An entity must disclose material information about a sustainability matter if the entity determines that disclosure about that matter is material.[4] The definitions of material information are aligned between the two frameworks.[5]

Throughout this guide, the term 'material impacts, risks, and opportunities (as applicable)' is used as a combined reference to 'material impacts, risks, and opportunities' as required by ESRS and 'material information about risks and opportunities that could reasonably be expected to affect the entity's prospects' as required by the ISSB standards. The term 'IROs' is used to refer to impacts, risks, and opportunities in discussions applicable only to ESRS. The term 'material sustainability matters' is also used to refer to those sustainability-related topics about which an entity is required to provide disclosure.

In addition, unless noted, the guidance in this chapter presumes that the disclosures and datapoints represent material information about material impacts, risks, or opportunities (as applicable). An entity should, however, assess materiality of information as part of its materiality assessment and preparation of its disclosures. Further, note that an entity is always required to provide the ESRS 2 disclosures, irrespective of its materiality assessment.[6]

[2] ESRS 1 paragraph 21.
[3] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*, paragraph 3.
[4] EFRAG and IFRS Foundation, *ESRS-ISSB Standards: Interoperability Guidance*, Section 1.1, page 4.
[5] *ESRS-ISSB Standards: Interoperability Guidance*, page 2.
[6] ESRS 1 paragraph 29.

ESRS key terms

ESRS use a convention in which a group of related disclosures are separated into a Disclosure Requirement (referred to as a 'DR'):

- ESRS 2 — DRs are labelled based on the type of disclosure; for example, ESRS 2 *SBM-2 – Interests and views of stakeholders* groups the disclosure requirements related to an entity's strategy and business model (SBM)
- Topical standards — DRs are labelled with the applicable standard and a sequential number; for example, ESRS S1-6 – *Characteristics of the Undertaking's Employees* groups the disclosure requirements about the key characteristics of an entity's workforce

ESRS also include Application Requirements (ARs) which include detail to support application of the DRs. The ARs provide guidance on how to disclose the mandatory information in the DRs and have the same authority as other parts of ESRS.

The disclosure elements of DRs and ARs comprise one or more distinct 'datapoint(s)'; datapoints may also refer to narrative sub-elements. Required datapoints are denoted in ESRS as items that an entity 'shall' disclose.[7] See SRG 5.5.1.

In addition, ESRS include terms in ***bold italic*** which are defined in the glossary of definitions (Commission Delegated Regulation (EU) 2023/2772 Annex II (ESRS Annex II) Table 2 'Terms defined in the ESRS'). The glossary "defines the terms to be used as reference" in preparing sustainability reporting in accordance with ESRS.[8]

5.1.3 *Implementation and interpretive guidance for ESRS and the ISSB standards*

Regulators, standard setters, and technical advisors are actively working to provide implementation and interpretive guidance to assist preparers with application of ESRS and the IFRS Sustainability Disclosure Standards. A summary of available materials issued by the European Commission, EFRAG, the ISSB, and the ISSB Transition Implementation Group is provided in SRG 1.3.4 and SRG 1.4.3. These sources of guidance are also referred to where relevant in this chapter. Although some of this guidance is non-authoritative, it provides helpful perspective about the application of these frameworks.

5.1.4 *Exclusions from this chapter*

This chapter generally discusses the application of ESRS 1 and ESRS 2 as well as IFRS S1 (as applicable) in preparing an entity's sustainability reporting. The chapter, however, does not address certain related information as follows:

Pillars of reporting

ESRS 2 and IFRS S1 provide specific guidance related to the general and minimum disclosure requirements related to the key pillars of sustainability reporting: governance, strategy, management of impacts, risks, and opportunities (as applicable), targets, and metrics. These disclosure requirements — including interaction with topic-specific, sector-specific, and entity-specific disclosures — are addressed in SRG 6, *Pillars of sustainability reporting*.

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[7] ESRS 1 paragraph 18(a).
[8] European Union (EU), Commission Delegated Regulation (EU) 2023/2772, Annex II Table 2 'Terms defined in the ESRS'.

Voluntary disclosures under ESRS

In addition to required disclosures, ESRS include certain voluntary or suggested datapoints — denoted as items that an entity 'may' disclose — which are intended "to encourage good practice".[9] The 'may' datapoint disclosures are not required even if the related sustainability topic or matter is material.[10] See SRG 5.5.1 for further discussion of the 'degree of obligation to disclose' in ESRS.

Disclosures denoted as voluntary are not comprehensively addressed in this chapter. We believe, however, that an entity should consider the relevance of the voluntary disclosures in preparing its reporting, recognising that disclosures may also evolve over time.

US reporting requirements

In March 2024, the United States Securities and Exchange Commission (SEC) issued climate disclosure rules applicable to SEC registrants.[11] These rules do not require any disclosures beyond climate-related risks. There are, however, other SEC rules that may require disclosure about an entity's governance as well as certain sustainability-related risks (for example, human capital and pollution). SEC rules require registrants to provide a suite of disclosures, including "the material effects that compliance with laws and regulations, including environmental regulations" may have on the entity.[12]

These SEC reporting requirements are beyond the scope of this chapter. An SEC registrant preparing reporting under ESRS or the ISSB standards, however, may need to consider whether any of the reported information would be considered material for disclosure under the SEC's existing regulations. See PwC's *SEC Volume* for information on reporting requirements for SEC registrants. See also SRG 8, *Environmental — Sustainability reporting on climate*, for a discussion of the disclosures required by the SEC climate disclosure rules.

Other jurisdictional reporting requirements — including sustainability-related laws passed in California in October 2023 — are discussed in SRG 22, *Jurisdictional sustainability reporting — California*.

5.2 Qualitative characteristics of sustainability information

To provide high quality, useful information to the users of sustainability reporting, ESRS and the ISSB standards require an entity to apply the qualitative characteristics of information, including both fundamental and enhancing characteristics as follows:[13]

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[9] ESRS 1 paragraph 18(b).
[10] EFRAG, ESRS Implementation Q&A Platform, *Compilation of Explanations January – November 2024* (EFRAG Q&A), Question ID 29 and 261, pages 11–13.
[11] On 6 March 2024, the SEC issued its climate disclosure rules, *The Enhancement and Standardization of Climate-Related Disclosures for Investors*. On 4 April 2024, the SEC issued an order to stay the rules to "facilitate the orderly judicial resolution" of pending legal challenges. SEC registrants should continue to apply the existing disclosure rules until the stay is lifted or the litigation is resolved.
[12] SEC, Regulation S-K Item 101(c)(2) and Item 103(c)(3).
[13] ESRS 1 paragraph 19; IFRS S1 paragraph 10.

Figure SRG 5-1
Summary of qualitative characteristics of information from ESRS and the ISSB standards

Fundamental characteristics	*Relevance* — The information has the potential to make a difference in the decisions of users
	Faithful representation — The information is complete, neutral, and accurate
Enhancing characteristics	*Comparability* — The information can be compared with information provided by the entity in previous periods and by other entities with similar activities or operating within the same industry
	Verifiability — The information or the inputs used to derive the information can be corroborated
	Understandability — The information is clear and concise
	Timeliness (ISSB only) — The information is available to users in time to influence their decisions (note 1)

Note 1: ESRS do not have an equivalent characteristic of timeliness as the reporting dates and timing are governed by other EU legislation (see SRG 5.2.6).

These characteristics are generally aligned between the two frameworks. Further, these attributes are not unique to sustainability reporting. They are also identified as the fundamental qualitative characteristics of useful information in the IFRS *Conceptual Framework for Financial Reporting*. Note that although these characteristics are referred to as 'fundamental' and 'enhancing', both ESRS and the ISSB standards state that all of these characteristics apply to information presented in an entity's sustainability reporting.[14] Each of these characteristics is further discussed in the following sections.

5.2.1 Relevance

Sustainability information is considered relevant when it has the potential to make a difference in the decisions of users.[15] Sustainability information may affect user decisions if it has predictive value, confirmatory value, or both. Information is predictive if it may be used to predict future outcomes; confirmatory information provides feedback about previous evaluations.

Materiality is a specific aspect of relevance that is determined by the nature or magnitude (or both) of the items to which the information relates. This assessment is made in the context of an entity's sustainability reporting, taking into account its specific facts and circumstances.

[14] ESRS 1 paragraph 19; ESRS 1 Appendix B; IFRS S1 paragraphs 13 and 15. Note that IFRS S1 states that fair presentation would require an entity to disclose information that is relevant and faithfully represented ('fundamental characteristics') and comparable, verifiable, timely, and understandable ('enhancing characteristics').
[15] ESRS 1 QC 1–QC 4; IFRS S1 paragraphs D4–D7.

5.2.2 *Faithful representation*

Faithful representation requires information to be complete, neutral, and accurate.[16]

- *Complete*

  Information is complete if it includes all material details necessary for users to understand the sustainability-related impacts, risks, and opportunities (as applicable) being depicted. This includes how an entity has adapted its strategy, risk management, and governance in response to material impacts, risks, or opportunities (as applicable), as well as the metrics used to set targets and measure performance.

- *Neutral*

  Neutrality refers to the absence of bias in the selection or disclosure of information. Information is neutral if it is not manipulated to favourably or unfavourably influence users' perceptions. Neutral information is balanced, covering both positive and negative aspects, and giving equal attention to material positive and negative impacts, risks, and opportunities (as applicable).

  Neutrality is supported by prudence, which involves caution when making judgements when there is uncertainty. Prudence ensures that opportunities are not overstated, and risks are not understated, and vice versa.

- *Accurate*

  Accuracy does not require perfect precision but implies that an entity has implemented processes and controls to avoid material errors or misstatements. Estimates are presented with clear emphasis on their limitations and associated uncertainty. Accuracy depends on the nature of the information and the matters it addresses and requires that, for example, factual information is free from material error, descriptions are precise, and estimates, approximations, and forecasts are clearly identified as such.

5.2.3 *Comparability*

Sustainability information is comparable when it can be compared with information provided by the entity in previous periods and can be compared with information provided by other entities, in particular those with similar activities or operating within the same industry. Consistency helps an entity achieve comparability and refers to the use of the same approaches or methods for disclosures about the same sustainability-related impacts, risks, and opportunities (as applicable).[17]

5.2.4 *Verifiability*

Sustainability information is verifiable if it is possible to corroborate the information itself or the inputs used to derive it. Verifiability means that various knowledgeable and independent observers could reach consensus, although not necessarily complete agreement, that a particular depiction is a faithful representation.[18]

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[16] ESRS 1 QC 5–QC 9; IFRS S1 paragraphs D9–D15.
[17] ESRS 1 QC 10–QC 12; IFRS S1 paragraphs D17–D20.
[18] ESRS 1 QC 13–QC 15; IFRS S1 paragraphs D21–D24.

5.2.5 *Understandability*

Sustainability information is understandable when it is clear and concise. Understandable information includes the avoidance of generic 'boilerplate' information and unnecessary duplication of information.[19]

5.2.6 *Timeliness*

The ISSB standards also include the qualitative characteristic of timeliness, which is consistent with the timeliness characteristic defined in the Conceptual Framework for Financial Reporting under the IFRS Standards.[20] Timeliness means that the information is available to users in time to influence their decisions. "Generally, the older [the] information is, the less useful it is. However, some information may continue to be timely long after the reporting period because, for example, some users may need to identify and assess trends."[21]

IFRS S1 requires an entity to publish its sustainability disclosures and annual financial statements at the same time (subject to certain transition reliefs, see SRG 3.8.2.1).[22] ESRS do not have an equivalent characteristic of timeliness as the reporting dates and timing are governed by other EU legislation (see SRG 2.2.5).

5.3 *Connectivity with the financial statements*

The information disclosed in an entity's sustainability reporting is often interconnected with its financial reporting. For example, an entity may need to explain the financial effect that its sustainability strategy has or will have on its financial statements or to disclose a metric in its sustainability reporting that involves a component of financial amounts, such as an intensity metric.

ESRS distinguish two types of connectivity between sustainability information and financial statement information, as follows:[23]

- *Direct connectivity*

  Monetary amounts or quantitative data is presented in the sustainability reporting as well as in the financial statements

- *Indirect connectivity*

  Monetary amounts or quantitative data are presented at a different level of aggregation in the sustainability reporting to that in the financial statements

Although the ISSB standards do not use the terminology of direct and indirect connectivity, we believe the same concepts apply in preparing reporting in accordance with the IFRS Sustainability Disclosure Standards.

ESRS 1 and IFRS S1 mandate disclosures about connected information to allow users to link related information between sustainability reporting and the financial statements.[24] As a result, significant data, assumptions, and qualitative information should, to the extent possible, be consistent between the sustainability reporting and the financial statements.[25] Any significant inconsistencies should be stated and explained.[26] In the context of ESRS, the European Sustainability

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[19] ESRS 1 QC 16–QC 20; IFRS S1 paragraphs D26–D33.
[20] IFRS, *Conceptual Framework for Financial Reporting,* paragraph 2.33.
[21] IFRS S1 paragraph D25.
[22] IFRS S1 paragraph 64.
[23] ESRS 1 paragraphs 124–125.
[24] ESRS 1 paragraphs 118 and 123; IFRS S1 paragraphs 21 and B39–B44.
[25] ESRS 1 paragraph 90; IFRS S1 paragraph 23.
[26] ESRS 1 paragraph 127; IFRS S1 paragraph B42(c).

Markets Authority (ESMA) reiterated the importance of “connectivity between financial and sustainability information” and indicated that preparers “should be able to report relevant connections and reconciliations within the sustainability statement”.[27]

The following sections discuss the specific disclosures required by each framework. There are similarities between the connected information disclosures required by ESRS and the ISSB standards, however, the details vary.

5.3.1 Connected information — Disclosures required by ESRS

The connected information requirements for reporting in accordance with ESRS are described in ESRS 1, as summarised in Figure SRG 5-2. The requirements in this figure are provided for reference and should be read together with the full text of ESRS 1.

Figure SRG 5-2
ESRS — summary of connected information requirements

ESRS 1	Summary of requirement
paragraph 123	An entity “shall describe the relationships between different pieces of information. Doing so could require connecting narrative information on governance, strategy and risk management to related metrics and targets. For example, in providing connected information, the undertaking may need to explain the effect or likely effect of its strategy on its financial statements or financial plans.”
paragraph 124	For “monetary amounts or other quantitative data points” presented in the sustainability reporting and the financial statements, an entity “shall include a reference to the relevant paragraph of its financial statements where the corresponding information can be found”.
paragraph 125	The sustainability reporting “may include monetary amounts or other quantitative datapoints that exceed a threshold of materiality that are either an aggregation of, or a part of, monetary amounts or quantitative data presented in the undertaking’s financial statements”. If so, an entity must “explain how these amounts or datapoints in the sustainability statement relate to the most relevant amounts presented in the financial statements”. “This disclosure shall include a reference to the line item and/or to the relevant paragraphs of its financial statements where the corresponding information can be found. Where appropriate, a reconciliation may be provided, and it may be presented in a tabular form.”
paragraph 126	An entity should explain “the consistency of significant data, assumptions, and qualitative information included in its sustainability statement with the corresponding … information included in the financial statements”.
paragraph 127	“Consistency as required by paragraph 126 shall be at the level of a single datapoint and shall include a reference to the relevant line item or paragraph of notes to the financial statements. When significant data, assumptions and qualitative information are not consistent, an entity “shall state that fact and explain the reason”.

[27] European Securities and Markets Authority (ESMA), Public Statement, *“Off to a good start: first application of ESRS by large issuers”*, 5 July 2024, executive summary and paragraph 47.

ESRS 1 paragraph 128 provides the following examples of situations where an entity would be required to provide an explanation about "consistency of significant data, assumptions and qualitative information" between its sustainability reporting and its financial statements:[28]

- the same metric is reported in the financial statements for the reporting period and as a forecast or target for future periods in the sustainability reporting
- macroeconomic or business projections are used to develop metrics in sustainability reporting, and are also relevant in the estimation of the recoverable amount of assets or the amount of liabilities or provisions in the financial statements

An entity is also required to follow any requirements in the topical or sector-specific ESRS to provide reconciliations or to illustrate consistency of data and assumptions between the sustainability reporting and the financial statements.[29]

5.3.2 Connected information — Disclosures required by the ISSB standards

The connected information requirements for reporting in accordance with IFRS S1 are summarised in Figure SRG 5-3. The requirements in this figure are provided for reference and should be read together with the full text of IFRS S1.

Figure SRG 5-3
IFRS Sustainability Disclosure Standards — summary of connected information requirements

IFRS S1	Requirement
paragraph 21	An entity shall provide information in a manner that allows users to understand the connections between information: □ within sustainability related disclosures □ across its sustainability related disclosures and other general purpose financial reports
paragraph 22	"An entity shall identify the financial statements to which the sustainability related financial disclosures relate."
paragraph 24	"When currency is specified as the unit of measure in the sustainability-related financial disclosures, an entity shall use the presentation currency of its related financial statements."
paragraph B42	When an entity is making connections between disclosures, an entity should provide the "necessary explanations and cross-references and [use] consistent data, assumptions, and units of measure". In providing connected information, an entity should: □ "explain connections between disclosures in a clear and concise manner" □ "avoid unnecessary duplication if IFRS Sustainability Disclosure Standards require the disclosure of common items of information" □ "disclose information about significant differences between the data and assumptions used in preparing the entity's sustainability-related financial disclosures and the data and assumptions used in preparing the related financial statements" (see Question SRG 5-1)

[28] ESRS 1 paragraph 126.
[29] ESRS 1 paragraph 129.

IFRS S1 paragraphs B43 and B44 provide examples of situations when disclosures about connections between disparate pieces of information within the sustainability reporting may be relevant including the following:

- how an entity's strategy to manage its sustainability-related risks and opportunities relate to the targets it has set and the metrics it uses to measure progress against those targets
- how actions to address sustainability-related risks and opportunities may affect a different sustainability-related risk or opportunity — for example, an entity's strategic decision to close a factory because of consumer preference for lower carbon products could affect the entity's workforce — and how 'trade-offs' have been considered when setting strategy and actions to manage sustainability-related risks and opportunities

Other examples of situations when disclosures about connectivity between information in the sustainability reporting and the financial statements may be relevant include situations where an entity discloses a strategy for managing sustainability-related risks that also affects amounts recorded in its financial statements and its forward financial planning over the short-, medium- and long-term. For example, an entity may shift strategy by closing a production plant as a result of consumer preferences for lower-carbon alternatives and may need to address the implications of such decisions.[30]

For more information on connectivity between sustainability-related information and information in the financial statements, see Question SRG 5-1.

Question SRG 5-1

Are the data and assumptions used in preparing an entity's sustainability reporting required to be aligned with those used in the financial statements?

PwC response

Yes, to the extent possible. ESRS and the ISSB standards have similar provisions relating to the consistency of the data and assumptions used in sustainability reporting and financial reporting as follows:

ESRS 2 paragraph 90
Data and assumptions used in preparing the sustainability statement shall be consistent to the extent possible with the corresponding financial data and assumptions used in the undertaking's financial statements.

IFRS S1 paragraph 23
Data and assumptions used in preparing the sustainability-related financial disclosures shall be consistent—to the extent possible considering the requirements of IFRS Accounting Standards or other applicable GAAP— with the corresponding data and assumptions used in preparing the related financial statements (see paragraph B42).

Circumstances may arise where it is not possible for the data and assumptions in the sustainability reporting to be consistent with those used in the financial statements. In this situation, ESRS 1 paragraph 127 requires an entity to ''state that fact and explain the reason'' for the inconsistency. Similarly, IFRS S1 paragraph B42(c) requires an entity to ''disclose information about [the] significant

[30] IFRS S1 paragraph B44(a).

differences''. The ISSB standards do not require an entity to state the reason for significant differences between the data and assumptions used in the sustainability reporting and financial reporting. We believe, however, that it is good practice to do so.

5.4 Measurements in sustainability reporting

Measurements are used in sustainability reporting to prepare disclosures related to quantitative metrics, monetary amounts, or numerical analysis (together referred to as quantitative disclosures in this section). These disclosures may relate to historical or forward-looking information within an entity's own operations or its upstream and downstream value chain.

There are three general steps in preparing quantitative sustainability-related disclosures as depicted in Figure SRG 5-4. Although the details may vary depending on the specific quantitative measurement, this general approach applies irrespective of the reporting framework.

Figure SRG 5-4
Three steps to developing quantitative measurements for sustainability reporting

Step one	Step two	Step three
Select a measurement approach	Identify and collect relevant data	Calculate and disclose
▫ Direct measurement ▫ Estimation	▫ Primary data ▫ Secondary data	▫ Calculate metrics ▫ Prepare disclosures

Considerations of each step in the measurement process are further discussed in the following sections.

5.4.1 Step 1 — Select a measurement approach

Direct and indirect measurement techniques are both used in sustainability reporting to support quantitative disclosures. The measurement approach applied typically depends on the nature of the metric and the availability of different types of data.

Further, there is a spectrum of measurement alternatives ranging from direct measurement using primary data to full estimation based on sources of secondary data (see SRG 5.4.2 for more information about types of data). ESRS E2 *Pollution* outlines a hierarchy of techniques for reporting as summarised in Figure SRG 5-5:[31]

Figure SRG 5-5
Measurement techniques — From direct measurement to estimation

Technique	Description from ESRS E2 (note 1)
Direct measurement	▫ Direct measurement of emissions through use of a continuous monitoring system
Calculation	▫ Periodic measurements

[31] ESRS E2 *Pollution,* AR 26.

	◻	Calculation based on site specific data
	◻	Calculation based on published factors
Estimation	◻	Estimation

Note 1: ESRS E2 AR 26 describes a hierarchy of measurement approaches. We believe these approaches may be generally classified into general types of measurement as summarised in this table.

Although specific to disclosures about pollutant emissions, this summary of approaches from ESRS E2 provides a helpful point of reference for entities reporting under either ESRS or the ISSB standards in understanding different measurement techniques. As noted, there is a range of options between direct measurement (based on primary data) and estimation. Primary data may not be sufficient on its own to produce the required information for sustainability reporting, however, and calculation techniques relying on a combination of primary and secondary data may be required.

For purposes of this *Sustainability reporting guide*, however, we focus on direct measurement and estimation as further discussed in SRG 5.4.1.1 and SRG 5.4.1.2, respectively. In addition, broader considerations related to the qualitative characteristics of information are addressed in SRG 5.4.1.3.

Once an entity selects a methodology to measure a specific quantitative disclosure, it should be applied consistently and transparently disclosed. To the extent more precise information becomes available in future periods, an entity will need to consider the effect on previously reported information. See SRG 3.7 [coming soon] for discussion of changes to prior period information.

5.4.1.1 Direct measurement

Direct measurement should be used to the extent available to address an entity's disclosure requirements. Direct measurement, however, depends on access to primary data (see discussion in SRG 5.4.2.1) and may not be available in many circumstances. In particular, it may be difficult to obtain primary data when developing metrics that incorporate information beyond the entity's own operations.

Direct measurement may be appropriate when disclosing information like employee data obtained from human capital records, payroll information, energy usage, or similar metrics. Absent access to primary data, however, an entity will need to rely on calculation and estimation techniques in preparing quantitative metrics.

5.4.1.2 Indirect measurement — Estimation

To the extent primary data is not available or not available on a timely basis — or the disclosures relate to information that is not able to be directly measured — an entity will need to use estimates to develop the sustainability information. 'Estimates' refer to amounts that are subject to measurement uncertainty.[32] In addition, the inclusion of amounts in sustainability reporting that include measurement uncertainty require specific disclosure as discussed in SRG 5.4.3.

Both ESRS 1 and IFRS S1 acknowledge that the use of estimates is an inherent aspect of sustainability reporting. Further, they state that the use of reasonable estimates does not undermine the usefulness of the sustainability information if those estimates are described and explained.

[32] ESRS 1 paragraph 87; IFRS S1 paragraph 79.

Excerpt from ESRS 1 paragraph 89
The use of reasonable assumptions and estimates, including scenario or sensitivity analysis, is an essential part of preparing sustainability-related information and does not undermine the usefulness of that information, provided that the assumptions and estimates are accurately described and explained.

Excerpt from IFRS S1 paragraph 79
The use of reasonable assumptions and estimates is an essential part of preparing sustainability-related financial disclosures and does not undermine the usefulness of the information if the estimates are accurately described and explained. Even a high level of measurement uncertainty would not necessarily prevent such an estimate from providing useful information.

ESRS 1 also highlights the use of estimates in the value chain, indicating that the use of estimates may be required if an entity cannot collect information about its upstream and downstream value chain "after making reasonable efforts to do so".[33] See SRG 5.4.2.3 for discussion of what constitutes 'reasonable efforts'.

Estimates may rely on either primary or secondary data or may combine both data types. For example, when calculating an entity's percentage of biological materials used to manufacture products that is sustainably sourced, an entity may use a combination of primary and secondary data by combining the actual volume of materials purchased (primary data) multiplied by industry averages (secondary data). An entity may also need to rely solely on secondary data in its reporting, for example when estimating information about activities in its value chain.

Specific examples of circumstances which may require estimation include the following:

- *Lack of data availability*

  An entity may not be able to directly measure certain quantitative metrics for its own operations due to lack of data availability. Upstream and downstream value chain disclosures that are reliant on a third-party may require data that is not readily available and, therefore, is often estimated. Other data — whether from an entity's own operations or its value chain — may not be available on a timely basis.

- *Nature of the metric*

  Certain metrics may be difficult to readily measure and thus may require use of a combination of primary and secondary data or may rely solely on secondary data. For example, greenhouse gas emissions are typically measured using estimation techniques which may include some combination of primary and secondary data.

- *Forward looking information*

  Forward looking information is always estimated using secondary data as an input since direct measurements are not available for future data. This information includes material impacts, risks, and opportunities (as applicable) that are in the medium- and long-term time horizons, scenario analysis, sensitivity analysis, and anticipated financial effects.

Preparing estimates requires an entity to determine the appropriate estimation technique and identify the applicable data. In preparing estimates, entities should

[33] ESRS 1 paragraph 68.

consider some of the broader concepts in sustainability reporting, including the use of 'reasonable and supportable information' (see SRG 5.4.2.3) as well as whether the estimate meets the qualitative characteristics of information.

In addition, in developing estimates, an entity must consider connectivity with the financial statements, including consistency between the inputs and assumptions used in developing estimates for sustainability reporting, and those used in the corresponding financial statements. To the extent possible, these inputs and assumptions should align.[34] See SRG 5.3 for further discussion of connectivity between an entity's financial statements and its sustainability reporting.

5.4.1.3 *Qualitative characteristics of information*

ESRS and the ISSB standards acknowledge that the use of reasonable estimates does not undermine the usefulness of the sustainability information if those reasonable estimates are described and explained.[35] When determining whether an assumption or an estimate is reasonable, it would be relevant for an entity to consider the qualitative characteristics in the sustainability reporting frameworks — in particular, we believe the characteristic of 'faithful representation' is helpful in determining whether or not an estimate is reasonable. Faithful representation is where the information is complete, neutral, and accurate.

Ensuring that an estimate is neutral will require exercising prudence, meaning that positive information should not be overstated, and negative information should not be understated.[36]

Accuracy does not mean perfectly precise in all respects; rather, the assertions an entity makes and the inputs it uses in developing estimates should be reasonable and based on information of sufficient quality and quantity.[37] Estimates that are linked to forward looking information, or information about the future, should faithfully reflect the information on which they are based.[38]

5.4.2 *Step 2 — Identify and collect relevant data*

Sources of data for measurements may generally be divided into two broad categories:

- primary data — data obtained directly from applicable source, either from an entity's own operations or collected from its suppliers and/or customers

- secondary data — data collected from other sources; for example, this may include industry estimates, information from governmental databases, or other published factors

The following sections address data types as well as specific considerations in developing and evaluating data used in preparing estimates for sustainability reporting.

5.4.2.1 *Primary data*

Primary data is directly measured and often depends on detailed and continuous monitoring using systems. Well maintained systems that are subject to frequent calibration and verification procedures provide accurate, consistent, and reliable data.

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[34] ESRS 1 paragraph 90; IFRS S1 paragraph 23.
[35] ESRS 1 paragraph 89; IFRS S1 paragraph 79.
[36] ESRS 1 QC 8; IFRS S1 paragraph D14.
[37] ESRS 1 QC 9(e); IFRS S1 paragraph D15(e).
[38] ESRS 1 QC 9(f); IFRS S1 paragraph D15(f).

Examples of primary data sources include:

- data from employee records
- payroll information
- invoices from suppliers and energy providers

Note that primary data could be obtained from an entity's own operations or its value chain or other business relationships that apply their own direct measurement techniques (for example, a supplier may provide primary data to the reporting entity from the supplier's payroll records).[39]

Primary data should be used to the extent available to address disclosure requirements, irrespective of whether the entity is relying on direct measurement or will need to apply an estimation technique (see SRG 5.4.1.1).

5.4.2.2 *Secondary data*

When a direct measurement is not practical or available, then an entity will need to look to secondary data as a source of information for use in its reporting.

Secondary data includes, but is not limited to, internal and external information such as data from publicly available reports, sector proxies, local, regional and national authorities, newspaper articles, and databases.[40] EFRAG Implementation Guidance 2 *Value chain* (EFRAG IG 2) contains a useful list of examples of secondary data sources.

Excerpt from EFRAG IG 2

173. Secondary data include data from indirect sources, sector-average data, sample analyses, market and peer groups data, other proxies and spend-based data.

174. The [below] lists some sources of such data. Some of these require a fee and are provided as examples, but ESRS do not require the use of fee-based external sources. These are examples of external sources that help address environmental, social and human rights as well as corruption matters.

Examples of external data sources:

- Academic institutions such as the Environmental Performance Index
- Government bodies such as the European Social Progress Index of the European Commission and the US Department of State's Social Progress Index
- [International Labour Organisation] social protection by country
- Non-profit organisations such as the World Justice Project and other NGOs

ESRS 1 AR 17 also provides examples of secondary data stating, "This includes, but is not limited to, internal and external information, such as data from indirect sources, sector-average data, sample analyses, market and peer groups data, other proxies or spend-based data." Although these examples are provided in ESRS 1 and EFRAG IG 2, we believe the guidance may also be useful for entities reporting in accordance with the ISSB standards.

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[39] EFRAG Implementation Guidance 2 *Value chain* (EFRAG IG 2), paragraph 172, page 42.
[40] EFRAG IG 2, paragraph 114, page 27.

As noted in EFRAG IG 2 paragraph 174, an entity is not required to use fee-based external sources, although use of fee-based sources is permitted. We believe the same is true for entities reporting under the ISSB standards. See also discussion of 'reasonable efforts' in SRG 5.4.2.3.

5.4.2.3 Data gathering and sources of data

An entity may have access to a variety of sources of information for use in preparing its sustainability reporting. An entity should use primary data where available. When an entity needs to rely on secondary data, however, it will need to ensure it identifies the appropriate data sources that are reasonable in the circumstances. Considerations in identifying and using various data sources include the:

- use of 'reasonable and supportable information'
- level of effort to obtain the information — 'reasonable efforts' or without 'undue cost or effort'

Each of these factors are further discussed in the following sections.

Reasonable and supportable information

The concept of 'reasonable and supportable information' is discussed in both ESRS and the ISSB standards. The way the term is used, however, varies. ESRS 1 uses the term 'reasonable and supportable information' in the context of preparing value chain information whereas IFRS S1 refers to the concept more broadly.

ESRS 1 paragraph 69
There are circumstances where the undertaking cannot collect the information about its upstream and downstream value chain as required by paragraph 63 after making reasonable efforts to do so. In these circumstances, the undertaking shall estimate the information to be reported about its upstream and downstream value chain, by using all reasonable and supportable information, such as sector-average data and other proxies.

IFRS S1 paragraph B8
Reasonable and supportable information used by an entity in preparing its sustainability-related financial disclosures shall cover factors that are specific to the entity as well as general conditions in the external environment. In some cases—such as in identifying sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects—reasonable and supportable information includes information about past events, current conditions and forecasts of future conditions. Other IFRS Sustainability Disclosure Standards may specify what is reasonable and supportable information in specific cases.

We believe the concept of 'reasonable and supportable information' applies broadly across ESRS and the ISSB standards. The determination of what is 'reasonable and supportable information' may depend on the level of effort to obtain the information as well as the entity's specific facts and circumstances as discussed in the following sections.

See also Question SRG 5-2 for discussion of the use of 'reasonable and supportable information' for estimates related to an entity's own operations when reporting in accordance with ESRS.

Level of effort to obtain information

Both ESRS and the ISSB standards include concepts related to the level of effort required to obtain information for reporting.

ESRS 1 paragraph 69 refers to the use of estimates after an entity 'makes reasonable efforts' to obtain information from its value chain; ESRS also discuss 'undue cost or effort' in the context of preparing anticipated financial effects in certain of the environmental topical standards.[41] ESRS do not define either 'reasonable efforts' or 'undue cost or effort'. EFRAG IG 2 paragraph 165, however, provides guidance as follows:

Excerpt from EFRAG IG 2 paragraph 165
'Reasonable effort' and 'undue cost or effort' relate to the processes put in place by the undertaking to collect VC information and the amount of resources dedicated to these processes. 'Reasonable effort' cannot be an excuse for not disclosing. 'Reasonable effort' and 'undue cost and effort' depend on facts and circumstances specific to the undertaking. … using free and publicly available information may in some cases be considered a reasonable effort. In determining whether an action is beyond 'reasonable effort' and/or beyond 'undue cost and effort', the undertaking shall balance the reporting burden of obtaining direct data and the potential lower quality of the information resulting from not undertaking that action.

IFRS S1 provides a similar description of 'undue cost or effort' when identifying sustainability risks or opportunities:

Excerpt from IFRS S1 paragraph B10
An entity need not undertake an exhaustive search for information to identify sustainability-related risks and opportunities … The assessment of what constitutes undue cost or effort depends on the entity's specific circumstances and requires a balanced consideration of the costs and efforts for the entity and the benefits of the resulting information for primary users. That assessment can change over time as circumstances change.

Both EFRAG IG 2 and IFRS S1 refer to 'balance' in assessing what constitutes collecting information without undue cost or effort, however, neither further define this term. We believe, however, that a balanced approach considers the costs to obtain the information and the resulting benefit of that information to the users. The more useful the information is to the user, the more effort an entity would be expected to expend, if necessary, to obtain the information.[42]

We also believe that information is unlikely to constitute undue cost or effort for an entity if it is publicly available, regularly gathered by the entity for other internal or external reporting, or can be obtained by the entity at a minimal fee. ESRS 1 AR 17 and IFRS S1 paragraph B9 provide examples of sources of reasonable and supportable information that may be available to an entity without undue cost or effort, as summarised in Figure SRG 5-6.

[41] ESRS E2 paragraph 39(a); ESRS E3 *Water and marine resources,* paragraph 33(a); ESRS E4 *Biodiversity and ecosystems,* paragraph 45(a); ESRS E5 *Resource use and circular economy*, paragraph 43(a).
[42] IFRS S1 *Basis for Conclusions on General Requirements for Disclosure of Sustainability-related Financial Information* paragraph BC17.

Figure SRG 5-6
Examples of information available without undue cost

ESRS 1 AR 17	IFRS S1 paragraph B9
- Data from indirect sources - Sector-average data - Sample analysis - Market and peer groups data - Proxies - Spend-based data	- Entity's risk management processes - Industry and peer group experience - External ratings, reports and statistics - Information used to prepare financial statements

We believe that these examples are the same in nature and applicable under both sets of standards.

Entity-specific factors

The factors discussed above in determining the availability of information may be broadly applicable across different types of entities. In November 2024, the European Commission published 'Frequently Asked Questions' on the implementation of the EU Corporate Sustainability Reporting Directive (EC FAQs), which provide broader guidance of specific factors to assist in determining what constitutes 'reasonable effort' related to obtaining information from the value chain as summarised in Figure SRG 5-7.

Figure SRG 5-7
Considerations in determining 'reasonable effort'[43]

Consideration	Description
Size and resources of the entity and the actors in the value chain	- What constitutes reasonable effort for a larger, well-resourced entity is different than that for a smaller, less well-resourced entity - The scale and complexity of value chain should be considered relative to an entity's size and resources - The size and resources of the actors in the value chain would also influence the level of effort required from the reporting entity
Technical readiness of the entity and the actors in the value chain	- Prior experience in collecting value chain information would help an entity's current effort - Prior experience of actors in the value chain in providing information would also help an entity's current effort - Technical readiness of an entity and actors in the value chain is expected to improve overtime

[43] EU, *Commission Notice on the interpretation of certain legal provisions in Directive 2013/34/EU (Accounting Directive), Directive 2006/43/EC (Audit Directive), Regulation (EU) No 537/2014 (Audit Regulation), Directive 2004/109/EC (Transparency Directive), Delegated Regulation (EU) 2023/2772 (first set of European Sustainability Reporting Standards, first ESRS delegated act), and Regulation (EU) 2019/2088 (Sustainable Finance Disclosures Regulation, SFDR) as regards sustainability reporting* (EC FAQs), question 29.

Consideration	Description
Availability of tools to access and share information	▫ Efficient and commonly used tools — for example, digital tools — available to the entity and the value chain actors would help an entity's effort ▫ Availability of such tools is expected to increase overtime
Level of influence and buying power	▫ Level of control of the reporting entity over the actors in the value chain — for example, through equity ownership — would influence its ability to collect information ▫ The buying power of the reporting entity over other entities would also help its efforts to collect information
Proximity of the actor to the entity	▫ "Less effort is usually required to obtain information from a tier 1 supplier or a direct customer than from other actors in the value chain. This means that undertakings are more likely to have recourse to the use of estimates in the case of actors in the value chain that are not tier 1 suppliers or direct customers."

As EC FAQ question 29 further states any one or a combination of these considerations could be sufficient to determine whether 'reasonable effort' has been used.[44]

For example, if an entity is a major customer for its suppliers, and has a small number of key suppliers, it may be possible that reasonable effort allows the entity to collect primary data from its key suppliers. The entity may not be able to collect primary data, however, if, for example, the entity has hundreds of small suppliers that do not track the data the entity requires for its sustainability reporting. In this case, the entity may estimate the data needed using the information that it is able to obtain.

Although this guidance is specific to 'reasonable efforts' under ESRS, these concepts may also be helpful for an entity preparing reporting in accordance with the ISSB standards. These standards are specifically designed to include the concept of proportionality, which may require different levels of effort depending on the facts and circumstances of the individual entity.[45] Further, IFRS S1 *Basis for Conclusions on General Requirements for Disclosure of Sustainability-related Financial Information,* paragraph BC17 states that the concept of information available without undue cost or effort is to "assist those entities that would otherwise be unable to comply fully with the requirements in IFRS Sustainability Disclosure Standards".

Question SRG 5-2

Is an entity required to apply the concepts of 'reasonable and supportable information' and 'reasonable effort' to the collection of information within its own operations?

PwC response

ESRS 1 refers to the use of reasonable assumptions and estimates in an entity's sustainability reporting as follows:

[44] EU, EC FAQs question 29.
[45] IFRS S1 paragraphs BC8 and BC9.

Excerpt from ESRS 1 paragraph 89
The use of reasonable assumptions and estimates, including scenario or sensitivity analysis, is an essential part of preparing sustainability-related information and does not undermine the usefulness of that information, provided that the assumptions and estimates are accurately described and explained.

ESRS 1 paragraph 90 further states that an entity is required to use the same data and assumptions in preparing sustainability reporting to those used in the entity's financial statements. In addition, for each metric, ESRS 2 paragraph 77 requires an entity to "disclose the methodologies and significant assumptions behind the metric".

ESRS does not, however, provide specific guidance about the level of effort necessary prior to the use of estimates related to information about an entity's own operations. With respect to value chain information, ESRS 1 paragraph 69 acknowledges that an entity may not be able to collect value chain information "after making reasonable efforts to do so". EFRAG IG 2 and the EC FAQs provide further considerations in assessing whether an entity has made 'reasonable efforts'.

We believe that an entity must expend this level of effort — at a minimum — with respect to information from its own operations. Obtaining primary data from an entity's own operations will typically require a lower level of effort compared to collecting upstream and downstream value chain information. In addition, if data is available within the organisation — for example, it is used in the preparation of the financial statements or gathered as part of operations — we would expect it to also be used in the entity's sustainability reporting. Use of the same data and assumptions, to the extent possible, between sustainability reporting and financial reporting is also required as noted above.

We would also expect that the quality of information used in sustainability reporting will improve over time as entities implement enhanced processes and procedures to collect data.

Question SRG 5-3

What are examples of fact patterns when it may not be appropriate to conclude that the entity has made a sufficient effort to obtain information?

PwC response

Both ESRS and the ISSB standards include concepts related to the level of effort required to obtain information for reporting. The terminology used includes 'makes reasonable efforts' to obtain information or 'undue cost or effort'.[46] Specific circumstances where we believe that an entity cannot conclude that it has made reasonable effort include:

- not using information that is regularly gathered by the entity for other internal or external reporting, or otherwise used within the organisation
- failure to try to collect the necessary data
- not using information that is publicly available or can be obtained for a minimal fee

[46] ESRS 1 paragraph 69; IFRS S1 paragraph B10.

- stating that it was not aware of the requirement to collect this data and part of the reporting period has already elapsed

In addition, an entity may not claim that it has made reasonable effort to obtain the information solely because the data or disclosure requirements extend beyond existing regulations (that is, an entity may not assert that the information is not required because it exceeds other requirements). For example, an entity would need to make a reasonable effort to obtain the data required for the ESRS 2-4 – *Pollution of air, water and soil* disclosures even though the extent of disclosures may exceed that required by the European Pollutant Release and Transfer Register.

5.4.3 Step 3 — Calculate and prepared required disclosures

ESRS and the ISSB standards require disclosures about uncertainties related to metrics and amounts included in an entity's sustainability reporting.[47] ESRS 2 requires these disclosures about amounts "that are subject to a high level of measurement uncertainty" and IFRS S1 requires disclosure to enable understanding of "the most significant uncertainties affecting amounts reported".[48] Although the terminology used is slightly different, we would generally expect the disclosures to cover similar items. Both standards require disclosure of:[49]

- sources of measurement uncertainty (for example, the dependence on the outcome of a future event, measurement technique, or the availability and quality of data from the value chain)

- the assumptions, approximations, and judgements made in preparing the measurement

ESRS 2 paragraph 77(a) and IFRS S1 paragraph 50(d) also require disclosures of the methodologies — including limitations of those methodologies — and significant assumptions used for developing metrics. For further information on these disclosure requirements, see SRG 6.8.2.

ESRS also state that an entity may disclose that it considers forward-looking information to be uncertain.[50] Although the ISSB standards do not include a similar specific provision, we believe disclosure may also be included by an entity reporting under the ISSB standards.

Generally, disclosures about significant measurement uncertainties will relate to the entity's most difficult, subjective, and complex judgements, and so the exact amount and content of these disclosures will vary depending on the entity's specific facts and circumstances.

Transitional provisions related to value chain information — ESRS

ESRS 1 includes transitional provisions that permit an entity to omit certain information about its upstream and downstream value chain in the first years of application of the standards.[51] In addition, for the first three years of the entity's reporting in accordance with ESRS, an entity is permitted to provide an explanation in the event not all necessary information regarding the upstream and downstream value chain is available.[52] For further information on the transitional

[47] ESRS 2 paragraph 11; IFRS S1 paragraph 77.
[48] ESRS 2 paragraph 11(a); IFRS S1 paragraph 78(a).
[49] ESRS 2 paragraph 11(b); IFRS S1 paragraph 78(b).
[50] ESRS 2 paragraph 12.
[51] ESRS 1 paragraph 133.
[52] ESRS 1 paragraph 132.

provision related to information about an entity's upstream and downstream value chain, see SRG 3.8.1.2.

5.5 ESRS – General requirements disclosures

The general requirements disclosures under ESRS are included in the two cross-cutting standards: ESRS 1 *General requirements* and ESRS 2 *General disclosures.* ESRS 1 describes the overall architecture of ESRS, the foundational concepts included in the standards, and the general requirements for preparing and presenting sustainability information.[53] ESRS 2 establishes general and minimum disclosure requirements that apply to all entities (sector-agnostic) and across sustainability topics (cross-cutting).[54]

This section covers the general requirements for reporting in accordance with ESRS including:

- Degree of obligation to disclose (SRG 5.5.1)
- Structure of ESRS sustainability reporting (SRG 5.5.2)
- 'General information' part of the sustainability reporting (SRG 5.5.3)
- Incorporation by reference (SRG 5.5.4)

This section also discusses specific instances when material information is not required to be disclosed under ESRS (see SRG 5.5.5).

5.5.1 Degree of obligation to disclose

Throughout the ESRS cross cutting and topical standards, specified terms are used when describing whether an entity is required to disclose specific pieces of information related to a material IRO. ESRS 1 paragraph 18 describes the terms 'shall disclose', 'shall consider', and 'may disclose', as summarised in Figure SRG 5-8.[55]

Figure SRG 5-8
Degree of obligation to disclose from ESRS 1 paragraph 18

Form	ESRS application
'shall disclose'	□ An entity is required to disclose the relevant information if it is material □ 'Shall' datapoints in ESRS 2, however, are required irrespective of the outcome of the entity's materiality conclusion
'shall consider'	□ Areas or sources of information that an entity is required to consider when preparing a specific disclosure
'may disclose'	□ Disclosure is voluntary even if the information is material □ Disclosures are provided to "encourage good practice"[56] □ Omission of the information is permitted even if the information is material (see Question SRG 6-3 in SRG 6.2.5)

[53] ESRS 1 paragraph 6.
[54] ESRS 2 paragraph 1.
[55] ESRS 1 paragraph 18; EFRAG Q&A Question ID 29 and ID 261, pages 11–13.
[56] ESRS 1 paragraph 18(b).

Another term used in ESRS is 'may consider', but ESRS 1 paragraph 18 is silent on the description of this term. We believe that an entity is permitted — but not required — to refer to these materials or considerations in preparing the specified disclosure. This understanding is consistent with that for the ISSB standards described in IFRS S1 paragraph BC132 (see SRG 5.6.1).

See also further discussion of the disclosure requirements related to material impacts, risks, and opportunities in SRG 6.2.

5.5.2 *Structure of ESRS sustainability reporting*

ESRS 1 requires an entity to structure its ESRS sustainability reporting in four parts in a prescribed order.

Excerpt from ESRS 1 paragraph 115
The undertaking shall structure its sustainability statement in four parts, in the following order: general information, environmental information …, social information and governance information.

The 'general information' part of the sustainability reporting includes information regarding the basis of preparation of the sustainability reporting, as well as general information on an entity's governance, strategy, and impact, risk, and opportunity management. The 'general information' part includes the general disclosures from ESRS 2 as well as certain topic-specific disclosures detailed in Appendix C of ESRS 2 (see SRG 6.2.3).

The 'environmental information', 'social information', and 'governance information' parts include disclosures as required by:

- *Sector-agnostic topical standards*

  ESRS includes 10 sector-agnostic standards which span all aspects of sustainability reporting — addressing environmental, social, and governance topics. The required disclosures are designed to provide insight into an entity's material sustainability impacts, risks, and opportunities, including its sustainability strategy, targets and progress, products and services, business relationships, incentive programs, and value chain.[57]

- *Sector-specific standards*

  The sector-specific standards will address sustainability-related impacts, risks, and opportunities that are typically material to entities within a specific sector but are not sufficiently addressed in the topical standards.[58]

- *Entity-specific disclosures*

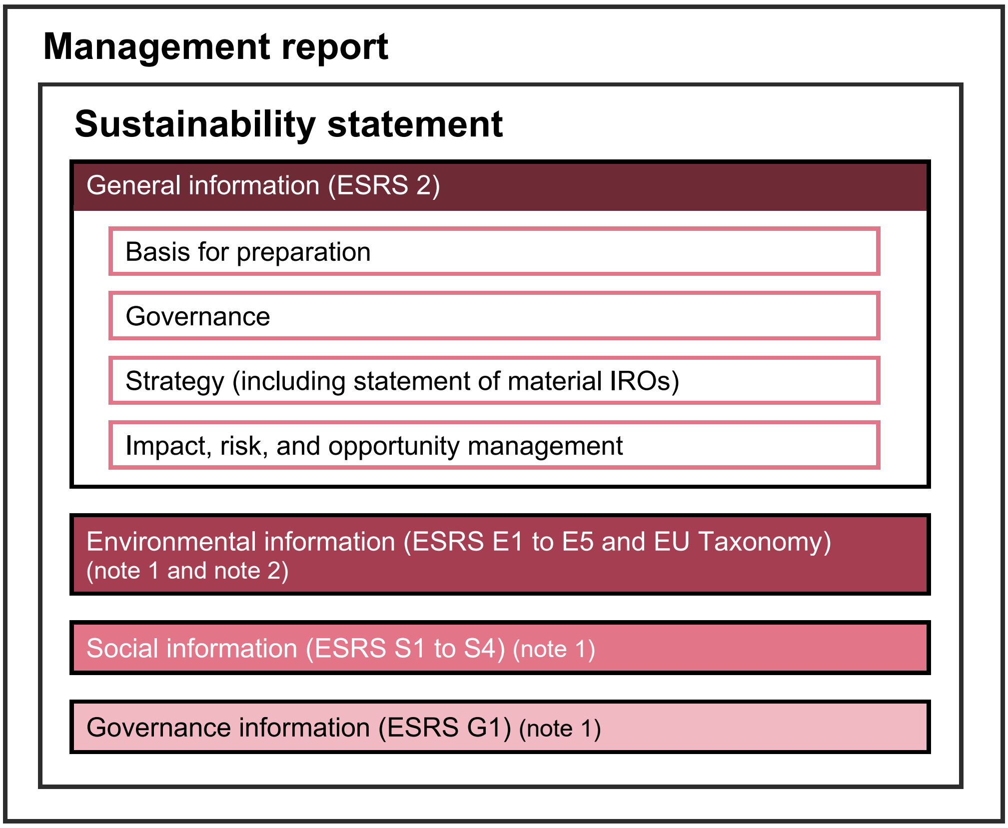
  An entity is required to provide entity-specific disclosures when a material impact, risk, or opportunity is not covered, or is not covered in sufficient granularity by an ESRS (cross-cutting, topical, or sector-specific standards, when available).[59]

See further discussion of the components of ESRS disclosure in SRG 6.2. ESRS 1 requires an entity to group material entity-specific disclosures alongside the most relevant topical and sector-specific disclosures.[60] Sector-specific disclosures (once available) are also required to be presented together with the ESRS 2

[57] ESRS 1 paragraph 2.
[58] EFRAG is currently in the process of developing sector-specific standards. The EFRAG website includes the latest information on their planned process and current timeline.
[59] ESRS 1 paragraph 11.
[60] ESRS 1 paragraph 117.

disclosures and the relevant topical standards; the sector-specific disclosures should also be grouped by reporting area and by sustainability topic (where applicable).[61] Figure SRG 5-9 provides an illustration of what information should be included in the four parts of a sustainability reporting.

Figure SRG 5-9
The four parts of ESRS sustainability reporting



Note 1: Note that the environmental information, social information, and governance information parts include the minimum disclosure requirements from ESRS 2 as well as topic-specific, sector-specific (when available), and entity-specific disclosures

Note 2: See SRG 19, *EU Taxonomy reporting — Introduction,* for more information.

The sustainability reporting is to be prepared in such a way as to permit a distinction between the information that is required by ESRS and other information that is included in the management report. The structure of the sustainability reporting should facilitate the understanding of the information.[62]

See the following questions for more information on the structure of ESRS sustainability reporting.

[61] ESRS 1 paragraph 116.
[62] ESRS 1 paragraph 111. Note that this distinction between the management report and the sustainability statement does not apply to entities headquartered outside the EU. These entities are permitted to include their reporting in accordance with ESRS in a sustainability report. See Question SRG 2-12 in SRG 2.2.4 for more information.

Question SRG 5-4

May an entity add an additional section to the four parts required in sustainability reporting prepared under ESRS?

PwC response

No. ESRS 1 paragraph 115 prescribes the structure of an entity's sustainability reporting stating that it must be prepared "in four parts, in the following order: general information, environmental information (including disclosures pursuant to the [EU Taxonomy Regulation]), social information and governance information". An entity is, however, permitted to incorporate information by reference into the reporting, if specified conditions are met (see SRG 5.5.4).

As a result, an entity may include certain information in the four parts of its report by incorporating information by reference from another part of its management report (or other permitted documents). EFRAG ESRS Implementation Q&A Platform, *Compilation of Explanations January–November 2024* (EFRAG Q&A), Question ID 906 provides an example of the use of incorporation by reference stating that "It is possible to have the content index and the EU datapoint table as another section of the management report… information can, subject to the incorporation by reference requirements of ESRS 1 paragraph 120, also be placed in 'another section of the management report' (ESRS 1 paragraph 119(a))".[63] EFRAG Q&A Question ID 426 also states that an entity may use incorporation by reference to include information in the entity's sustainability reporting, subject to meeting the qualitative characteristics of information (see SRG 5.2).[64]

Question SRG 5-5

Is an entity required to follow a specific format for the topical disclosures included in the 'environmental information', 'social information', and 'governance information' sections of its sustainability reporting?

PwC response

In general, there is no specified structure required within the environmental, social, and governance information sections of an entity's sustainability reporting. ESRS 2 provides guidance that the minimum disclosure requirements related to policies, actions, targets, and metrics must be provided alongside the disclosures prescribed by the applicable topical ESRS.[65] In addition, ESRS 2 provides flexibility that an entity may present policies and actions under one topical ESRS and cross-reference to it in reporting on other topical ESRS, when a policy or action relates to more than one topic.[66]

Further, with respect to the structure within the sections of the reporting, EFRAG Q&A Question ID 38 confirms that there are "no specific requirements defining how an undertaking shall present the reported information related to a specific topic required by a given topical standard". It also states that policies, actions, targets, and metrics related to the same sustainability topic may be presented together.[67]

In addition, as discussed in SRG 6.2.3, ESRS 2 paragraph 49 provides flexibility in the location of the topical disclosures related to ESRS 2 SBM-3, indicating that

[63] EFRAG Q&A Question ID 906, pages 68–70.
[64] EFRAG Q&A Question ID 426, pages 65–66.
[65] ESRS 2 paragraphs 61 and 70.
[66] ESRS 2 paragraph 61.
[67] EFRAG Q&A Question ID 38, pages 61–62.

they may be presented in the general information part of the reporting or alongside the relevant topical disclosures (see SRG 6.5.3).

Note that an entity is required to present the disclosures provided in accordance with the EU Taxonomy Regulation in a "clearly identifiable part of the environmental section" of the report.[68]

5.5.3 'General information' part of the sustainability reporting

ESRS 2 serves as the basis for most of the disclosures included in the 'general information' part of an entity's sustainability reporting. The disclosures and datapoints required by ESRS 2 — that is, the 'shall' disclosures in ESRS 2 — are "outside of the materiality assessment" and are generally required irrespective of the outcome of the entity's materiality conclusions (see SRG 6.2 for more information about the disclosure requirements in ESRS 2).

ESRS 2 includes two disclosure requirements related to the broad requirements of sustainability reporting: ESRS 2 BP-1 – *General basis for preparation of the sustainability statement* and ESRS 2 BP-2 – *Disclosure in relation to specific circumstances.* The objectives of these requirements are summarised in Figure SRG 5-10.

Figure SRG 5-10
Objectives of ESRS 2 BP-1 and ESRS 2 BP-2

ESRS 2	Reference	Area	Description
paragraph 4	SRG 5.5.3.1	General basis for preparation of the sustainability statement (BP-1)	"How the undertaking prepares its sustainability statement, including the scope of consolidation, the upstream and downstream value chain information and, where relevant, whether the undertaking has used any of the options for omitting information"
paragraph 7	SRG 5.5.3.2	Disclosure in relation to specific circumstances (BP-2)	"An understanding of the effect of … specific circumstances on the preparation of the sustainability statement", including those related to time horizons, value chain estimation, and errors in prior periods, among others.

The following sections discuss these requirements in more detail.

5.5.3.1 General basis for preparation of sustainability reporting

ESRS 2 BP-1 – *General basis for preparation of the sustainability statement* requires an entity to disclose certain information about the basis of presentation of its sustainability reporting. Figure SRG 5-11 summarises these disclosures and provides cross references to further discussion in this *Sustainability reporting guide.* The datapoints in this figure are provided for reference and should be read together with the full text of ESRS 2.

Figure SRG 5-11
Summary of datapoints required by ESRS 2 BP-1

ESRS 2	Reference	Topic	Summary of datapoints
paragraph 5(a)	SRG 3.3	Basis of preparation	Whether the sustainability reporting "has been prepared on a consolidated or individual basis"

[68] ESRS 1 paragraph 113.

ESRS 2	Reference	Topic	Summary of datapoints
paragraph 5(b)	SRG 2.2.6 and SRG 3.3	Consolidated reporting	For consolidated sustainability reporting: □ confirmation that the reporting boundary is the same as the financial statements or that an entity is not required to prepare financial statements or the subsidiary is preparing the consolidated sustainability reporting as permitted in Article 48i of the Accounting Directive □ identify which subsidiaries are exempt from preparing individual or sub-group sustainability reporting (that is, they applied the subsidiary exemption)
paragraph 5(b) and AR 1	SRG 3.4	Value chain information	□ The extent to which the sustainability reporting includes information regarding the entity's upstream and downstream value chain □ The entity may choose to distinguish between the extent to which the value chain is included in the materiality assessment, the entity's policies actions and targets, and the entity's metric disclosures[69]

In addition, an entity must disclose whether it has applied the option to not disclose certain material information in its sustainability reporting as permitted by ESRS 2 paragraph 5. See SRG 5.5.5 for more information about material information not required to be disclosed.

5.5.3.2 Disclosures in relation to specific circumstances

ESRS 2 BP-2 – *Disclosures in relation to specific circumstances* requires disclosure in relation to specified circumstances or requirements of the entity. These disclosures apply to an entity irrespective of its sector or materiality assessment.[70] These disclosures are intended to provide transparency and understanding of the effects of these circumstances on the sustainability reporting and may be reported alongside the disclosures to which they refer.[71] Figure SRG 5-12 summarises the general requirement disclosures in ESRS 2 BP-2 and provides cross references to where further discussion on each topic may be found in this *Sustainability reporting guide*. The datapoints in this figure are provided for reference and should be read together with the full text of ESRS 2.

Figure SRG 5-12
Summary of disclosure requirements related to ESRS 2 BP-2

ESRS 2	Reference	Topic	Summary of datapoints
paragraph 9	SRG 3.5.3.1	Time horizons	If an entity has deviated from the standard definitions of medium- or long-term time horizons provided in ESRS 1, it must disclose the different definitions applied and the reasons for applying those definitions.

[69] ESRS 2 AR 1.
[70] ESRS 2 paragraph 6.
[71] ESRS 2 paragraphs 7 and 8.

ESRS 2	Reference	Topic	Summary of datapoints
paragraph 10	SRG 5.4.2.3	Value chain estimation	ESRS 1 allows value chain data to be estimated using indirect sources. When metrics include upstream and/or downstream value chain data that are estimated using indirect sources, the entity is required to: (a) "identify the metrics" (b) "describe the basis for preparation" (c) "describe the resulting level of accuracy" (d) "where applicable, describe the planned actions to improve the accuracy in the future" (see further discussion below the figure)
paragraphs 11-12	SRG 5.4.3	Sources of estimation and outcome uncertainty	ESRS 1 acknowledges the use of reasonable assumptions and estimates is essential but may result in outcome uncertainty. For the sources of estimation and outcome uncertainty, the entity: □ is required to identify quantitative metrics and monetary amounts that are subject to a high level of measurement uncertainty □ is required, for each quantitative metric and monetary amount identified, to disclose the sources of measurement uncertainty and the assumptions, approximations, and judgements used or made[72] □ may also disclose that it considers forward looking information to be uncertain
paragraph 13	SRG 3.7 [coming soon]	Changes in preparation or presentation of sustainability information	ESRS 1 requires restatement of comparative information when an entity has redefined or replaced a metric or target or identified new information in relation to estimated figures. In this case, the entity is required to disclose: (a) an explanation of "the changes and the reasons for them" (b) "revised comparative figures, unless it is impracticable to do so" (c) "the difference between the figure disclosed in the preceding period and the revised comparative figure"
paragraph 14	SRG 3.7 [coming soon]	Reporting errors in prior periods	ESRS 1 describes that a material error related to a prior period may be identified. In this case, the entity is required to disclose: (a) the nature of the error (b) "to the extent practicable, the correction for each prior period included" in the sustainability reporting (c) "if correction of the error is not practicable, the circumstances" supporting that conclusion

[72] ESRS 1 paragraph 88.

ESRS 2	Reference	Topic	Summary of datapoints
paragraph 15	SRG 6.2.6	Disclosures stemming from other legislation or generally accepted sustainability reporting pronouncements	ESRS 1 paragraph 114 permits the inclusion of 'additional information' in certain circumstances, including when the additional information is from other legislation that requires the entity to disclose it. In this case, the entity is required to disclose: □ the existence of such information in an entity's sustainability reporting □ in case of partial application of such other standards or frameworks, a precise reference to the paragraphs of the standard or framework applied
paragraph 16	SRG 5.5.4	Incorporation by reference	In defined circumstances, ESRS 1 permits an entity to include information located outside of the sustainability reporting by reference to the location where the information may be found. In this case, the entity is required to disclose a list of ESRS disclosure requirements, including specific datapoints, that have been incorporated by reference.
paragraph 17	SRG 3.8.1.4	Use of phase-in provisions for an entity or group not exceeding the average number of 750 employees during the financial year, on its balance sheet date	ESRS 1 provides a list of specific topical standards which are subject to phased-in provisions for an entity or group not exceeding the average number of 750 employees during the financial year, on its balance sheet date. If the entity decides to make use of the phase-in provisions, it must disclose: □ whether the sustainability topics covered by the topical standards have been assessed to be material □ if one or more of these topics has been assessed to be material, for each material topic include 'de minimis' disclosures

In addition, ESRS 1 paragraph 132 requires an entity to provide disclosure if not all value chain information is available in the first three years of application of ESRS. In this event, an entity is required to disclose "the efforts made to obtain the necessary information about its upstream and downstream value chain, the reasons why not all of the necessary information could be obtained, and its plans to obtain the necessary information in the future".[73] This requirement provides further information about the disclosure required by ESRS 2 paragraph 10(d), which requires an entity to describe its planned actions to improve value chain information in the future.

Voluntary disclosures about use of European standards approved by the European Standardisation System

In addition to the required disclosures in ESRS 2 BP-2, an entity may voluntarily choose to disclose whether it relies on European standards approved by the European Standardisation System, as well as the extent to which its process and data used for its sustainability reporting has been verified by an external assurance provider.[74]

The European Standardisation System referred to in ESRS 2 AR 2 includes:

[73] ESRS 1 paragraph 132.
[74] ESRS 2 AR 2.

- *ISO/IEC standards*
  ISO/IEC standards are international standards created by the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC). These standards detail guidance on wide range of organisational activities and processes related to products and services.[75]

- *CEN/CENELEC standards*
  CEN, the European Committee for Standardization, provides a platform for the development of European Standards and other technical documents related to activities, products, materials, services, and processes in a wide range of sectors.[76] CENELEC, the European Committee for Electrotechnical Standardization, prepares voluntary standards in the electrotechnical field to help facilitate trade between countries and support the development of the Single European Market.[77]

The objective of the European Standardisation System is to agree on common procedures that respond to the needs of businesses and meet consumer expectations.[78]

5.5.4 Incorporation by reference

If certain criteria are met, ESRS 1 permits an entity to incorporate specific pieces of information into its sustainability reporting by reference from a set list of locations as follows:[79]

- another section of the management report
- the financial statements
- if not part of the management report, the corporate governance statement
- the remuneration report
- the universal registration document (referred to in Article 9 of Regulation (EU) 2017/1129)
- public disclosures under Regulation (EU) No 575/2013 of the European Parliament and of the Council (Pillar 3 disclosures)
- the undertaking's report prepared according to EU Eco-Management and Audit Scheme (EMAS) Regulation (EU) No 1221/2009

Further, disclosures incorporated by reference into the sustainability reporting must comply with the characteristics provided in ESRS 1 paragraph 120.

ESRS 1 paragraph 120
The undertaking may incorporate information by reference to the documents, or part of the documents, listed in paragraph 119, provided that the disclosures incorporated by reference:

[75] International Organization for Standardization (ISO), Standards; "Understanding standards", International Electrotechnical Commission (IEC), accessed 15 December 2024.
[76] "About CEN", European Committee for Standardization (CEN), accessed 15 December 2024.
[77] "About CENELEC", European Electrotechnical Committee for Standardization (CENELEC), accessed 15 December 2024.
[78] "European Standardisation", CEN and CENELEC, accessed 15 December 2024.
[79] ESRS 1 paragraphs 119 and 121.

a. constitute a separate element of information and are clearly identified in the document concerned as addressing the relevant Disclosure Requirement, or the relevant specific datapoint prescribed by a Disclosure Requirement;

b. are published before or at the same time as the management report;

c. are in the same language as the sustainability statement;

d. are subject to at least the same level of assurance as the sustainability statement; and

e. meet the same technical digitalisation requirements as the sustainability statement.

In addition, when incorporating by reference, an entity is required to ensure that the Pillar 3 information is prepared in accordance with the same consolidation principles used for the sustainability reporting.[80] A similar requirement applies to information incorporated by reference from the EMAS report.[81]

In addition to complying with the specific requirements around location for the datapoints incorporated by reference, and the characteristics in ESRS 1 paragraph 120, an entity must consider the overall cohesiveness of the sustainability statement when it is assessing whether to incorporate information by reference.[82] Incorporating by reference should not impair the readability of the sustainability reporting.[83]

5.5.5 *Material information not required to be disclosed*

There are limited circumstances where an entity may omit material information from its sustainability reporting. Material may be omitted if it contains:

- sensitive and classified information (SRG 5.5.5.1)
- information about strategy, plans, and actions (SRG 5.5.5.2)
- exempted information allowed by EU member state (SRG 5.5.5.3)

If an entity decides not to disclose material information as a result of these provisions, ESRS 1 paragraph 107 requires an entity to still comply with the related disclosure requirement by providing all other required information. Further, an entity should make reasonable efforts to ensure that the “overall relevance of the disclosure … is not impaired”, despite the omission of certain information.[84] ESRS 2 paragraph 5(d) also requires an entity to disclose that it used the option to omit a specific piece of information in accordance with these provisions.

Topical ESRS may also contain provisions regarding the omission of specific topical datapoints. See the relevant SRG chapters on topical standards for more detail.

5.5.5.1 *Sensitive and classified information*

ESRS generally require the disclosure of material information even if an entity considers it to be confidential or business sensitive. This may include details of its strategy or planned investments to achieve targets. ESRS 1 paragraphs 105 and 106, however, permit the omission of classified or sensitive information as defined in Figure SRG 5-13.

[80] ESRS 1 paragraph 119(f).
[81] ESRS 1 paragraph 121.
[82] ESRS 1 paragraph 122.
[83] ESRS 1 paragraph 122.
[84] ESRS 1 paragraph 108.

Figure SRG 5-13
Definitions of classified and sensitive information

Term	Definition
Classified information	Any information designated by an EU security classification, if disclosed without the appropriate authorisation could cause varying degrees of prejudice to the interests of the EU or of one or more of the member states.[85]
Sensitive information	Information and data, including classified information, that is to be protected from unauthorised access or disclosure because of obligations laid down (i) in the EU, (ii) the national law, or (iii) in order to safeguard the privacy or security of a natural or legal person.[86]

The definitions of 'classified information' and 'sensitive information' in ESRS Annex II Table 2 refer to the definitions in the Directive 2013/488/EU and Regulation (EU) 2021/697, respectively.

5.5.5.2 *Information about strategy, plans, and actions*

In disclosing information about strategy, plans, and actions, an entity is not required to disclose specific information related to intellectual property, know-how, or the results of innovation if all of the criteria in ESRS 1 paragraph 106 are met.

ESRS 1 paragraph 106

When disclosing information about its strategy, plans and actions, where a specific piece of information corresponding to intellectual property, know-how or the results of innovation is relevant to meet the objective of a Disclosure Requirement, the undertaking may nevertheless omit that specific piece of information if it:

(a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;

(b) has commercial value because it is secret; and

(c) has been subject to reasonable steps by the undertaking to keep it secret.

An example of this is an entity's intellectual property for proprietary software solutions which differentiate the entity from its competitors and allow the entity to charge its customers premium pricing. If the information becomes public, competitors will be able to make a copy, and the entity will lose revenues.

5.5.5.3 *Information exempted by an EU member state*

CSRD provisions in Articles 19a(3) and 29a(3) of the Directive 2013/34/EU allow an EU member state to exempt entities from disclosing impending developments or matters in the course of negotiation. This exemption is acknowledged in ESRS 2 paragraph 5(e).

[85] Defined in EU, *Council Decision of 23 September 2013 on the security rules for protecting EU classified information (2013/488/EU).*
[86] Defined in *Regulation (EU) 2021/697* of the European Parliament and of the Council of 29 April 2021 establishing the European Defence Fund and repealing Regulation (EU) 2018/1092 (Text with EEA relevance).

ESRS 2 paragraph 5(e)
The undertaking shall disclose the following information: … (e) for undertakings based in an EU member state that allows for the exemption from disclosure of impending developments or matters in the course of negotiation, as provided for in articles 19a(3) and 29a(3) of Directive 2013/34/EU, whether the undertaking has used that exemption.

ESRS 2 paragraph 5(e) requires disclosure of whether an eligible entity takes the exemption.

5.6 ISSB standards — General requirements for reporting

IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* sets the general requirements for the identification and disclosure of sustainability-related financial information when reporting in accordance with the IFRS Sustainability Disclosure Standards.[87] The purpose of IFRS S1 is similar to that of IAS 1 *Presentation of Financial Statements* which sets the general requirements for financial statements prepared in accordance with the IFRS Accounting Standards.[88] IFRS S1 describes:

- the objective of sustainability reporting in accordance with the ISSB standards
- the overall architecture of the IFRS Sustainability Disclosure Standards
- the foundational concepts included in the standards
- the general requirements for preparing and presenting sustainability information.

This section covers the general requirements for reporting in accordance with IFRS S1 as follows:

- Degrees of obligation to disclose (SRG 5.6.1)
- Structure of ISSB sustainability reporting (SRG 5.6.2)
- ‘Core content’ of a report prepared in accordance with the ISSB standards (SRG 5.6.3)
- Incorporation by reference (SRG 5.6.4)

This section also discusses limited instances when material information is not required to be disclosed when reporting in accordance with the IFRS Sustainability Disclosure Standards (see SRG 5.6.5).

5.6.1 Degree of obligation to disclose

Throughout the ISSB standards, specified terms are used when describing whether an entity is required or permitted to disclose specific information, when that information is material:

[87] IFRS S1 paragraph 4.
[88] On 9 April 2024, the International Accounting Standards Board released IFRS 18 *Presentation and Disclosure in Financial Statements*. IFRS 18 will replace IAS 1 for annual reporting periods beginning on or after 1 January 2027, although early adoption is permitted.

- ‘shall include’ — disclosure is required if it represents material information
- ‘may include’ — disclosure is voluntary, even if the information is material

Although not defined in IFRS S1, we believe these terms have the same meaning as the same terms in ESRS (see Figure SRG 5-8).

In addition, IFRS S1 uses the terms ‘shall consider’ and ‘may consider’ to refer to areas or sources that are required or permitted to be considered when identifying sustainability-related risks and opportunities and information about those risks and opportunities.

Note that requiring consideration of source of information is different from requiring an entity to provide disclosures in accordance with the referenced guidance. IFRS S1 paragraphs 55(a) and 58(a) state that an entity may conclude that the disclosure topics or metrics considered are not applicable in its circumstances.

See further discussion of the disclosure requirements of the ISSB standards in SRG 6.3.

5.6.2 *Structure of the ISSB sustainability reporting*

IFRS S1 does not specify the structure of an entity’s sustainability reporting. The approach to reporting under the ISSB standards is summarised in the IFRS S1 *Basis for Conclusions*.

IFRS S1 paragraph BC28
IFRS S1 is intended to be compatible with law or regulation in the jurisdictions in which entities operate, including law or regulation that specifies the documents, formats and structures for disclosing information. Entities are permitted to report additional information needed to meet jurisdictional requirements alongside information required by IFRS Sustainability Disclosure Standards. The ISSB observed that, for the purposes of comparability, it is important for the global baseline to be visible in an entity’s sustainability-related financial disclosures. IFRS S1 permits additional disclosures if they do not obscure the information required by IFRS Sustainability Disclosure Standards

Thus, an entity reporting under the ISSB standards should follow the structure specified by the jurisdictional laws. In addition, an entity must ensure that any additional information provided in the report does not obscure the information required by the IFRS Sustainability Disclosure Standards. See SRG 5.2 for further discussion of the qualitative characteristics of information and SRG 6.3.6 for discussion of ‘additional’ information in a report prepared in accordance with the ISSB standards.

Notwithstanding the general flexibility as to the report structure, we would generally expect a sustainability report prepared in accordance with the ISSB standards to include ‘core content’ covering the general requirement disclosures (see SRG 5.6.3).

5.6.3 *‘Core content’ of a report prepared in accordance with the ISSB standards*

IFRS S1 provides certain ’core content’ or general disclosure requirements, similar to the general disclosure requirements in ESRS. Unlike ESRS, however, IFRS S1 does not provide explicit requirements for disclosures related to basis of presentation — which would include whether the reporting has been prepared on a consolidated or individual basis, information about the boundary of reporting and whether there are exempted subsidiaries, and the extent of value chain information. We believe that such disclosures would still be important to be included in reporting under the IFRS Sustainability Disclosure Standards.

Figure SRG 5-14 summarises the general requirement disclosures in IFRS S1 and provides cross references to where further discussion on each topic may be found, if applicable. The datapoints in this figure are provided for reference and should be read together with the full text of IFRS S1.

Figure SRG 5-14
Summary of disclosure requirements related to general reporting requirements

Topic	Summary of disclosure requirements
Time horizons (SRG 3.5.3.2)	The definitions for short-, medium-, and long-term time horizons as well as how these definitions link to the planning horizons used for strategic decision-making.[89] The ISSB standards do not have set definitions for short-, medium-, and long-term time horizons, so an entity will need to determine relevant definitions for its own sustainability reporting.
Sources of estimation and outcome uncertainty (SRG 5.4.3)	Information about the most significant uncertainties affecting amounts reported in an entity's sustainability reporting, including:[90] □ the sources of measurement uncertainty for each amount identified as being of a high measurement uncertainty □ the assumptions, approximations, and judgements made when measuring the amount Generally, these disclosures will relate to the entity's most difficult, subjective, and complex judgements, and so the exact amount and content of these disclosures will vary depending on the specific facts and circumstances of the entity.
Revision of estimates (SRG 3.7 [coming soon])	If an entity revises an estimate based on new information received, or if it redefines or replaced a metric:[91] □ an explanation and reasons for the changes □ revised comparative figures, unless impracticable (and disclose this fact) □ the difference between previous and new amounts
New metrics (SRG 3.7 [coming soon])	If an entity introduces a new metric in the current reporting period:[92] □ a comparative for the new metric should be given (unless impracticable) □ if it is impracticable, disclose this fact
Reporting errors in prior periods (SRG 3.7 [coming soon])	If an entity identifies material errors in its prior period sustainability information:[93] □ the nature of the errors □ the correction for the prior periods disclosed, unless impracticable (in which case, disclose the circumstances which led to the conclusion that it is impracticable and how and from when the error has been corrected)

[89] IFRS S1 paragraph 30(c).
[90] IFRS S1 paragraphs 77–81.
[91] IFRS S1 paragraphs B50–B54.
[92] IFRS S1 paragraph B53.
[93] IFRS S1 paragraphs B57–B59.

Topic	Summary of disclosure requirements
Judgements	Information that allows users to understand the judgements made in the process of preparing the sustainability reporting that have the most significant effect on the information disclosed.[94] The judgements include the process of identifying sustainability risks and opportunities and identifying material information to report.[95] This disclosure requirement does not apply to those judgements involving estimation of amounts. Information about estimates is covered by a separate requirement.
Sources of guidance (SRG 4.4.3)	If an entity uses sources of guidance as part of its process of identifying sustainability related risks and opportunities and identifying information to disclose:[96] □ the specific sources of guidance applied in preparing the sustainability reporting □ the industry(s) specified in the ISSB standards, SASB standards, or other sources of guidance that an entity has used when preparing its sustainability report
Disclosures stemming from other legislation or generally accepted sustainability reporting pronouncements	Information that is required to meet legal and regulatory requirements, even when it is not material, as long as it does not obscure material information.[97] See SRG 4.4.2.2 for more information.
Location of information	Required information may be disclosed:[98] □ in an entity's management commentary or similar report when it forms part of an entity's general purpose financial reports □ alongside information disclosed to meet other requirements, such as information required by regulators, if clearly identifiable and not obscured the additional information □ by cross-reference to another report published by the entity. If cross reference is used for the information, then an entity would need to follow the requirements in IFRS S1 with respect to cross reference (see SRG 5.6.4)
Incorporation by reference (SRG 5.6.4)	For information incorporated by reference:[99] □ in which report the required information is included □ an explanation of how the user can access the report □ the precise part of the report in which the information is included
Use of commercially sensitive provisions (SRG 5.6.5.2)	For each piece of information omitted (which is permitted in limited circumstances), the fact that the entity has used the exemption.[100]

[94] IFRS S1 paragraph 74.
[95] IFRS S1 paragraph 75.
[96] IFRS S1 paragraph 59.
[97] IFRS S1 paragraph B31.
[98] IFRS S1 paragraphs 61–63.
[99] IFRS S1 paragraph B47.
[100] IFRS S1 paragraph B36(a).

Topic	Summary of disclosure requirements
Non-provision of information due to regulation (SRG 5.6.5.1)	When an entity is not required to provide information if it is prohibited from making it by law or regulation, the type of information not disclosed and an explanation of the source of the restriction.[101]

In addition, if an entity complies with all the requirements of the IFRS Sustainability Disclosure Standards, then it discloses an explicit and unreserved statement of compliance. For more information about statement of compliance, see SRG 2.3.3.

5.6.4 *Incorporation by reference*

An entity reporting under the ISSB standards may incorporate disclosures by reference to another report, per IFRS S1 paragraphs 63 and B45–B46, if the following conditions are met:

- the incorporated information is available on the same terms and at the same time as the sustainability-related financial disclosures
- the complete set of sustainability disclosures is not made less understandable by including information by incorporation
- the incorporated information meets the requirements of the IFRS Sustainability Disclosure Standards, including the qualitative characteristic of IFRS S1
- those responsible for authorising the sustainability reporting are required to take responsibility for the referenced disclosures, in the same way they would if the information was directly included in the sustainability reporting

When information is incorporated by reference, IFRS S1 paragraph B47 requires an entity to specify precisely where the original information is disclosed and how a user can access that information.

5.6.5 *Material information not required to be disclosed*

An entity is required to disclose material information in its sustainability reporting (see SRG 4.4.2). In certain limited circumstances, however, information that is material may be excluded from a sustainability report prepared in accordance with the ISSB standards. Limited circumstances are when the information contains:

- Prohibited information (SRG 5.6.5.1)
- Commercially sensitive information (SRG 5.6.5.2)

The following sections describe these circumstances in more detail.

5.6.5.1 *Prohibited information*

Under IFRS S1 paragraphs 73 and B33, an entity is not required to disclose information required by the IFRS Sustainability Disclosure Standards when such disclosure is prohibited by local laws or regulations. In this circumstance, however, an entity must follow certain disclosure requirements:

[101] IFRS S1 paragraph B33.

IFRS S1 paragraph B33
An entity need not disclose information otherwise required by an IFRS Sustainability Disclosure Standard if law or regulation prohibits the entity from disclosing that information. If an entity omits material information for that reason, it shall identify the type of information not disclosed and explain the source of the restriction.

This provision only applies when an entity is prohibited from providing the information due to law or regulation. If the law or regulation permits the entity to only disclose certain information, then an entity is still required to provide material information in its sustainability reporting.[102]

An entity using this exemption is not prevented from asserting compliance with the IFRS Sustainability Disclosure Standards.

5.6.5.2 *Commercially sensitive information*

An entity reporting under the IFRS Sustainability Disclosure Standards may, in limited circumstances, omit required information about a sustainability-related opportunity if that information is commercially sensitive in accordance with IFRS S1 paragraphs 73 and B34–B37.

As detailed in IFRS S1 paragraph B35, this provision only applies to information about sustainability-related opportunities. This provision may not be used to omit information about sustainability related risks, nor should it be used as a basis for broad non-disclosure of material information.[103] The criteria for applying this exemption are as follows:

IFRS S1 paragraph B35
An entity qualifies for the exemption specified in paragraph B34 if, and only if: a) information about the sustainability-related opportunity is not already publicly available; b) disclosure of that information could reasonably be expected to prejudice seriously the economic benefits the entity would otherwise be able to realise in pursuing the opportunity; and c) the entity has determined that it is impossible to disclose that information in a manner—for example, at an aggregated level—that would enable the entity to meet the objectives of the disclosure requirements without prejudicing seriously the economic benefits the entity would otherwise be able to realise in pursuing the opportunity.

An entity is required to disclose when it has applied the exemption for one or more opportunities, and to reassess whether it meets the criteria for omission at each reporting date.[104] An entity using this exemption is not prevented from asserting compliance with the IFRS Sustainability Disclosure Standards.[105]

[102] IFRS S1 paragraph B32.
[103] IFRS S1 paragraph B37.
[104] IFRS S1 paragraph B36.
[105] IFRS S1 paragraphs 73 and B34.

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