N-ESRS as compared to the Revised ESRS

EFRAG SR TEG

Public Meeting

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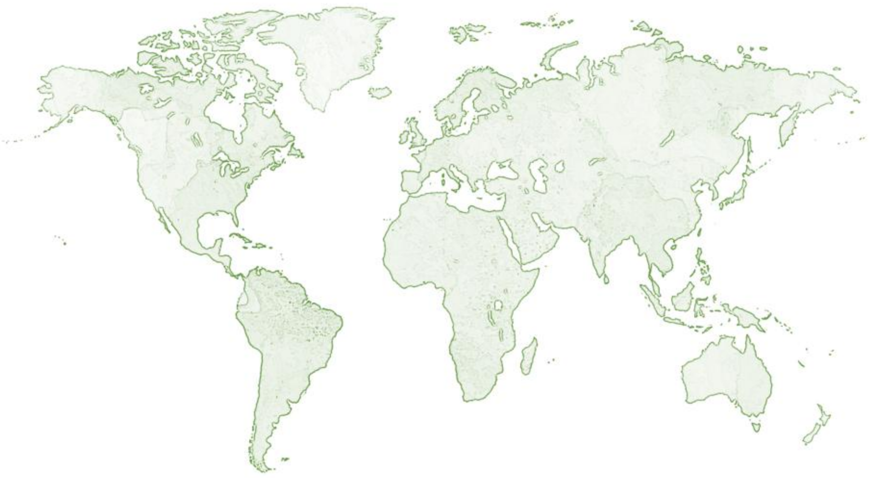
Introduction to N-ESRS

Background/ESRS for Non-EU Group (N-ESRS)

- Required by art 40(a) of Accounting Directive
- Omnibus I modified scope but not content

- Financial year 2028, first report due in 2029
- EFRAG technical advice by January 2027
- Consultation on draft ED expected mid-July 2026



Policy objectives of article 40a

- Level-playing field
- Accountability and transparency of non-EU companies on impacts

N-ESRS:

- Impact materiality only defined by Article 40(a)

Topics and reporting areas to be covered

12 Standards
N-ESRS 1 *General Requirements*
N-ESRS 2 *General Disclosures*
N-ESRS E1 *Climate change*
N-ESRS E2 *Pollution*
N-ESRS E3 *Water*
N-ESRS E4 *Biodiversity and ecosystems*
N-ESRS E5 *Resource use and circular economy*
N-ESRS S1 *Own operations*
N-ESRS S2 *Workers in the value chain*
N-ESRS S3 *Affected communities*
N-ESRS S4 *Consumers and end-users*
N-ESRS G1 *Business conduct*

Reporting areas
Governance
Strategy
Impact management through policies and actions
Metrics and targets

N-ESRS are based on ESRS

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N-ESRS = ESRS + Additions − Deletions

European Sustainability Reporting Standards for 3rd country ultimate parent groups

“Have your say version”

- Mixed approach
- Level 1 provisions

- Risks
- Opportunities
- Resilience
- Dependencies

Financial information
not strictly excluded,
to provide contextual information
to understand impacts!

Global perimeter with an option to limit impacts for topics other than climate to those that are 'EU-related'

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Three options for reporting, if a company is in scope for Article 40a:

Upstream and downstream value chain included in the definition of impacts

No final decision on exact drafting

Global Approach N-ESRS

Impacts are reported at the global level for all topics

Mixed Approach N-ESRS

Climate impacts = global level

+

Option* to limit the scope to EU-related impacts only on other topics
On the condition that impacts are being managed accordingly
(e.g. separate segment, products)
*flexible option by topic

EU-related impacts must include both the following components:

- **Customer based**: impacts arising from products and services that were or are assumed to be sold or provided in the EU
- **Location based**: impacts of undertaking's activities in the EU

Full ESRS (voluntary)

Benefits of applying full ESRS:
Subsidiary exemption:
If the non-EU ultimate parent company applies full ESRS, the subsidiaries of that non-EU company that fall under article 19a or 29a could benefit from subsidiary exemption. But only if the non-EU parent company applies full ESRS (double materiality)

References to EU laws and regulation

The simplified ESRS rely heavily on EU regulatory references. As the N-ESRS is based on the ESRS, it similarly includes numerous references to EU regulations.

- A central policy objective is to ensure a level playing field; at the same time, it is essential to secure the global applicability and acceptance of the N-ESRS.
- EFRAG Secretariat proposes using EU regulatory references as the default approach.
- Sufficient transparency should be ensured regarding how companies have applied EU references, including any resulting assumptions or limitations.

References to EU laws and regulations will be an issue to be tested in the consultation and field test including feasibility of applying EU references

Interoperability with IFRS S1 and S2 (1/2)

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IFRS report

ESRS 2 / IFRS S1 General Disclosures common to NESRS and IFRS	• Governance • Risk management • Targets
ESRS E1 / IFRS S2 Climate Disclosures common to NESRS and IFRS	• Transition plan • Carbon credits • GHG emissions • GHG emission targets
IFRS S1/ S2 Risks and opportunities	• E1-2 (climate) • E1-3 (climate) • IRO-1

N-ESRS report

ESRS 2 / IFRS S1 General Disclosures common to NESRS and IFRS	• Governance • Risk management • Targets
ESRS E1 / IFRS S2 Climate Disclosures common to NESRS and IFRS	• Transition plan • Carbon credits • GHG emissions • GHG emission targets
Additional N-ESRS	• Energy consumption and mix • Locked-in emissions • Compatibility with 1.5 °C • Biogenic emissions • GHG removals • Undertaking is active in fossil fuel (coal, oil and gas) sector • Etc.

Interoperability with IFRS S1 and S2 (2/2)

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IFRS report		N-ESRS report
ESRS 2 / IFRS S1 General Disclosures common to NESRS and IFRS	⟷	ESRS 2 / IFRS S1 General Disclosures common to NESRS and IFRS
ESRS E1 / IFRS S2 Climate Disclosures common to NESRS and IFRS	⟷	ESRS E1 / IFRS S2 Climate Disclosures common to NESRS and IFRS
IFRS S1/ S2 Risks and opportunities		Additional N-ESRS

- Green boxes is the same reporting content
- How to support a seamless compliance with the two sets of standards avoiding double reporting?
- Incorporation by reference to IFRS report is an option!
- Consultation to focus on practical solutions to avoid double reporting!

High-level comparison of main characteristics

ESRS	N-ESRS
12 standards: 2 cross-cutting + 10 topical	Same as ESRS
Impacts, **risks and opportunities**	Impacts **only**
Perimeter of disclosure: Global	**Perimeter of disclosure – two options:** 1. Global and 2. Mixed approach
Includes upstream and downstream value chain	Same as ESRS
Incorporation by reference to other reports	Same as ESRS
Transitional provisions	Same as in ESRS for undertakings reporting for the first time after 2025

Focus areas in the consultation

EFRAG is seeking input on the following key topics:
(we do not discuss simplification of ESRS again)

1) Approach and content of the standards

2) Internationalisation of EU laws

3) Mixed approach

4) Interoperability with IFRS

Illustration of the unapproved draft

How it was built starting from Simplified ESRS

N-ESRS Cross-Cutting:
ESRS 1

N-ESRS 1

Full ESRS to exempt from N-ESRS

Paragraph 2A

- EU subsidiaries and branches exempt from separate N-ESRS report, if the non-EU parent prepares a sustainability statement using full ESRS and meets assurance and accessibility requirements.

Reporting under articles 40a to 40d of the Accounting Directive

Paragraphs 6A to 6E

- Level 1 incorporation
- Identify which undertakings must publish and make accessible the information
- Assurance requirement
- What to do, if not all information is available or no assurance
- Definition of the term “undertaking”

Proposed drafting of the definition of the mixed approach

"Regardless of the provisions of paragraph 18A, provided that the condition in paragraph 18E is met, for impacts other than those that are climate-related, the undertaking may limit the reported information to the impacts that arise from both the elements below ('EU-related impacts'):

(a) *impacts that arise from products and services that were or are assumed to be sold or provided in the EU market, including by third parties (downstream value chain actors such as distributors and traders); [CUSTOMER BASED COMPONENT];* ***and***

(b) *impacts of the undertaking's activities that are located in the European Union. [LOCATION BASED COMPONENT]".*

Customer based + Location based = Combined basis

Mixed approach reporting scope

Paragraphs 18B to 18E – AR 5A to 5C

- Define the mixed approach
- Specify the evidence undertakings to demonstrate that products or services are EU-related
- Clarify conditions for mixed approach (meaningful identification of EU-related impacts possible)
- Examples of factors to consider for the meaningful identification of EU-related impacts
- **Mixed approach:** for topic; sub-topic; or groups of impacts
  plus: guidance on defining groups of impacts

N-ESRS 1

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Fair presentation

- Limited to impact materiality
- Definition of users unchanged, investors included

Impact materiality

- Financial materiality excluded (dependencies and resilience excluded)
- Focus is solely on impact materiality.

=> double materiality does not apply

Material EU related impacts and relationship of impacts and financial materiality

Paragraph 37A and AR 17A

- For topics other than climate change:
  If using option in paragraph 18B, materiality assessment only for EU-related impacts
- AR 17A further specifies that N-ESRS remains impact-based:
  while sustainability-related risks and opportunities may support the assessment, undertakings are still required to report all material impacts,
  also those with no financial effect

N-ESRS 1

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Article 8 of the regulation (EU) 2020/852 (Taxonomy reporting)

Deleted Paragraph 106

- It does not to be included for article 40a of the Accounting directive

Use of full ESRS and local reporting framework

Paragraph 109A

- Undertakings may apply the full ESRS,
  if they report on risks and opportunities.
- They may also refer to risk and opportunity information prepared under local reporting frameworks, to provide a comprehensive overview to users (neutral depiction required)

N-ESRS 1

Incorporation by reference

Paragraph 120A and 120B

- Undertakings may incorporate a significant portion of N-ESRS information by reference
- If doing so, ensure understandability by providing a table of contents indicating where the referenced information can be found

Transitional provisions

Paragraph 121

- Same as in ESRS for undertakings reporting for the first time after 2025

To note:

Transitional provisions on the value chain (first 3 years of reporting) and comparative information (first year of reporting) will also be included in next version of N-ESRS-1

N-ESRS 2

N-ESRS 2

Mixed approach – Basis for preparation

BP-1:

- Whether the report was prepared under the global or the mixed approach
- How the EU-related impacts were determined if the mixed approach was followed (para. 4(a))

Other modifications related to EU Regulations

BP-1: if EU terms/concepts are applied outside the EU scope using estimates and approximations:

- Identify the relevant disclosures
- Explain the approach used
- Explain the resulting limitations on the information and where in the reporting boundary these limitations appear

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Embedding level 1 (parent not providing all required information and assurance)

- **BP-2:** If the parent does not provide all required N-ESRS information: this shall be clearly stated (per CSRD articles for N-ESRS)
- **BP-2:** If the sustainability report is not accompanied by the required assurance opinion: this shall be clearly stated (per CSRD articles for N-ESRS)

N-ESRS 2 GOV – Mixed Approach Application Requirements

GOV-1, AR 8A – Role of the AMSB

GOV-2, AR 8B – Incentive schemes

- Specific AR added to support preparers applying the mixed approach (in accordance with N-ESRS 1 para. 18B)
- Focus on **EU-related** impacts, for the topics, sub-topics, or group of impacts for which the option is exercised.

N-ESRS 2

Mixed approach – Strategy (SBM), materiality process (I-1) and materiality outcome (I-2)

- SBM-1 always global
- Disclosure requirements SBM-2, SBM-3, I-1* and I-2* reflect the use of the mixed approach (except for E1)
- Specific ARs added to support preparers applying the mixed approach (per N-ESRS 1 para. 18B)
- If the mixed approach is applied, **SBM-2, SBM-3, I-1, and I-2** shall focus on EU-related impacts, except for N-ESRS E1 (global)

*The former IRO-1 and IRO-2 have been renamed to I-1 and I-2 to exclude R&Os from the abbreviation

N-ESRS 2

Deletions and modifications for RORD*

Deleted:

- Anticipated financial effects in SBM-3 as strictly linked to risks and opportunities
- Resilience analysis in SBM-3
- Dependencies when describing the materiality process in I-1
- Dependencies in disclosing the materiality outcome in I-2

*RORD refers to Risks, Opportunities, Resilience, and Dependencies, all linked to financial materiality

Mixed approach – Policies, Actions, and Targets

- Same reporting principle as in the Revised ESRS for Policies, Actions and Targets -> “disclose what you have”
- Specific ARs added to support preparers applying the mixed approach (per N-ESRS 1 para. 18B)
- If the mixed approach is applied, **GDR-P, GDR-A, and GDR-T** shall focus on EU-related impacts, except for N-ESRS E1 (global)

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Mixed approach – Metrics

- Specific AR added to support preparers applying the mixed approach (per N-ESRS 1 para. 18B)
- If the mixed approach is applied:
  - the respective metric shall focus on EU-related impacts, except for N-ESRS E1 (global)
  - contextual information shall also specify that the metric only covers EU-related impacts
  - the metric estimation for EU-related impacts shall be based using an allocation key that supports a faithful representation of the EU-related impacts

N-ESRS Environment

N-ESRS E1 *Climate Change*

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Deletion of three DR's (chapters) related to financial materiality

- **E1-2:** climate-related risks and scenario analysis (para. 14-17)
- **E1-3:** resilience in relation to climate change (para. 18-19)
- **E1-11:** anticipated financial effects (para. 38-42)

N-ESRS E1 *Climate Change*

Replacement of ‘risks’ with other terminology

- **Objective (climate mitigation):** replaced ‘transition risks’ with ‘impacts of a transition to low carbon economy’
- **Objective (climate adaptation):** removal of reference to ‘physical climate risks’ and ‘transition risks’, replaced with (potential negative) impacts.
- **Interaction with E3:** removal of reference to ‘physical risks arising from water’ with focus on hazards and impacts.
- **E1-9 (GHG removals):** replaced ‘risks’ with ‘uncertainties’

N-ESRS E1 *Climate Change*

Keeping scenario analysis references

- **Addition of an AR to E1-4** similar to what exists in E4, instructing undertakings to use climate scenario analysis to assess material climate impacts and inform climate policy development and updates.

N-ESRS E2 *Pollution* – Mixed Approach Application Requirements

AR 3A - primary microplastics

- Addition of an AR to support preparers applying the mixed approach (in accordance with N-ESRS 1 para. 18B)
- **AR 3A** clarifies the scope of operations for which a mixed approach disclosure on primary microplastics must cover:
- '[O]wn operations in the EU, and in products from operations outside of the EU that were or are assumed to be sold or provided in the EU Market'

AR 7A & 7B – SoC and SVHC

- Addition of two ARs to support preparers applying the mixed approach (in accordance with N-ESRS 1 para. 18B)
- **AR 7A** clarifies the scope of operations for which a mixed approach disclosure on SoC and SVHC must cover (para. 18)
- **AR 7B** clarifies the scope of operations for which a mixed approach disclosure on SVHC (para. 20)

N-ESRS E3 *Water* & N-ESRS E4 *Biodiversity and Ecosystems*

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Editing of E3: AR 1 – 'Water stress'

- **AR 1:** redrafted in N-ESRS E3 to remove reference to 'physical water-related risks', replaced by reference to 'impacts'

Editing of E4: AR 4 – 'Biodiversity and ecosystems scenario analysis'

- **AR 4:** redrafted in N-ESRS E4 to remove reference to 'risks and opportunities', replaced with reference to 'impacts' in the scope of biodiversity and ecosystems scenario analysis.

N-ESRS E5 (no significant changes)

N-ESRS Social

N-ESRS S1-S4 – amendments for mixed approach

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New paragraphs in 'Objective' sections of the Social standards

Inserted new para into 'Objective' section of each social standard to define scope of relevant stakeholder group if company chooses mixed approach.

N-ESRS S1 Employees and non-employees

→ N-ESRS S2 Workers in the value chain

N-ESRS S3 Affected communities

N-ESRS S4 Consumers

Example (N-ESRS S1)

7A. If the undertaking exercises the option under N-ESRS 1 paragraph 18B, its own workforce is understood to comprise:

(a) employees and non-employees in its own operations located in the EU; and

(b) those employees and non-employees in its own operations that are located outside the EU and are involved in the production of the goods or services that were or are assumed to be sold or provided on the EU market.

N-ESRS S1 – amendments for mixed approach

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Own workforce outside the EU – new ARs

- Inserted AR to clarify allocation basis to determine which employees and non-employees must be included if company chooses mixed approach.
- Inserted AR that makes it clear that FTE does not refer to proportion of an employee's time allocated to producing goods or services for EU market.

Other new ARs – S1-8, S1-13, S1-15

- **Gender diversity in top management:** Inserted AR that clarifies which management level relevant if company chooses mixed approach.
- **Total annual remuneration ratio:** Inserted AR that clarifies how to determine 'highest-paid individual' if company chooses mixed approach.

N-ESRS S1 – question for consultation

Propose to add a question to N-ESRS consultation.
Concerns decision-usefulness and relevance of disaggregating metrics by workforce in-/outside EU.

Proposed text

Regarding N-ESRS S1 Own Workforce, do you think it would be decision-useful and relevant for users of sustainability reports for companies that opt for the mixed approach to disaggregate the quantitative metrics in Disclosure Requirements S1-6 to S1-16 by workforce in- and outside the EU? (Think of, for example, occupational health and safety metrics like number and rate of work accidents.)

If your response to these questions is yes, should all of those quantitative metrics have to be disaggregated in that way or only some? If your response is 'only some', please say which.

N-ESRS Governance

N-ESRS G1 – Mixed Approach Application Requirements

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AR 6A – Convictions, sanctions and fines

- Specific AR added to support preparers applying the mixed approach (in accordance with N-ESRS 1 para. 18B),
- **AR 6A** clarifies that the disclosure covers the:
  - Outcomes from EU authorities
  - Outcomes from non-EU authorities involving EU customers
- Unless the undertaking selects a better allocation key for fair presentation

AR 9A – Political influence

- Specific AR added to support preparers applying the mixed approach (in accordance with N-ESRS 1 para. 18B)
- **AR 9A** clarifies that the disclosure covers:
  - Activities from EU subsidiaries / branches
  - Global activities influencing EU institutions/governments ...
- Unless the undertaking selects a better allocation key for fair presentation

N-ESRS G1 – Mixed Approach Application Requirements

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AR 10A – Payment practices

- Specific AR added to support preparers applying the mixed approach (in accordance with N-ESRS 1 para. 18B)
- **AR 10A** clarifies that the disclosure covers payment practices applied to **suppliers from EU jurisdictions**.
- Unless the undertaking selects a better allocation key for fair presentation

N-ESRS Annex II

N-ESRS Annex II

Deleted 13 terms related to risks, opportunities, resilience & dependencies

Deleted ‘double materiality’ and ‘financial materiality’

Amendments to Acronyms: (including IRO-1 -> I-1; ESRS -> N-ESRS; SBM-3 removal of risks, opportunities and financial effects)

Removal of ‘financial materiality’ from ‘materiality’ definition

Other changes:
Issues resolved with NACE codes (078 -> O78)

Addition of definition for ‘N-ESRS sustainability report’

Timeline

Timeline

SRB (18 Jun)

SR TEG (16 Jun)

Discuss N-ESRS V1

Activities:

Consultation prep: finalizing questionnaire for public consultation + BfC

SR TEG (23 Jun)

SRB (1 Jul)

Pre-approval of Draft N-ESRS (pending DA publication)

Activities:

SR TEG and SRB written feedback period (1 week)

EC Publishes ESRS Delegated Acts - end of June (tentative)

SR TEG (9 July)

SRB – (15 July)

Approval of draft N-ESRS

Activities prior:

Update draft N-ESRS incorporating SR TEG & SRB feedback agreed in the pre-approval session + drafting changes due to final DA (fatal flaw written validation)

Mid July – launch of public consultation (tentative)

Activities:

Publication of Draft N-ESRS

Launch of public consultation - 100 days

Launch field tests - 70 days

End-October

Activities:

Public consultation closes

Analysis of feedback, field tests and stakeholder engagement

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