

# CFRR – REPARIS Vienna

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## Update on sustainability reporting developments First set of draft ESRS

1 December 2022

Gemma Sanchez-Danes



# DISCLAIMER

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## 1. DRAFT ESRS: MANDATE AND CONTEXT FROM THE CSRD

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## 1.1 CSRD AT A GLANCE

CSRD approval:  
11 Nov European Parliament  
28 Nov European Council

- **Scope** extended to all large and all listed companies, plus some non-EU.
- Mandatory, European **standards**...
- Based on the **double materiality principle**
- Drafts developed by **EFRAG as technical advisor to the EC**
- To be adopted by EC as **Delegated Acts**
- **Standards by topic** (ie theme) and **by sector covering E,S and G.**
- Proportionate standards for **listed SMEs**, and **standards for non-EU** companies with EU branches or subsidiaries
- Assurance requirement, starting with **limited assurance** and later evolving to reasonable (outside the remit of EFRAG)

## 1.2 SCOPE

- 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
- Voluntary regime for other SMEs (not included in the Delegated Act)
- *Non-EU companies with branches or subsidiaries in the EU above certain thresholds*

### 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*

- 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.

## 1.4 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.

## 1.5 EUROPEAN COMMISSION TIMELINE TO ADOPT STANDARDS

### 30 June 2023

- Standards to specify information to report according to articles 19a/29a (all sustainability topics). Sector agnostic.
- To take account of other EU regulation; in particular, the SFDR for financial participants

### 30 June 2024

- Sector-specific standards
- Standards for listed SMEs
- Extensions /complementary disclosures for set 1, where necessary
- Standards for non-EU parent companies

### Note

- Annual workplan to be presented by EFRAG to EC
- Mandatory review and possible amendment of every standard every 3 years
- Minimum 4 month period between adoption by EC and entry into application

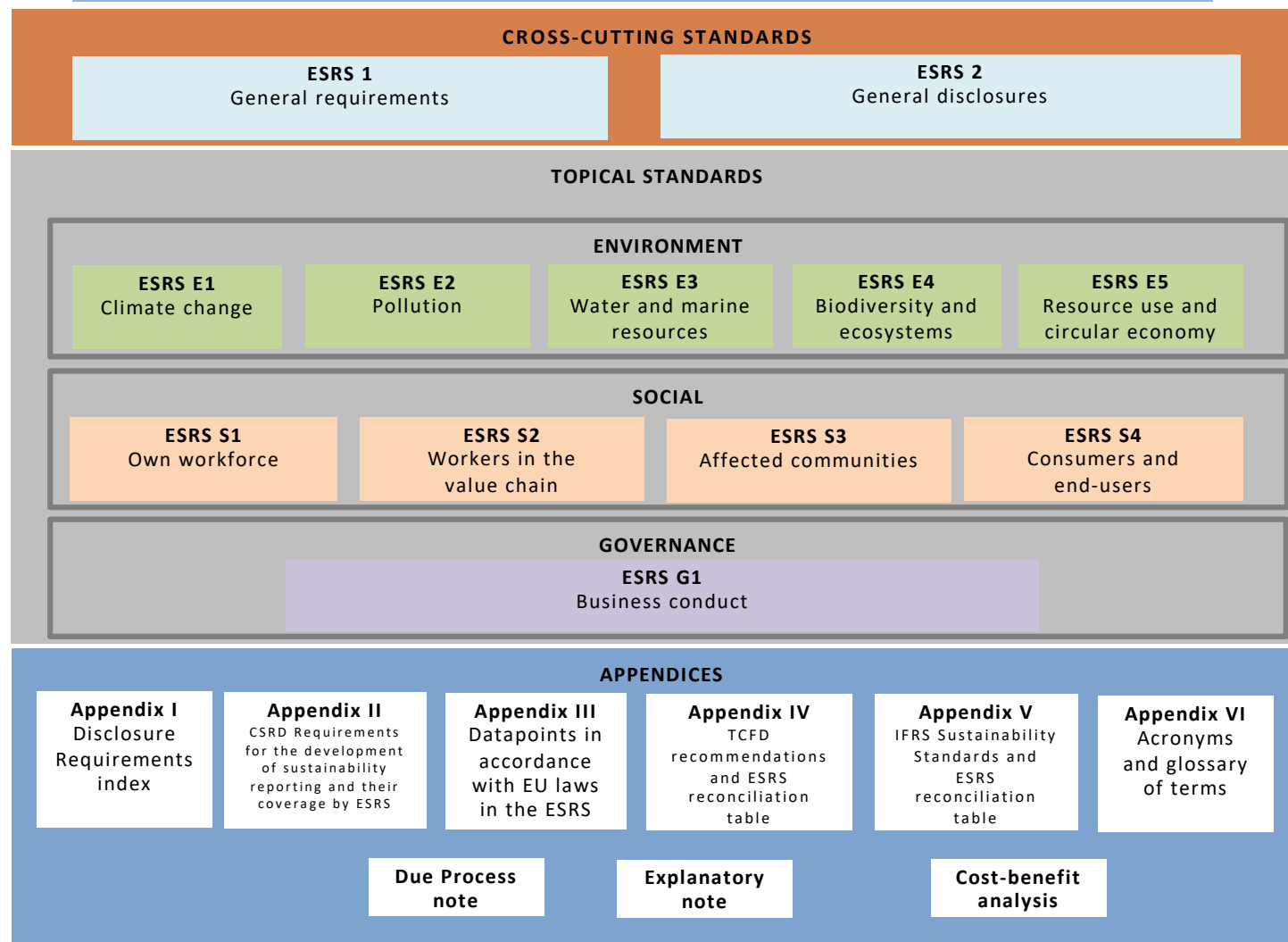


## 2. DRAFT ESRS ARCHITECTURE AND GENERAL OVERVIEW

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## 2.1: SET 1 DRAFT ESRS : Comprehensive technical advice delivered to the European Commission

### EFRAG Technical advice package 22 November 2022



#### 12 Standards across ESG

- 2 Cross-cutting
- 5 Environment
- 4 Social
- 1 Governance

#### 82 Disclosure Requirements

Qualitative or quantitative

#### Double materiality

- Financial materiality
- Impact materiality

#### 4 pillars

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

#### Digital reporting

XBRL taxonomy *ongoing*

## 2.2 ISSB and GRI INTEROPERABILITY/ ALIGNMENT

### ISSB

- Meetings of the JWG, bilateral meetings at management level and bilateral meetings of climate experts: 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

### GRI

- Meetings at staff technical level to seek alignment on key concepts: impact materiality, due diligence approach ...
- Comments received and bilateral meetings arranged



### ESRS providing the EU data infrastructure:

- Double materiality
- EU regulation for financial services (SFDR, Pillar 3)
- Taking into account EU regulation



### 3. DRAFT ESRS 1 DISCLOSURE REQUIREMENTS AND DRAFT ESRS 2 GENERAL DISCLOSURES: KEY CONCEPTS

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### 3.1 ESRS 1 GENERAL REQUIREMENTS: Home of the “how to report” under ESRS

#### ESRS 1

1	Categories of (draft) Standards and disclosures under (draft) European Sustainability Reporting Standards
2	Qualitative characteristics of information
3	<b>Double materiality as the basis for sustainability disclosures</b>
4	<b>Sustainability due diligence</b>
5	<b>Value chain</b>
6	Time horizon
7	Preparation and presentation of sustainability information
8	<b>Structure of sustainability statements</b>
9	Linkages with other parts of sustainability statements
10	Transitional provisions

### 3.1 ESRS 1 General requirements: Appendices to support and to illustrate when applying ESRS

ESRS 1 Appendices	A	Defined terms
	B	Application requirements
		Double materiality
		Estimation using sector averages and proxies
		Content and structure of the sustainability statements
	C	Qualitative characteristics of information
	D	List of phased-in Disclosure Requirements
	E	Structure of ESRS sustainability statements
	F	Flowchart for determining disclosures to be included
	G	Example of structure of ESRS sustainability statements
	H	Example of incorporation by reference

## 3.2 ESRS 1-2 : PRINCIPLE OF MATERIALITY

### MANDATORY INFORMATION TO BE DISCLOSED

The following disclosures/datapoints are to be disclosed and do not follow the materiality assessment:

#### A. ESRS 2 – General Disclosures

**B. EU legislation datapoints** (SFDR, EU Benchmarks, Pillar III, EU Climate law ..). These are in ESRS 2 and topical standards – refer to Appendix D of ESRS 2 for a full list.

#### C. E1 – Climate Change

**D. S1 – Own workforce -Disclosure Requirements 1 to 9** for the undertakings with 250 employees or more.

### DISCLOSURES SUBJECT TO THE MATERIALITY ASSESSMENT

To identify the material impacts, risks and opportunities for the undertaking within the short-, medium- and long-term.



#### At topical standards

##### **MATERIAL**

To disclose the information  
(including, policies, actions and targets)

##### **NOT MATERIAL**

Brief explanation



#### At Disclosure Requirement and/or datapoint (Metrics & Targets)

##### **MATERIAL**

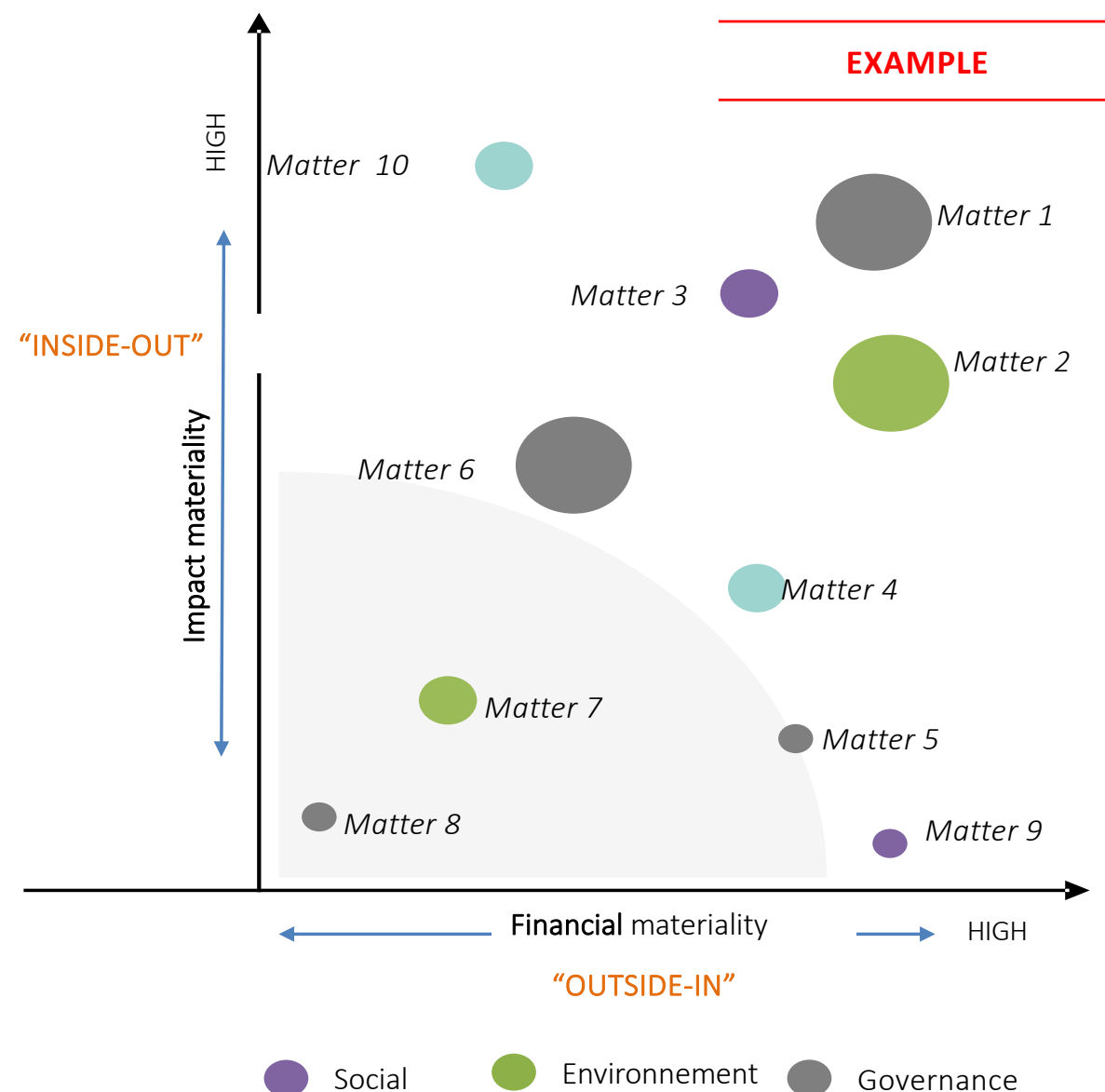
To disclose the information

##### **NOT MATERIAL**

The undertaking may omit the Disclosure Requirement/datapoint

Content Index / List of all Disclosure Requirements reported

## 3.2 ESRS 1-2 MATERIALITY ASSESSMENT: The undertaking to determine its material impacts, risks and opportunities



Undertaking to disclose material matters (impacts, risks or opportunities)

**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

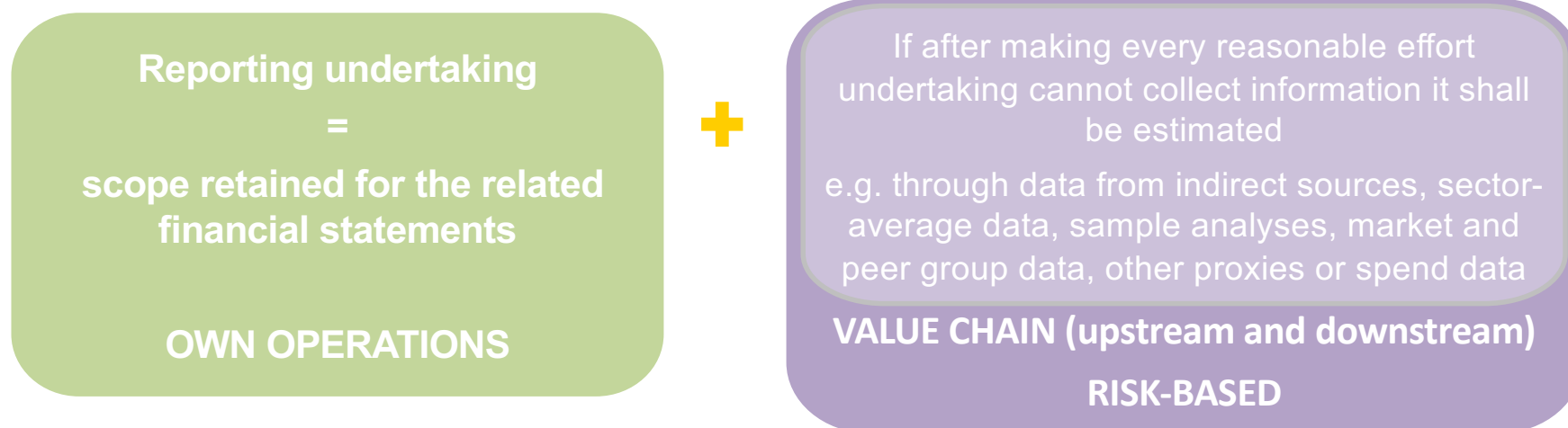
**Financial materiality** : a sustainability matter is material if it triggers or may trigger material financial effects (outside-in)

**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.

### 3. 3 ESRS 1: SCOPE OF REPORTING – Value chain

**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.

*\* 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:

- no reporting on impacts, risks or opportunities in the value chain (except for EU law datapoints- ESRS 2 Appendix C );
- option to limit to information available in-house when applying ESRS 2 and the policies, actions and targets disclosures on topical standards for material impacts, risks and opportunities

## 3.4 Objective and Overview: Disclosure Requirements of ESRS 2 (I/II)

### GENERAL CHARACTERISTICS

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

BP-2: Disclosures in relation of specific circumstances

- ✓ Time horizons
- ✓ 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

ISSB

GRI

### GOVERNANCE

GOV-1: The role the administrative, management and supervisory bodies

TCFD

GRI

ISSB

GOV-2: Information provided to and sustainability matters addressed by the undertaking's administrative, management and supervisory bodies

TCFD

ISSB

GRI

GOV-3: Integration of sustainability-related incentive schemes

ISSB

TCFD

GOV-4: Statement on sustainability due diligence

GRI

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

ISSB

GRI

SFDR

## 3.4 Objective and Overview: Disclosure Requirements of ESRS 2 (II/II)

### STRATEGY

SBM-1: Market position, strategy, business model (s) and value chain

GRI

ISSB

SBM-2: Interests and views of

**Stakeholders**

GRI

ISSB

SBM-3: **Interaction of risks and opportunities and the undertaking's strategy** and business model

GRI

ISSB

TCFD

### IMPACTS, RISKS & OPPORTUNITIES MANAGEMENT

IRO-1: **Description of the processes** to identify material sustainability impacts, risks and opportunities

ISSB

GRI

TCFD

IRO-2: Disclosure Requirements in ESRS by the undertaking's sustainability statement

GRI

For each  
Material  
Sustainability  
Matter

### DISCLOSURE CONTENT

Policies  
DC-P

Actions  
DC-A

Targets  
DC-T

Metrics  
DC-M



### 3.5 STRUCTURE OF THE TOPICAL STANDARDS: Example of [draft] ESRS E3 Water and Marine Resources

<b>Table of contents</b>	
<b>Objective</b>	<b>4</b>
<b>Interaction with other ESRS</b>	<b>4</b>
<b>Disclosure requirements</b>	<b>5</b>
<b>ESRS 2 General disclosures</b>	<b>5</b>
Disclosure Requirement related to ESRS 2 IRO-1 – Description of the processes to identify and assess material water and marine resources-related impacts, risks and opportunities	5
<b>Impact, risk and opportunity management</b>	<b>5</b>
Disclosure Requirement E3-1 – Policies related to water and marine resources	5
Disclosure Requirement E3-2 – Actions and resources related to water and marine resources policies and targets	6
<b>Metrics and targets</b>	<b>6</b>
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Disclosure Requirement E3-4 – Water consumption	7
Disclosure Requirement E3-5 – Potential financial effects from water and marine resources-related impacts, risks and opportunities	8

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Disclosure Requirement related to ESRS 2 IRO-1 – Description of the processes to identify and assess material water and marine resources-related impacts, risks and opportunities	11
<b>Impact, risk and opportunity management</b>	<b>14</b>
Disclosure Requirement E3-1 – Policies implemented to manage water and marine resources	14
Disclosure Requirement E3-2 – Action plans and resources related to water and marine resources	14
<b>Metrics and targets</b>	<b>15</b>
Disclosure Requirement E3-3 – Targets related to water and marine resources	15
Disclosure Requirement E3-4 – Water consumption	15
Disclosure Requirement E3-5 – Potential financial effects from water and marine resources-related impacts, risks and opportunities	15

The main body of the [draft] Standard includes the following sections:

- Objective and interaction with other Standards
- Information to be disclosed on the four pillars:
  - ESRS 2 related (GOV, SBM, IRO)
  - IRO Management: policies, actions
  - METRICS AND TARGETS: targets and performance indicators

#### Appendices:

- **Appendix A : Glossary**
- **Appendix B : Application requirements** (i.e. examples, methodology to be applied, tables to be disclosed.. )

The appendix B is an integral part of the [draft] Standard and it has the same authority as other parts.



## 5. NEXT STEPS

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## 5.1 NEXT STEPS – SET 2 and 3

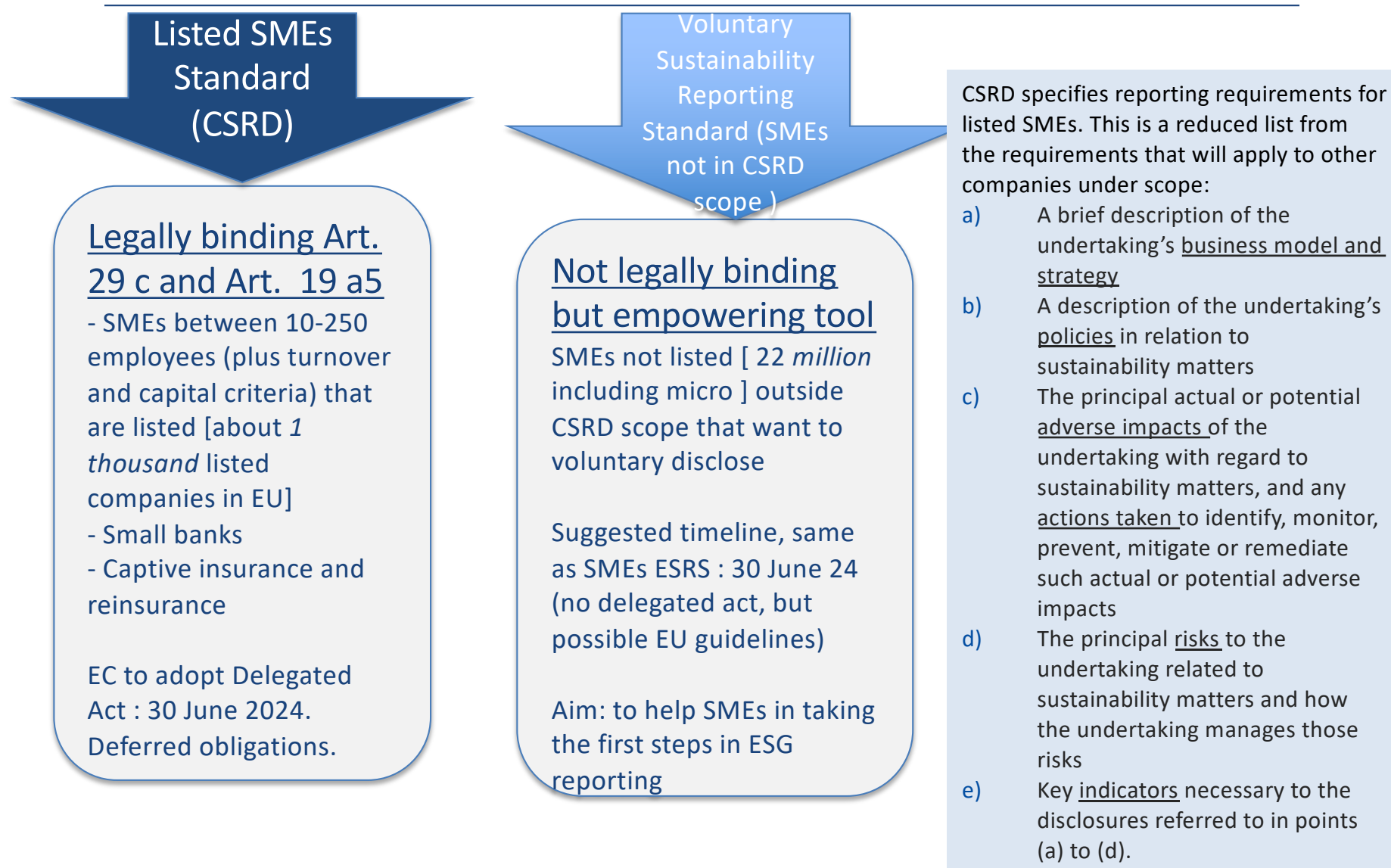
### SET 2

- **Sector- specific standards**
  - Standard for non-EU companies 5 sectors covered by GRI: Agriculture, Coal Mining, Mining, Oil+Gas (upstream), Oil+Gas (mid-to downstream)
  - 5 high-impact sectors: Energy Production, Road Transport, Motor Vehicle Production, Food/Beverages, Textiles
- **SMEs:** Standard for listed SMEs + Voluntary guidance for non-listed SMEs
- **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 => *most likely set 3*

### SET 3 & 4

- **The remaining 31 sector-specific standards**

## 5.2 SMEs General approach: 2 workstreams



## 5.3 SMEs : BUILDING BLOCKS

C

### EU ESRS FOR LARGE COMPANIES (mandatory)

1. REPORTING PRINCIPLES
2. CROSS CUTTING + TOPICAL
3. SECTOR AGNOSTIC DRs
4. MANDATORY DRs SECTOR SPECIFIC DRs

B

### EU ESRS FOR LISTED SMEs (mandatory)

1. REPORTING PRINCIPLES (proportionality)
2. CROSS CUTTING + TOPICAL (simplified, art. 19a 6)
3. SECTOR AGNOSTIC DRs (reduced number)
4. MANDATORY DRs (TBC)
5. SECTOR SPECIFIC DRs (following ESRS sector specific)

A

### EU VOLUNTARY STANDARDS (VSRs) FOR NON-LISTED SMEs

1. REPORTING PRINCIPLE = (proportionality + +)
2. CROSS CUTTING + TOPICAL (very limited number of DRs)
3. SECTOR AGNOSTIC (only)



## APPENDICES

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## 1.1 CONTEXT OF EFRAG: Introduction



### WHO IS EFRAG?



### EFRAG

- Private not-for-profit established in 2001 (Brussels)
- Encouraged by the European Commission to serve the public interest
- Since 2010 over 50% funded by the European Union
- 2018 European Corporate Reporting Lab@EFRAG following EC Action Plan: *Financing Sustainable growth*
- 2022 The Sustainability reporting pillar was constituted with a Sustainability Reporting Board (SRB) and Sustainability Reporting Technical Expert Group (SRT)

## 1.1 CONTEXT OF EFRAG: Introduction

### EFRAG's Mission Statement

***To serve the European public interest in both financial and sustainability reporting by developing and promoting European views in the field of corporate reporting and by developing draft EU Sustainability Reporting Standards.***

#### Financial reporting:

- Ensuring that European views are properly considered in the IASB's standard setting process and in related international debates
- Providing advice to the EC on whether new or revised IFRS Standards meet the criteria in the IAS Regulation for endorsement for use in the EU, including European public good

#### Sustainability reporting:

- Providing technical advice to the EC in the form of draft EU Sustainability Reporting Standards accompanied by bases of conclusions and cost benefit analysis including impact analysis.

## 1.1 CONTEXT OF EFRAG: Introduction

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### **EFRAG's Mission Statement (continued)**

- EFRAG seeks input from all stakeholders, and obtains evidence about specific European circumstances, throughout the standard-setting process.
- EFRAG's legitimacy is built on transparency, governance, due process (which may include field tests, impact analyses and outreaches), public accountability and thought leadership.
- EFRAG to speak convincingly, clearly and consistently, and be recognised as the European voice in corporate reporting.
- EFRAG is operating in a fast-evolving environment. It is attentive to the need to adapt its activities to meet new opportunities and challenges in corporate reporting.

## 1.2 EUROPEAN CONTEXT: Sustainable Finance

### EC INITIATIVES



- 2018 High-Level Expert Group report *Financing a Sustainable European Economy*
- March 2018 EC Action Plan *Financing Sustainable Growth*, section, notably Disclosure and Accounting: Action Points
  - EFRAG to establish a European Corporate Reporting Lab (established in Q3 2018)
  - June 2019 NFRD supplement on climate related reporting
  - H1 2020 EU Consultation on the renewed sustainable finance strategy
  - October 2018 EC 2018 Fitness Check – summary report
- The European Green Deal released in 2019, including the need for increased disclosure on climate and environmental data => review Non-Financial Reporting Directive (NFRD)



## 1.13 OVERVIEW OF EFRAG'S ACTIVITIES

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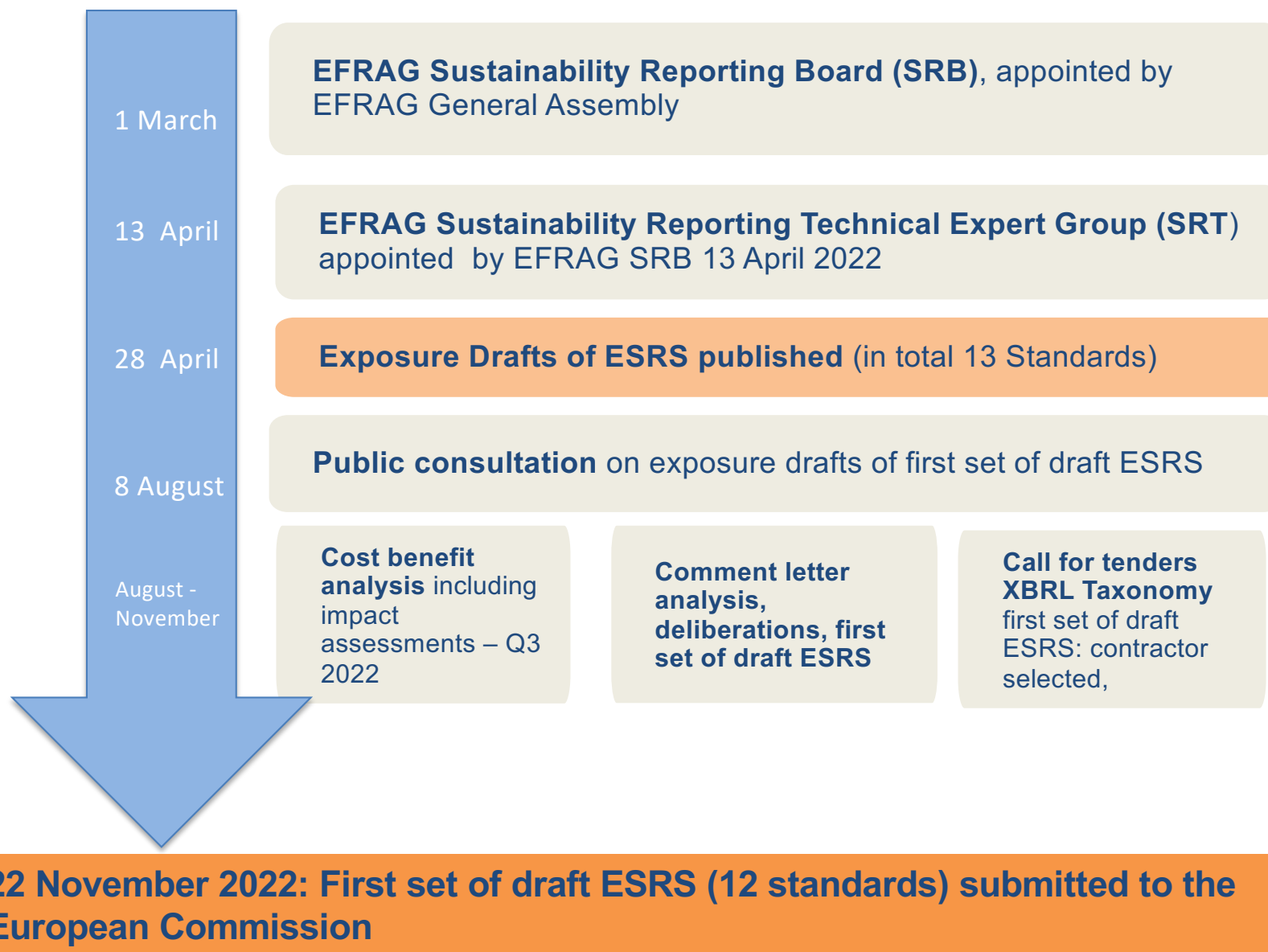
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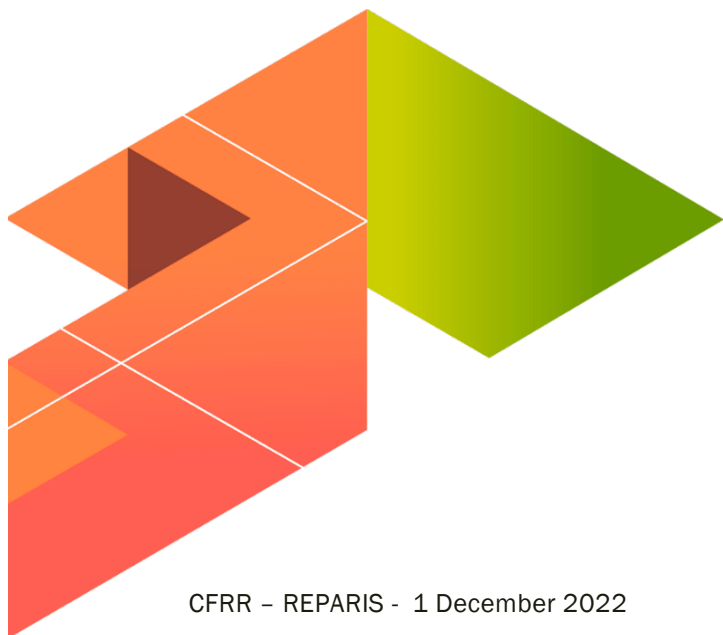
## 1.4 EFRAG SUSTAINABILITY PILLAR : 2022 Milestones







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EFRAG  
Aisbl - ivzw  
35 Square de Meeüs  
B-1000 Brussel  
Tel. +32 (0)2 207 93 00  
[www.efrag.org](http://www.efrag.org)

