



STATE OF PLAY AS OF Q2 2024

IMPLEMENTATION OF ESRS:

Initial Observed Practices
from Selected Companies

JULY 2024



EFRAG

sustainability reporting

Disclaimer

This study is non-authoritative and does not set implementation guidance for European Sustainability Reporting Standards (ESRS), as stipulated in Articles 19a or 29a of Directive 2013/34/EU (the Accounting Directive). This document provides insights on some preliminary practices and challenges in implementing ESRS as of Q2 2024 observed for some selected companies. This document is issued by EFRAG as a state of play report and consistent with its nature it has not been exposed for public feedback.

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This study has been developed for use by large listed and unlisted undertakings that are subject to ESRS. It is therefore not intended for use by non-listed small and medium-sized enterprises (SMEs), which may use the forthcoming EFRAG voluntary reporting standard for SMEs.

About EFRAG

EFRAG's mission is to serve the European public interest in both financial and sustainability reporting by developing and promoting European views in the field of corporate reporting. EFRAG builds on and contributes to the progress in corporate reporting. In its sustainability reporting activities, EFRAG provides technical advice to the European Commission in the form of draft European Sustainability Reporting Standards (ESRS) elaborated under a robust due process and supports the effective implementation of ESRS. EFRAG seeks input from all stakeholders and obtains evidence about specific European circumstances throughout the standard setting process. Its legitimacy is built on excellence, transparency, governance, due process, public accountability and thought leadership. This enables EFRAG to speak convincingly, clearly, and consistently, and be recognised as the European voice in corporate reporting and a contributor to global progress in corporate reporting.



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1 Goal of this study and caveats

Goal of this study:

The primary aim of this study is to illustrate preliminary observed practices and challenges related to four focus areas of the implementation of European Sustainability Reporting Standards (ESRS) for the 2024 reporting year, to synthesise observed approaches and key challenges that undertakings face, and to illustrate aggregated preliminary practices. The study intentionally focuses on a selected number of larger undertakings (reporting companies) in their respective sectors, chosen due to their higher level of maturity and greater resources at their disposal as they make their journey towards ESRS implementation. In this report, the term undertaking is used to indicate the companies that participated in the interviews. The study includes inputs from twenty-eight large European-headquartered undertakings across eight different industries split between financial institutions (FI) and non-financial institutions (non-FI). Within the FI component, banks, insurers, and asset managers were consulted, while in non-FI, companies in healthcare technology, chemicals, road transport, textiles, and utility companies participated in the study.

This report focuses on preliminary observed practices in the initial phase ahead of the ESRS implementation and the issuance of actual ESRS sustainability statements. The EFRAG Secretariat will consider providing more detailed analysis, such as in the form of an annual full-year state-of-play report, which would also take into account audited sustainability statements.

Caveats:

- The preliminary observed practices and challenges presented in this study are only based upon surveys of, and interviews with, the undertakings that participated; they do not indicate trends beyond this limited pool. Specific statistics in this report refer therefore to the selected pool of undertakings and should not be interpreted as representative of the overall market. Different practices and additional challenges and key decision points may be observed when focusing on other undertakings in the scope of the Corporate Sustainability Reporting Directive (CSRD).
- The findings in this report do not reflect any single undertaking, but rather offer an aggregated overview of current preliminary implementation practices drawn from the study participants. Individual practices depend on the stage of development and maturity of undertakings with respect to sustainability reporting, as well as on the integration of sustainability reporting into strategies and business models (as opposed to sustainability reporting being viewed as a mere compliance exercise).
- The inclusion of an observed practice in this report cannot be understood as an indication of EFRAG's opinion on the level of compliance of such practice with ESRS.
- Finally, this study reflects preliminary practices at a time when undertakings are preparing for their first ESRS report. It is acknowledged that preparing the first ESRS report is an endeavour that continues only until the relevant publication and that practices will therefore subsequently evolve further.

2 Executive summary

Highlights

The study outlines some practices and challenges observed in the initial stage of ESRS implementation (Q2 2024) from twenty-eight large European undertakings, across four focus areas:

Double Materiality Assessment (DMA):

- **Most undertakings recognise the value of a thorough, objective evidence-based¹ Double Materiality Assessment** (versus a mostly qualitative/judgemental version of DMA) **as a strategic exercise for reporting purposes and for setting ESG managerial priorities**, in alignment with ESRS standards.² A few undertakings consider it as a compliance exercise.
- **The undertakings adopt a spectrum of approaches to their Double Materiality Assessment** - ranging from a more data-driven to a more judgement-based approach.
- **The undertakings understand the importance of the input from internal experts³ and stakeholders and aim to engage with them in a structured manner.** A range of options are being considered for these engagements.

Facts and figures

- *~85% of the undertakings intend to integrate ESG reporting and the result of the Double Materiality Assessment into business strategy and decision making.*
- *~70% of the undertakings have already started to deploy an objective evidence-based approach to Double Materiality Assessment, using a combination of data sources,⁴ enhanced by the inputs of internal experts and stakeholders.⁵*

Datapoints (DP):

- **Many undertakings have not yet integrated the outcomes of the Double Materiality Assessment in their gap analysis of datapoints to be reported**, possibly leading to the inclusion in the gap analysis of more datapoints than the standards require,⁶ with the risk of taking focus away from the relevant information that needs to be reported.
- **Most undertakings use Implementation Guidance 3 (EFRAG IG 3) to run a gap analysis, while a few also use it as a base to anticipate the upcoming digital tagging taxonomy.**

¹ Refers to internal data, third party data, and the inputs of stakeholders (including affected stakeholders for impact materiality) and internal experts. This excludes results of generic surveys that are not targeted to specific affected stakeholder groups and narrowed to the matters that affect them (see glossary page 11).

² "Quantitative measures of IROs are objective evidence of their materiality. However, it is recognised that qualitative information is often valuable in informing the materiality assessment in its own right, including information from affected stakeholders. Qualitative information may provide relevant context for understanding quantitative measures" – FAQ10 of the EFRAG IG 1 Materiality Assessment.

³ Refers to individuals within the organisation who possess specialised knowledge, skills or experience relevant to the environment, social or governance matters analysed and disclosed for sustainability reporting.

⁴ Mix of in-house models, public data and third-party providers.

⁵ Affected stakeholders and/or users of sustainability statements, which are intended as external from the organisation – according to Table 2 "Terms defined in the ESRS" of the Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023.

⁶ EFRAG IG 3: Detailed ESRS Datapoints, Explanatory Note | "Only the 'Shall' datapoints in ESRS 2 and DR IRO 1 datapoints in topical standards are always to be reported; all other 'Shall' datapoints are (i) applicable only when the undertaking concludes that the relevant topic is material and (ii) subject to materiality under the provisions of ESRS 1 par. 31 to 35."

Facts and figures

- ~80% of the undertakings mention the complexity of retrieving data, with similar obstacles found across E, S and G.
- ~75% of the undertakings adopt the phase-in option, while ~40% currently use Information Materiality⁷ at a datapoint level, and ~10% target full disclosure of datapoints related to material topics.⁸
- ~95% of the undertakings use Implementation Guidance 3 for running their gap analysis, while ~20% are currently using it as a preliminary base for the upcoming digital tagging/reporting taxonomy (XBRL taxonomy).

Value Chain (VC):

- **Among the four in scope, the value chain area is the least developed for the undertakings that participated in the study and sector guidance could provide further clarity.**
- **Several undertakings have adopted a simplified aggregated mapping of the value chain (i.e., upstream, downstream and own operations only) and use transitional provisions,⁹ with possible higher efforts to go beyond Tier 1 for the next reporting cycles.¹⁰**

Facts and figures

- ~90% of the undertakings are still working to refine their value chain(s) mapping, looking for the right balance of granularity.
- ~45% of the undertakings have already adopted a more granular mapping of their value chain (i.e., going beyond the high-level upstream, downstream and own operations only).
- While some undertakings prioritised direct business relationships (Tier 1) for PATs¹¹ and IROs¹² for the initial implementation of ESRS, several are already going beyond Tier 1, especially non-financial institutions.

ESG Reporting Organisational Approaches:

The organisational approach to ESG reporting rests outside any mandate from EFRAG. The insights below represent the state of play captured by the interviews. In most cases, it is noted that the new reporting regime is triggering a renewed organisational approach to ESG reporting.

- **Different organisational patterns are apparent within the undertakings, with structures differing on a case-by-case basis and may evolve further.**

⁷ Appendix E, Delegated Acts supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards. Flowchart for determining disclosures: “Is the individual datapoint material?”

⁸ Percentages do not add up to 100%, as the options listed are not all mutually exclusive.

⁹ Paragraph 133 of the Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing the Accounting Directive.

¹⁰ “Starting from the fourth year of its reporting under the ESRS, the undertaking shall include upstream and/or downstream value chain information according to paragraph 63. [...]” - Paragraph 135 of the Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023; “The inclusion of VC information corresponds to the extent to which the sustainability statement covers the relationships that all the undertakings in the consolidation perimeter have with their respective VC counterparts, including beyond the first tier. [...]” – Point 7 of the *Summary in seven key points* section, EFRAG IG 2.

¹¹ Policies, Actions and Targets.

¹² Impacts, Risks and Opportunities.

- **The undertakings expressed consensus that CSRD reporting has:**
 1. **Enhanced cross-departmental collaboration** (e.g., between Sustainability, Finance, Risk, IT and business units).
 2. **Highlighted the need for standardising the ESG reporting processes**, including data quality controls (akin to financial reporting), in particular in preparation for assurance.
 3. **Required several additional capabilities and resources** (FTE, knowledge, data and technology), including the need for an IT transformation, to be implemented under different timelines (some undertakings are starting sooner than others).

Facts and figures

- *All undertakings deploy cross-departmental collaboration.*
- *The ownership model for the ESG reporting process is being discussed by most undertakings and may evolve in the future – currently ~65% allocate ownership to a single function (e.g., the CSO¹³ or CFO¹⁴), while ~35% adopt a co-leadership approach (e.g., CFO in charge of reporting, CSO in charge of DMA).*
- *~90% of the undertakings have started improving data quality controls, similar to those used for financial reporting.*
- *~85% of the undertakings acknowledge the need for IT transformation.*

¹³ Chief Sustainability Officer.

¹⁴ Chief Financial Officer.

3 Introduction

As we approach the inaugural reporting year under the Corporate Sustainability Reporting Directive (CSRD), EFRAG has embarked on a study to understand how undertakings are preparing to apply the European Sustainability Reporting Standards (ESRS) required for compliance with the CSRD. The rules apply to the first group of large undertakings from fiscal year 2024. This report presents the results of this study.

In response to the significant demand for additional guidance and illustrative material to be provided alongside EFRAG Implementation Guidance and technical Explanations - already available through the ESRS Q&A implementation platform - the objective here is to provide a state-of-play report featuring real-life examples.

The results of this study illustrate preliminary observed practices derived from undertakings that participated in the study. Twenty-eight undertakings across eight industries participated, balancing the representation (~50% share each) of both Financial Institutions (includes banks, insurers and asset managers) and non-Financial Institutions (including EFRAG's priority sectors). For further information on methodology, please refer to section 4 below.

This study covers the application of the three Implementation Guidance (IG) final documents that EFRAG released in May 2024 (Materiality Assessment, Value Chain and Detailed ESRS Datapoints and accompanying Explanatory Note), as well as the overall ESG reporting organisational approach adopted by CSRD preparers.

Where relevant, the report highlights:

- **Qualitative and quantitative trends and insights**
- **An evaluation of the key challenges of preliminary observed approaches**
- **Illustrative aggregated preliminary observed practices**

Disclaimer: *The illustrative aggregated preliminary observed practices presented in this report are an aggregation of multiple practices which emerged during interviews with undertakings and do not reflect end-to-end individual examples, nor should they be considered as best practices per se. This aggregation method protects anonymity and provides a comprehensive view of preliminary practices. Therefore, references to "the undertakings" should not be interpreted as pertaining to any single interviewed undertaking, but rather as a representation of preliminary observed archetypes.*

The content of this aggregation of preliminary observed practices has anonymised the prevailing practices that emerged from the study and does not showcase the opinion nor guidance of EFRAG.

4 Methodology

Sector Selection: Both Financial Institutions (FIs) and non-Financial Institutions (non-FIs) were included in the sector mix.

Industry Categorisation: The NACE¹⁵ classification system was used to ensure consistent industry categorisation.

Undertaking Selection: From the initial target pool of undertakings (largest undertakings by size for each selected sector), twenty-eight were able to contribute to the study within the provided timeline. The final pool of participants reflects both participation of FIs and non-FIs (~50% each) and balances the representation of both broad market participants and undertakings that have a technical resource involved in EFRAG decision making.¹⁶ The selection of undertakings for this study was intentionally focused on the largest firms in their respective sectors that had agreed to participate and are presumed to be more mature in their ESRS implementation efforts.

EFRAG recognises that this group of undertakings may not fully represent the broader market (for example, undertakings that are smaller in size but still in scope of the CSRD are not included) or provide a proportionate representation of all sectors. Moreover, because participation in this study was entirely voluntary, the pool of undertakings in scope may not be fully representative of the range of market practices.

Criteria for selection¹⁷ of participant undertakings in each sector:

- **Non-Financial Institutions:** Undertakings were selected based on total annual *Revenue*. This metric is less susceptible to market volatility than market capitalisation and permits the inclusion of large non-listed undertakings.
- **Banks:** Undertakings were selected based on *Total Assets*, as this indicates the scale of overall bank operations and the value of assets.
- **Insurance:** Undertakings were selected based on *Gross Written Premium (GWP)*, a metric used for assessing the size and market position of insurance undertakings.
- **Asset managers:** Undertakings were selected based on *Assets under Management (AuM)*, a commonly used benchmarking metric for the industry peer comparison.

Industry	%
Non-Financial Institutions	50%
Healthcare technology	14%
Chemicals	14%
Road transport	7%
Textiles	7%
Utilities	7%
Financial Institutions	50%
Banks	21%
Insurance	18%
Asset management	11%

Input for the report: This report is based both on interviews and surveys with the selected undertakings, which followed a set of questions covering the topics presented in this study.

Surveys were used as a pre-analysis of selected practices, which were then further explored during interviews with the ESG reporting leads and other key contributors invited by each one of them (including a mix of roles, for example, from Sustainability, Finance, Risk, Legal, Communications and Operations). This allowed both a validation of the results of the surveys, as well as further context and detail on preliminary practices, explaining the rationale behind selected approaches and their key challenges.

¹⁵ NACE stands for Nomenclature des Activités Économiques dans la Communauté Européenne.

¹⁶ Undertakings with a member in EFRAG Sustainability Reporting Board/Technical Expert Group were limited, with a target of one per sector, to allow for broader market participation.

¹⁷ Sources for determining undertaking size, and selected metric: for Non-Financial Institutions, revenue data was sourced from MSCI and Refinitiv; for banks, total assets from S&P Global Market Intelligence; for insurance, GWP figures from A.M. Best and analyst/market reports; and for asset management, AuM from IPE (Investment & Pensions Europe).

5 Preliminary observed ESRS implementation practices

This chapter focuses on the description of preliminary ESRS implementation practices as identified in the study and highlights initial approaches and key challenges, accompanied by an illustrative aggregation of observed practices by focus area covered in the study. The illustrative aggregated preliminary practices do not refer to any specific market participant but are rather an aggregation of observed practices.

5.1 Double Materiality Assessment

This study highlights an overall shift in the Double Materiality Assessment process, **moving away from a judgement-based approach adopted in the previous years to an objective evidence-based approach, which uses both data and expertise and takes into account qualitative information when gaps may exist.**¹⁸ This shift results in a more thorough analysis of ESG topics, which can then be used for decision making.

In particular, the objective evidence-based approach is applied by ~70% of the undertakings, and it relies mainly on internal and third-party data that is complemented, mainly where data is not available, by the judgement of internal experts and stakeholders.^{19,20}

Most undertakings consider that Double Materiality Assessment should be based on data and evidence in addition to the views of internal experts and stakeholders.

¹⁸ "Where possible, yes, as quantitative measures of IROs are objective evidence of their materiality. However, it is recognised that qualitative information is often valuable in informing the materiality assessment in its own right, including information from affected stakeholders. Qualitative information may provide relevant context for understanding quantitative measures" – Par. 179 of FAQ10 of the EFRAG IG 1 Materiality Assessment.

¹⁹ "The level of comfort sought by the undertaking from quantitative information depends on whether there is scientifically validated data and on consensus reached on the given impact. For example, global reports or industry information on a given topic, such as negative impacts on biodiversity loss, could provide the quantitative information needed without the need for the undertaking to incur in additional research or data collection costs." – Par. 180 of FAQ10 of the EFRAG IG 1 Materiality Assessment. See also chapters 3.5 and 5.4 of EFRAG IG 1 Materiality Assessment.

²⁰ "Quantitative information is not always available or may result in additional costs. Whenever a qualitative analysis is sufficient for the undertaking to reasonably conclude that a matter is 'not material' or 'material', additional quantitative information would add no value to the materiality assessment. As the materiality assessment process evolves over time, the undertaking may redefine the balance between qualitative and quantitative information." – Par. 181 of FAQ10 of the EFRAG IG 1 Materiality Assessment.

Terminology used in this study: Internal expert vs. Stakeholder

- **Internal expert:** Refers to individuals within the organisation who possess specialised knowledge, skills or experience relevant to the environment, social or governance matters analysed or disclosed for sustainability reporting.
- **Stakeholder:** Refers to individuals, groups, or organisations external to the undertaking, who can affect or be affected by the undertaking, including affected stakeholders and users of sustainability statements.

Supporting references from ESRS 1 paragraph 22 & 23:

- [Par 22] Stakeholders are those who can affect or be affected by the undertaking. There are two main groups of stakeholders: (a) affected stakeholders: individuals or groups whose interests are affected or could be affected – positively or negatively – by the undertaking’s activities and its direct and indirect business relationships across its value chain; and (b) users of sustainability statements: primary users of general-purpose financial reporting (existing and potential investors such as lenders and other creditors, including asset managers, credit institutions and insurance undertakings) and other users of sustainability statements, including the undertaking’s business partners, trade unions and social partners, civil society and nongovernmental organisations, governments, analysts and academics.
- [Par 23] Some, but not all, stakeholders may belong to both groups referred to in paragraph 22.

Terminology used in this study: Objective evidence-based vs. Judgement-based approach

- **Objective evidence-based:** Refers to internal data (e.g., Risk data and thresholds supplied by risk management; Opportunities, based on internal projections, supplied by strategy departments), third-party data (e.g., topic-specific databases; or in-house research on scientific papers), and the input of internal experts and input of stakeholders, including affected stakeholders for impact materiality. This excludes results of generic surveys that are not targeted to specific affected stakeholder groups and narrowed to the matters that affect them.
- **Judgement-based:** Aggregation of views typically gathered through investigations/surveys/workshops (not necessarily by targeting engagements according to the level of expertise on ESG topics).

Supporting references from Implementation Guidance 1 (IG 1):

- [Par 1] ...The performance of a materiality assessment based on objective criteria is pivotal to sustainability reporting. The undertaking will use judgment when applying the criteria, and the related explanations are expected to provide transparency from the undertaking to the users of the sustainability statement.
- [Par 27] ...The need for judgment will be higher when the information and evidence about the materiality of a given IRO is inconclusive.
- [Par 28] ...The materiality assessment should be based upon supportable evidence and rely to the maximum extent possible, on objective information, while implementing the impact materiality and financial materiality criteria specified in the ESRS (ESRS 1 chapters 3.4 and 3.5)

The perceived level of challenges of impact and financial materiality assessment vary on a case-by-case basis.

It is noted that **while financial materiality quantification can leverage analysis/thresholds that have been used for risk management** purposes (~80% of the undertakings take this approach), **impact materiality** is more likely to be affected by limited data and sector-specific methodologies/thresholds.

The undertakings use the input of stakeholders and internal experts in the Double Materiality Assessment process, but participants demonstrated a heterogenous approach.

- **The study shows that internal experts and stakeholders are involved by the undertakings in various stages of the Double Materiality Assessment process** (in the topic selection, topic assessment, assessment review), to support undertakings in obtaining a holistic view of material topics.
- **In the experience of the undertakings, engagement of internal experts and affected stakeholders is achieved through multiple formats;** more than 65% of the undertakings use two or more channels to reach and collect stakeholder insights:
 - **70% of undertakings run interviews** to ascertain in-depth views. **Workshops** are also increasingly preferred for reviewing Double Materiality Assessment, with 45% of undertakings leveraging this engagement channel.
 - **Surveys** are still used by undertakings as a legacy engagement tool or to collect insights from hard-to-reach²¹ and affected stakeholders, with ~70% of undertakings using them in combination with interviews/workshops.

However, several undertakings highlight that surveys are not the preferred engagement channel as they often result in inconclusive output or insufficient stakeholder expertise. As a result, just ~5% of undertakings choose surveys as the sole channel to engage with stakeholders.

²¹ Selected example: “AR 30. Methodologies available to collect data and measure the undertakings’ impacts on biodiversity and ecosystems may be separated into three categories as follows: (a) primary data: collected in-situ using on the ground surveys [...]” – Disclosure Requirement E4-5 – Impact metrics related to biodiversity and ecosystems change.

Preliminary observed ESRS implementation approaches and key challenges related to Double Materiality Assessment

Topic	Preliminary observed approaches	Key challenges
Double Materiality Assessment approach	Objective evidence-based , mainly through data, enhanced by stakeholder engagement and expert judgement	<ul style="list-style-type: none"> • An objective evidence-based approach, which relies on objective evidence,²² requires a thorough analytical approach and depends on data availability and access to topic experts. • Data without a clear context and framing can be misinterpreted. • A large volume of data could lead to obscuring the key data sets for materiality purposes.
	Judgement-based primarily on the inputs of stakeholders and internal contributors ²³	<ul style="list-style-type: none"> • Potential to result in a broader span of possibly material topics. • Possible divergent views on different topics emanating from the engagement potentially leading to a subjective assessment not anchored to data.

²² As mentioned in the Implementation Guidance 1 on Materiality Assessment, FAQ 10 par. 179.

²³ Internal contributors are understood in this report to be employees of the undertaking which are not selected for their specific expertise on ESG topics.

Aggregated preliminary observed practices on Double Materiality Assessment

Disclaimer: *The illustrative aggregated preliminary observed practices presented in this report are an aggregation of multiple practices which emerged during interviews with undertakings and do not reflect end-to-end individual examples, nor should they be considered as best practices per se. This aggregation method protects anonymity and provides a comprehensive view of preliminary practices. Therefore, references to "the undertakings" should not be interpreted as pertaining to any single interviewed undertaking, but rather as a representation of preliminary observed archetypes.*

The content of this aggregation of preliminary observed practices has anonymised the prevailing practices that emerged from the study and does not showcase the opinion nor guidance of EFRAG.

The Double Materiality Assessment represents a significant shift from the materiality assessment processes used in previous years (e.g., among the most commonly used are single materiality only, with a focus on impact through the Global Reporting Initiative (GRI), or a focus on the financial materiality through the Sustainability Accounting Standards Board (SASB) Sustainability Standards – these processes mainly utilise judgement-based inputs). This aggregation of preliminary observed practices outlines steps that have undergone major changes, describing the **archetype of an undertaking that uses an objective evidence-based approach, and involves stakeholders and internal contributors²⁴ to review results.**

Context setting and mapping of internal experts and stakeholders: In this foundational design step, the undertakings decide the overall approach to Double Materiality Assessment based on the ESRS provisions and EFRAG guidance as well as the specific business footprint (e.g., value chain components) and stakeholders relevant for the undertaking.

Long list of ESG topics in scope: In the observed practices, the process starts with the consideration of sustainability matters in Application Requirement 16²⁵ (ESRS 1 AR 16) together with entity-specific sustainability matters through the Impact, Risk, and Opportunity (IRO) assessment. Additional inputs for entity-specific matters come from benchmarking, existing non-ESRS sector-specific frameworks or standards (e.g., SASB Sustainability Standards), and other insights (e.g., from investors and rating agencies).

Short list of ESG topics: Starting from a long list of ESG topics, the undertakings gather inputs from internal experts and stakeholders in order to draft a short list of ESG topics. Importantly, the undertakings set the right granularity of topics/sub-topics/sub-sub-topics by linking these items to the disclosure requirements (DR) and datapoints (DP): if DR and DP go at a more granular topic level, the undertakings consider that there might be a benefit to conducting Double Materiality Assessment at DR/DP level to be more precise in scoping in/out.

Data-driven assessment and stakeholders: The undertakings deploy an objective evidence-based approach²⁶ whenever possible, utilising a mix of in-house, third-party data and research (such as scientific papers). The undertakings apply a hierarchical order to the type of data they use, prioritising internal / undertaking-level data. If only industry-level data is available (in absence of undertaking-specific data), the industry is then benchmarked

²⁴ Internal contributors are employees of the undertaking which are not selected for their specific expertise on ESG topics.

²⁵ AR 16 provides structured overview of sustainability matters (topics, sub-topics, & sub-sub-topics). See paragraphs 77 and 78 of IG 1 Materiality Assessment for the possible approaches to the use of AR 16.

²⁶ See terminology used in this report at page 11.

to other industries as a proxy/indication of where a certain industry player could directly generate or indirectly contribute to material impacts, risks and opportunities. Instead, if no undertaking-level nor industry-level data is available, the undertakings rely purely on expert judgement, although framed with very clear scales and thresholds.

Thresholds definition (Financial vs. Impact materiality):

- For financial materiality, the undertakings use both data and thresholds developed by the risk management division on ESG risk mapping (ranges expressed in millions of Euros and on different metrics as Revenues, CAPEX, and OPEX²⁷) primarily for the Risk component. This approach is inspired by the one used for financial reporting. For the Opportunity component, the undertakings use business thresholds that make a business case material.
- For impact materiality, scale thresholds are set by considering the materiality for each topic, making use of objective external sources as much as possible (industry proxies in place of the undertaking, or actors in the value chain). Scope is defined according to geographical considerations on the specific topic (e.g., local vs. global footprint) and in line with where the undertaking has established a business presence.
- The interrelation between financial and impact materiality is highlighted throughout the assessment. For instance, within the topic of health and safety, there is the human (social) impact of injury and fatalities, as well the financial risk of compensation and the wider reputational risk of an unsafe workplace.

Engagement with internal experts and stakeholders (multi-tiered approach):

- Internal experts are involved from the beginning of the process, prioritising content owners at group level (Sustainability, Risk & Finance, Sourcing, HR, and business unit functions) through workshops and interviews for consultation. In the observed practices, regional offices are then consulted via surveys or ad hoc focus groups, following a consolidated approach as a starting point.²⁸
- Stakeholders are engaged through a targeted approach (i.e., a limited number of stakeholders with a good understanding of ESG topics and of the undertaking's business). The undertakings conduct information sessions prior to the different stakeholder engagements, aimed at clarifying the process and the analysis of double materiality, as well as formalising the inputs received (this serves an important purpose due to the generally limited number of people with the necessary knowledge to contribute objectively to the Double Materiality Assessment – this was reported by the undertakings as a lesson learnt in previous survey-based approaches that were deemed unsuccessful).
- The mix of engagement channels (interviews and surveys) allows undertakings not only to rank the importance of a topic, but also to contextualise and delve more deeply into the issues, taking into account expert views.

This aggregation of preliminary observed practices outlines a structured Double Materiality Assessment approach by setting context and engagement with internal experts and stakeholders, shortlisting ESG topics, and assessing impact and financial materiality. Through systematic mapping, validation, and threshold definition, the undertakings ensure precise and comprehensive sustainability reporting aligned with the ESRS provisions and EFRAG guidance.

²⁷ CAPEX stands for Capital Expenditure and OPEX stands for Operational Expenditure.

²⁸ See paragraph 3.6.3 of IG 1 Materiality Assessment.

5.2 Datapoints

The undertakings used Implementation Guidance 3 (IG 3) on datapoints for:

- **Datapoint gap analysis** (~95% of undertakings), assessing the gaps between pre-existing reporting practices and updated ESRS requirements. IG 3 was considered a relevant tool for assessing data availability and quality, balancing its relevance and the effort required to gather it.
- **Preliminary base for the upcoming digital tagging/reporting taxonomy** (~20% of undertakings).

Given the complexities encountered and the efforts required by most (~80%) undertakings to retrieve and manage data, undertakings are adopting the various available levers to focus the reporting efforts **after they have addressed the mandatory datapoints (ESRS 2 and DR IRO 1) and Double Materiality Assessment**.

- ~75% of undertakings **leverage the phase-in of datapoints (DPs)**²⁹ to focus on their short-term reporting priorities.
- ~40% of undertakings **leverage the Information Materiality**,³⁰ a concept that does not yet seem to be well understood by the participants of the study.
- ~10% of undertakings **choose to report voluntary DPs for material topics** because they opt for full disclosure of datapoints on material topics, and another ~10% opt for disclosure of voluntary DPs which they were already reporting in the past.

While IG 3 is considered helpful and supports gap analysis, only a minority of the undertakings understand how to assess Information Materiality at a datapoint level.

Terminology used in this report: *Information Materiality*

Appendix E, Delegated Acts supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards.

Flowchart for determining disclosures under ESRS: “Is the individual datapoint material?”

Supporting references from IG 3, Appendix B (datapoints by type):

- [Par 9] ...The tables indicate the classification of the “Shall”, “MDR” and “May” datapoints by data type. The category of numerical datapoints includes different types of data (i.e., monetary, volume, percentage, decimal).
- [Par 10] ...Only the “Shall” datapoints in ESRS 2 and DR IRO 1 datapoints in topical standards are always to be reported; all the other “Shall” datapoints are (i) applicable only when the undertaking concludes that the relevant topic is material and (ii) subject to materiality under the provisions of ESRS 1 paragraphs from 31 to 35. MR datapoints are all to be reported only for material matters, per each policy/action/target that the undertaking discloses.

²⁹ Appendix C List of phased-in Disclosure Requirements in this Standard sets phase-in provisions for the Disclosure Requirements or datapoints of Disclosure Requirements in ESRS that may be omitted or that are not applicable in the first year(s) of preparation of the sustainability statement under the ESRS - Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing the Accounting Directive.

³⁰ Appendix E of the Delegated Acts supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards. Flowchart for determining disclosures under ESRS: “Is the individual datapoint material?”.

Preliminary observed ESRS implementation approaches and key challenges related to Datapoints

Topic	Preliminary observed approaches	Key challenges
Datapoints gap analysis	Assessing Information Materiality	The materiality of information exercise, which has the potential to direct efforts where they are most needed (i.e., in assessing material datapoints), is not fully understood by the participants in this study.
	Adopting Phase-in	Phase-in allows to spread the preparation efforts. However, the effect of phase-ins needs to be properly communicated.
	Disclosing all datapoints (no use of possible levers highlighted by EFRAG)	<ul style="list-style-type: none"> • Higher effort required in the short and long term for reporting. • Not all datapoints might always be relevant to users. • Risk of obscuring material information. • Potential lower quality of data due to higher coverage needs.

5.3 Value Chain

Value chain analysis remains one of the most challenging and least mature areas for the undertakings in their ESRS implementation. Undertakings are mainly using preliminary mapping and have identified the need for further sector guidance.

More than 90% of the undertakings mention that they are currently refining their approach to mapping and analysing their value chain across the two following main aspects:

- **Appropriate level of granularity and segmentation** of the value chain components, which allows for a more targeted reporting and enables more detailed identification of IROs. Currently, ~45% of the undertakings have already adopted a more granular mapping of their value chain (i.e., more granular than the high-level upstream, downstream and own operations only).
Undertakings realise that it is challenging to strike the right balance between the level of aggregation and the granularity of the value chain, for which IROs then need to be assessed. It is also noted that sector guidance would be useful in order to obtain a comparable starting point within sectors.
- **Consideration of direct vs. indirect business relationships** both for IROs and PATs, where the study highlighted a difference between FIs and non-FIs. Non-FIs tend to have more visibility of their value chain due to ongoing activities (e.g., supplier screening), especially upstream. The focus of the FIs is mainly on the downstream value chain, and they view high complexity and conceptual challenges in going beyond direct business relationships.³¹

Terminology used in this report: Hotspots

Hotspots are specific areas of undertakings' value chain where significant Impacts, Risks and Opportunities are likely to materialise.

Supporting references from IG 2:

"[Par 124] ...The mapping of the VC for material impacts is expected to use the sustainability due diligence process when it is in place. However, the due diligence process may go beyond such mapping per se as explained below, looking at the impacts throughout the VC and identifying potential 'hot spots' by cross-referencing countries where materials are produced to social and environmental risk databases (i.e., Type of impact by Country by Actor in the VC). These hotspots may then be further investigated."

³¹ "Starting from the fourth year of its reporting under the ESRS, the undertaking shall include upstream and/or downstream value chain information according to paragraph 63. [...]" - Paragraph 135 of the Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023; "The inclusion of VC information corresponds to the extent to which the sustainability statement covers the relationships that all the undertakings in the consolidation perimeter have with their respective VC counterparts, including beyond the first tier. [...]" – Point 7 of the *Summary in seven key points* section, EFRAG IG 2.

Preliminary observed ESRS implementation approaches and key challenges related to Value Chain

While value chain reporting is confirmed as a challenging and not fully mature area of reporting for the undertakings, it is anticipated that transitional provisions will allow a progressive enhancement of the quality in data gathering and reporting. IG 2 helps to identify where ESRS requires value chain coverage (value chain coverage map). Double Materiality Assessment and reporting are not limited to the first tier of relationships; severity of impacts is used to prioritise efforts (focusing on hotspots).³²

Topic	Preliminary observed approaches	Key challenges
Value chain business aggregation	Highly segmented (e.g., by stages of production across business lines)	Requires thorough analysis by undertakings to strike the right balance between level of aggregation/granularity; sector guidance would be helpful to further highlight the benefit of having a differentiated value chain and detailed IROs assessment.
	High-level aggregation (e.g., at overall upstream, downstream, own operations level)	<ul style="list-style-type: none"> • Potential limited assessment of IROs at the appropriate level of granularity. • Potentially undifferentiated representation of the value chain, not reflecting the sophistication of undertakings' businesses.
Consideration of direct vs. indirect business relationships	Going beyond direct business relationships (Tier 1)	<ul style="list-style-type: none"> • Financial Institutions: Interviewed companies noted limited data availability on downstream value chain. • Non-Financial Institutions: Challenge to retrieve data and adopt PATs beyond Tier 1.
	Focusing on direct business relationships (Tier 1)	<ul style="list-style-type: none"> • Will not be compliant with ESRS, in particular for sectors other than financial institutions. • Not reflecting complexities of value chains raises potential information biases. • Does not reflect material IROs linked to indirect business relationships.

³² Hotspots are specific areas of undertakings' value chain where significant Impacts, Risks and Opportunities are likely to materialise.

Aggregated preliminary practices on Value Chain

Disclaimer: The illustrative aggregated preliminary observed practices presented in this report are an aggregation of multiple practices which emerged during interviews with undertakings and do not reflect end-to-end individual examples, nor should they be considered as best practices per se. This aggregation method protects anonymity and provides a comprehensive view of preliminary practices. Therefore, references to "the undertakings" should not be interpreted as pertaining to any single interviewed undertaking, but rather as a representation of preliminary observed archetypes.

The content of this aggregation of preliminary observed practices has anonymised the prevailing practices that emerged from the study and does not showcase the opinion nor guidance of EFRAG.

This aggregation of preliminary observed practices follows a **segmented value chain mapping archetype**, which allows it to be more specific to the undertaking's facts and circumstances and to link the specific IROs and reporting requirements (DR and DP) to the value chain vs. generic downstream/upstream levels. To accomplish this objective, the undertakings establish a three-step approach to understand and map their value chain:

1. **Value chain mapping:** To achieve comprehensive visibility into the value chain, the undertakings map relationships, associated actors, and financial transactions.
 - **Initial mapping:** The preliminary hypothesis for the value chain mapping is proposed by the central project team in charge of CSRD reporting. It covers all aspects from upstream, own operations and downstream, highlighting the respective relevant direct and indirect business relationships across all business lines of the undertaking to build a full picture.
 - **Further refinement:** Other internal experts, such as the risk management function, engage to provide inputs emanating from their risk mapping exercises. High-risk segments are identified for possible assessment of impacts, risks, and opportunities beyond direct business relationships. Additionally, stakeholder maps can further support value chain mapping, as well as helping to identify any potential impacts, risks and opportunities (IROs).
2. **Aggregation for clarity and manageability:** To ensure a streamlined version of the value chain and avoid an overly detailed segmentation, while still maintaining visibility of potentially material IROs, the undertakings aggregate certain components of the value chain. Aggregation criteria are based on similar business types, products, services, geographical locations and organisational setups. Such aggregation should not dilute key components of the value chain and should ensure that the internal organisation is reflected in the value chain to maintain accountability.
3. **Selection of value chain components:** The undertakings then assess any data available for each of the components (e.g., historical cases of human rights breaches), in order to understand whether there are any IROs present in the component which should therefore be part of the final value chain map. Components are evaluated based on a combination of factors, including country/geography (special attention is given to addressing risks such as child labour in specific geographies) and type of product or service. All components where IROs are identified remain part of the value chain map. Conversely, the undertakings exclude components of the value chain with no evidence of IROs.

This aggregation of preliminary observed practices illustrates how a segmented value chain mapping enhances alignment of specific IROs, with detailed segments targeting effective visibility, management, and prioritisation of high-impact areas, supporting compliance and strategic focus on significant value chain elements.

5.4 ESG Reporting Organisational Approach

This section illustrates preliminary insights on organisational set-up for CSRD-related activities; the purpose of the section is not to advocate for specific governance models.

The undertakings are increasingly implementing cross-functional collaboration models to meet the ESRS requirements more effectively. This transition is characterised by a blend of ownership by one single function and co-leadership frameworks.

This study reveals a near-equitable distribution among ownership models: ~65% of undertakings adopt a single-function ownership approach led by either the CSO or CFO, and ~35% employ a joint leadership model. **However, many participants anticipate potential future shifts in the ESG reporting governance structure**, with 30% of undertakings expecting changes in the organisational model in the near or medium term.

In addition to the board / board-level committees overseeing the end-to-end ESG reporting process, numerous other departments play crucial roles. Typically, **five or more departments are regularly engaged in the CSRD implementation process**. Beyond the Sustainability and Finance departments, Risk Management, Human Resources, and Auditing or Internal Controls are the most frequently involved. Departments such as Procurement, Communications, and Strategy are also commonly engaged, reflecting the interdisciplinary nature of effective ESG reporting.

Addressing the shift in reporting quality mandated by ESRS, undertakings implement quality controls to ensure the accuracy and integrity of reported ESG data. Approximately 90% of undertakings have already adopted or are adopting internal control techniques akin to those utilised in financial reporting, such as those recommended by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Most undertakings (~85%) also mentioned the **objective to integrate ESG reporting and the result of the Double Materiality Assessment into business processes and decision making**.

While ~85% of undertakings acknowledge the need for IT transformation, challenges in early implementation relate to limited data providers' availability and maturity across ESG topics and uncertainty about how CSRD will be transposed into law by different states. This leads to different timetables in relation to implementing revised/new IT processes.

Preliminary observed ESRS implementation approaches and key challenges related to ESG Reporting

Organisational Approach

Topic	Preliminary observed approaches	Key challenges
ESG reporting management ownership	Single function ownership	Upskilling is needed for any of the departments in the lead role (e.g., Sustainability on Internal Controls, Finance on ESG content).
	Joint responsibilities between two functions	Clear governance and forums are needed to exchange updates and implications for the other functions and make decisions.

Aggregated preliminary practices on ESG Reporting Organisational Approach

Disclaimer: *The illustrative aggregated preliminary observed practices presented in this report are an aggregation of multiple practices which emerged during interviews with undertakings and do not reflect end-to-end individual examples, nor should they be considered as best practices per se. This aggregation method protects anonymity and provides a comprehensive view of preliminary practices. Therefore, references to "the undertakings" should not be interpreted as pertaining to any single interviewed undertaking, but rather as a representation of preliminary observed archetypes.*

The content of this aggregation of preliminary observed practices has anonymised the prevailing practices that emerged from the study and does not showcase the opinion nor guidance of EFRAG.

The following aggregation of preliminary observed practices illustrates the key building blocks of an ESG reporting operating model used by several undertakings. It highlights possible choices for ensuring adequate and timely reporting of ESRS requirements.

Alignment and focus of purpose, strategy, and ambition: As undertakings start applying ESRS, they may re-evaluate their level of ambition (e.g., compliance vs. integration into business strategy and decision making) and re-assess their ESG reporting models and processes.

Reporting oversight and ownership: In the undertakings, responsibilities for ESG reporting are distributed across various functions, with governance defined at executive and board levels. ESG reporting process ownership can be led by a single function (typically by Sustainability or Finance) or co-led by multiple departments. Undertakings allocate the following responsibilities and organise decision making based on departmental strengths:

- Conducting Double Materiality Assessment.
- Managing the reporting process, including data quality controls and connectivity with financial reporting.
- Content ownership, ensuring standardised data collection methodologies across departments.

Enablers for change – Observed key resources to enable a successful ESG reporting process include:

- **People/FTE capacity:** The increased workload may require additional capacity to be allocated both by central teams and across departments.
- **Knowledge and Capabilities:** Hiring experts or upskilling existing employees fosters internal expertise on both sustainability and reporting processes.
- **Technology, Infrastructure, and Data:** IT and infrastructure for data management and control are key to reporting. Undertakings may decide whether:
 - Pre-existing systems in place can absorb the added volume of requirements or whether changes need to be implemented to fulfil the requirements.
 - Data management systems and controls used for financial reporting can be expanded in scope and adapted to fulfil ESG reporting requirements, or whether different tools should be allocated.
 - Existing data is sufficient or if further investment is needed either on third party or internal data.

Integration into strategy and business processes: Observed practices show that a thorough assessment of material ESG topics may reveal granular, decision-useful information which could flow into strategy reviews, and also be integrated into business processes and decision making (e.g., risk management, assessment of transactions, etc.).

Appendix

Appendix 1: Terminology used in this report

Supporting information added in the relevant sections of this report

INTERNAL EXPERT

Refers to individuals within the organisation who possess specialised knowledge, skills or experience relevant to the environment, social or governance matters analysed or disclosed for sustainability reporting.

STAKEHOLDER

Refers to individuals, groups, or organisations external to the undertaking, who can affect or be affected by the undertaking, including affected stakeholders and users of sustainability statements.

OBJECTIVE EVIDENCE-BASED

Refers to internal data (e.g., Risk data and thresholds supplied by risk management; Opportunities, based on internal projections, supplied by strategy departments), third-party data (e.g., topic-specific databases; or in-house research on scientific papers), and the input of internal experts and input of stakeholders, including affected stakeholder for impact materiality. This excludes results of generic surveys that are not targeted to specific affected stakeholders groups and narrowed to the matters that affect them.

JUDGEMENT-BASED APPROACH

Aggregation of views typically gathered through investigations/surveys/workshops (not necessarily by targeting engagements according to the level of expertise on ESG topics).

INFORMATION MATERIALITY

See Appendix E of the Delegated Acts supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards.

Flowchart for determining disclosures under ESRS: “Is the individual datapoint material?”

HOTSPOTS

Hotspots are specific areas of undertakings’ value chain where significant Impacts, Risks and Opportunities are likely to materialise.

Appendix 2: Acknowledgements

We thank the undertakings that participated in the study for their engagement and willingness to share their preliminary approaches and challenges in their initial phase of ESRS implementation as of Q2 2024. Their contributions have been essential in compiling this analysis and for understanding the preparedness and approaches towards CSRD compliance.

This report has been conducted under the supervision of the EFRAG technical leadership and has been reviewed by EFRAG SRB and EFRAG TEG members before its finalisation.

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