

Strengthening Corporate Governance - Sustainability Reporting and the Increasing Role of Audit Committees

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AGENDA



Key features of the Corporate Sustainability Reporting Directive (CSRD)



Overview: The European Sustainability Reporting Standards (ESRS)



EFRAG: current activities and developments ahead

The European Sustainability Reporting Legal Regime: OVERVIEW

- Starting point: Sustainable Finance Agenda & EU Green Deal (2019)
- Mandatory reporting regime, including EU Taxonomy, SFDR, CSRD
- Objectives: enhancing transparency and addressing the quality issue of sustainability-related data



EFRAG – EUROPE’S VOICE IN CORPORATE REPORTING

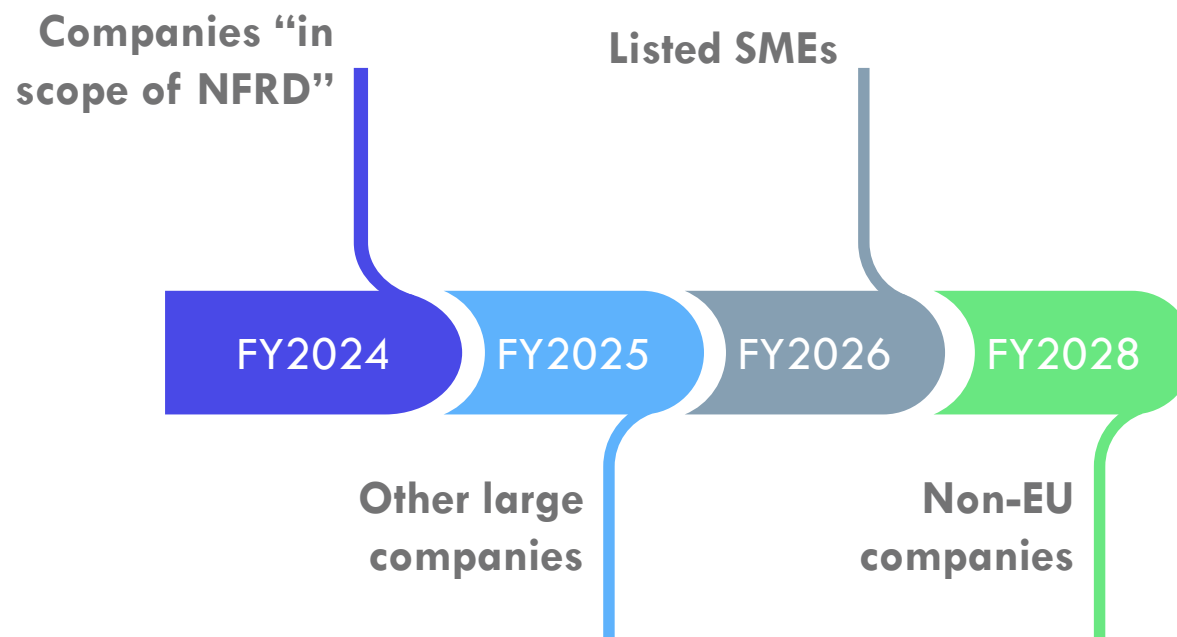
- Private not-for-profit established in 2001
- Encouraged by the European Commission to serve the public interest
- Member organisations: European Stakeholders Organisations, National Organisations and Civil Society Organisations
- EFRAG’s activities are organised in two pillars:
 - **A Financial Reporting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



The Key Features of the Corporate Sustainability Reporting Directive (CSRD)

CSRD: SCOPE AND TIMELINE

- Large undertakings that exceed 2/3 of the following criteria in two consecutive years:
 - > 250 employees
 - Total Assets > EUR 25M
 - Net turnover: > EUR 50M
- All listed companies (except micro-enterprises)
 - + Listed SMEs
 - + Small Non-Complex FI
 - + Captive insurance/reinsurance
- More than 45,000 companies across Europe will publish a Sustainability Report



CSRD : SELECT 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

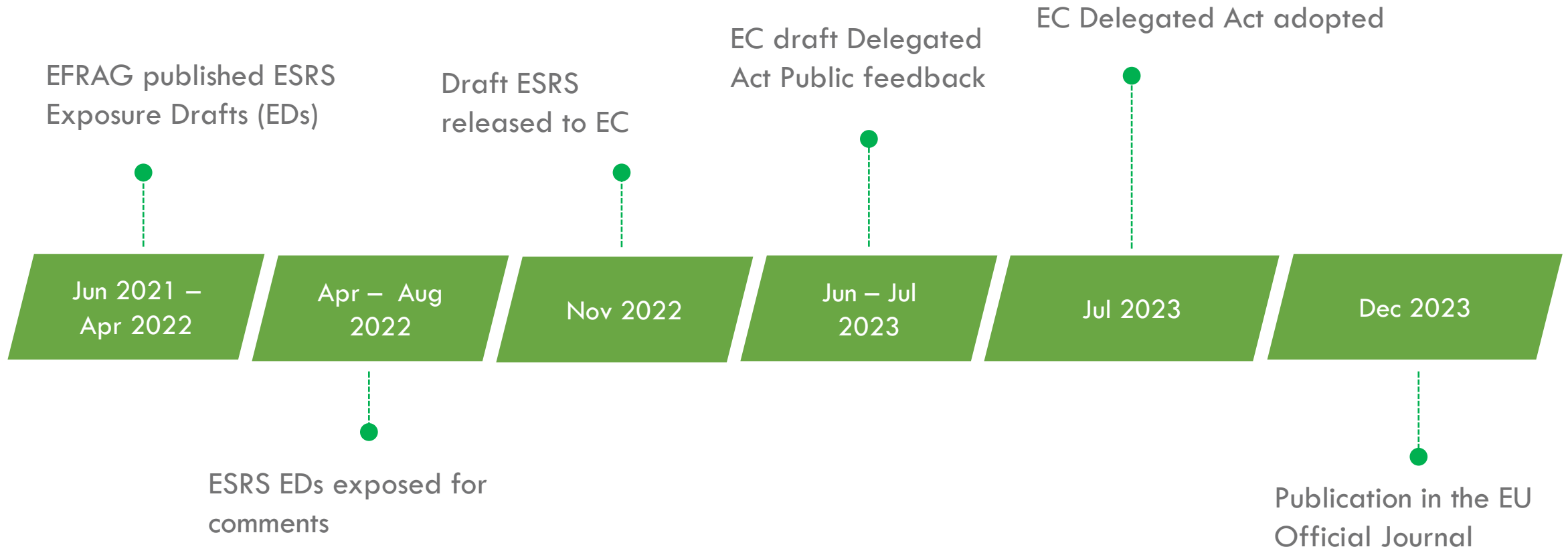


Machine-readable ESRS: Digital tagging using European Single Electronic Format (ESEF) (EFRAG has developed draft XBRL taxonomy)

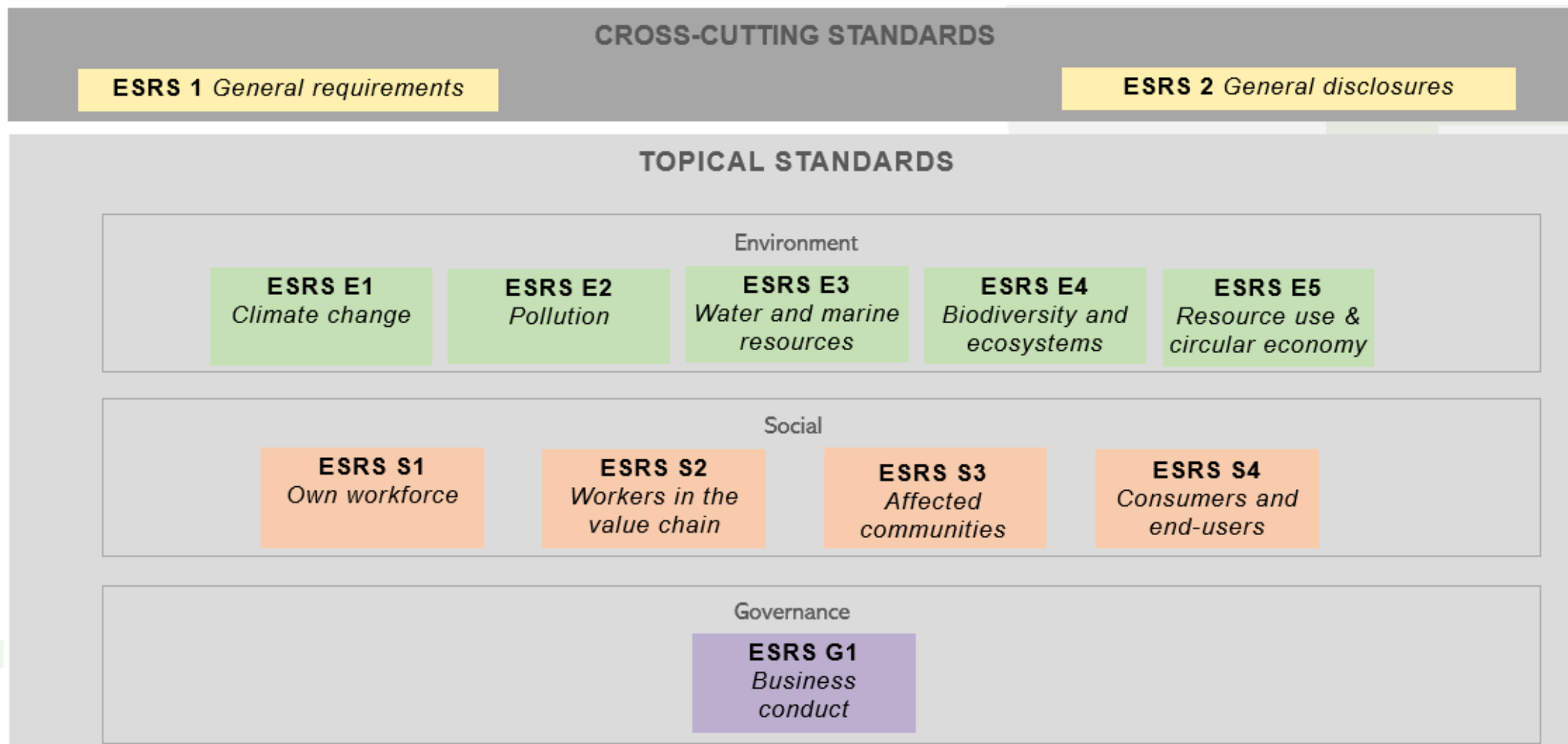


European Sustainability
Reporting Standards (ESRS)
- SECTOR AGNOSTIC

ESRS TIMELINE



THE FIRST SET OF SECTOR AGNOSTIC ESRS



ESRS 1 GENERAL REQUIREMENTS: “how to report” under ESRS

ESRS 1	1	Categories of ESRS Standards, reporting areas and drafting conventions
	2	Qualitative characteristics of information
	3	DOUBLE MATERIALITY as the basis for sustainability disclosures
	4	Due diligence
	5	Value chain
	6	Time horizons
	7	Preparation and presentation of sustainability information
	8	Structure of sustainability statements
	9	Linkages with other parts of sustainability statements
	10	Transitional provisions

DOUBLE MATERIALITY

IMPACT MATERIALITY: IMPACTS

- A sustainability matter is material from an impact perspective when it pertains to the company’s material actual or potential, positive or negative **IMPACTS** on people or the environment over the short, medium- and long-term.
- A material sustainability matter from an impact perspective includes impacts connected with the company’s **own operations** and **value chain**, including through its products and services, as well as through its **business relationships**.

FINANCIAL MATERIALITY: RISKS & OPPORTUNITIES

- A sustainability matter is material from a financial perspective if it generates **RISKS** or **OPPORTUNITIES** that affect (or could reasonably be expected to affect) the company’s financial position and financial performance.

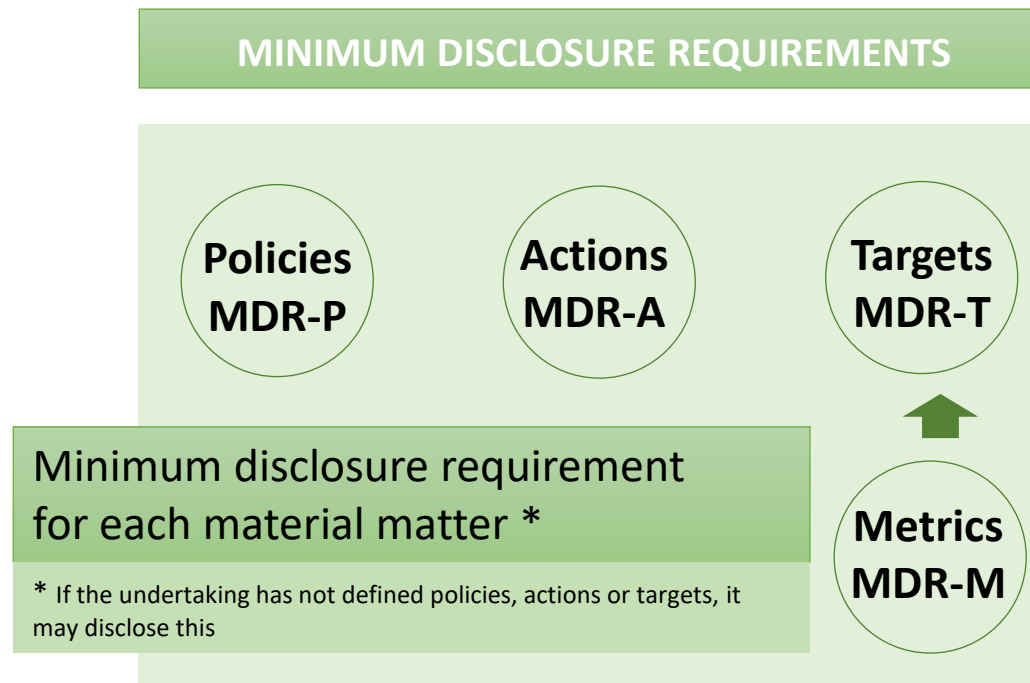


ESRS 2 GENERAL DISCLOSURES – ‘what to report’

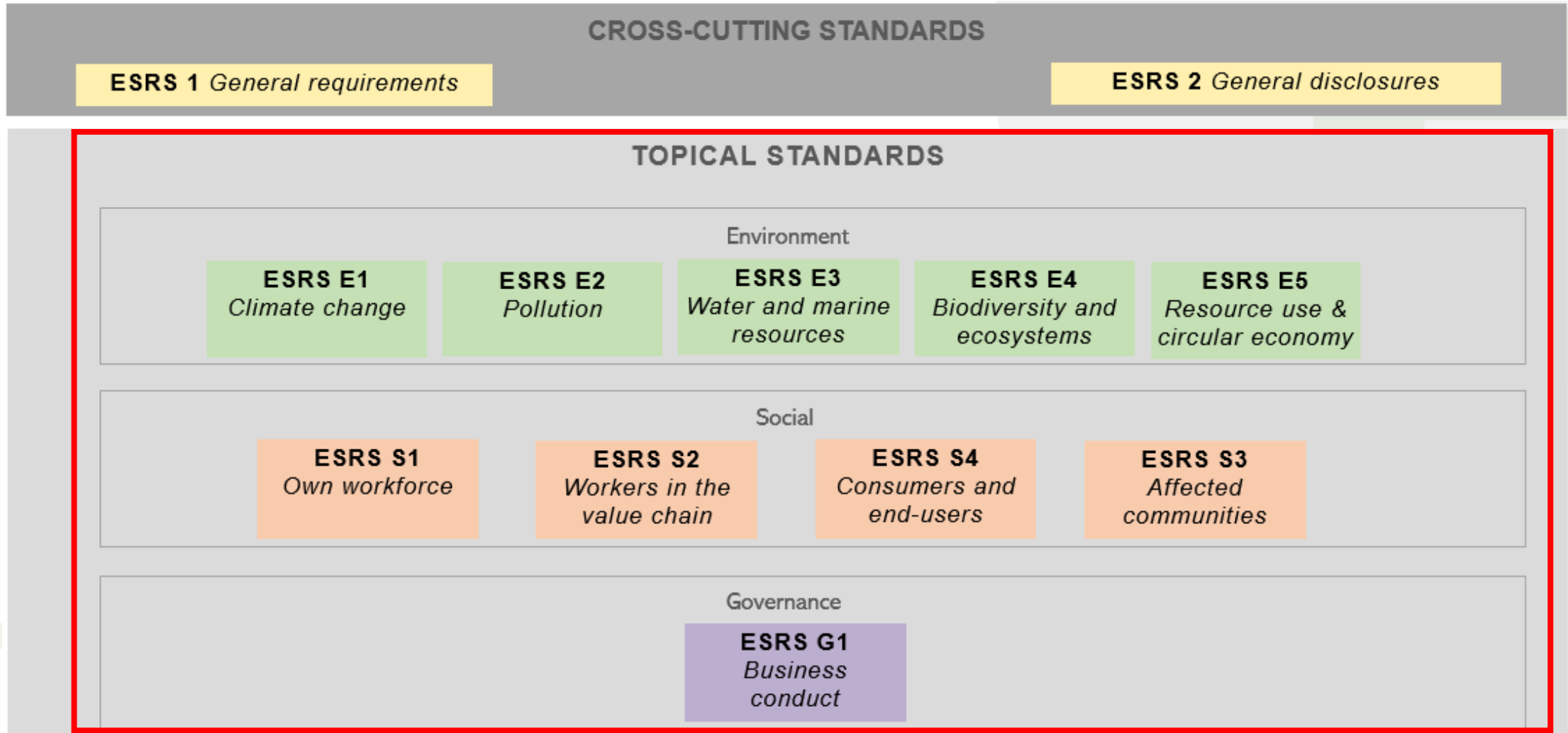
- **4-pillar approach** aligned with international sustainability reporting frameworks



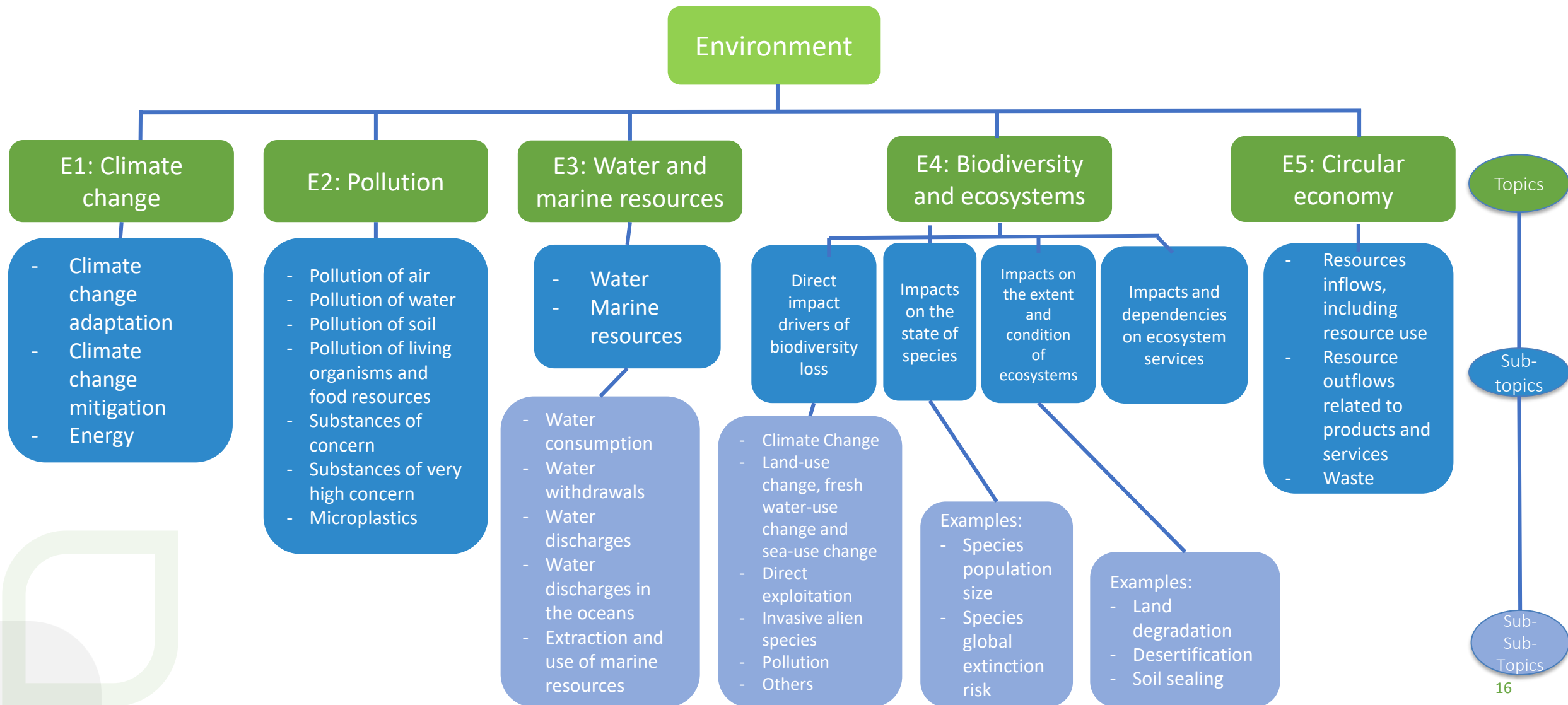
* Impacts, Risks and Opportunities



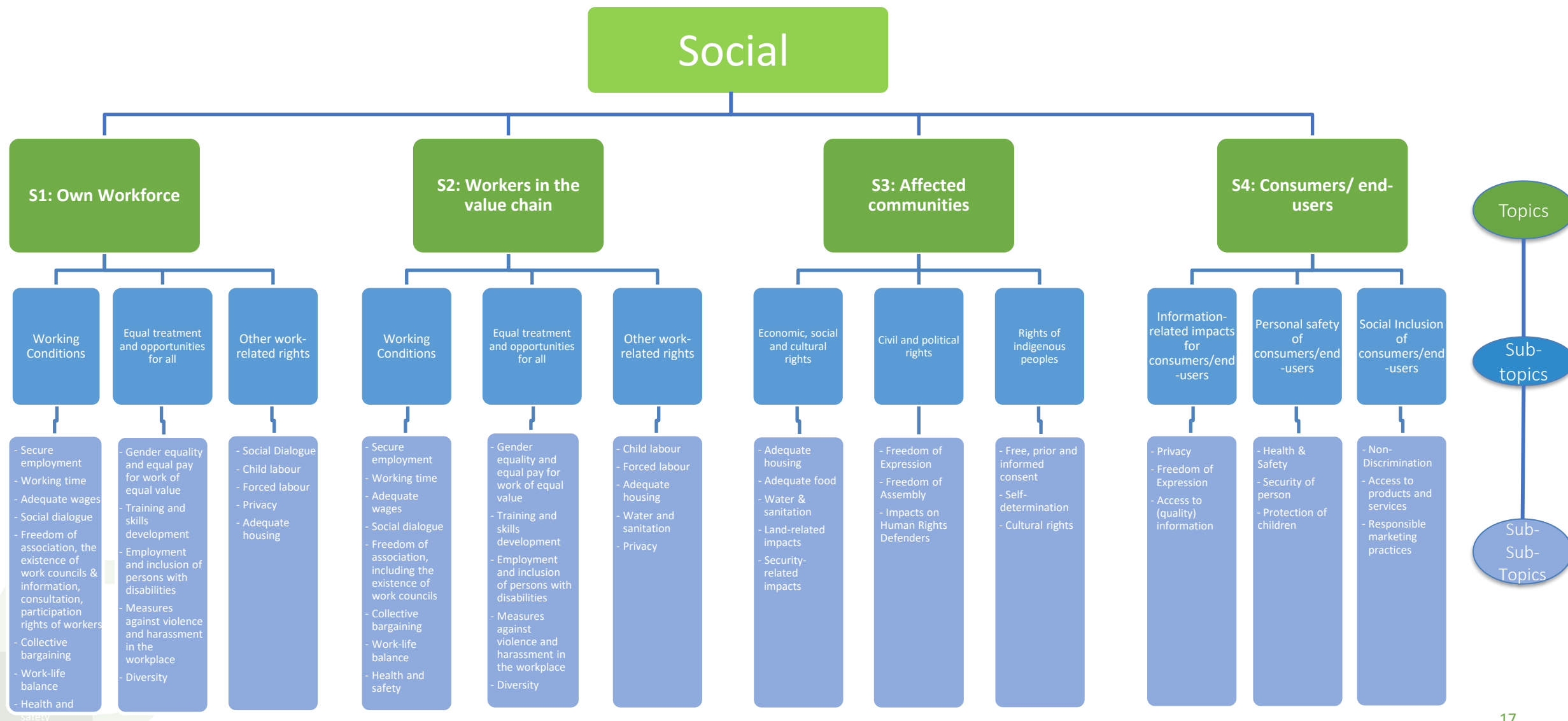
TOPICAL STANDARDS



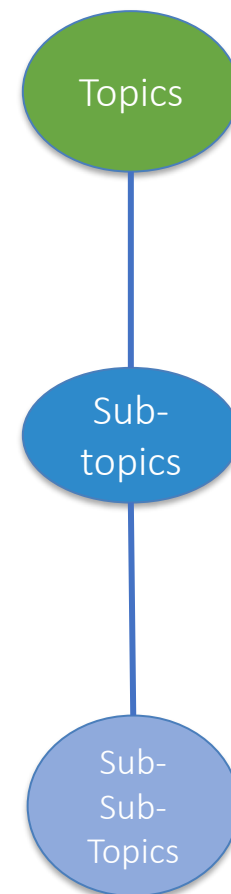
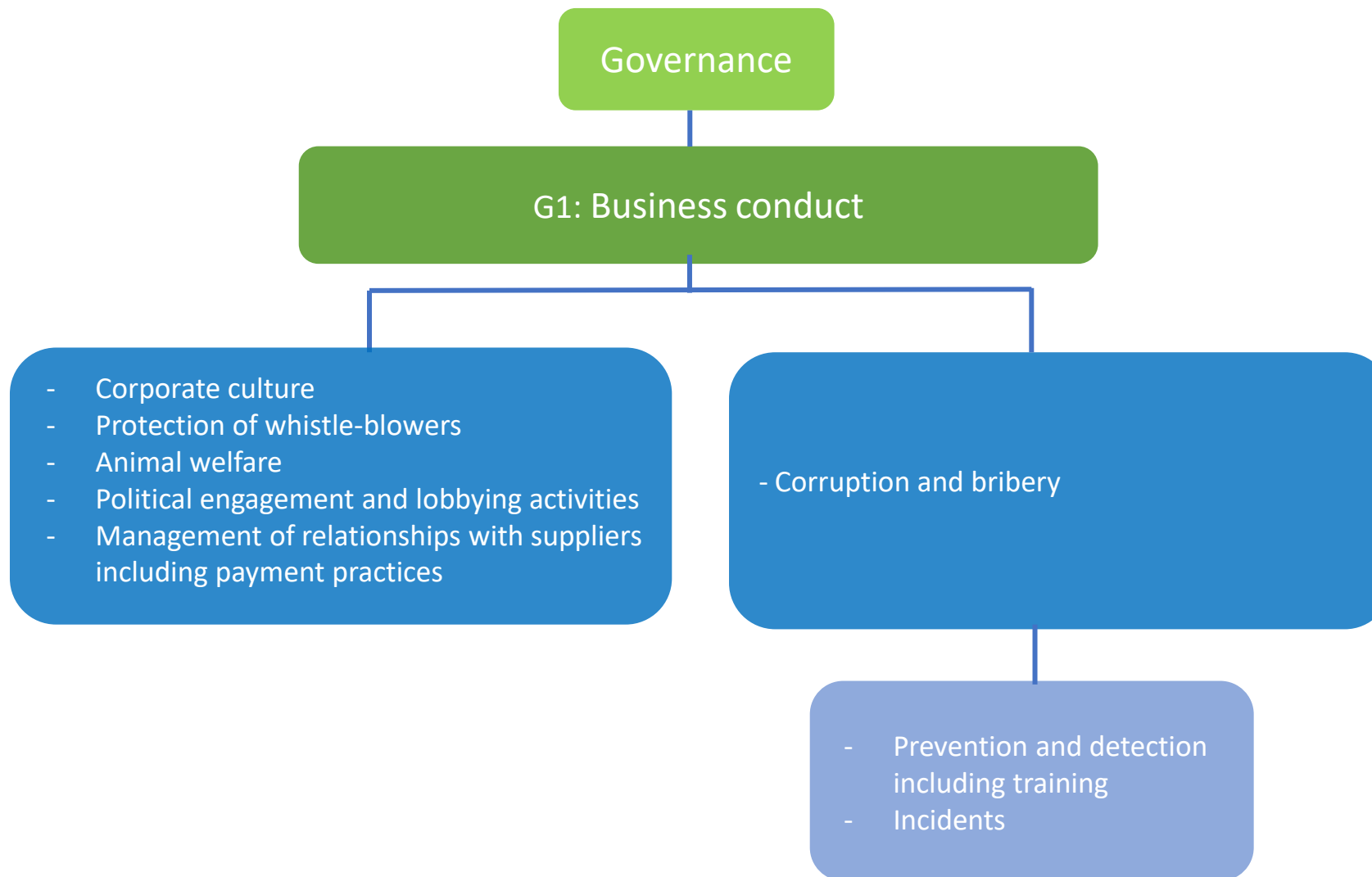
TOPICAL STANDARDS: ENVIRONMENT



TOPICAL STANDARDS: SOCIAL



TOPICAL STANDARDS: GOVERNANCE



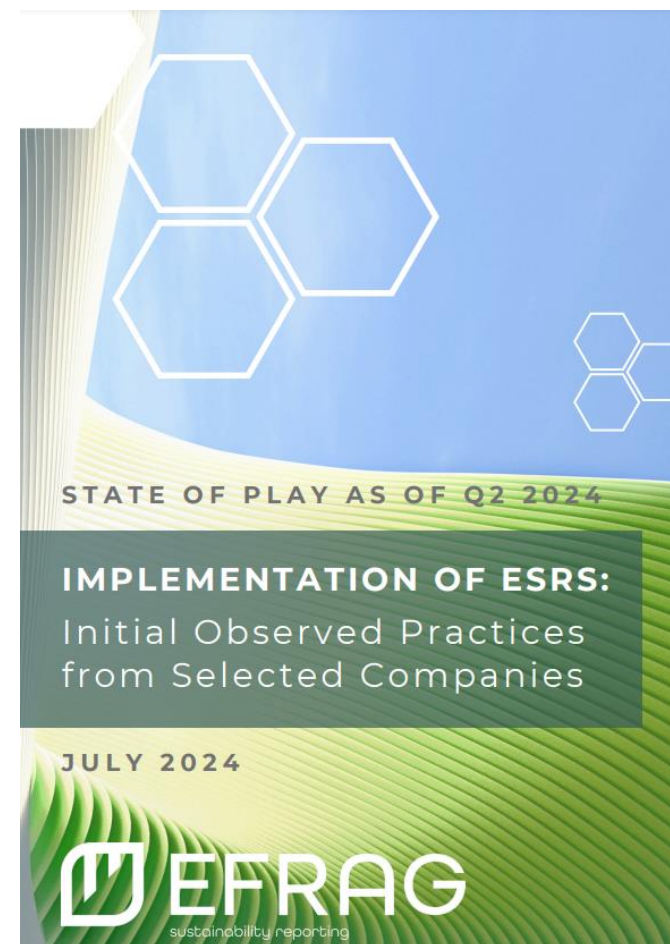
EFRAG WORKS WITH OTHER STANDARD-SETTERS TO SUPPORT INTEROPERABILITY

- Illustration of the **correspondence** of detailed requirements in ESRS that correspond to other standards, with clarification of differences in terminology and substance
- To avoid double reporting
- Leveraging on the high-level of interoperability in the standards.



ESRS INITIAL OBSERVED PRACTICES FROM SELECTED COMPANIES

- Illustrates preliminary practices and challenges of implementing the ESRS for the 2024 reporting year
- Builds on surveys and interviews with 28 selected large European companies across industries (banking, textile, road transport, etc.).



REPORT: ESRS Initial Observed Practices from Selected Companies

Topic	Select Findings
Double Materiality Assessment	<ul style="list-style-type: none"> • Most companies recognise the value of the Double Materiality Assessment as a strategic exercise not only for reporting purposes but also for setting ESG managerial priorities: not just compliance exercise but actively shaping company's strategic direction • Companies understand the importance of the input from internal experts and stakeholders and aim to engage with them in a structured manner • Shift from previously more qualitative or judgement-based assessments to data-driven approach
Data Integration	<ul style="list-style-type: none"> • Most companies started with a datapoint gap analysis assessing the gaps between pre-existing reporting practices and ESRS requirements • Challenge: alignment of the Double Materiality analysis outcomes with reporting requirements

REPORT: ESRS Initial Observed Practices from Selected Companies cont.

Topic	Select Findings
Value Chain	<ul style="list-style-type: none"> • Value chain analysis is one of the least mature areas, companies using preliminary mapping • Challenge: to find appropriate level of granularity and segmentation • Focus mainly on downstream value chain and on direct business relationships
ESG Reporting Organisational Approaches	<ul style="list-style-type: none"> • Different organisational approaches to ESG reporting: e.g. centralising responsibility within a single department versus co-leadership model involving multiple departments • Cross-department collaboration is emphasized as “essential” for effective ESG reporting • Strong focus on implementing robust data quality controls to enhance ESG data reliability and accuracy: IT transformation is identified as a “critical need” to support ESG reporting



Current activities and developments ahead

EFRAG NON-AUTHORITATIVE IMPLEMENTATION GUIDANCE

- EFRAG is developing non-authoritative Implementation Guidance (IG) on various ESRS-related topics.
- The IGs are made public on EFRAG’s website.



EFRAG ESRS Q&A Platform



Number of questions received until 24/09/24

Questions related to:	Number of Questions received since October 2023
Cross-cutting	221
Environmental	201
Social	111
Governance	17
XBRL	29
VSME	2
LSME	0
Sectors	1
Other	62
	644

Standards for small and medium-sized enterprises (SMEs)

- **LSME: part of CSRD mandate**, effective from Jan 2026. Expected to support LSMEs in accessing sustainable finance
- **VSME: outside the CSRD mandate**. Simple reporting tool to assist SMEs in responding to multiple ESG requests and questionnaires from business counterparts
- Public consultation between Jan-May 2024. Delivery to EC scheduled for Dec 2024



Development of Sector-specific standards and Non-EU Standards

SECTOR-SPECIFIC STANDARDS under development

- Mining, quarrying and coal
- Oil and gas
- Textile
- Road transport
- Financial sector (banking, capital markets & insurance)

NON-EU STANDARDS

- Non-EU companies which have significant activity in the EU (CSRD sets specific criteria) are required to provide sustainability information from 2028

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' mission in its sustainability reporting activities.



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