

# Introduction to EFRAG, CSRD and ESRS

REPARIS FOR SMEs & CFRR NATIONAL CONFERENCE

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- the EFRAG Financial Reporting TEG (FR TEG),
- the EFRAG Sustainability Reporting Board (SRB) and
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# Agenda

1. Introduction to EFRAG
2. Introduction to CSRD
3. Introduction to ESRS concepts
4. Introduction to the [draft] ESRS standards
5. EFRAG's next steps
6. Simplified standards: SMEs



# 1. Introduction to EFRAG

## Introduction to EFRAG (1/2)

- Private not-for-profit established in 2001
- Endorsement advice responsibility under the IAS regulation for use of IFRS in Europe
- Since 2010 over 50% funded by the European Union
- 2018 European Corporate Reporting Lab@EFRAG following EC Action Plan: Financing Sustainable growth
- 2022 Sustainability reporting pillar established



# Introduction to EFRAG (2/2)

- June 2020 request EVP Dombrovskis
- 8 March 2021 publication final reports with recommendations
- 21 April 2021 publication proposal for a CSRD
- 12 May 2021 Letter Commissioner McGuinness to start developing standards in a project mode
- Summer 2021 public consultation Due Process Procedures on EU Sustainability Reporting Standards (15 March 2022 approved, update 16 March 2023)
- 2021/2022 governance reform- integration sustainability reporting pillar
  - Admission 14 new member organisations
  - 1 March 2022 EFRAG SRB
  - 13 April 2022 EFRAG SR TEG
- 28 April 2022 Exposure drafts of draft ESRS published (13)
- 22 November 2022 draft ESRS submitted to EC (12) with Cost Benefit Analysis





## 2. Introduction to Corporate Sustainability Reporting Directive (CSRD)

# Sustainability reporting in the EU

CSRD approval:  
 11 Nov 2022 European Parliament  
 28 Nov 2022 European Council

- A robust mandatory legal regime of sustainability reporting under double materiality

- CSRD

LEVEL 1

- ESRS

LEVEL 2

- Draft European Sustainability Reporting Standards developed by EFRAG
- Provided as technical advice to the EC
- Adopted as delegated acts by the EC
- Digital (machine readable)
- Assurance- (limited => reasonable )

- Comprehensive coverage of ESG. Firstly, sector agnostic, then sector specific

- Report located in a separate section of the management report (i.e. in annual report)



- Groups and individual entities. Subsidiary exemption mechanism defined
- All companies > 250 employees operating with the European Union
  - All large companies
  - All listed companies (except listed micro-enterprises)
- Listed SMEs + Small Non-Complex FI + captive insurance/reinsurance
- Voluntary regime for other SMEs (not included in the Delegated Act)
- *Non-EU companies with branches or subsidiaries in the EU above certain thresholds (150 mio + branches)*

## Listed SMEs:

- Option to use simpler, proportionate standards
- *Possibility to opt-out for 2 years after entry into application*

## Non-EU parent companies:

- *Separate standards*
- *Not covering all reporting areas: impact focus, not financial materiality*

# Phased-in entry into application – staggered approach

- Financial year 2024 – Companies "in scope of NFRD"
- Financial year 2025 - Other large companies
- Financial year 2026 - Listed SMEs: FY 2026 including further opt-out provisions
- Financial year 2028 - Non-EU companies with branches/subsidiaries

## Value Chain provisions:

- The "information on value chain meets the needs of users and does not place a disproportionate burden in terms of effort and cost on the reporting undertakings and those that are indirectly affected as part of the value chain of those undertakings".
- Standards may not "specify disclosures that would require undertakings to obtain information from SMEs in their value chain that exceeds the information to be disclosed according to" the standards for listed SMEs.

# Sustainability Statements content at a glance

## Article 19 (a) / 29 (a) Content of the ESRS

**1. Business model and strategy** Resilience to sustainability-related risks and opportunities; transition plan in line with Paris agreements...)

**2. Policies and time-bound targets** related to sustainability matters

**3. Administrative, management and supervisory bodies (AMS)** re sustainability matters : role, expertise & skills and incentive schemes

**4. Due Diligence process.** Principal and potential adverse impacts connected with the undertaking's own operations and value action; actions to identify and monitor impacts and actions to prevent, mitigate or remediate those.

**5. Principal risks and how the undertaking's manages those**

**6. Indicators relevant to 1-5 above**

## Article 29 (b) ESG Matters to be covered

**1. Environmental factors :** i) Climate change mitigation and adaptation; ii) water and marine resources; iii) resource use and circular economy; iv) pollution; v) biodiversity and ecosystems.

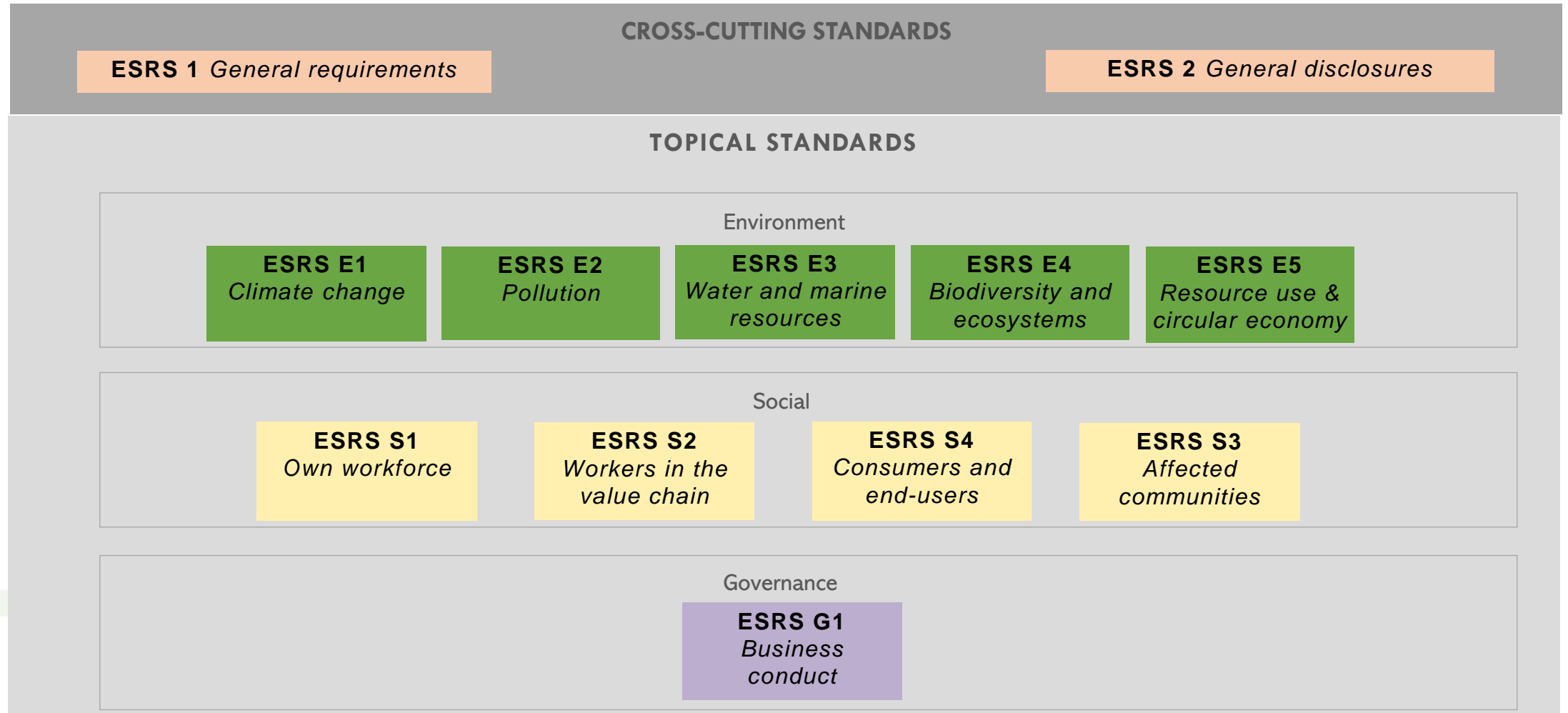
**2. Social and human rights factors:** i) equal treatment and opportunities (e.g. gender equality); ii) working conditions (e.g. collective bargaining); and iii) respect for the human rights, fundamental freedoms, democratic principles and standards

**3. Governance factors :** i) role and composition of AMS; ii) internal control and risk management re sustainability matters; iii) business ethics and corporate culture; iv) political influence activities; v) relationships with customers, suppliers and communities.



### 3. Introduction to ESRS concepts

# Sector agnostic draft ESRs: an overview



## 12 Standards across ESG

- 2 Cross-cutting: ESRS 1 and 2
- 5 Environment: ESRS E standards
- 4 Social: ESRS S standards
- 1 Governance: ESRS G standard and GOV in ESRS 2)

## 84 Disclosure Requirements

- Qualitative or quantitative

## Double materiality as specified by CSRD

Financial materiality

- Impact materiality

## 4 pillars

- Governance
- Strategy
- Impact, risk and opportunity management
- Metrics and targets

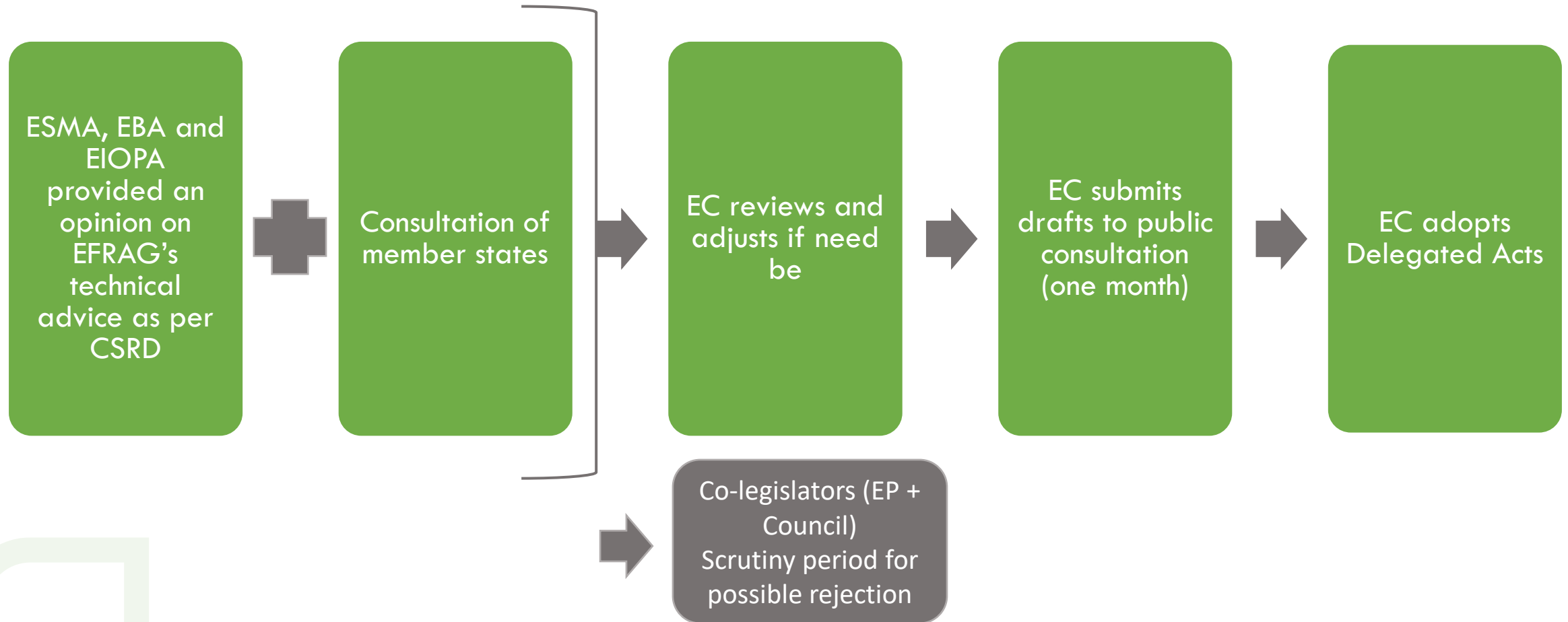
## Digital reporting

- XBRL taxonomy ongoing

## Bases for conclusions

- Publication in March 2023

# Process until Delegated Acts



# Working on interoperability (1/2)

- 2 objectives:
  - ✓ Building on and contributing to global sustainability reporting progress
  - ✓ EU reporting entities: a single sustainability report

## ESRS providing the EU data infrastructure and is more comprehensive:

- Double materiality
- EU sustainable finance regulation for financial services (SFDR, Pillar 3)
- Other EU regulation and international human rights instruments (for example, Climate law)
- Broader stakeholders



# Working on interoperability (2/2)

## International Sustainability Standards Board (ISSB)



- Meetings of the SSAF, the Jurisdictional WG + bilateral meetings at management level (with EC) and bilateral meetings of climate experts (with EC): continued dialogue and cooperation
- Comments received: great desire for interoperability ESRS and IFRS S
- Tentative decisions:
  - Alignment of concepts: financial materiality and value chain in ESRS 1
  - Alignment of content of disclosure objectives in ESRS 2
  - Confirmation of additions to IFRS S2 in ESRS E1
  - Changes to the Architecture
- Differences in timeline and scope at this stage

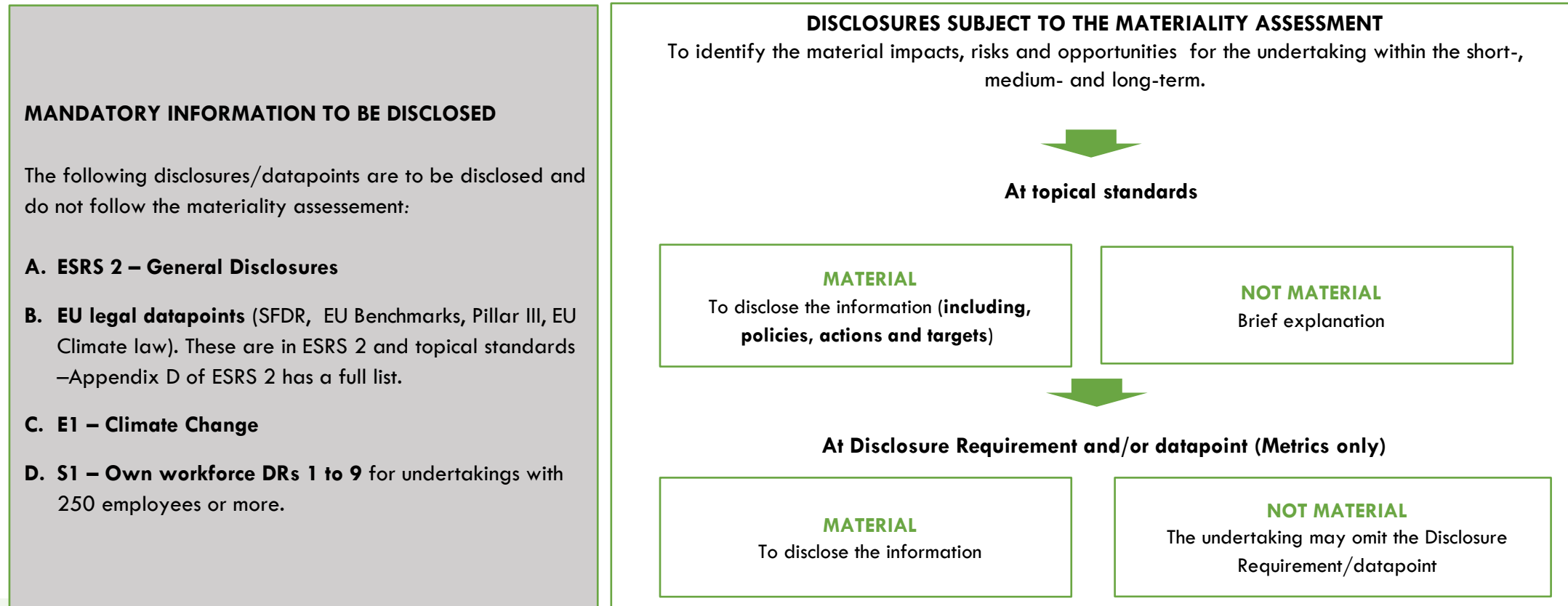
## Global Reporting Initiative (GRI)



- Technical cooperation from the beginning to seek alignment on key concepts: impact materiality, due diligence approach ...
- Comments received and bilateral meetings underway

## General disclaimer on the content of the draft ESRS

- EFRAG is responsible for delivering the draft ESRS as an advice to the European Commission (EC). This was done in November 2022
- The EC is responsible for the subsequent adoption of the standards in a Delegated Act. This may entail changes to the contents
- Potential changes to the contents will be published when the EC will launch its 4 weeks public consultation (expected in few weeks)
- EFRAG cannot comment on whether there are changes and to what extent the general principles and detailed disclosures have been changed by the EC



Content Index / List of all Disclosure Requirements reported

# Materiality assessment: determination of material IROs

Undertaking to disclose material matters (impacts, risks or opportunities) across its own operations and value chain

**Impact materiality** : actual or potential positive or negative impacts on people or the environment over the short-, medium- and long-term time horizons (inside-out)

**Criteria:**

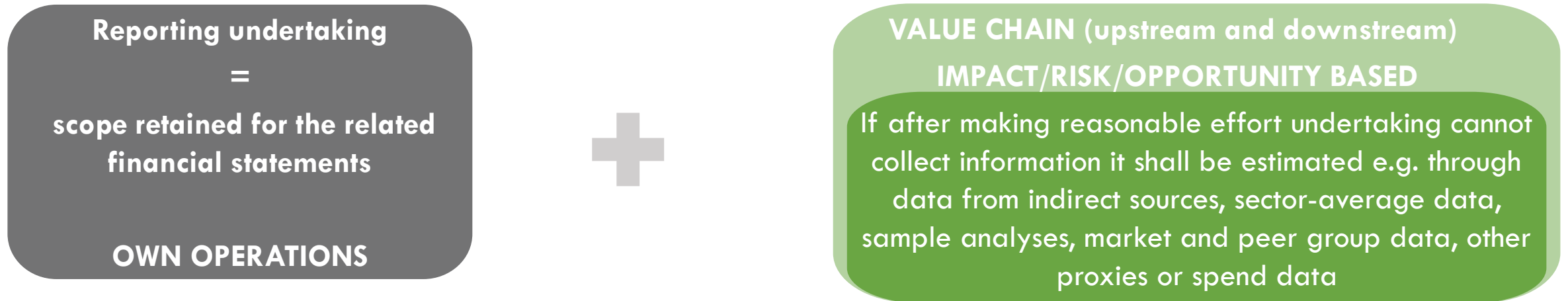
- severity (scale, scope and remediability)
- likelihood of the impact

**Financial materiality** : a sustainability matter is material if it triggers or may trigger material financial effects (outside-in)

**Financial effects** being risks or opportunities that have a material influence (or likely to have a material influence) on the undertaking's cashflows, development, performance, position, cost of capital or access to finance in the short-, medium- and long-term.

**Value chain:** Information about the reporting undertaking provided in the sustainability statements shall be extended to include information on the **material impacts\***, **risks and opportunities** connected to the undertaking through its **direct and indirect business relationships in the upstream and/or downstream value chain.** (ESRS 1 para 67)

*\* Impacts include those caused or contributed to by the undertaking and those which are directly linked to the undertaking's own operations, products, or services through its business relationships*



**3-year transitional provisions** if some of the information on value chain is not available



#### 4. Introduction to the [draft] ESRS standards

# ESRS 2 *General disclosures* – overview (Example)

## GENERAL CHARACTERISTICS

**BP-1: General basis for preparation of the sustainability statements** ISSB

**BP-2: Disclosures in relation of specific circumstances**

- ✓ Time horizons GRI
- ✓ Value chain estimation
- ✓ Sources of estimation and outcome uncertainty
- ✓ Changes in preparation or presentation
- ✓ Reporting errors in prior period
- ✓ Disclosures stemming from local legislation or generally accepted sustainability reporting pronouncements
- ✓ Incorporation by reference

## GOVERNANCE

**GOV-1: The role of the AMSBs** TCFD GRI ISSB SFDR

**GOV-2: Information provided to and sustainability matters addressed by AMSBs** TCFD ISSB GRI

**GOV-3: Integration of sustainability-related incentive schemes** GRI TCFD

**GOV-4: Statement on sustainability due diligence** SFDR

**GOV-5: Risk management and internal controls over sustainability reporting** GRI

# ESRS 2 General disclosures - overview

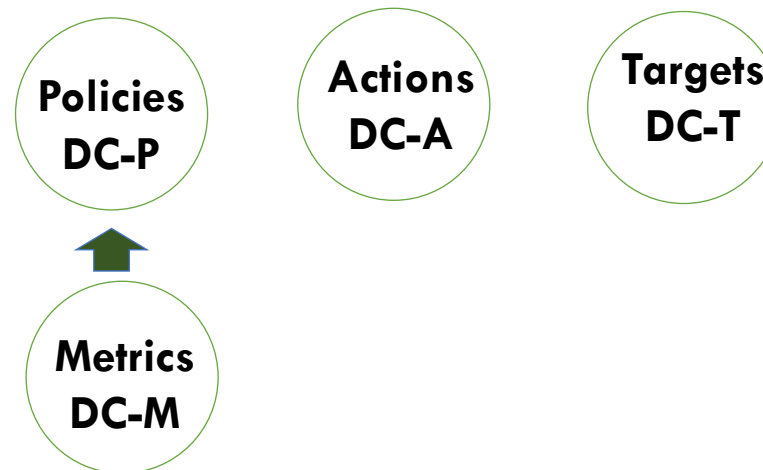
## STRATEGY

SBM-1: Market position, strategy, business model (s) and value chain	GRI	ISSB
SBM-2: Interests and views of <b>Stakeholders</b>	GRI	ISSB
SBM-3: <b>Interaction of risks and opportunities and the undertaking's strategy</b> and business model	ISSB	GRI, TCFD

## IMPACTS, RISKS & OPPORTUNITIES MANAGEMENT

IRO-1: <b>Description of the processes</b> to identify material sustainability impacts, risks and opportunities	ISSB	GRI	TCFD
IRO-2: DRs complied with in undertaking's sustainability statement	GRI		

## DISCLOSURE CONTENT



**For each Material Sustainability Matter to disclose\***

\* If the undertaking does not have defined policies, actions or targets, it only has to say so.



# ESRS E1 Climate change – overview (Example)

ESRS E1 is a climate standard aligned with IFRS S2 and TCFD

## ESRS 2 General disclosures

- **DR related to ESRS 2 GOV-3** Integration of sustainability-related performance in incentive schemes ISSB
- **DR E1-1** Transition plan for climate change mitigation CSRD CSDDD ISSB US SEC
- **DR related to ESRS 2 SBM-3** Material impacts, risks and opportunities and their interaction with strategy and business model(s) CSRD ISSB US SEC
- **DR related to ESRS 2 IRO-1** Description of the processes to identify and assess material climate-related impacts, risks and opportunities CSRD ISSB US SEC

## Impact, risk and opportunity management

- **DR E1-2** Policies related to climate change mitigation and adaptation CSRD
- **DR E1-3** Actions and resources in relation to climate change policies CSRD Taxo. ISSB

## Metrics and targets

- **DR E1-4** Targets related to mitigation and adaptation CSRD ISSB US SEC
- **DR E1-5** Energy consumption and mix (including intensity per revenue) SFDR
- **DR E1-6** Gross Scopes 1, 2, 3 and total GHG emissions (including intensity per revenue) SFDR ISSB US SEC
- **DR E1-7** GHG removals and GHG mitigation projects financed through carbon credits CSRD ISSB US SEC
- **DR E1-8** Internal carbon pricing ISSB US SEC
- **DR E1-9** Potential financial effects from material physical and transition risks and potential climate-related opportunities Taxo. ISSB US SEC



## 5. EFRAG's next steps

## EFRAG next steps (1/2)

➔ Standard-setting activities

### SET 2 (precise timing under consideration)

- **Sector classification:** SEC 1
- **Sector-specific standards:** standards for EU companies in 4 sectors: Agriculture, Mining Quarrying and Coal, Oil and Gas, Road Transport
- **SMEs:** Standard for listed SMEs (LSME) + Voluntary guidance for non-listed SMEs

(VSME)

## EFRAG next steps (2/2)

### → Standard-setting activities

#### 4 high-impact sectors: Energy Production, Motor Vehicles, Food/Beverage, Textiles

- **Financial institutions (banking, insurance, asset management)**
- **The remaining 30 sector-specific standards**
- **Non-EU parent company standard for third-party groups with branches and subsidiaries within the EU over a certain threshold + Amendment to Set 1 in order to implement the ‘cap’ on value chain information**

# Fostering an ESRS ecosystem

*Implementation challenges expected for set 1 (and following sets)*

## ➔ Three pillars under consideration for an ESRS ecosystem

➔ implementation support

➔ EC has called on EFRAG to prioritise implementation support for the first set of ESRS

1. Elaboration of guidance and Q & A

-> First 3 deliverables:

- Materiality assessment guidance
- Value chain guidance
- Inventory of datapoints

-> Access point for questions from stakeholders plus filtering and answering mechanism

2. Availability of comprehensive ESRS related documentation

3. Facilitation of educational initiatives



## 6. Simplified standards: SMEs

## DISCLAIMER ON THE CONTENT OF THE SLIDES ON SMEs

The content reflects the work in progress proposals that is currently being discussed by the EFRAG SR TEG. Substantial changes are still possible before the EFRAG SRB will approve the Exposure Draft for consultation

In addition, should the EC change in the Delegated Act the content of Sector Agnostic standards, as LSME is built as a simplification of these standards, changes are also possible for this reason

# SMEs General approach: two workstreams

## Listed SMEs LSME Standard (CSRD)

### Legally binding Art. 29 c and Art. 19 a6

- SMEs between 10-250 employees (plus turnover and capital criteria) that are listed [about 1 thousand listed companies in EU]
- Small non-complex banks (about 2,300)
- Captive insurance and reinsurance (about 300)

Delegated Acts

## Voluntary Standard VSME (SMEs not in CSRD scope )

### Not legally binding but empowering tool

SMEs not listed [ 22 million including micro ] outside CSRD scope that want to voluntary disclose

No Delegated Acts. Aim: to help SMEs in taking the first steps in ESG reporting.

CSRD specifies reporting requirements for listed SMEs. Art 19 a(6) by way of *derogation*. This is a reduced list from the requirements that will apply to other companies under scope:

- a) A brief description of the undertaking's business model and strategy
- b) A description of the undertaking's policies in relation to sustainability matters
- c) The principal actual or potential adverse impacts of the undertaking with regard to sustainability matters, and any actions taken to identify, monitor, prevent, mitigate or remediate such actual or potential adverse impacts
- d) The principal risks to the undertaking related to sustainability matters and how the undertaking manages those risks
- e) Key indicators necessary to the disclosures referred to in points (a) to (d).



# CSRD Requirements for Sustainability reporting for SMEs

## Art. 29b (4):

- “Standards shall not specify disclosures that would require undertakings to obtain information *from SMEs in their value chain* that exceeds the information to be disclosed according to the *sustainability standards for SMEs referred to in art. 29C*”.

## Art 29c:

- sustainability reporting standards shall *be proportionate and relevant to the scale and complexity of the activities*, and to the **capacities and characteristics of small and medium-sized undertakings**.
- Small and medium-sized listed (10 and 250 employees); Small and non-complex financial institutions; Captive insurance and reinsurance undertakings;
- In terms of content, it refers to art 19a (6) and to the criteria in Article 29b, paragraphs 2, 3, 4 and 5. It requires the standards to specify, to the extent possible, *the structure in which that information shall be reported*.
- The Commission shall adopt those delegated acts at the latest by 30 June 2024

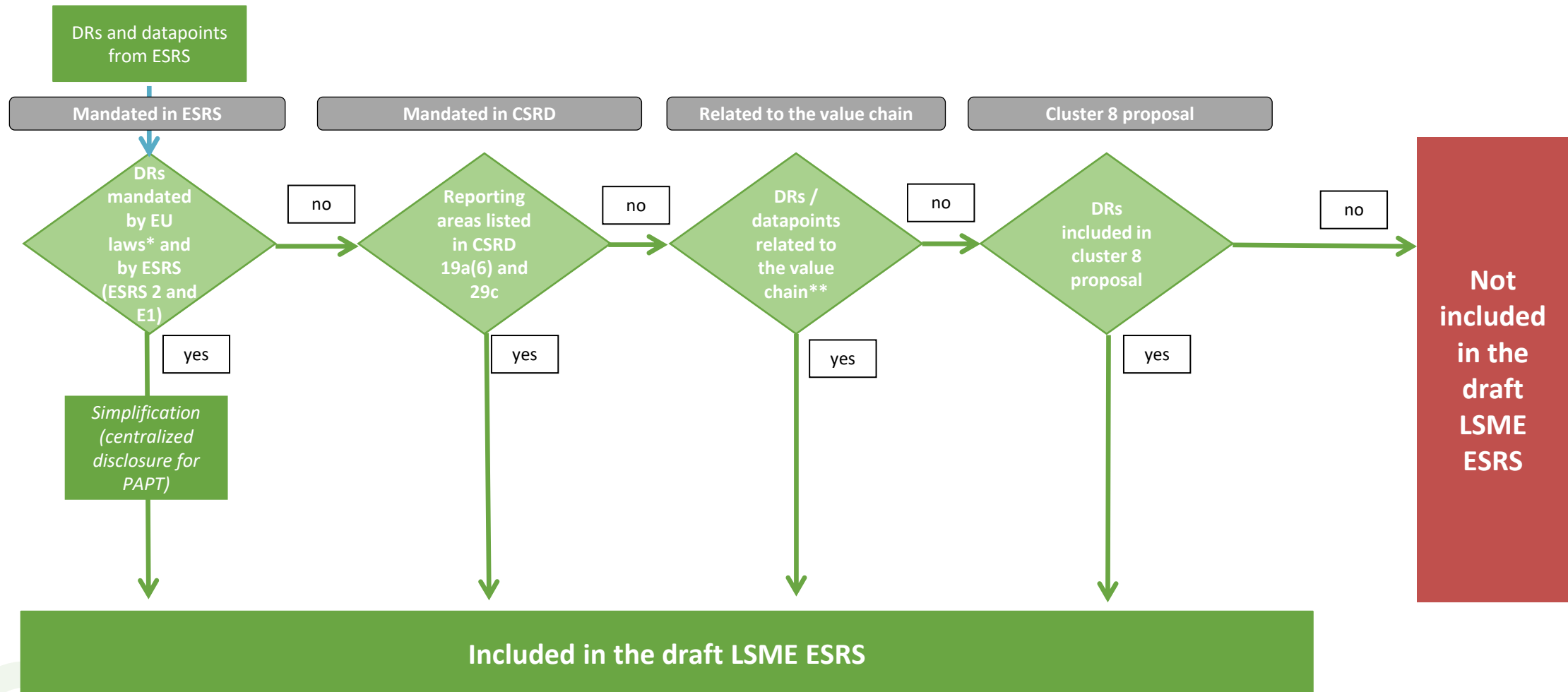
## Recital 17

(...) In view of the **growth of users' needs for sustainability information, additional categories of undertakings should be required to report sustainability information.** It is therefore appropriate to require all large undertakings and **all undertakings, except micro undertakings, whose securities are admitted to trading on a regulated market in the Union to report sustainability information.** (...). Accordingly, **small and medium-sized undertakings whose securities are admitted to trading on a regulated market in the Union that are public-interest entities should be allowed to report in accordance with the sustainability reporting standards for small and medium-sized undertakings.** In addition, all undertakings that are parent undertakings of large groups should prepare sustainability reporting at group level. Moreover, since Article 8 of Regulation (EU) 2020/852 refers to Article 19a and Article 29a of Directive 2013/34/EU, the **undertakings added to the scope of the sustainability reporting requirements will also have to comply with Article 8 of Regulation (EU) 2020/852.**

## Recital 21

(...) The introduction of the requirement for small and medium-sized undertakings, except micro undertakings whose securities are admitted to trading on a regulated market in the Union to disclose information on **sustainability matters is also necessary to ensure that financial market participants have the information they need from investee undertakings** to be able to comply with their own sustainability disclosure **requirements laid down in Regulation (EU) 2019/2088.** Small and medium-sized undertakings whose securities are admitted to trading on a regulated market in the Union should be given the possibility of reporting in accordance with standards that **are proportionate to their capacities and resources, and relevant to the scale and complexity of their activities.** (...)

# Decision tree : From main ESRS to the standard for listed SMEs



Note \*: EU laws limited to SFDR, Pillar 3, benchmark regulation and climate law

Note \*\*: Is the DR / datapoint essential for the depiction of the matter or essential for the « value chain cap »?

# CSRD Requirements for Sustainability reporting for SMEs art. 19a(1), 19 a(6) and 29c – Scope of LSME ESRS

**Definition of small and medium-sized** undertakings: Article 3(2) and 3(3) of the Accounting Directive which are undertakings referred to in Article 2, point (1),

- Article 3 (2) **Small** undertakings shall be undertakings which on their balance sheet dates do not exceed the limits of at least two of the three following criteria:

(a) balance sheet total: EUR 4 000 000; (b) net turnover: EUR 8 000 000; (c) average number of **employees** during the financial year: **50**.

- Article 3 (3) **Medium-sized** undertakings shall be undertakings which are not micro-undertakings or small undertakings and which on their balance sheet dates **do not exceed the limits** of at least two of the three following criteria:

(a) balance sheet total: EUR 20 000 000; (b) net turnover: EUR 40 000 000; (c) average number of **employees** during the financial year: **250**.

# CSRD definition of Small and non-complex institution Captive insurances and reinsurances

**'small and non-complex institution'** is defined in Art. 4(1), point (145) of Regulation (EU) No 575/2013 means an institution that meets all the following conditions (9 conditions i.e. size, complexity, resolution regime, )

**'captive insurance undertaking'** Art. 4(1), point (145) of Regulation (EU) No 575/2013 means an insurance undertaking, owned either by a financial undertaking other than an insurance or reinsurance undertaking or a group of insurance or reinsurance undertakings within the meaning of Article 212(1)(c) or by a non-financial undertaking, the purpose of which is to provide insurance cover exclusively for the risks of the undertaking or undertakings to which it belongs or of an undertaking or undertakings of the group of which it is a member;

**'captive reinsurance undertaking'** means a reinsurance undertaking, owned either by a financial undertaking other than an insurance or reinsurance undertaking or a group of insurance or reinsurance undertakings within the meaning of Article 212(1)(c) or by a non-financial undertaking, the purpose of which is to provide reinsurance cover exclusively for the risks of the undertaking or undertakings to which it belongs or of an undertaking or undertakings of the group of which it is a member;

The working paper on [draft] LSME ESRS has been defined **on the basis of the decision tree** and the **General Architecture** presented to the SR TEG meetings.

The text of **SET 1 standards has been integrally considered** and amended where appropriate.

The [draft] LSME ESRS will be a standalone document, with the following sections:

- Section I “General requirements”
- Section II “General disclosures”
- Section III “Environmental disclosures”
- Section IV “Social disclosures”
- Section V “Business conduct disclosures”

## ESRS Large undertakings

### Sector Agnostic Layer

#### Cross-cutting standards

1. ESRS 1 General Requirements + AR
2. ESRS 2 General Disclosures + AR

#### Environment

3. ESRS E1 Climate change + AR
4. ESRS E2 Pollution + AR
5. ESRS E3 Water and marine sources + AR
6. ESRS E4 Biodiversity and ecosystems + AR
7. ESRS E5 Resource and circular economy + AR

#### Social

8. ESRS S1 Own workforce
9. ESRS S2 Workers in the value chain
10. ESRS S3 Affected communities
11. ESRS S4 Consumers and end users

#### Governance

12. ESRS G1 Business conduct + AR

### Sector Specific Layer

## Listed SMEs ESRS

### Sector Agnostic layer

#### 1. One standard combining Cross-cutting and Topical

- I. SMEs General Requirements (ESRS 1)
- II. SMEs General Disclosures (ESRS 2)
- III. SMEs Environmental Disclosures
- IV. SMEs Social Disclosures
- V. SMEs Governance Disclosures

#### 2. SMEs Application Requirements

### Sector Specific layer (Appendix of SMEs ESRS) ?

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