

European Sustainability Reporting Standards (ESRS)

The Accounting Directive (2013/34/EU), as amended by Directive (EU) 2022/2464 (Corporate Sustainability Reporting Directive or "**CSRD**"), requires undertakings to include in a dedicated section of their management report, the information necessary to understand their impact on sustainability matters and how these matters affect the undertakings' development, performance and position.

Such sustainability information must be reported in accordance with the European Sustainability Reporting Standards or "**ESRS**," to be adopted by the European Commission through delegated acts, taking into consideration the technical advice developed by the European Financial Reporting Advisory Group (EFRAG).

On December 25, 2023, the European Commission, through Delegated Regulation (EU) 2023/2772, adopted a first set of cross-cutting and topical, non-sectoral ESRS.

In January 2024, the European Parliament approved a European Commission proposal to postpone the application of sectoral ESRS by two years, until June 30, 2026. The extension of sectoral reporting standards is intended to allow companies to focus on the application of the first set of standards approved in the aforementioned Delegated Regulation (EU) 2023/2772.

The Italian Parliament is currently reviewing the European Delegation Law 2022-2023, which in Article 13 indicates the guiding principles and criteria for the transposition of the CSRD in Italy.

Scope of application

The CSRD will come into force "in stages", according to the timeline defined therein.

Specifically, the reporting requirements through ESRS must be applied according to the definitions provided by the relevant framework, to the following businesses:

- from January 1, 2024, to **large, listed undertakings** and **listed parent undertakings** of a large group, which exceed specific size criteria;
- from January 1, 2025, to **large undertakings**, which exceed specific size criteria, and **parent undertakings** of a large group;
- from January 1, 2026, to **listed SMEs** with certain requirements and to **small and non-complex entities**.

Functions and content

The aim of the ESRS is to promote a broader and more uniform understanding of the impacts that ESG's application has on the market. For this purpose, the ESRS principles cover four reporting areas (governance, strategy, impact management, metrics and targets) to be addressed, in line with generally applicable principles and reporting standards, that may be divided in the following categories:

(A) Cross-cutting principles:

- ESRS 1 General principles: describes the architecture of the ESRS standards, explaining drafting conventions and fundamental concepts and sets out general requirements for preparing and presenting sustainability-related information;
- ESRS 2 General disclosure principles: provides for disclosure requirements that apply to all undertakings, regardless of their sector of activity and covers sustainability topics;

(B) Environment-related standards:

- ESRS E1 Climate change standard: establishes disclosure requirements related to the undertaking's contribution to limiting the increase in the global average temperature, adaptation processes to current and expected climate change, and energy issues as they relate to climate change;
- ESRS E2 Pollution standard: establishes disclosure requirements related to pollution resulting from the direct or indirect introduction, as a result of human activities, of harmful pollutants into the air, water, soil, as well as the use of substances of concern and substances of very high concern;
- ESRS E3 Water and marine resources standard: establishes disclosure requirements related to surface and groundwater, marine resources, and water consumption, i.e. the amount of water that is not reused within the boundaries of the enterprise or its relevant facilities;
- ESRS E4 Biodiversity and ecosystems standard: establishes disclosure requirements related to the correlation between the undertaking and the environment, marine habitats and terrestrial ecosystems, and the species of fauna and flora that inhabit them;
- ESRS E5 Resource use and circular economy standard: establishes disclosure requirements related to resource use and the circular economy, with particular attention to resource inflows, resource outflows and waste;

(C) Social-related standards:

- ESRS S1 Own workforce standard: establishes disclosure requirements aimed at understanding the relevant impacts of the undertaking both on employed workers and non-employed workers;
- ESRS S2 Workers in the value chain standard: establishes disclosure requirements aimed at understanding the relevant impacts on workers in the upstream and downstream value chains of the undertaking, referring respectively to those who provide products or services used for the development of the undertaking's products and services, and those who receive products or services from the undertaking;
- ESRS S3 Affected communities standard: establishes disclosure requirements aimed at understanding the relevant impacts of the undertaking's operations on the affected communities, i.e. people living or working in the same area as the undertaking, that have been or may be affected by its operations or by its value chain;
- ESRS S4 Consumers and end-users standard: establishes disclosure requirements aimed at understanding the relevant undertaking's impacts on consumers and those who ultimately use or are intended to use its products and/or services;

(D) Governance-related standard:

- ESRS G1 Business conduct standard: establishes disclosure requirements aimed at understanding the undertaking's strategy, approach, processes and procedures as well as its performance with regard to business conduct.

Sustainability is a crucial aspect of business management from a medium to long-term perspective and involves a more careful balance of the interests at stake. The ESRS already provide an opportunity to undertake an organized path towards sustainability reporting requirements.

Each entrepreneur has its own path that must be integrated into its business model: our Law Firm provides specific legal assistance and advice on the discussed topics, adopting an operational approach aimed at fulfilling the undertaking's regulatory obligations through efficient organizational models.

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