

THE EUROPEAN SUSTAINABILITY REPORTING MOMENTUM

REPARIS FOR SMEs CONFERENCE

24 May 2024, Ulcinj, Montenegro,

Prof. dr. Abigail Levrau– Senior Technical Manager SR



DISCLAIMER

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OVERVIEW

- INTRODUCTION
- THE KEY FEATURES OF THE CORPORATE SUSTAINABILITY REPORTING DIRECTIVE (CSRD)
- ESRS SECTOR AGNOSTIC
- CURRENT ACTIVITIES
- DEVELOPMENTS AHEAD



Introduction

EFRAG – EUROPE’S VOICE IN CORPORATE REPORTING

- Private not-for-profit established in 2001
- Encouraged by the European Commission to serve the public interest
- Member organisations: European Stakeholders Organisations, National Organisations and Civil Society Organisations
- EFRAG’s activities are organised in two pillars:
 - **A Financial Reporting Pillar**
 - **A Sustainability Reporting Pillar**
- Provides technical advice to the European Commission in the form of draft European Sustainability Reporting Standards and supports the effective implementation of ESRS.





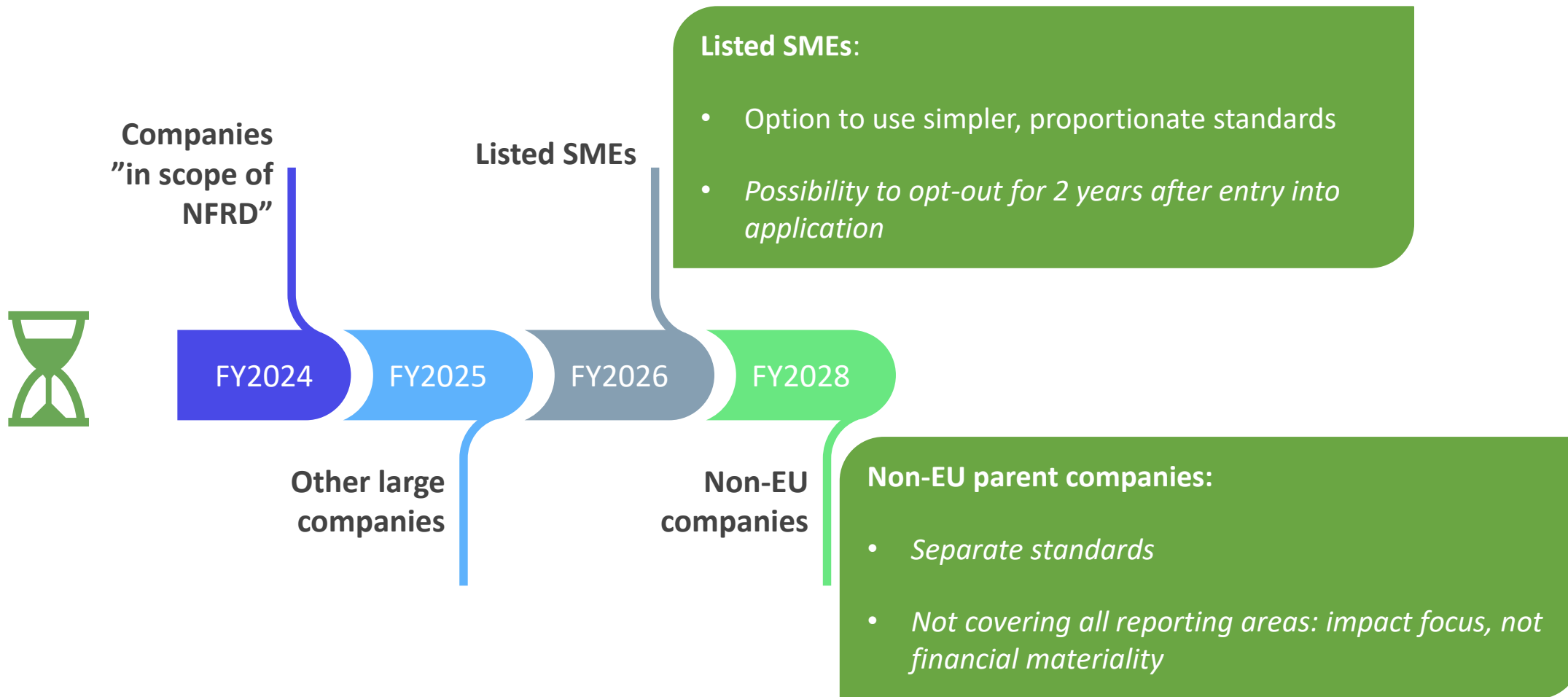
THE KEY FEATURES OF THE THE CSRD*

* Corporate Sustainability Reporting Directive

CSRD: SCOPE

- Groups and individual entities. Subsidiary exemption mechanism defined
- All listed companies (except micro-enterprises) + all large companies that exceed 2/3 of the following
 - Balance sheet total: > EUR 20M
 - Net revenue: > EUR 40M
 - > 250 average number of employees during the FY
- 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)

CSRD: PHASED-IN ENTRY INTO APPLICATION



CSRD : KEY FEATURES



Mandating the use of European Sustainability Reporting Standards (ESRS) developed by EFRAG and adopted by the EC via delegated acts - comprehensive coverage of sustainability matters: E, S & G



A key concept: double materiality (impacts and financial risks/opportunities)



Location and timing of reporting: in the management report, i.e., at the same time as financial statements



Mandatory limited assurance to start with, moving to reasonable assurance by the end of the decade

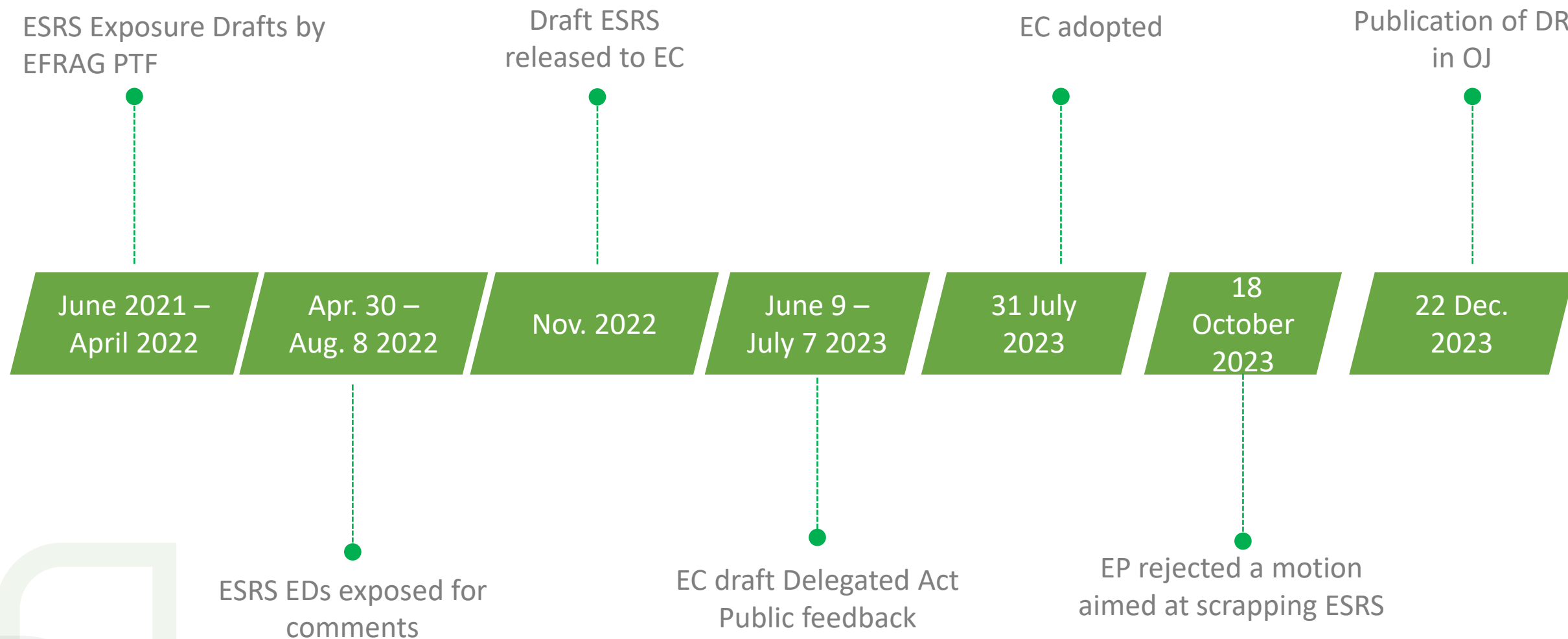


Both human and machine-readable using European Single Electronic Format (ESEF) from 2025/2025 (timing to be confirmed) – EFRAG tasked to develop the draft XBRL taxonomy

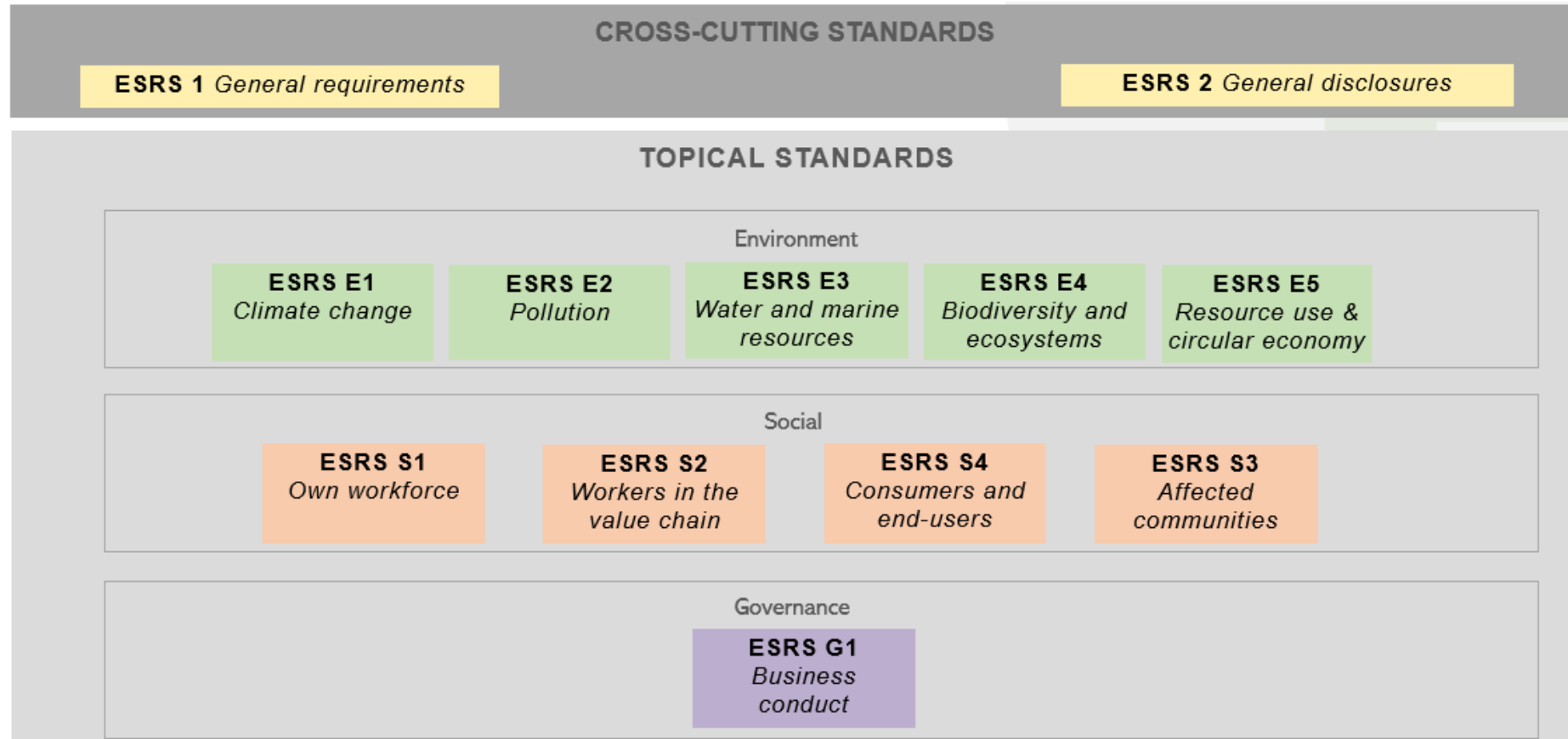


ESRS SECTOR AGNOSTIC

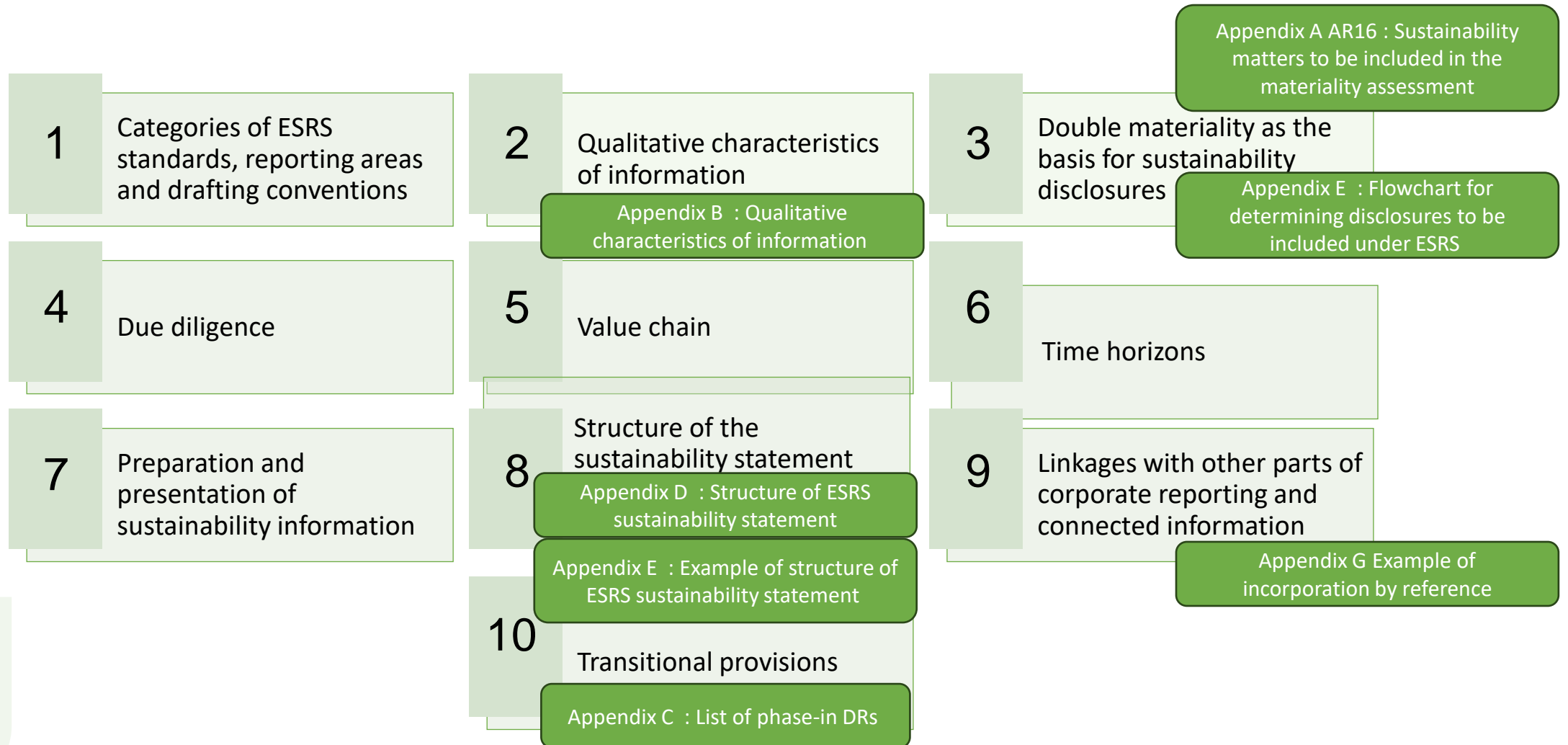
THE SECTOR AGNOSTIC STANDARDS - TIMELINE



THE FIRST SET OF SECTOR AGNOSTIC ESRS



ESRS 1 General requirements – 'how to report'



ESRS 2 General Disclosures– ‘what to report’

GENERAL CHARACTERISTICS

- BP-1: **General basis for preparation**
- BP-2: **Disclosures in relation of specific circumstances**

GOVERNANCE

- GOV-1: **The role the admin., man. and superv. bodies**
- GOV-2: **Information provided to and sustainability matters addressed by the bodies**
- GOV-3: Integration of **incentive schemes**
- GOV-4: Statement on sustainability **due diligence**
- GOV-5: Risk management over **sustainability reporting**

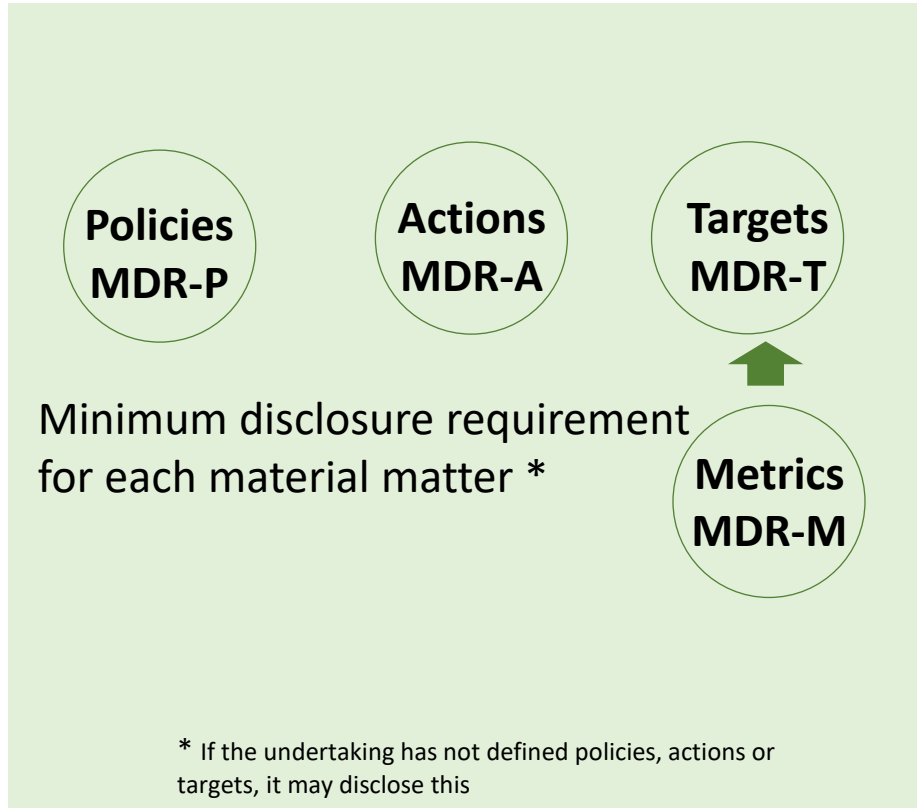
STRATEGY

- SBM-1: Market position, strategy, bus. model(s), value chain
- SBM-2: Interests and views of **stakeholders**
- SBM-3: **Material impacts, risks and opportunities and their interaction with strategy and business model**

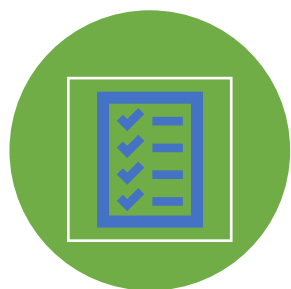
IMPACTS, RISKS & OPPORTUNITIES MANAGEMENT

- IRO-1: **Description of the processes** to identify material impacts, risks and opportunities
- IRO-2: Disclosure Requirements in ESRS

MINIMUM DISCLOSURE REQUIREMENTS



ESRS: THE PIVOTAL ROLE OF THE MATERIALITY ASSESSMENT



Sustainability statements shall reflect **all material** impacts, risks and opportunities (IROs): under an objective approach with thresholds. Thus, not all sector agnostic standards may be applicable to an undertaking.





Reporting entity to implement a **rigorous materiality assessment process** to determine material IROs (including understanding of its value chain). This will be subject to audit.

DOUBLE MATERIALITY: DEFINITIONS

Materiality assessment

- Process for determination of the information to be included in the sustainability statement. It has two steps:
 - identification of the **matters that are material**, supported by the list of matters (topics/sub topics/sub-sub topics) in AR 16 of ESRS1; and
 - definition of the **information to be reported per each material matter**, on the basis of the requirements in topical standards (ESRS E1/E5, S1/4, G1).

A matter is “material”

Impact materiality 	AND/ OR	Financial materiality 
<ul style="list-style-type: none"> • material actual or potential, positive or negative impacts over short-, medium- and long-term 		<ul style="list-style-type: none"> • information material for primary users of general-purpose financial reports in making decisions relating to providing resources to the entity • risks or opportunities that could be reasonably be expected to have/have a material influence on financial position, financial performance, cash flows, access to finance or cost of capital over the short-, medium- or long-term

Information reported

- *Policies, Actions and Targets* in place to manage the material matter
- Datapoints in *Metrics* that the undertakings assesses to be material

DOUBLE MATERIALITY: EXAMPLES



EXAMPLE OF RISK

An oil and gas undertaking identifies a material negative impact that arises from not performing consultations or reaching an agreement with indigenous' people to use their land for the extractions and to relocate the community. At the reporting date, the undertaking does not expect that the indigenous community will initiate protests. However, such indigenous community may at a later stage initiate protests that could halt the production of oil and gas at that site and cause material costs for the undertaking due to the days lost to production or the abortion of the project



EXAMPLE OF IMPACT

A manufacturing company discharges untreated wastewater containing chemicals into a nearby river. This causes water pollution, killing aquatic plants and wildlife and creating health issues to people using the river.





CURRENT ACTIVITIES

EFRAG NON AUTHORITATIVE IMPLEMENTATION GUIDANCE



EFRAG ESRS Q&A platform

EFRAG ESRS Q&A Platform

to support the implementation of European Sustainability Reporting Standards (ESRS)



<https://www.efrag.org/lab7>

Update Q&A Platform 21 May 2024

Access the regularly updated [Log of questions](#) submitted.

Question relating to	Number of questions received since 24 October 2023
Cross-cutting	159
Environmental	124
Social	79
Governance	14
XBRL	11
VSME	1
LSME	0
Sectors	0
Others	54
Total	443

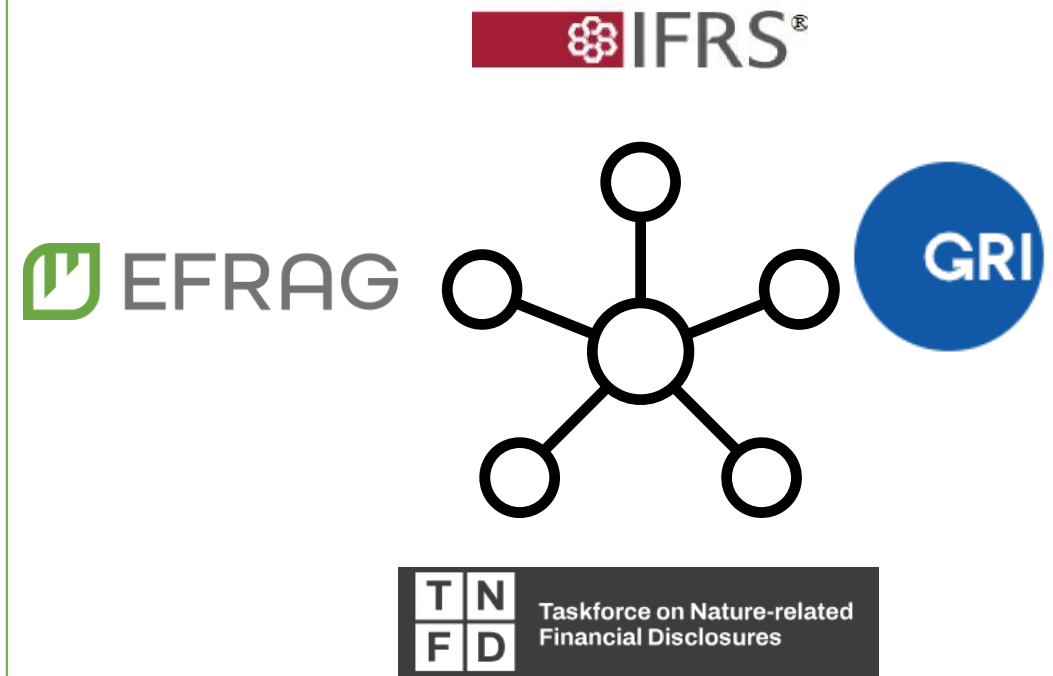
EFRAG RELEASES FIRST SET OF EXPLANATIONS ON ESRS Q&A PLATFORM

[link](#)



Interoperability maps

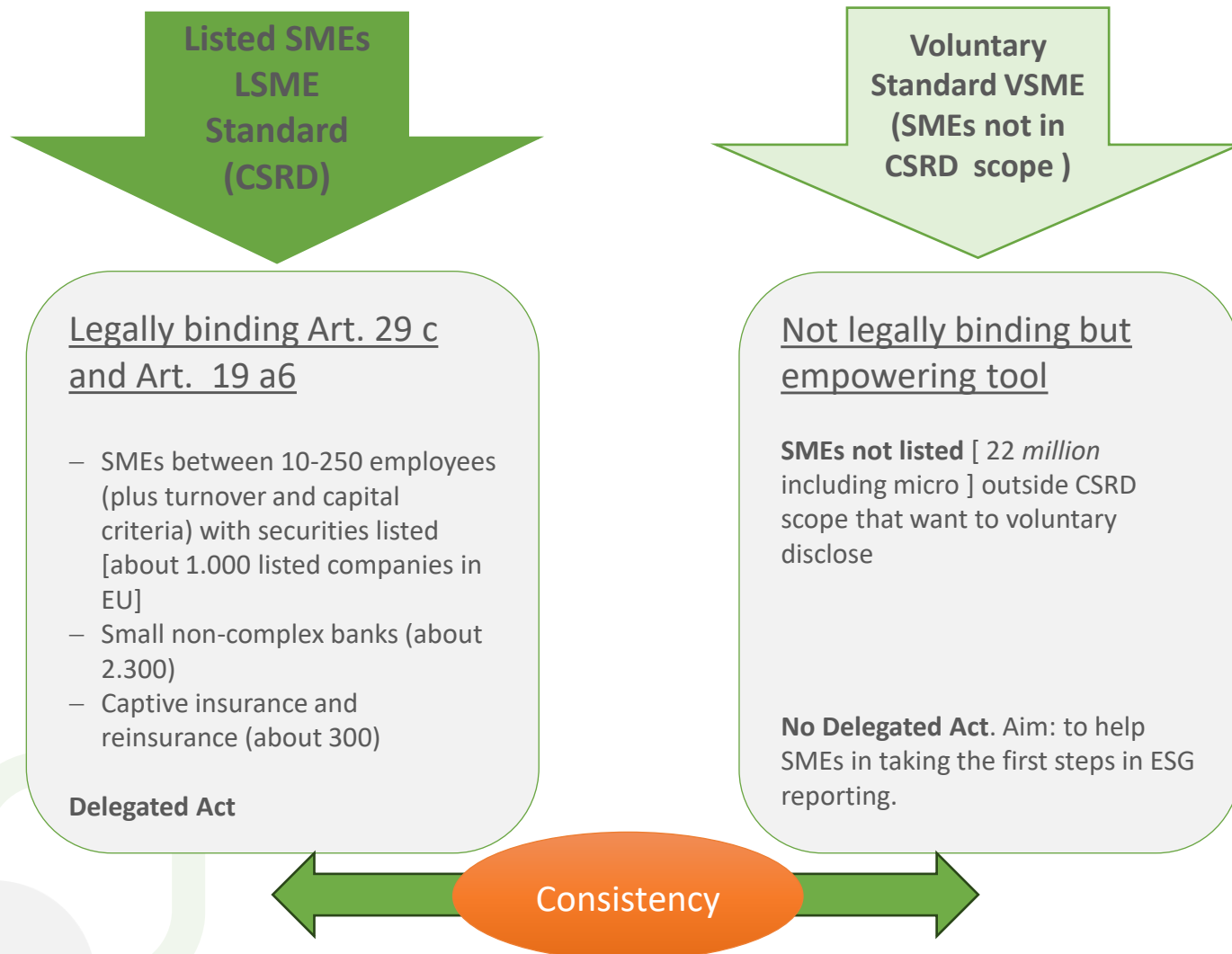
- To avoid double reporting
- Leveraging on the high-level of interoperability in the standards.
- Implementation support material issued jointly
- Illustration of the correspondence of detailed requirements in ESRS that correspond to the other standard, with clarification of differences in terminology and substance (if any)
- Paving the way to digital interoperability





DEVELOPMENTS AHEAD

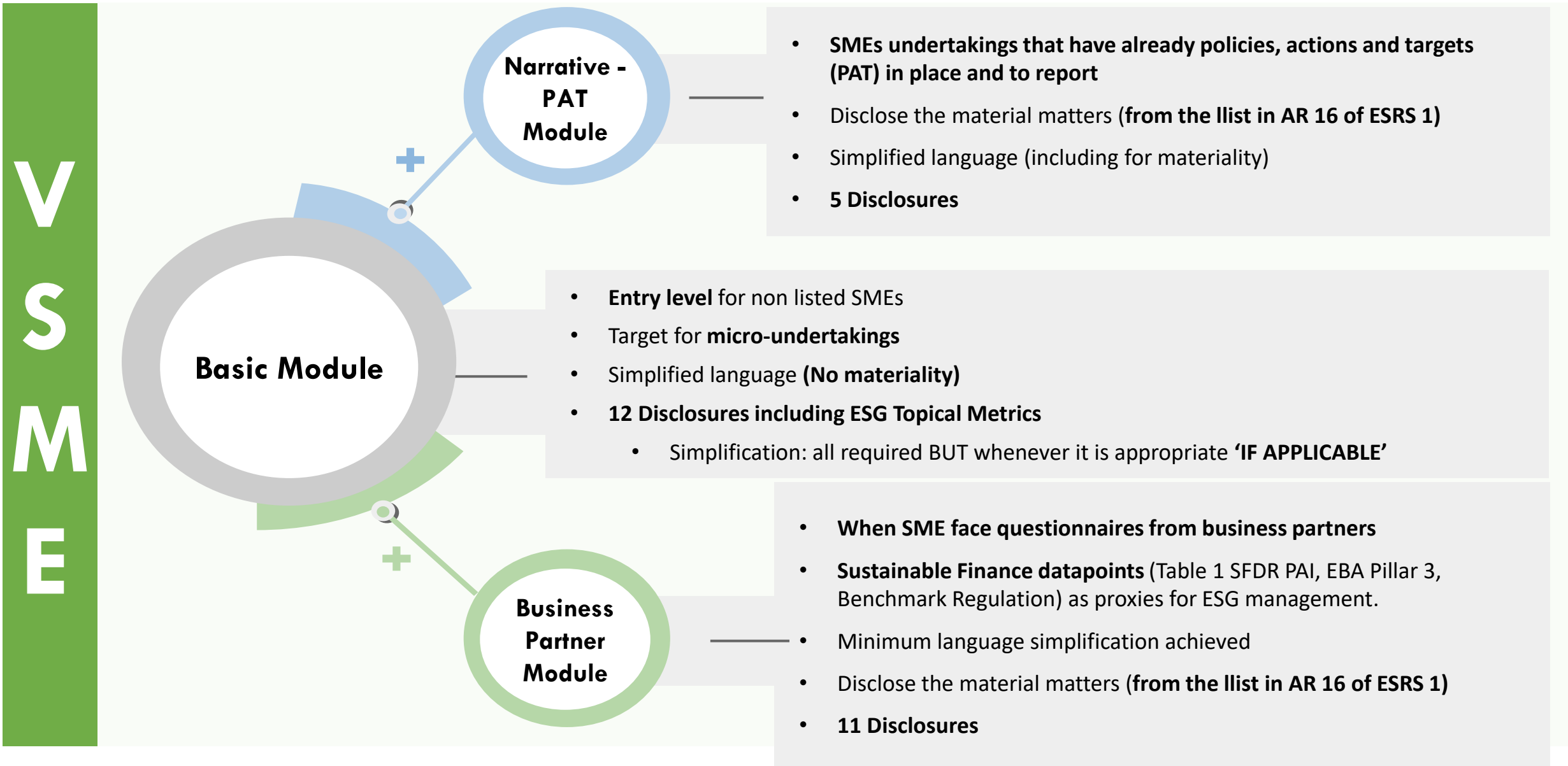
SUSTAINABILITY REPORTING FOR SMES



CSR 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).

Modular approach to maximise proportionality



SME EXPOSURE DRAFTS AND EDUCATIONAL VIDEOS

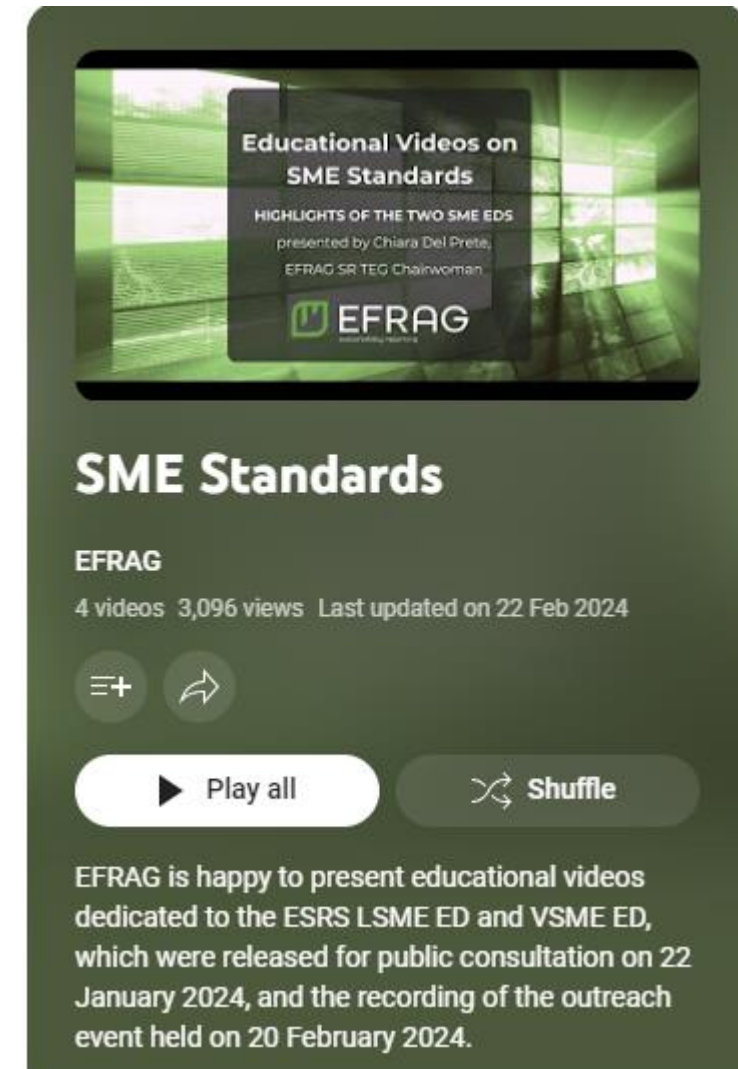


EFRAG PUBLIC CONSULTATION

Exposure drafts on sustainability reporting standards for SMEs


Deadline: 21 May 2024

EFRAG	
 EXPOSURE DRAFT	 EXPOSURE DRAFT
VOLUNTARY ESRS FOR NON-LISTED SMALL- AND MEDIUM-SIZED ENTERPRISES (VSME ESRS) JANUARY 2024	ESRS FOR LISTED SMALL- AND MEDIUM-SIZED ENTERPRISES (ESRS LSME) JANUARY 2024
OPEN FOR COMMENTS UNTIL 21 MAY 2024	OPEN FOR COMMENTS UNTIL 21 MAY 2024



Educational Videos on SME Standards

HIGHLIGHTS OF THE TWO SME EDS
presented by Chiara Del Preta,
EFRAG SR TEG Chairwoman



SME Standards

EFRAG

4 videos 3,096 views Last updated on 22 Feb 2024

☰+ ↻

▶ Play all ⌘ Shuffle

EFRAG is happy to present educational videos dedicated to the ESRS LSME ED and VSME ED, which were released for public consultation on 22 January 2024, and the recording of the outreach event held on 20 February 2024.

INTRODUCTION TO SECTOR SPECIFIC ESRS

- Eleven workshops on SEC 1 (Standard-setting approach and classification standard) during February 2024
- Advisory panels for financial institutions (Banking, Capital Markets and Insurance) announced and kick-off meetings held
- SEC 1 and sector EDs on *Oil and Gas* as well as *Mining, Quarrying and Coal Mining* available in *H2 2024*
- Sector EDs for *Road transport* and *Textiles, accessories, jewellery and footwear* planned to be available in Q1 2025, but depends on resources
- Other high-impact sectors: preparation ongoing with SR TEG and SRB discussions in 2025 onwards
- V1 of FI sector standards planned for SR TEG discussion in December 2024/January 2025 and ED issuance in H2 2025



SECTOR COMMUNITY



- Community Sector Groups are constituted by stakeholders interested in the development of Sector ESRS (preparers and preparer organisations, etc.)
- Support the identification of relevant and important sustainability matters for each sector, provide input to the development of draft standards

[EFRAG's sector-specific communities](#)

Become a Friend of EFRAG

Entities can support EFRAG's mission and activities in the development of draft ESRS!

Advantages:

- Visibility on website
- Private meetings with the EFRAG high-level representatives
- Mention in Annual report
- Reserved seats at physical events
- Access to documents prior to publication
- A possible panelist position in EFRAG's events
- A possible EFRAG representation in the entities' events
- Use of "Friend of EFRAG" logo



Who to apply?

Send to nominations@efrag.org a description of your entity's mission and activities and a motivation statement in support of EFRAG's mission in its sustainability reporting activities.



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35 Square de Meeûs, B-1000 Brussels
info@efrag.org - www.efrag.org



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THANK YOU