



**Governance Reform Fund (GRF) Project**  
**Supporting the Government of Georgia in Enhancing Governance & Policies**  
**for a Transition to a Circular Economy**

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**ENVIRONMENTAL, SOCIAL AND GOVERNANCE**  
**PART II**

**ESG COMPLIANCE VS ESG DUE DILIGENCE, ESG REPORTING STANDARDS**

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# Key Objectives of the Seminar

- ▶ An Overview of ESG reporting vs ESG due diligence
- ▶ Corporate Sustainability Reporting Directive (CSRD) and European Sustainability Reporting Standards (ESRS) – an overview
  - Introduction to CSRD
  - Cross-cutting ESRS (ESRS 1 and ESRS 2, double materiality)
  - ESRS E1 – Climate change
  - ESRS E2 – Pollution
  - ESRS E4 – Biodiversity and ecosystems
  - ESRS S2 – Workers in the value chain
  - ESRS S3 – Affected communities
  - ESRS E3 – Water and marine resources
  - ESRS E5 – Circular economy
  - ESRS S1 – Own workforce
  - ESRS S4 – Consumers and end-users
  - ESRS G1 – Business conduct
- ▶ ESRS vs. other reporting standards



# ESG Compliance and Reporting

- ▶ The concepts of an 'ESG compliance and reporting mindset' and an 'ESG due diligence mindset' are both rooted in the broader framework ESG-considerations. However, they represent distinct approaches with different focuses and implications.
- ▶ ESG Compliance and Reporting Mindset primarily revolves around meeting the existing regulatory requirements and industry standards related to ESG practices. It involves ensuring that a company adheres to the established guidelines and reports its performance on environmental, social, and governance metrics.
- ▶ It is focused on Short-term Orientation: The compliance and reporting mindset often emphasizes short-term goals and meeting immediate obligations. Companies may engage in ESG activities to avoid legal repercussions or to maintain a positive public image without necessarily delving deeply into the long-term strategic implications.



# ESG Due Diligence Mindset- What is This?

- In contrast, the due diligence mindset goes beyond mere compliance and reporting. It involves a comprehensive examination of a company's operations, supply chain, and overall business model to identify potential ESG risks and opportunities.
- It focuses on Long-term Orientation: Due diligence in the ESG context is more forward-looking and strategic. It seeks to understand and address long-term sustainability issues that might affect the company's performance and reputation over time.
- In conclusion, while ESG compliance and reporting are essential for meeting current standards, adopting an ESG due diligence mindset is a strategic move that positions a business for long-term success. The return on investment (ROI) in this context is reflected in the future-proofing of the business model, ensuring resilience, competitiveness, and sustained value creation over time.



# Key Benefits of the ESG Due Diligence Mindset

- 1. Risk Mitigation:** ESG due diligence allows businesses to identify and address potential risks related to environmental, social, and governance factors. By proactively managing these risks, companies can avoid potential financial losses, legal troubles, and reputational damage in the long run.
- 2. Enhanced Resilience:** Engaging in ESG due diligence helps businesses build resilience against external shocks, regulatory changes, and evolving market expectations. It positions a company to adapt to the changing landscape and societal demands, contributing to its long-term sustainability.
- 3. Market Competitiveness:** As ESG considerations become more integral to investor decisions and consumer preferences, companies that integrate ESG due diligence into their business strategies are likely to be more attractive to investors and customers. This can result in a competitive advantage and increased market share over time.
- 4. Cost Savings:** By identifying and addressing ESG issues early on, companies can potentially reduce operational costs associated with inefficiencies, resource wastage, and compliance violations. This efficiency gains can contribute positively to the bottom line over the long term.

# EU Regulatory Framework

## An overview of the EU Sustainable Finance Framework:

- EU Regulation on Sustainable Investments Disclosure Rules.
- EU Taxonomy.
- EU Green Bond Standards.
- EU Climate Benchmarks.
- Climate Related Reporting.



# Corporate Sustainability Reporting Directive (CSRD)

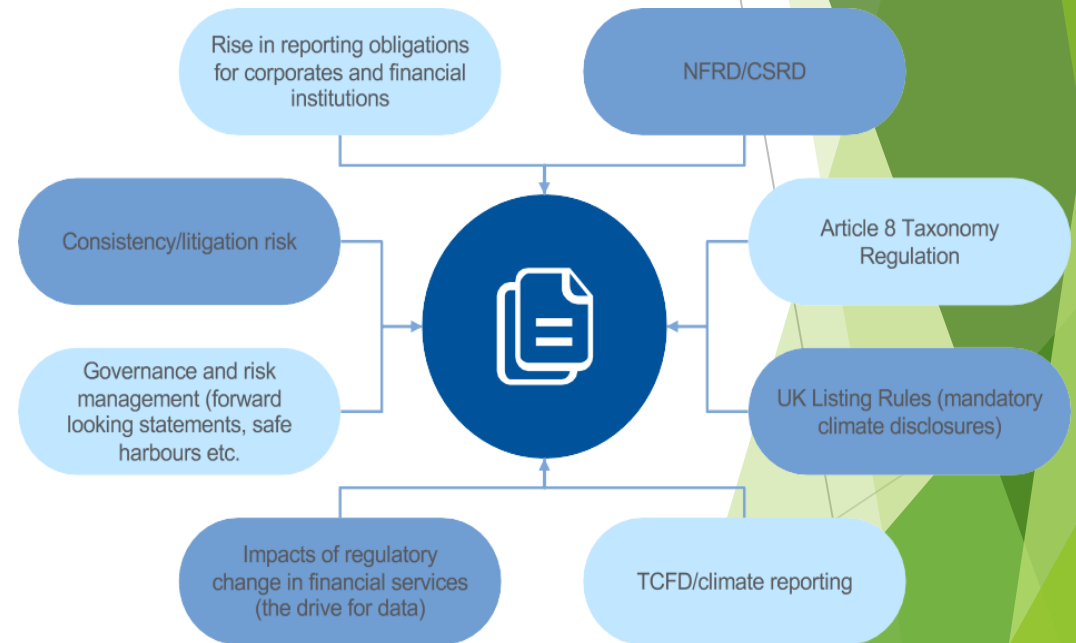


# Sustainability Disclosure –

## Strengthening sustainability disclosure and accounting rule-making

- Corporate reporting on sustainability to provide sufficient information to guide investors.
- Commission guidelines on reporting climate-related information (June 2019) through the non-financial Reporting Directive.
- 21<sup>st</sup> April 2021 the EU published a new package of measures including the proposal on the Corporate Sustainability Reporting Directive (CSRD), which will replace the NFRD from 2022.
- November 2022 EFRAG published the European Sustainability Reporting Standards (ESRS) which are to be approved by mid 2023.

### Corporate disclosure





# Corporate Sustainability Reporting Directive (CSRD)

Amends the existing non-financial reporting rules under the Non-Financial Reporting Directive (NFRD)

## ► Aim:

- Ensure that both in-scope EU and non-EU companies (including financial institutions) provide adequate public disclosure of the risks that sustainability issues present for those companies, and the impacts of those companies on people and the environment (such as climate change or human rights issues) (known as “the double materiality approach”)
- Make companies more accountable for the risks, opportunities and impacts of their activities on people and the environment.
- Equip investors and other stakeholders to make better informed decisions on sustainability issues.
- Make companies more attractive to investors, who will also need to know and to report on the impact of their investment decisions.



# CSRD: Key Features

- Links ESG disclosures to financial reporting: “sustainability report” to be included within management report.
  - ▶ Covering, as a minimum, how sustainability factors affect: i) business model ii) policies, including due diligence processes implemented iii) the outcome of those policies; iv) risks and risk management; v) key performance indicators relevant to the business.
- Reporting will be in accordance with new **ESRS** sustainability reporting standards - giving users of the report an integrated view of their impact and performance on ESG factors.
- Applies a double materiality approach - i.e. entities should report not only how sustainability issues (i.e. sustainability risks, like climate-related risks) affect their business model (“financial materiality”) but also the impact of their business activity on the people and the environment (“impact materiality”).
- Requires a transition plan - to ensure that its business model and strategy are compatible with the transition to a sustainable economy
- Requires disclosure of due diligence information/ sustainability risks in value chain – sustainability risks within entities’ value chain, covering the upstream value chain (i.e. suppliers) and the downstream value chain (i.e. consumers).
- Provides an audit requirement on sustainability reporting
  - “limited assurance”: a second party confirms that nothing has come to their attention to indicate that the information is materially misstated.
  - EU Commission expected to require “reasonable assurance”, i.e. verification of the compliance with substantive requirements, by 2028
- Promotes digitalisation –requires financial statements and the management report to be in a single XHTML format, tagged in accordance with a digital taxonomy, to make information simple and more accessible

# CSRD: Who does it apply to?

EU Undertakings	<ul style="list-style-type: none"><li>• Large undertakings as defined in the Accounting Directive:<ul style="list-style-type: none"><li>• exceed at least two of the following three criteria: (i) balance sheet total of EUR 20 million; (ii) net turnover of EUR 40 million; and (iii) an average number of employees during the financial year of 250.</li></ul></li><li>• Small and medium-sized undertakings with securities listed on EU markets, subject to simplified disclosure requirements.</li><li>• In case of “large” groups*, the EU parent company will produce a consolidated sustainability report.</li></ul>
Non-EU Undertakings	<ul style="list-style-type: none"><li>• Parent institutions or Subsidiaries of non-EU groups (i.e. groups whose parent company is not governed by EU law) with substantial presence in the EU, namely:<ul style="list-style-type: none"><li>i) substantial operations: net turnover of more than €150 million in the EU for each of the last two consecutive financial years.</li><li>ii) branch in the EU generating more than €40 million in the preceding financial year.</li></ul></li></ul>

The Directive will **not** apply to **micro-undertakings**, which do **not meet two** of the following **criteria**: a balance sheet total of € 350 000, a net turnover of € 700 000; an average of 10 employees.\*\*\*\*

# ESRS

# European Sustainability Reporting Standards (ESRS)

- The draft European Sustainability Reporting Standards (ESRS) sets out the detailed disclosure requirements under the CSRD.
- Developed by the European Financial Reporting Advisory Group (EFRAG). The standards are tailored to EU policies while building on and contributing to international standardisation initiatives.
  - ▶ **Aim:** Provide common, coherent standards to make ESG reporting within the EU more accurate, consistent, comparable, and standardized, just like financial accounting and reporting.
  - ▶ **Application:** The ESRS will apply to entities within the scope of the CSRD.



# CSRD vs ESRS

- While the CSRD and ESRS are interconnected, they serve distinct functions.
  - ▶ **The CSRD sets the legal framework and reporting obligations, while the ESRS provides the roadmap for compliance.**
- Companies subject to the CSRD need to navigate these differences strategically to ensure accurate and timely reporting.
- All companies covered by the EU Corporate Sustainability Reporting Directive (CSRD) will be required to align their corporate sustainability and ESG report according to the ESRS.

# ESRS: Key Features and Provisions

- The ESRS shall consist of three layers of disclosures:
  - i) sector-agnostic
  - ii) sector-specific
  - iii) entity-specific
- The latest ESRS version provides for 12 sector-agnostic standards.
- The first sector-agnostic set of the ESRS will become mandatory from 2024 along with the CSRD.
- Sector-specific standards for 41 identified sectors are expected in 2024, 2025 and 2026.

## Current Draft Standards

Cross-Cutting Standards (mandatory and covering all sustainability matters)

ESRS 1: General principles  
ESRS 2: General, strategy, governance, and materiality assessment

Topical standards (when material)

Environment:  
ESRS E1: Climate change  
ESRS E2: Pollution  
ESRS E3: Water and marine resources  
ESRS E4: Biodiversity and ecosystems  
ESRS E5: Resource use and circular economy  
Social:  
ESRS S1: Own workforce  
ESRS S2: Workers in the value chain  
ESRS S3: Affected communities  
ESRS S4: Consumers and end-users  
Governance  
ESRS G1: Business conduct

# ESRS Applicability

- ▶ The EFRAG Sustainability Reporting Board (EFRAG SRB), advised by the EFRAG Sustainability Reporting Technical Expert Group (EFRAG SR TEG), addressed the feedback of the consultation and amended accordingly the twelve draft ESRS that have been released by the European Commission.
  - **From fiscal year 2024 in the 2025 annual report:** Companies that are already subject to a reporting obligation under the NFRD.
  - **From fiscal year 2025 in the 2026 annual report:** All other large corporations with an annual average of 250 employees or more, total assets of 25 million euros or 50 million euros in sales. Two of these three criteria must be met for a company to fall within the scope of the CSRD.
  - **From fiscal year 2026 in the 2027 annual report:** Listed SMEs and small and non-complex credit institutions and captive insurance companies.
  - **From fiscal year 2028 in the 2029 annual report:** Third-country companies with subsidiaries or branches in the EU. This only applies if the threshold of EUR 150 million in net sales in the EU area is exceeded over two years.



## Topical standards

Environment: <b>ESRS E</b>	Social: <b>ESRS S</b>	Governance: <b>ESRS G</b>
Climate change <b>E1</b>	Own workforce <b>S1</b>	Business conduct <b>G1</b>
Pollution <b>E2</b>	Workers in the value chain <b>S2</b>	
Water and marine resources <b>E3</b>	Affected communities <b>S3</b>	
Biodiversity and ecosystems <b>E4</b>	Consumers and end-users <b>S4</b>	
Resource use and circular economy <b>E5</b>		

## Cross-cutting standards

General requirements:

**ESRS 1**

General disclosures:

**ESRS 2**

Coming later:

Sector-specific standards

SME's proportionate standards



# ESRS sector-specific standards

For the identified 41 sectors

Standards currently being developed by EFRAG

## Sector-specific ESRS

### AGRICULTURE SECTOR GROUP

Agriculture & Farming

Forestry

### MINING SECTOR GROUP

Coal Mining

Mining

Oil & Gas – Mid to Downstream

Oil & Gas - Upstream

### MANUFACTURING SECTOR GROUP

Chemical products

Food & Beverages

Textiles, Accessories, Footwear and Jewelries

### TRANSPORTATION SECTOR GROUP

Road Transport

### ENERGY & UTILITIES SECTOR GROUP

Energy Production & Utilities

Water & Waste Services

### TECHNOLOGY SECTOR GROUP

Information Technology

### TRANSPORTATION SECTOR GROUP

Transportation

### REAL ESTATE SECTOR GROUP

Real Estate

### CONSTRUCTION SECTOR GROUP

Construction & Engineering

Construction & Furnishing

### WHOLESALE & RETAIL SECTOR GROUP

Sales & Trade

### MANUFACTURING SECTOR GROUP

Building Materials

Defence

Electronics

Machinery & Equipment

Medical Instruments

Metal Processing

Motor Vehicles

Paper & Wood Products

Pharma & Biotechnology

Sporting Equipment & Toys

Tobacco

### SERVICES SECTOR GROUP

Education

Marketing

Professional services

### TECHNOLOGY SECTOR GROUP

Media & Communication

### HOSPITALITY SECTOR GROUP

Food & Beverage Services

Accommodations

### ENTERTAINMENT SECTOR GROUP

Gaming

Recreation and Leisure

### FINANCIAL INSTITUTIONS SECTOR GROUP

Capital Markets

Credit Institutions

Insurance

### HEALTH CARE SECTOR GROUP

Health Care & Services

- ✓ Sectorial standards build on SASB and GRI standards, where they exist.
- ✓ Still unknown approach to the mandatory nature of DRs in sectorial standards.
- ✓ Identify all sectors you operate in. Determine which sectors are material.

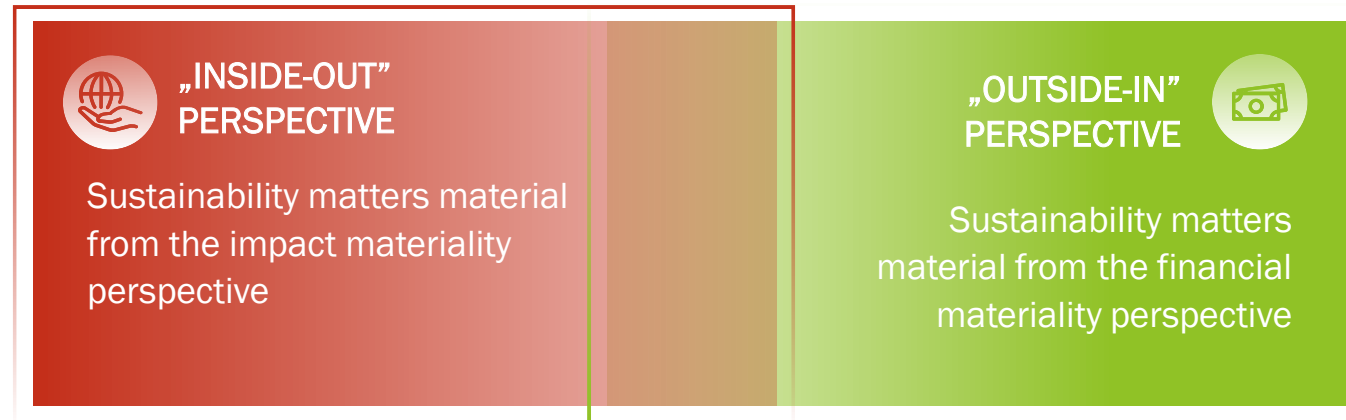
# Double materiality

Two perspectives



## Impact materiality

A sustainability topic or information is material from the impact perspective if the project is related to actual or potential material impacts on people or the environment and is linked to the sustainability matters in the short, medium or long term.



## Financial materiality

material if it has financial implications for businesses, i.e., it generates risks or opportunities that affect or may affect future cash flows and thus the value of the company in the short, medium or long term, but are not included in the financial reporting at the reporting date.

# Double materiality assessment

Company impact on People & the Environment

## DOUBLE MATERIALITY

People & the Environment's effect on a company

### Impact materiality

- A sustainability matter is material from an impact perspective when it has over the short-, medium- or long term:

Materiality of an impact  
= Severity  
+ likelihood

Severity is based on:

- Scale of the impact
- Scope of the impact
- **irremediable** character of the impact

Potential negative human rights impact: severity takes precedence over likelihood.

- Note that some impact material matters may also be financially material
- Material impact sustainability matters:
  - impacts **caused or contributed** to by the undertaking
  - impacts which are directly linked to the undertaking's own **operations**, its **products**, and **services** through its business relationships (incl. upstream/downstream value chain)

### Financial materiality

- Builds upon which information should be included in the undertaking's financial statements
- A sustainability matter is material from a financial perspective when it has over the short-, medium- or long term:

Triggers or may trigger material financial effects



The undertaking's *development*, including cash flows, financial position and financial performance

Particularly when a sustainability matter generates or may generate risks or opportunities that significantly influence or are likely to significantly influence its future cash flows.

- Financial materiality is NOT constrained to matters that are within the control of the undertaking, but also material risks and opportunities attributable to business relationships with other undertakings/stakeholders beyond the scope of regular financial reporting
- The materiality of risks and opportunities is assessed based on a combination of a **likelihood of occurrence** and **potential size of financial effects**.

# Overview of the related standards

## List of key standards/guidance

#	Organisation	Initiative / Document
1	European Financial Reporting Advisory Group	Draft European Sustainability Reporting Standards
2	International Sustainability Standards Board	Prototype Climate and General Disclosure Requirements
3	Task Force on Climate-related Financial Disclosures	TCFD Recommendations
4	Global Reporting Initiative	GRI standards
5	Value Reporting Foundation	Relevant sectoral SASB Standards
6	Climate Disclosure Standards Board	CDSB Framework
7	CDP	CDP data
8	World Benchmarking Alliance	WBA Benchmarks
9	Greenhouse Gas Protocol	GHG Protocol

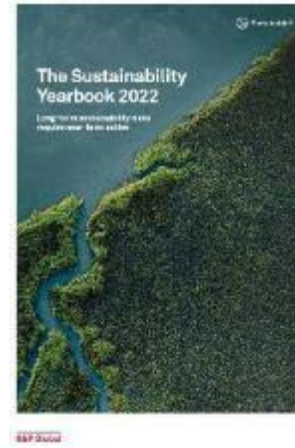
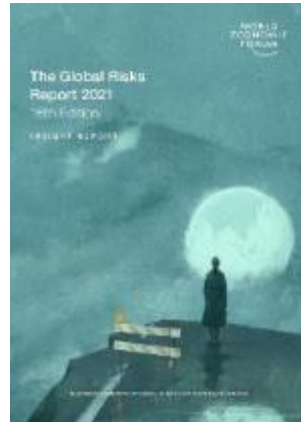
#	Organisation	Document
10	EU	Accounting Directive/Corporate Sustainability Reporting Directive
11	EU	Sustainable Finance Disclosure Regulation (incl. delegated acts)
12	EU	Taxonomy Regulation (incl. delegated acts)
13	EU	Conflict Minerals Regulation
14	Shift and Mazars	UN Guiding Principles on Business and Human Rights Reporting and Assurance Framework
15	OECD	OECD Due Diligence Guidance for Responsible Business Conduct
16	Science Based Targets Initiative	SBTi tool
17	The Paris Agreement Capital Transition Assessment	PACTA tool



### EU Taxonomy, SFDR, CSRD



# ESG reporting guidance - ISSB set up at COP 26



# ESRS 2 | General disclosures

## Disclosure requirements

### Basis for preparation

BP-1: General basis for preparation of sustainability statements

BP-2: Disclosures in relation to specific circumstances

#### GOVERNANCE



GOV1: The role of the **administrative, management and supervisory bodies**

GOV2: Information provided **to** and sustainability matters addressed **by** the undertaking's administrative, management and supervisory bodies

GOV3: Integration of sustainability-related performance in **incentive schemes**

GOV4: Statement on **due diligence**

GOV5: **Risk management and internal controls** over sustainability reporting

#### STRATEGY



SBM1: **Strategy, business model and value chain**

SBM2: Interests and views of **stakeholders**

SBM3: **Material** impacts, risks and opportunities and their interaction with **strategy and business model**

#### IRO MANAGEMENT



##### DISCLOSURE ON THE MATERIALITY ASSESSMENT PROCESS

IRO1: Description of the **processes to identify and assess** material impacts, risks and opportunities

IRO2: **Disclosure requirements** in ESRS covered by the undertaking's sustainability statement

##### MINIMUM DISCLOSURE REQUIREMENTS ON POLICIES AND ACTIONS

MDR-P: **Policies** adopted to manage material sustainability matters

MDR-A: **Actions and resources** in relation to material sustainability matters

#### METRICS AND TARGETS



##### MINIMUM DISCLOSURE REQUIREMENTS ON METRICS AND TARGETS

MDR-M: **Metrics** in relation to material sustainability matters

MDR-T: Tracking effectiveness of **policies and actions through targets**

**For each material sustainability matter**

- Applied together with DRs, including Application Requirements, provided in the relevant topical ESRS

# Minimum disclosure requirements on policies, actions, metrics and targets

## Cross-cutting DRs



[MDR-P] POLICIES



[MDR-A] ACTIONS AND RESOURCES



[MDR-M] METRICS



[MDR-T] TARGETS

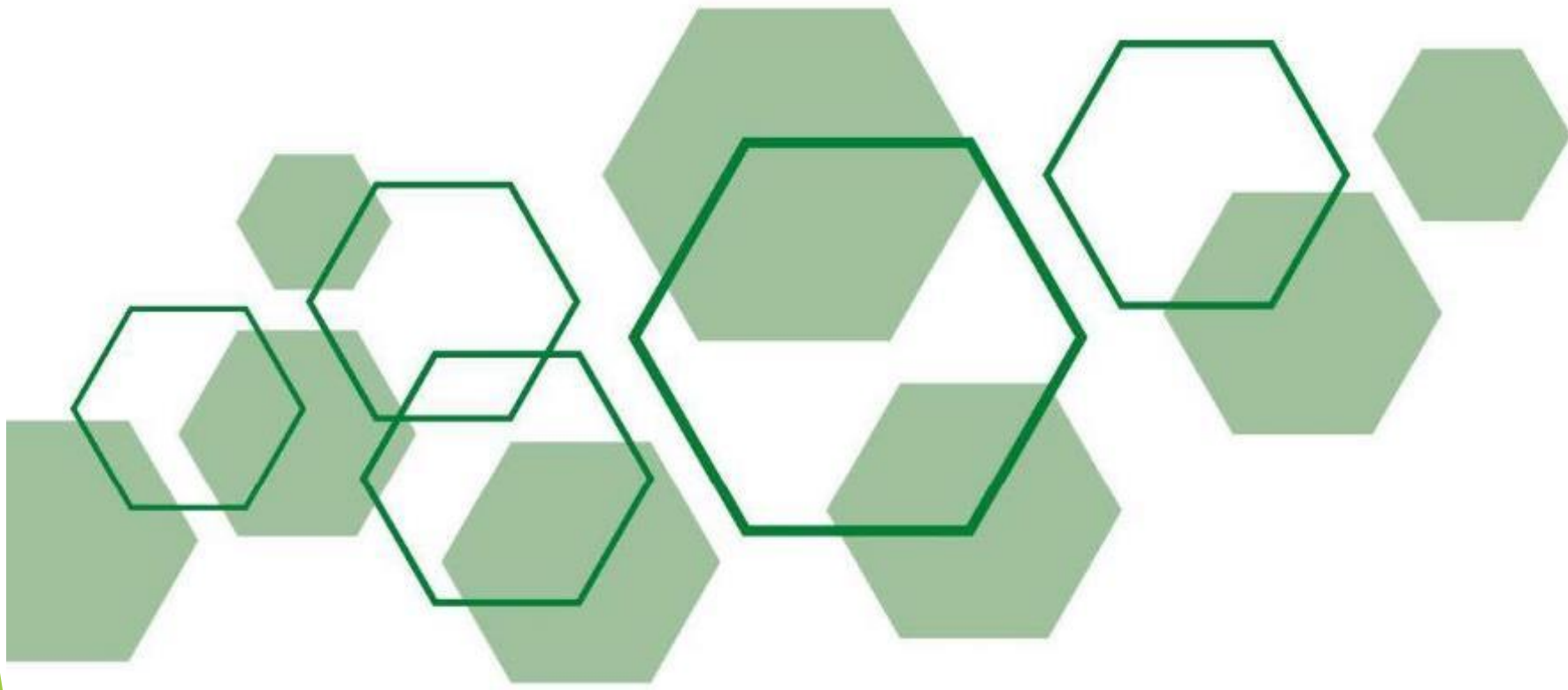
For each material  
sustainability  
matter

- Applied together with DRs in topical and sectoral ESRS.
- Also to be applied for **entity-specific** disclosures
- When a single policy or same actions **address several interconnected sustainability matters**, the undertaking may disclose the required information in its reporting under one topical ESRS and **cross reference** to it in its reporting under other topical ESRS.
- If the undertaking has **not defined policies, actions or targets**, it should disclose this to be the case and provide **reasons** (+ optionally a timeframe).



# ESRS E1

## Climate change



# ESRS E1 | Climate change

## General Concepts



CLIMATE  
STRATEGY



CLIMATE  
CHANGE  
MITIGATION



CLIMATE  
CHANGE  
ADAPTATION



ENERGY

Relates to the **undertaking's endeavours** to the general process of **holding the increase in the global average temperature to well below 2 °C** and pursuing efforts to limit it to 1,5 °C above pre-industrial levels, as laid down in the Paris Agreement.

Relates to the undertaking's **process of adjustment** to actual and expected **climate change**.

Standard E1 covers Disclosure Requirements regarding climate-related hazards that can lead to **physical climate risks** for the undertaking and its adaptation solutions to reduce these risks. It also covers **transition risks** arising from the needed adaptation to climate-related hazards.

Cover all types of **energy production and consumption**.

# ESRS E1 | Climate change

## Disclosure requirements

### GOVERNANCE



DR related to **ESRS 2 GOV-3**  
Integration of sustainability-related performance in incentive schemes

### STRATEGY



DR **E1-1** – Transition plan for climate change mitigation  
Disclosure Requirement related to **ESRS 2 SBM-3** – Material impacts, risks and opportunities and their interaction with strategy and business model

### IMPACT, RISK AND OPPORTUNITY MANAGEMENT



DR related to **ESRS 2 IRO-1** – Description of the processes to identify and assess material climate-related impacts, risks and opportunities  
DR **E1-2** – Policies related to climate change mitigation and adaptation  
DR **E1-3** – Actions and resources in relation to climate change policies

### METRICS AND TARGETS



DR **E1-4** – Targets related to climate change mitigation and adaptation  
DR **E1-5** – Energy consumption and mix  
DR **E1-6** – Gross Scopes 1, 2, 3 and Total GHG emissions  
DR **E1-7** – GHG removals and GHG mitigation projects financed through carbon credits  
DR **E1-8** – Internal carbon pricing  
DR **E1-9** – Anticipated financial effects from material physical and transition risks and potential climate-related opportunities

# ESRS E1 | Climate change

Key challenges and novelties in reporting the data points

## New disclosure obligations and data

- Scope 1,2,3 Calculation results
- Climate risk methodology & results, significance of risks, financial impact of risks (inherent / residual)
- Whole value chain approach
- Decarbonisation Strategy – Mitigation Plan  
Adaptation Plan / Transition Plan
- Strategy resilience disclosure
- Impact of specific decarbonization initiatives
- Removal and carbon credits
- Internal carbon price

## Challenges in data availability and methodological approach

- Science based 1,5 Plan
- Scope 3 data
- Climate risks scenarios / assumptions
- Direct emission data - % share information
- Resilience vs climate risks
- High quality offsets – carbon credits
- Locked-in emissions in value chain
- Internal carbon price methodologies

# ESRS E1 | Climate change

Data points – overview\*\*

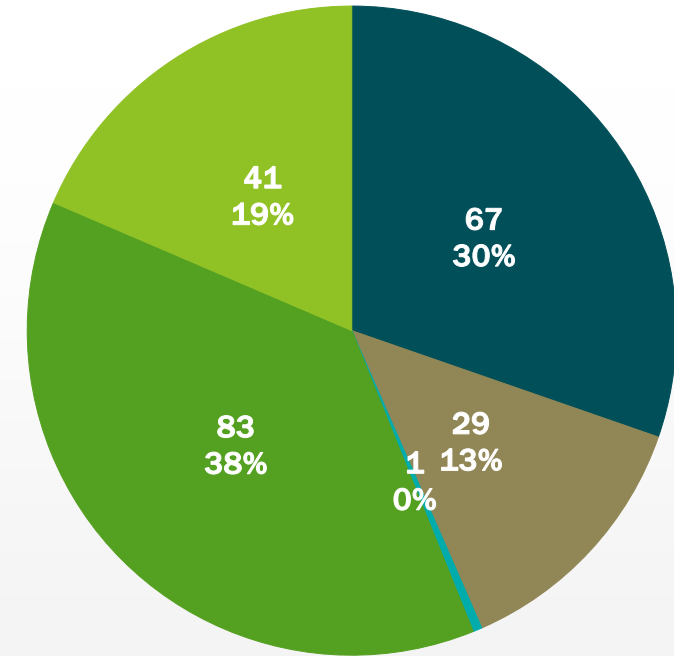
**221**

Data points (DPs)  
in total

**154** (70%)

NOT directly  
referenced to GRI

## DATA TYPES TO BE REPORTED \*



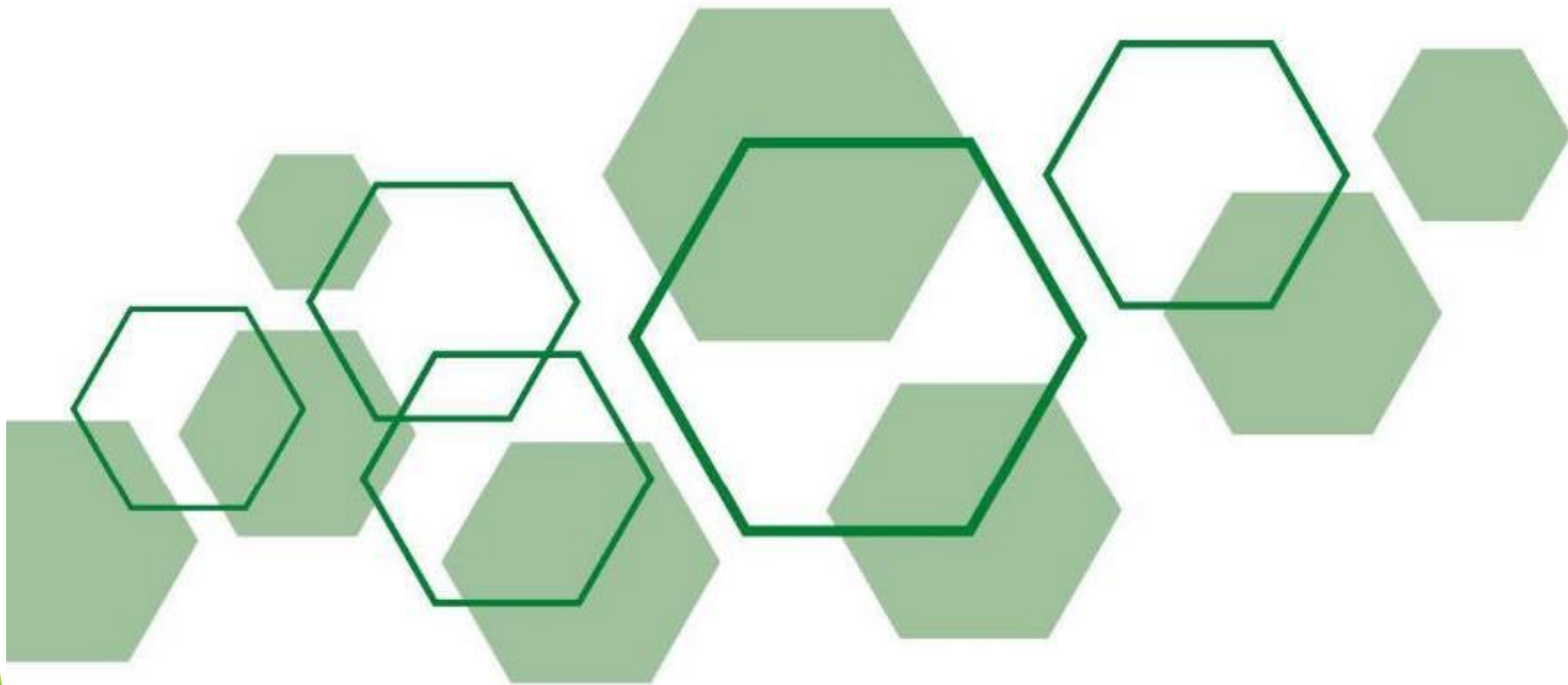
- Narrative
- Blended narrative and numerical
- Numerical
- Table (numerical)
- Semi-narrative

\* **Simplified for visibility.** "Numerical" includes any data that is to be reported as numbers, including percentages and monetary values. "Table (numerical)" indicates DPs which require numerical data in a structured form (e.g. by types of activity, countries of operations etc.).

\*\* **Estimated based on EFRAG's guidance for ESRS implementation**

# ESRS E2

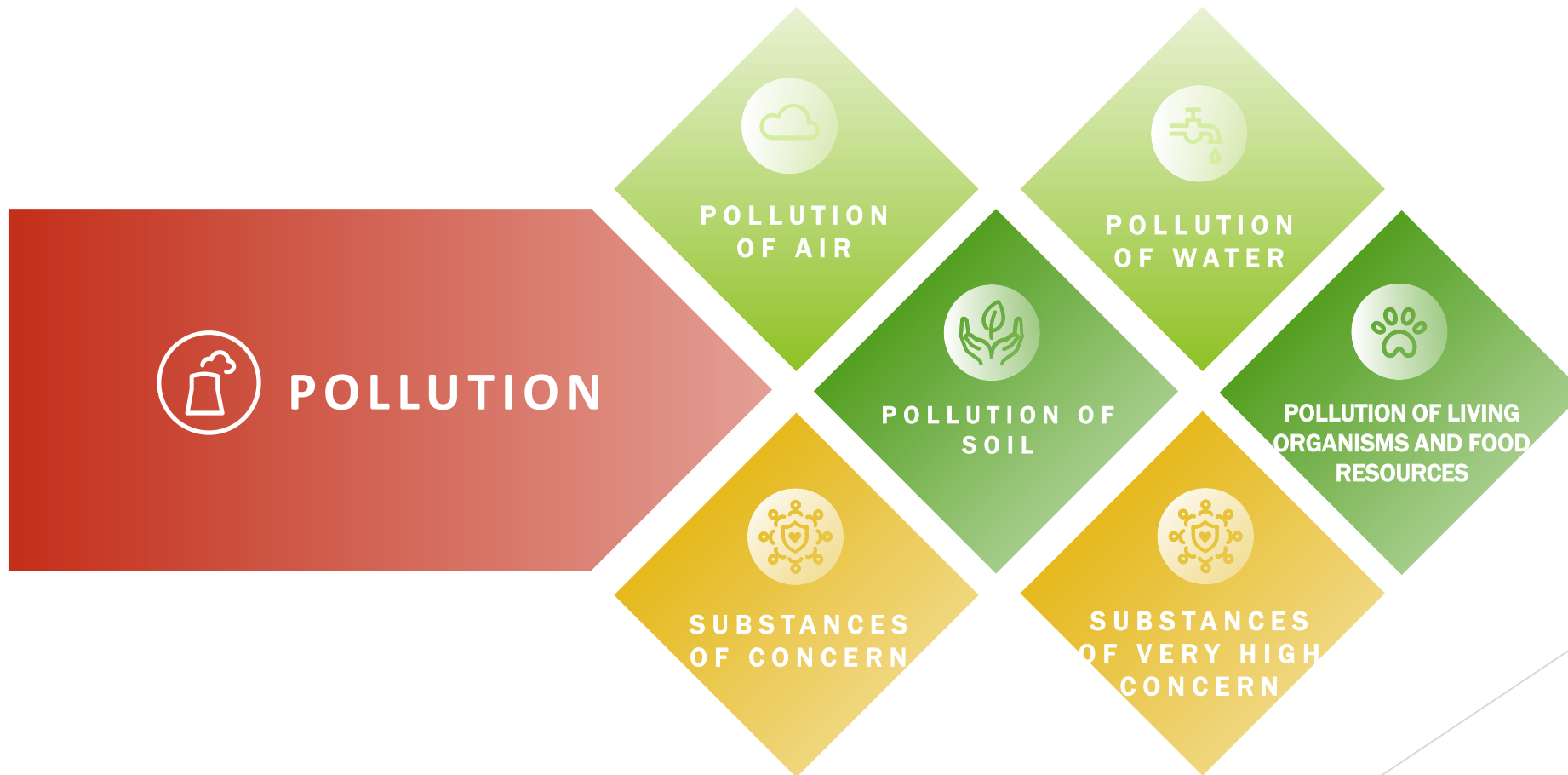
## Pollution



# ESRS E2 | Pollution

## General Concepts

### SUB-TOPICS



# ESRS E2 | Pollution

## Disclosure requirements

### GOVERNANCE



### STRATEGY



### IMPACT, RISK AND OPPORTUNITY MANAGEMENT



### METRICS AND TARGETS



DR related to **ESRS 2 IRO-1** – Description of the processes to identify and assess material pollution-related impacts, risks and opportunities

DR **E2-1** – Policies related to pollution

DR **E2-2** – Actions and resources related to pollution

DR **E2-3** – Targets related to pollution

DR **E2-4** – Pollution of air, water and soil

DR **E2-5** – Substances of concern and substances of very high concern

DR **E2-6** – Anticipated financial effects from pollution-related impacts, risks and opportunities



# ESRS E2 | Pollution

Data points – overview\*\*

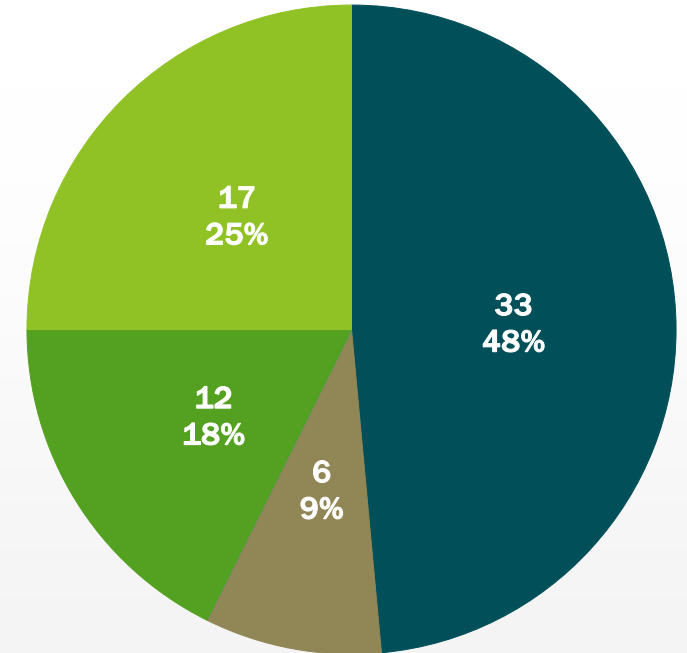
68

Data points (DPs)  
in total

54 (79%)

NOT directly  
referenced to GRI

## DATA TYPES TO BE REPORTED \*



■ Narrative  
■ Blended narrative and numerical  
■ Table (numerical)  
■ Semi-narrative  
■ Numerical

\* **Simplified for visibility.** "Numerical" includes any data that is to be reported as numbers, including percentages and monetary values. "Table (numerical)" indicates DPs which require numerical data in a structured form (e.g. by types of activity, countries of operations etc.).

\*\* **Estimated based on EFRAG's guidance for ESRS implementation**

# ESRS E2 | Pollution

Key challenges and novelties in reporting the data points

## New disclosure obligations and data

- Policies to manage material impacts
- Materiality assessment results (deep dive to double materiality source data)
- Information about methodologies, assumptions and tools used for own operations and value chain
- Disclosure on comparability of Policies with EU regulations
- Disclosure on effectiveness of policies (targets / KPI not always present)
- Information on implementation of policies and targets at site-level

## Challenges in data availability and methodological approach

- Material impact definition (material impact can be financial and non-financial) – multicriteria risk analysis (mature ERM systems)
- Methodologies to assess impact in the value chain
- Microplastics generated
- Definitions of high water risk and high water stress areas
- Disclosure of methodology and assumptions for quantitative information about anticipated financial effects of material risks and opportunities arising from pollution-related impacts

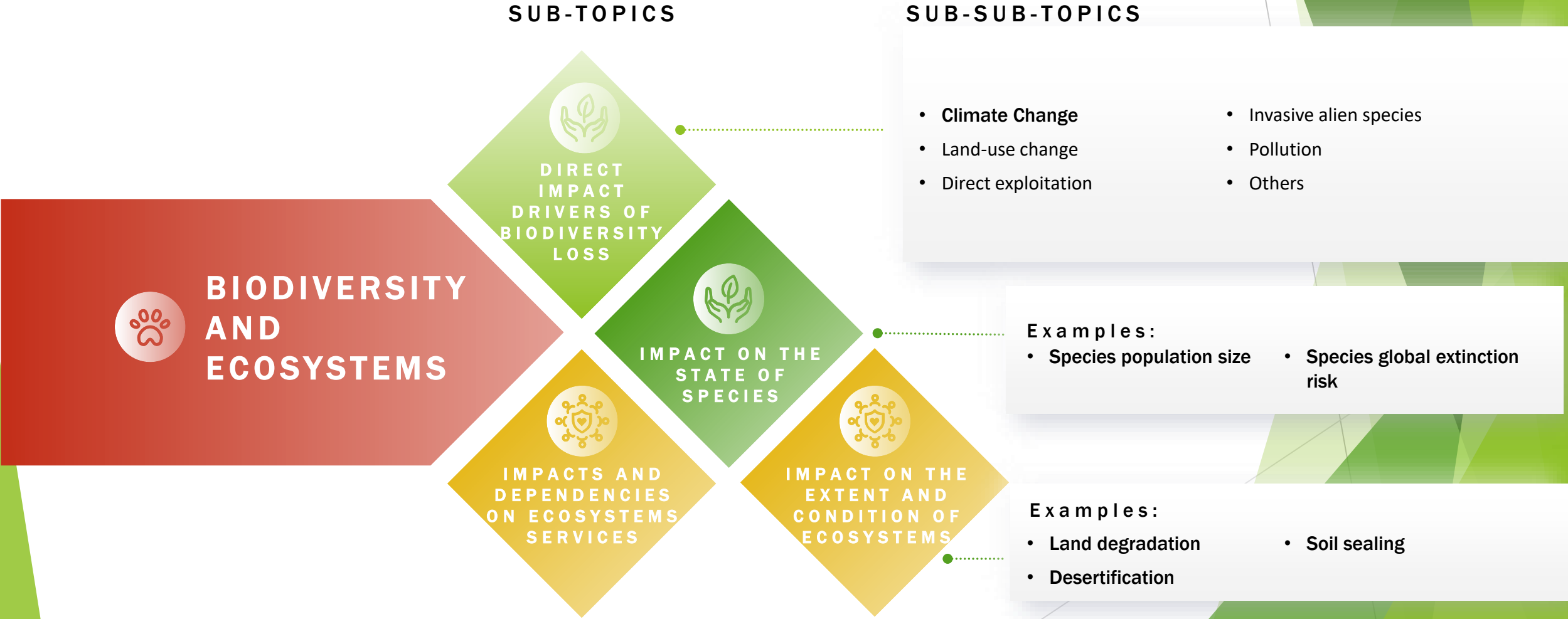
# ESRS E4

## Biodiversity and ecosystems



# ESRS E4 | Biodiversity and ecosystems

## General Concepts



# ESRS E4 | Biodiversity and ecosystems

## Disclosure requirements

### GOVERNANCE



Lack of specific governance-related DR in ESRS E-4

### STRATEGY



DR E4-1 – Transition plan and consideration of biodiversity and ecosystems in strategy and business model

DR related to **ESRS 2 SBM-3** – Material impacts, risks and opportunities and their interaction with strategy and business model

### IMPACT, RISK AND OPPORTUNITY MANAGEMENT



DR related to **ESRS 2 IRO-1**  
Description of processes to identify and assess material biodiversity and ecosystem-related impacts, risks and opportunities

DR E4-2 – Policies related to biodiversity and ecosystems

DR E4-3 – Actions and resources related to biodiversity and ecosystems

### METRICS AND TARGETS



DR E4-4 – Targets related to biodiversity and ecosystems

DR E4-5 – Impact metrics related to biodiversity and ecosystems change

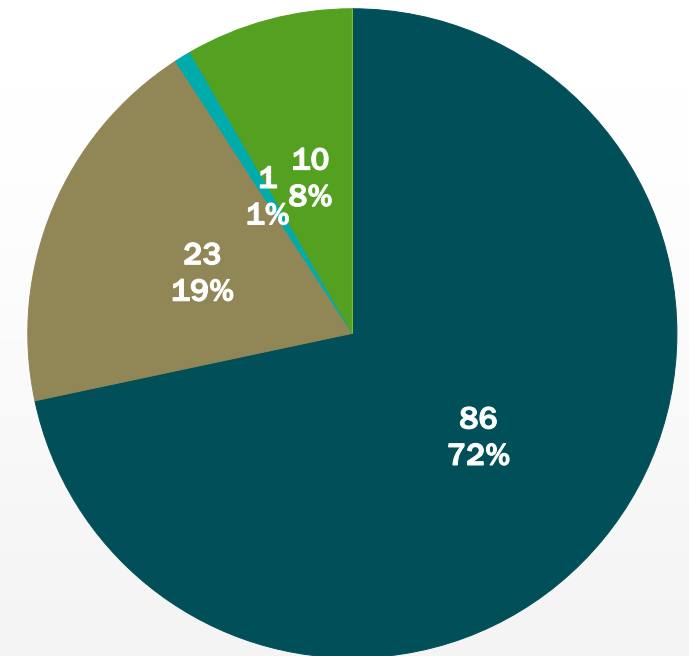
DR E4-6 – Anticipated financial effects from biodiversity and ecosystem-related risks and opportunities

# ESRS E4 | Biodiversity and ecosystems

Data points – overview\*\*

ESRS E4 is an environmental standard that covers the highest percentage of only narrative and semi-narrative disclosures of all environmental topics

## DATA TYPES TO BE REPORTED \*



- Narrative
- Semi-narrative
- Blended narrative and numerical
- Numerical
- Table (numerical)

\* **Simplified for visibility.** “Numerical” includes any data that is to be reported as numbers, including percentages and monetary values. “Table (numerical)” indicates DPs which require numerical data in a structured form (e.g. by types of activity, countries of operations etc.).

\*\* **Estimated based on EFRAG’s guidance for ESRS implementation**

120

Data points (DPs)  
in total

94 (78%)

NOT directly  
referenced to GRI

# ESRS E4 | Biodiversity and ecosystems

Key challenges and novelties in reporting the data points

## New disclosure obligations and data

### Resilience Analysis and Transition Planning:

- Strategic importance of resilience analysis for building robust biodiversity strategy.

### Impact Analysis and synergy with TNFD and LEAP Methodology:

- Incorporation of impact analysis, using potential synergies with TNFD and LEAP methodology.

### Policies and Procedures:

- In-depth requirements for disclosing policies and procedures related to nature. Communication of the robust framework guiding biodiversity related practices.

### Target Disclosures:

- Clear expectations for disclosing specific targets aligned with sustainability goals.

### Diverse Range of Metrics:

- Varied spectrum of metrics, from straightforward to complex.

### Narrative Indicators:

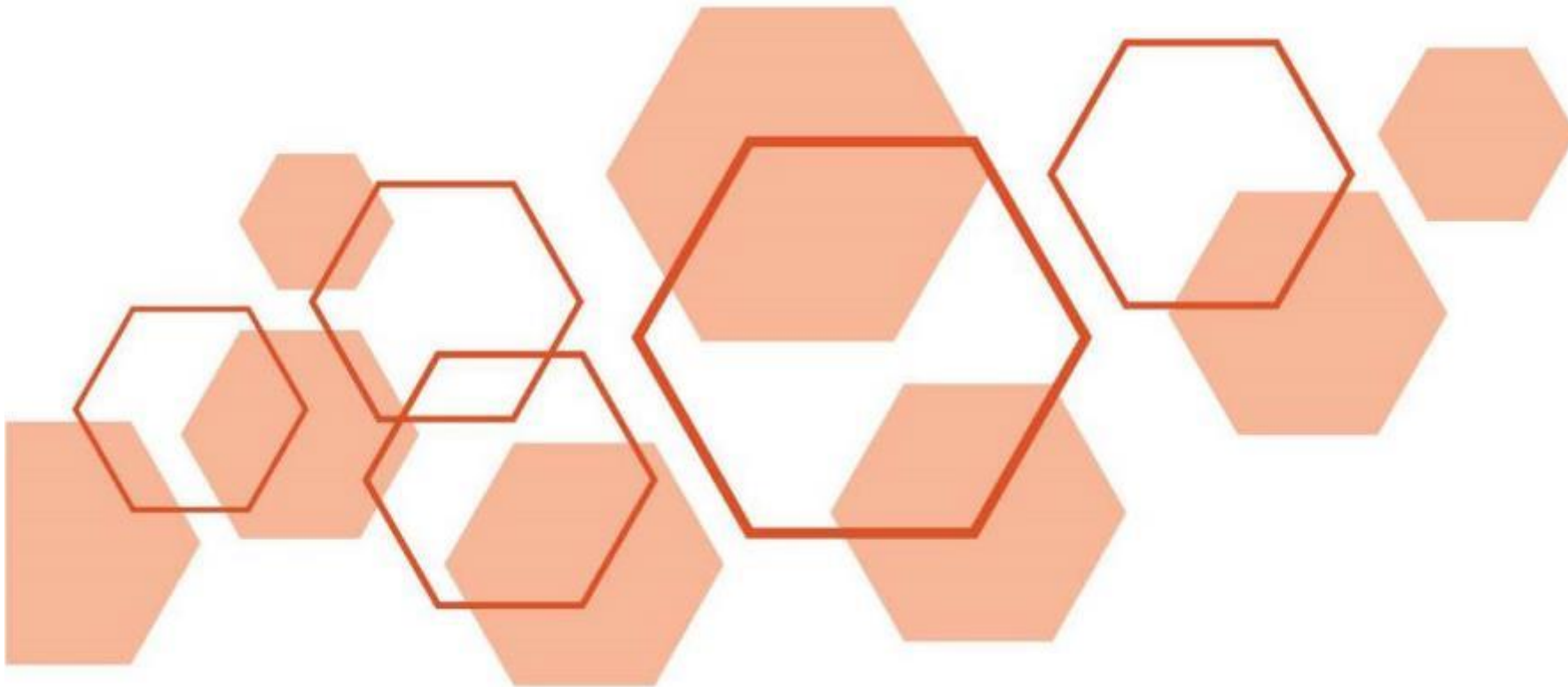
- Contribution to the overall sustainability narrative.
- Comprehensive and aligned approach to environmental disclosures.

## Challenges in data availability and methodological approach

- **Lack of** clear correlation with TNFD
- **Focus on impact analysis**
- Business strategy and **transition planning**
- In-depth biodiversity reporting, with specific requirements
- **Limited number of recourse's** supporting biodiversity analysis, lack of specific scenarios to be adopted
- **Lack of comparability** of the biodiversity reporting

# ESRS S2

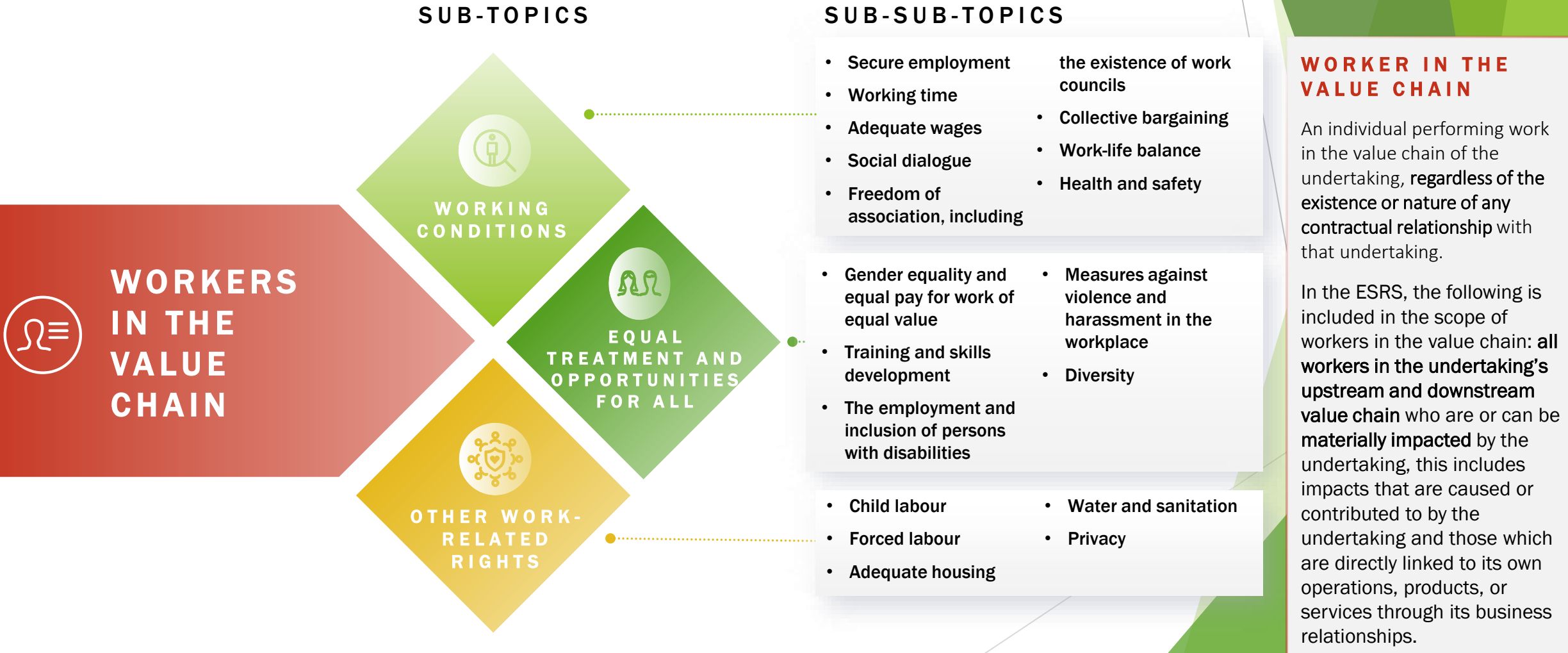
## Workers in the value chain





# ESRS S2 | Workers in the value chain

## General Concepts



# ESRS S2 | Workers in the value chain

## Disclosure requirements

### GOVERNANCE



### STRATEGY



### IMPACT, RISK AND OPPORTUNITY MANAGEMENT



### METRICS AND TARGETS



DR related to **ESRS 2 SBM-2** Interests and views of stakeholders

DR related to **ESRS 2 SBM-3** Material impacts, risks and opportunities and their interaction with strategy and business model

DR **S2-1** – Policies related to value chain workers

DR **S2-2** – Processes for engaging with value chain workers about impacts

DR **S2-3** – Processes to remediate negative impacts and channels for value chain workers to raise concerns

DR **S2-4** – Taking action on material impacts on value chain workers, and approaches to managing material risks and pursuing material opportunities related to value chain workers, and effectiveness of those action

DR **S2-5** – Targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities

# ESRS S2 | Workers in the value chain

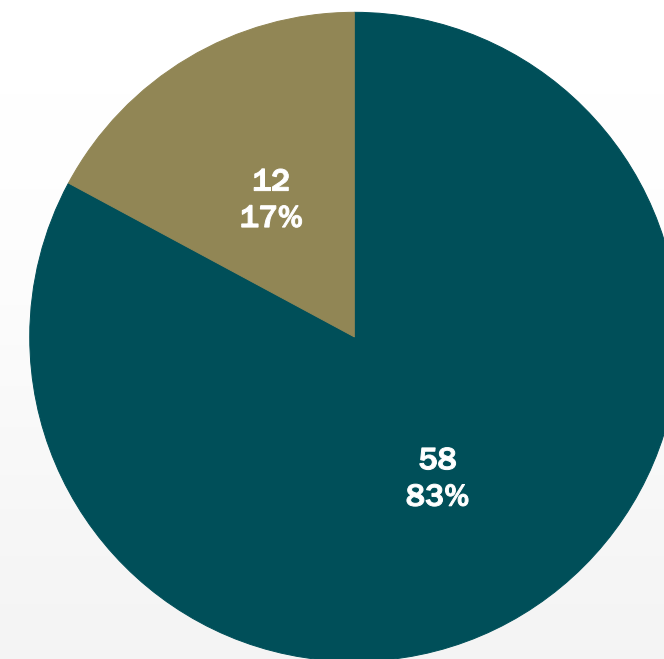
Data points – overview\*\*

70

Data points (DPs)  
in total

18 (26%)  
NOT directly  
referenced to GRI

## DATA TYPES TO BE REPORTED \*



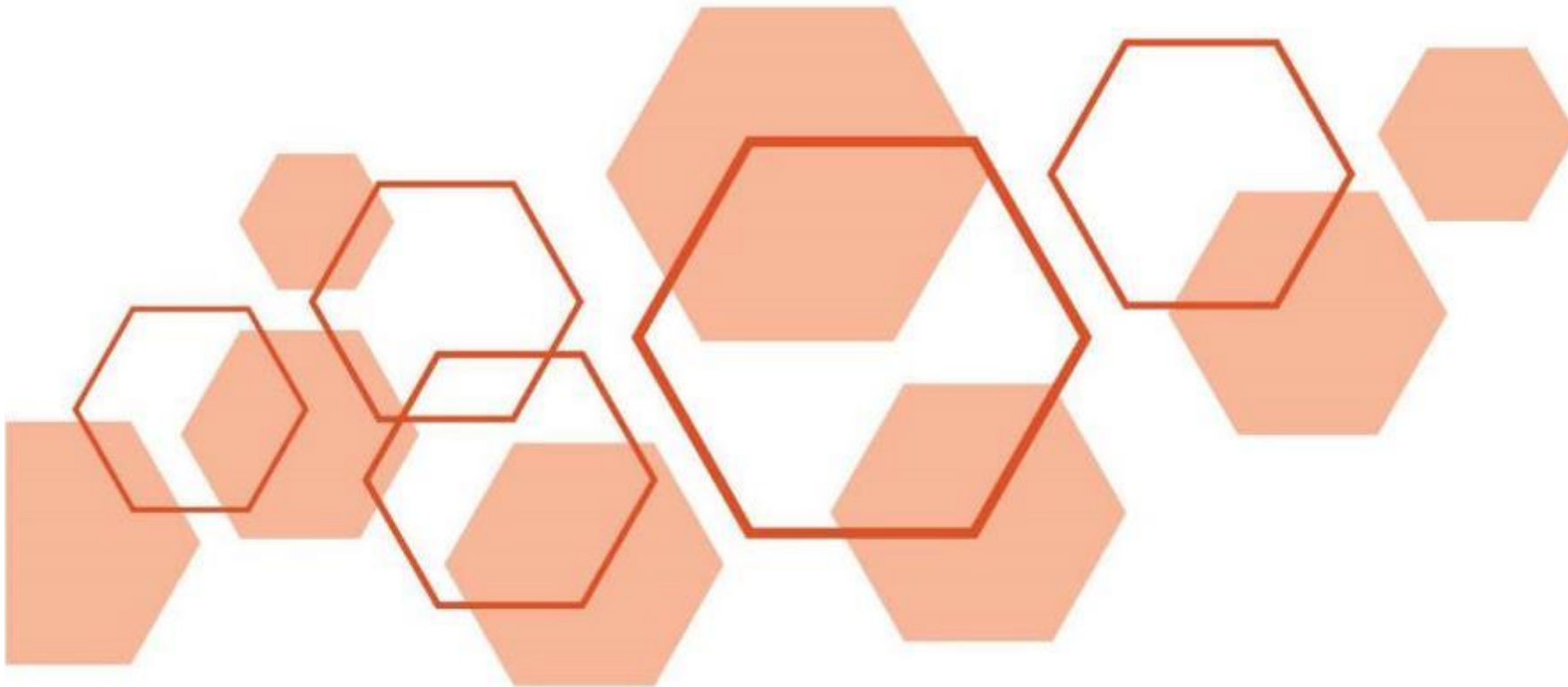
- Narrative
- Semi-narrative
- Blended narrative and numerical
- Numerical
- Table (numerical)

\* **Simplified for visibility.** "Numerical" includes any data that is to be reported as numbers, including percentages and monetary values. "Table (numerical)" indicates DPs which require numerical data in a structured form (e.g. by types of activity, countries of operations etc.).

\*\* **Estimated based on EFRAG's guidance for ESRS implementation**

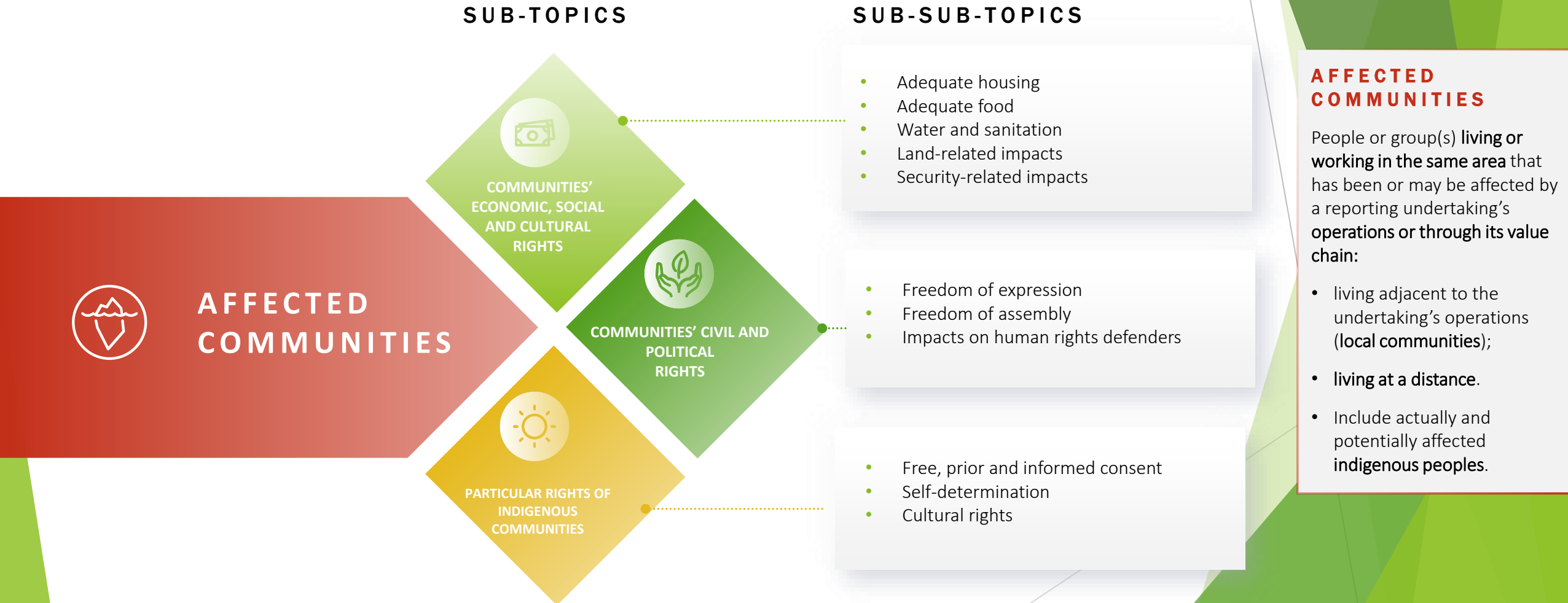
# ESRS S3

## Affected communities



# ESRS S3 | Affected communities

## General Concepts



# ESRS S3 | Affected communities

## Disclosure requirements

### GOVERNANCE



### STRATEGY



### IMPACT, RISK AND OPPORTUNITY MANAGEMENT



### METRICS AND TARGETS



DR related to **ESRS 2 SBM-2** – Interests and views of stakeholders

DR related to **ESRS 2 SBM-3** – Material impacts, risks and opportunities and their interaction with strategy and business model

DR **S3-1** – Policies related to affected communities

DR **S3-2** – Processes for engaging with affected communities about impacts

DR **S3-3** – Processes to remediate negative impacts and channels for affected communities to raise concerns

DR **S3-4** – Taking action on material impacts on affected communities, and approaches to managing material risks and pursuing material opportunities related to affected communities, and effectiveness of those actions

DR **S3-5** – Targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities

# ESRS S3 | Affected communities

Data points – overview\*\*

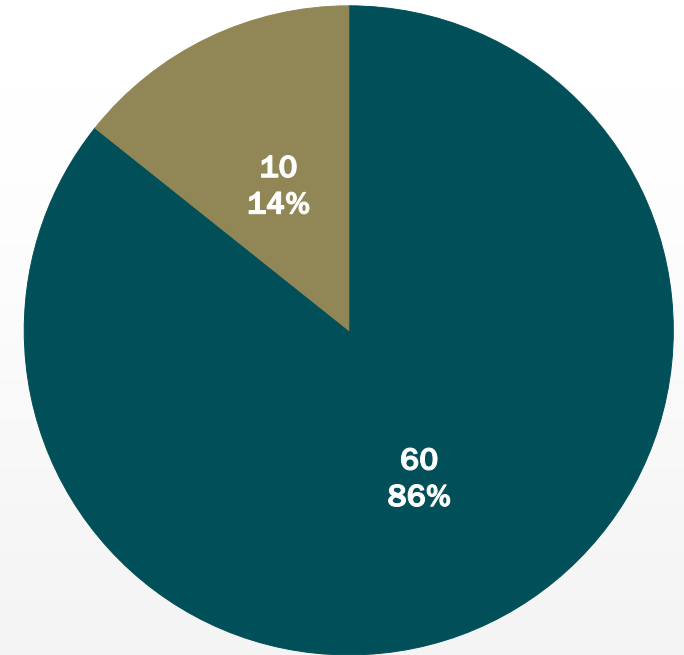
70

Data points (DPs)  
in total

17 (24%)

NOT directly  
referenced to GRI

## DATA TYPES TO BE REPORTED \*



■ Narrative

■ Semi-narrative

■ Blended narrative and numerical

■ Numerical

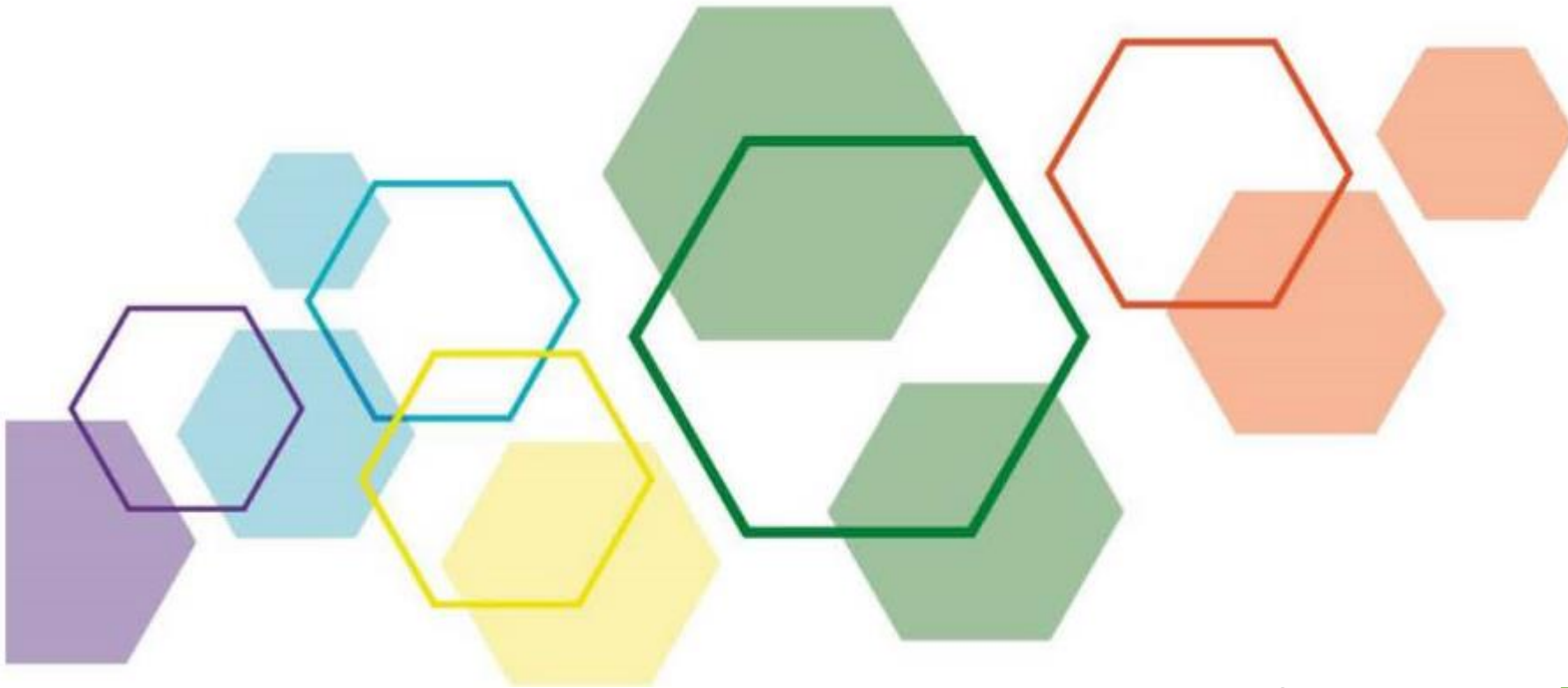
■ Table (numerical)

\* **Simplified for visibility.** "Numerical" includes any data that is to be reported as numbers, including percentages and monetary values. "Table (numerical)" indicates DPs which require numerical data in a structured form (e.g. by types of activity, countries of operations etc.).

\*\* **Estimated based on EFRAG's guidance for ESRS Implementation**

# Topical ESRS – a brief introduction to the remaining ESRS

**ESRS E3, E5, S1, S4, G1**



01

02

03

04

05



# ESRS E3 | Water and marine resources

## General Concepts

### SUB-TOPICS



## WATER AND MARINE



WATER  
WITHDRAWALS



WATER  
CONSUMPTION



WATER  
USE



WATER DISCHARGES  
IN WATER BODIES AND  
IN THE OCEANS



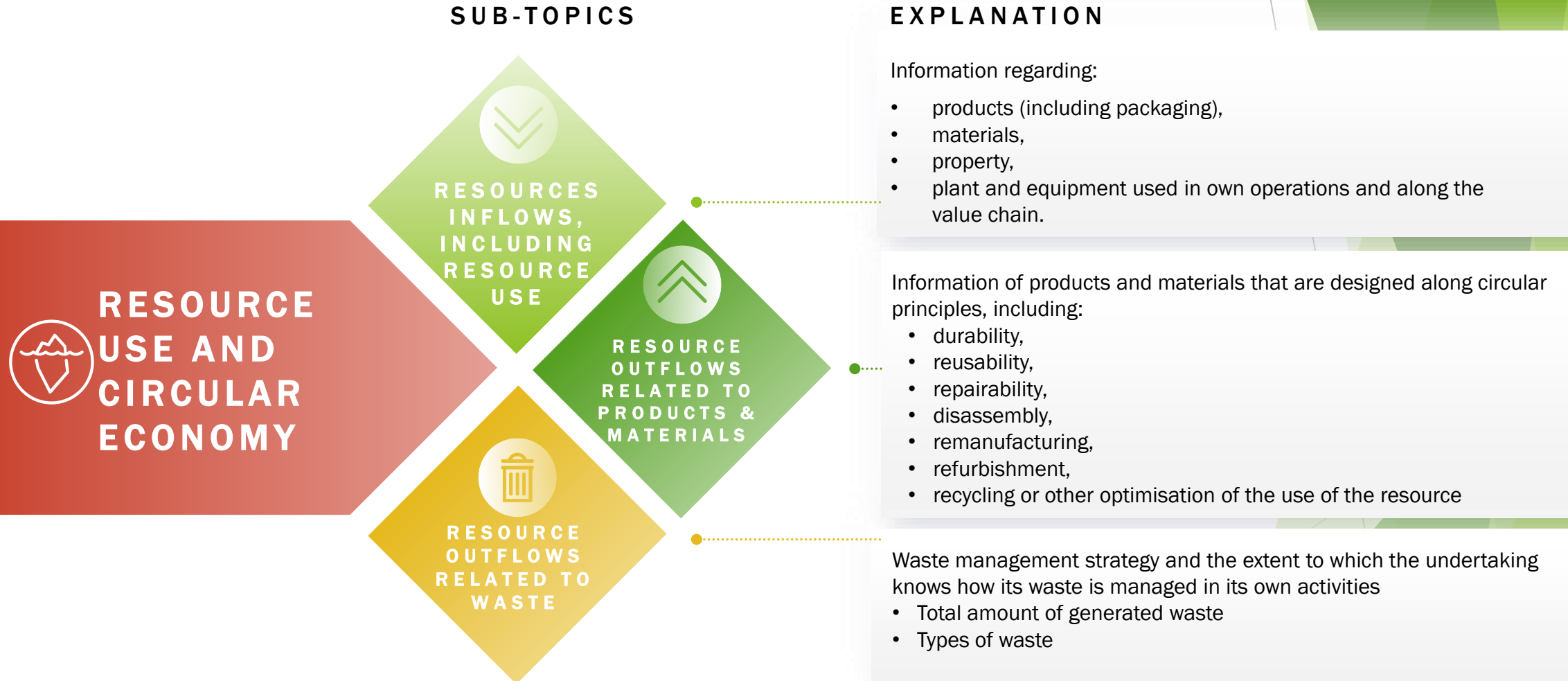
HABITAT DEGRADATION  
AND INTENSITY OF  
PRESSURE ON MARINE  
RESOURCES

### EXAMPLES OF DEFINED TERMS

- Blue Economy
- Recycled/reused water
- Area at water risk
- Water intensity
- Wastewater
- Area of high-water stress

# ESRS E5 | Resource use and circular economy

## General Concepts



# ESRS S1 | Own workforce

## General Concepts



### SUB-TOPICS

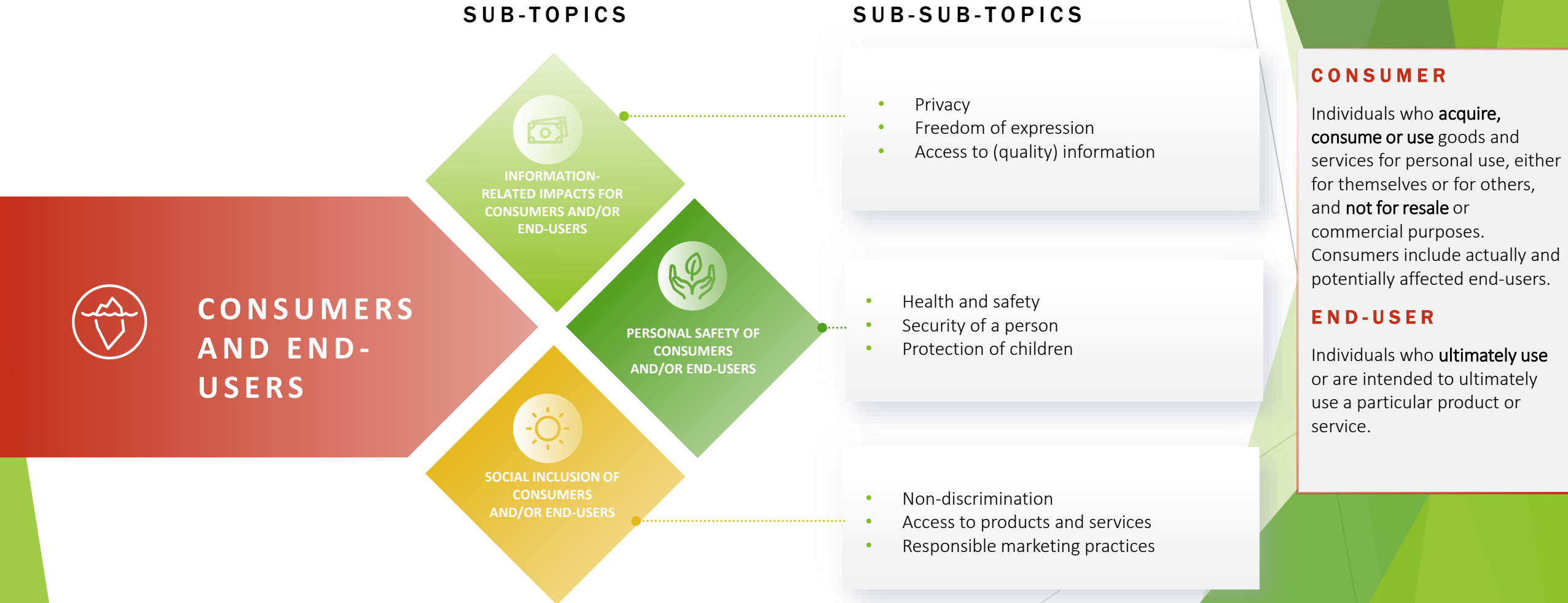


### SUB-SUB-TOPICS

- Secure employment
- Working time
- Adequate wages
- Social dialogue
- Freedom of association, the existence of works councils and the information, consultation and participation rights of workers
- Collective bargaining, including rate of workers covered by collective agreements
- Work-life balance
- Health and safety
- Gender equality and equal pay for work of equal value
- Training and skills development
- Employment and inclusion of persons with disabilities
- Measures against violence and harassment in the workplace
- Diversity
- Child labour
- Forced labour
- Adequate housing
- Privacy

# ESRS S4 | Consumers and end-users

## General Concepts



# ESRS G1 | Business conduct

## General Concepts

### SUB-TOPICS

### SUB-SUB-TOPICS



## BUSINESS CONDUCT



- Prevention and detection including training
- Incidents



### NOT INCLUDED IN ESRS G1

- General corporate governance (addressed in ESRS 2)
- Human Rights (addressed in ESRS S)
- Diversity and inclusion (addressed in ESRS S)
- Tax practices (If not related with bribery and corruption)
- Compliance

EXPOSURE DRAFT

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## **ESRS E5**

# **Resource use and circular economy**

November 2022



# E5 Requirements

E5 will require entities to report on resource inflows, including resource use, resource outflows related to products and services, and waste. Specific reporting requirements include:

- Description of the policies an entity is using to manage circular economy related risks, opportunities, and impacts across upstream and downstream operations (E5-1).
- Description of an entity's circular economy related actions, current or planned, and the resources allocated for implementation (E5-2).
- Targets relating to the circular economy and resource use. For example, circular design, circular material use rate, reduction of virgin non-renewable materials, and sustainable sourcing and use of renewable resources and waste management (E5-3).
- Resource inflows related to material risks, opportunities and impacts identified along the company's operations and upstream value chain. Disclosures could include total weight of technical and biological materials in products, percentage of biological materials (and any accompanying certification scheme, including for packaging), and weight of recycled material. (E5-4).
- Material resource outflows, including an entity's waste management strategy, the extent of recirculation, reparability, recycling of products and other materials (e.g., packaging), and waste generated from operations (E5-5).

The logo consists of a dark green hexagon with a white border, containing the text 'ESRS E5' in white. This hexagon is centered within a larger, light green arrow-shaped hexagon that points to the right.

ESRS E5

# How companies can prepare

- Organizations should understand if and when they will be required to report on circular economy and resource use.
- Organizations should determine if they have adequate reporting systems to collect and analyse appropriate data across the value chain. This data will require third-party independent assurance and accordingly processes and controls should also be considered.
- Organizations should integrate a circularity strategy into their business operations.
- Organizations should shift from a linear supply chain to a circular, zero-waste operating model. They should also gain supply chain visibility to highlight opportunities for closed-loop systems (products or materials are returned to original manufacturers) and open-loop systems (materials are recovered by other parties), both of which support a more circular economy.



# Resource use and circular economy integration in the business model

The disclosure should include:

- ▶ reference to the resource use and circular economy targets, an explanation of the levers identified and key actions planned to move from a linear to circular business model;
- ▶ an explanation of how the plan is embedded in and aligned with the overall business strategy;
- ▶ an explanation of the progress made in retaining the resource, the product and material at their highest value.



# Processes to identify resource use and circular economy-related impacts, risks and opportunities

The undertaking should disclose its processes to identify and assess its:

- ▶ resource use and circular economy-related impacts;
- ▶ resource use and circular economy-related risks; and
- ▶ resource use and circular economy-related opportunities.

The disclosure shall include a description of the processes to identify those impacts, risks and opportunities that due to their importance for the undertaking are prioritised and monitored directly by the undertaking's highest governing bodies.



# Resource use and circular economy-related impacts, risks and opportunities

- ▶ resource use and circular economy-related impacts;
- ▶ resource use and circular economy-related risks; and
- ▶ resource use and circular economy-related opportunities.

The disclosure should cover a description of:

- ▶ the principal risks of staying in a linear economy;
- ▶ the principal opportunities related to a circular economy;
- ▶ the principal risks of a transition to a circular economy.

# Policies implemented to manage resource use and circular economy

The undertaking should describe (i) the measurable outcome-oriented target set to meet the resource use and circular economy-related policy's objectives related to the management of its material impacts, risks and opportunities and (ii) the overall progress against the defined target.

The resource use and circular economy targets should include the following categories of targets:

- ▶ targets to eliminate waste (including in use phase);
- ▶ targets for circular material use rate;
- ▶ targets to eliminate the use of virgin raw material;
- ▶ targets for reduction/reversal in the depletion of the stock of renewable resources.



# Resource use and circular economy action plans

The disclosure should include:

- ▶ a description of how targets are tightly connected with material impacts disclosed in the section 'risks and opportunities' and if they are not, a comprehensive justification as to why a material impact is not covered by a target;
- ▶ a description of how the targets contribute to the objectives of the EU Circular Economy Action Plan;
- ▶ whether targets are absolute or intensity-based and in which unit they are measured;
- ▶ as applicable, the geographical scope of the target: a description of the geographies covered by the target and how these geographies were selected and, if applicable, an explanation of why the relevant geographies identified were not included



# Resources inflows and outflows

The disclosure should include:

- ▶ the amount in both absolute and percentage terms, of reused, recycled and renewable input materials used to manufacture the undertaking's primary products and services;
- ▶ the amount in both absolute and percentage terms of reused, recycled and renewable input materials used to package the undertaking's primary products.
- ▶ the amount in both absolute and percentage terms of reused content derived from products or services outflow;
- ▶ the amount in both absolute and percentage terms of recycled content derived from products or services outflow;
- ▶ the amount in both absolute and percentage terms of renewable content of products or services outflow.

# Waste and emissions

The disclosure should include a description of:

- ▶ actions, including circularity measures, taken to prevent waste generation in the undertaking's own activities and upstream and downstream in its value chain, and to manage significant impacts from waste generated.
- ▶ the extent to which processes are set up to support circular business models, products or services;
- ▶ the extent to which the undertaking engages with customers on advancing circular economy topics;
- ▶ the extent to which the undertaking engages with suppliers on advancing circular economy topics.



# Resource value strategy

The principle to be followed under this Disclosure Requirement is to provide an understanding of the intensity of materials and products use by the undertaking and its capability to retain the value of the resource used at its highest stage.

The disclosure shall include the share of net revenue from products and services that leverage the transition to a circular economy through circular business models such as pay-per-use, sharing or repairing services.





# Circular enablers

The disclosure shall include a description of:

- ▶ actions, including circularity measures, taken to prevent waste generation in the undertaking's own activities and upstream and downstream in its value chain, and to manage significant impacts from waste generated.
- ▶ the extent to which processes are set up to support circular business models, products or services;
- ▶ the extent to which the undertaking engages with customers on advancing circular economy topics;
- ▶ the extent to which the undertaking engages with suppliers on advancing circular economy topics.

# Taxonomy Regulation for the transition to a circular economy including enabling activities

The Taxonomy Regulation in its Article 8(2) requires undertakings to disclose information on the proportion of the turnover, capital expenditure ('CapEx') and operating expenditure ('OpEx') associated with economic activities that qualify as environmentally sustainable.

The information to be disclosed under the upcoming circular economy-related provisions of the Taxonomy regulation shall be complementary to the information disclosed under the provisions of this standard as it provides an understanding of the undertaking's own substantial contribution in favour of the transition to a circular economy.



# Financial opportunities related to resource use and circular economy other than the Taxonomy Regulation

The principle to be followed under this Disclosure Requirement is to provide information allowing for an overall understanding of the financial opportunities related to resource use and circular economy, complementing the information requested under the Taxonomy Regulation.

If the undertaking discloses the information, it shall include an assessment of the market size of related products and services over the short-, medium-, and long-term, explaining how these are defined, how financial amounts are estimated and which critical assumptions are made.



გარემოს დაცვისა და სოფლის  
მეურნეობის სამინისტრო



## Governance Reform Fund (GRF) Project

# **Supporting the Government of Georgia in Enhancing Governance & Policies for a Transition to a Circular Economy**

# **Thank you!**

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**deprasek@gmail.com**

**orchisge@yahoo.com**