

Improved transparency and Corporate Sustainability Reporting- New developments in the EU

CFRR-STAREP-REPARIS FOR SMES

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- **DISCLAIMER**

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EFRAG'S HISTORY, MISSION & ACTIVITIES

HISTORY and INTRODUCTION



WHO IS EFRAG

EFRAG

Private not-for-profit established in 2001

Encouraged by the EC to serve the public interest

Its member organisations in the Financial reporting pillar have an interest in the development of IFRS Standards and how they contribute to the efficiency of capital markets.

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



OVERVIEW OF EFRAG'S ACTIVITIES

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.

OVERVIEW OF EFRAG'S ACTIVITIES

EFRAG's Mission Statement (continued)_

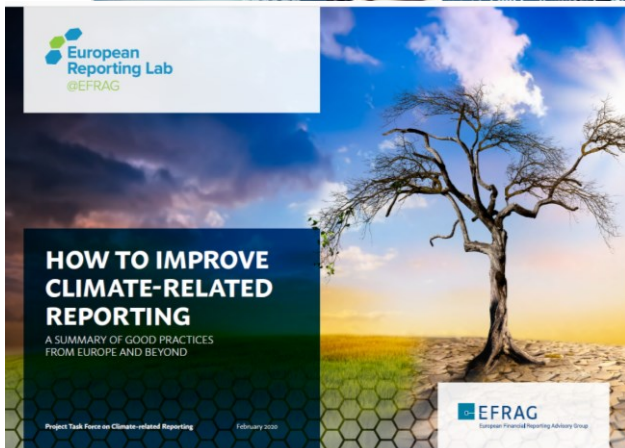
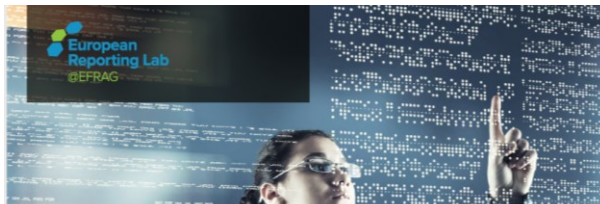
- EFRAG seeks input from all stakeholders, and obtains evidence about specific European circumstances, throughout the standard-setting process.
- EFRAG's legitimacy is built on transparency, governance, due process (which may include field tests, impact analyses and outreaches), public accountability 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.



EUROPEAN LAB AND ITS PROJECTS

European Lab: reporting projects

DELIVERABLES



Stimulate innovation in the field of corporate reporting in Europe by identifying and sharing good practices – three projects including climate-related reporting; reporting on risks and opportunities and the linkage with the business model



Path to improvement PTF-RNFRO report October 2021

- a **clearer** description of the business model and **linkage** to sustainability risks and opportunities;
- more emphasis on **reporting opportunities**;
- **quantification** of risks and opportunities and **cash flow generation**;
- better **connectivity of financial and sustainability information**;
- application of **evidence-based** and science-based targets;
- optimising the **use of available technologies**; and
- attaining credibility through third-party **assurance**.



Usefulness for standard setting

- PTF-ESRS cluster 1 developed requirements for reporting on the business model
- **Examples have a role in guidance:** Management Commentary Practice Statement Exposure (MCPS ED) had **40 examples contained for illustration**
- EFRAG comment letter to the IASB asked for more illustrative examples and shared the PTF-RNFRO report
- MCPS ED had six content elements that include business model and risks.

Usefulness for standard setting

- PTF-RNFRO has a view on connectivity that complements the PTF-NFRS Findings :
 - Suggesting the need for better connectivity between sustainability and financial statement information.
 - In the selection of examples of good reporting practices, it highlights the usefulness of the connectivity matrix that links sustainability strategy, material issues to reported KPIs
 - It highlights cases where companies report on the effect of sustainability matters (e.g., climate-related matters) on financial statements
 - It notes that the importance of connectivity is reinforced in Auditing Standards – ISA 720 The auditor’s responsibilities relating to other information, which requires the auditor to consider the ‘through line’ from the financial statements to other information (including the management report)



EU Context: mandates to EFRAG and proposal for a CSRD

EU Context

- **Mandates to EFRAG in June 2020 by EVP Dombrovskis**
 - Request for technical advice mandating **EFRAG to undertake preparatory work for the Elaboration of EU Non-financial Reporting Standards** in a revised NFRD
 - **Ad personam mandate** Jean-Paul Gauzes, EFRAG Board President, to consider a possible need for changes to the **governance and financing** of EFRAG if it were to be entrusted with the development of EU Non-financial Reporting Standards
- **Proposal for a CSRD April 2021**
- **Target date implementation governance reform 31 March 2022**

Proposal for a CSRD

- A **mandatory** regime for **all large entities** (over and above 250 employees) and **listed SMEs**
- Other SMEs encouraged to adopt a simplified reporting
- A comprehensive coverage of sustainability matters: **E, S & G**, under standards adopted by the EC via delegated acts
- **EFRAG technical advisor to the EC** providing draft standards
- A key concept: **double materiality**
- Location and timing of reporting: in the **management report**, i.e. at the same time as financial statements
- Ambitious **reporting deadlines**
- **Mandatory audit**: limited assurance to start with, moving to reasonable assurance
- **Digitisation from the first reporting**



EFRAG Governance Reform

MILESTONES

Publication of final reports with recommendations – 8 March 2021

Publication of proposal for a CSRD – 21 April 2021

Letter Commissioner McGuinness, invitation to start developing standards in project mode taking into account international developments and to start governance reform – 12 May 2021

Public consultation on Due Process Procedures on EU Sustainability Reporting Standard- Setting (DPP) – Summary report published Nov 2021 – Approval DPP EFRAG General Assembly - 15 March

Admission of 14 new Organisations in the EFRAG Sustainability reporting pillar (including 11 Civil Society Organisations) in addition to 17 existing Organisations - December/January /February 2022

Approval revised EFRAG Statutes and Internal Rules- January 2022



MILESTONES (CONTINUED) AND NEXT STEPS

Call for candidates by the EC for EFRAG Sustainability Reporting Chair and for EFRAG Financial Reporting Chair – deadline 1 February 2022

Call for candidates for the EFRAG Sustainability Reporting Board– deadline 10 February 2022, appointed by EFRAG General Assembly on 1 March 2022

Call for candidates for the EFRAG Sustainability Reporting Technical Expert Group (TEG) – deadline 28 February 2022- selection in process

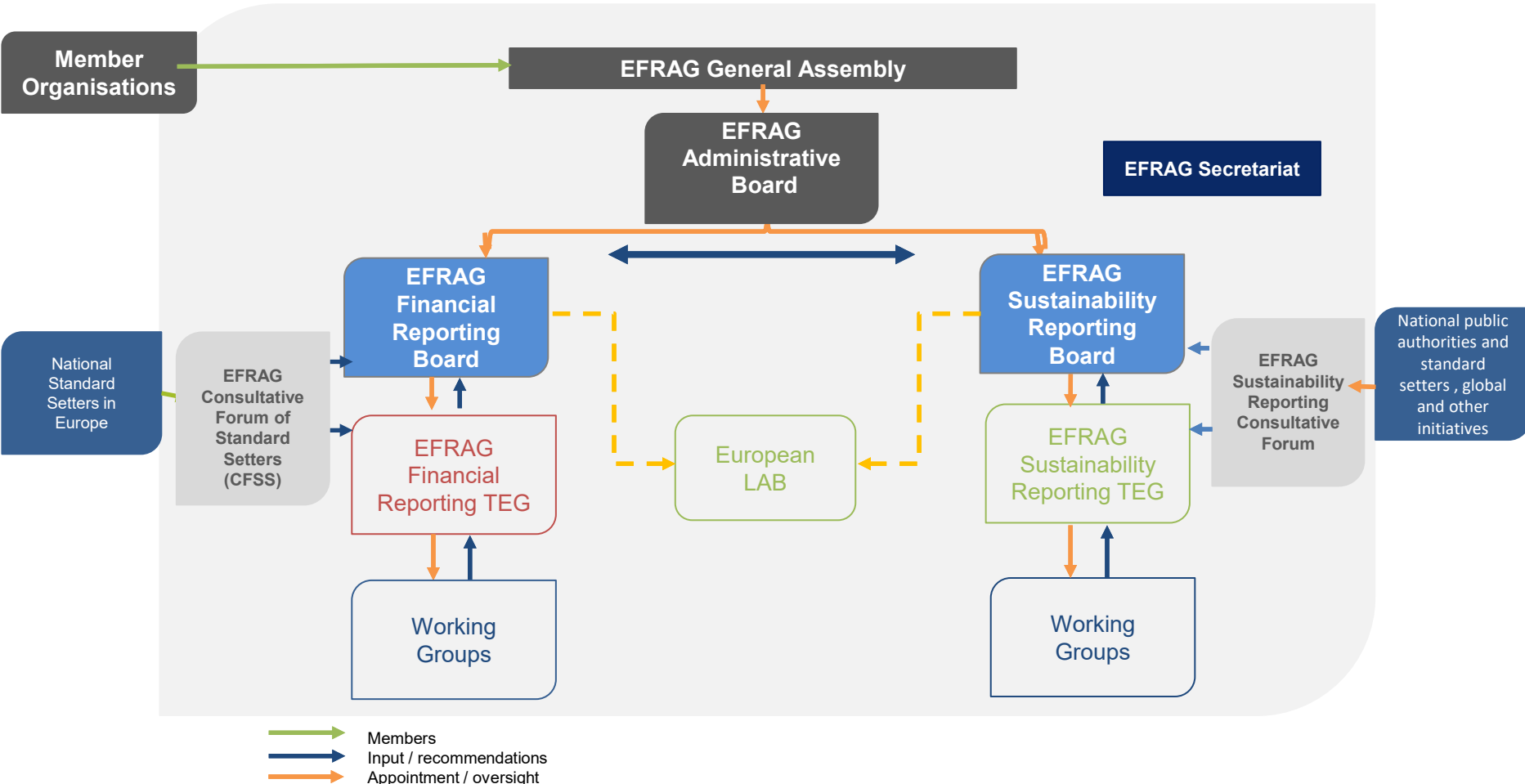
Target date governance reform in place and operational – 31 March 2022

Transition Project Task Force on European Sustainability Reporting Standards (PTF-ESRS) to permanent structure – April/May 2022

Public consultation on exposure drafts of draft Sustainability Standards – Q2 2022

Cost benefit analysis including impact assessments – Q2 2022

EFRAG'S ORGANISATION CHART



GOVERNANCE REFORM: INTEGRATION OF SUSTAINABILITY PILLAR

- **Based on recommendations in final report Jean-Paul Gauzes that are fully supported by Commissioner McGuinness**
- **Envisaged deadline for handing over the project work of the PTF ESRS to the permanent structure 31 March 2022**
- **Governance Reform:**
 - **Amendments EFRAG Statutes and EFRAG Internal Rules**
 - **Call for expressions of interest in EFRAG Membership:**
 - **14 new organisations joined**
 - **Friends of EFRAG**
- **Gradual sequential process populating technical and governing bodies**
 - **EFRAG Administrative Board => in place**
 - **EFRAG Sustainability Reporting Board (SRB) => in place except Chair and Vice Chair**
 - **EFRAG Sustainability Reporting TEG (SR TEG) => early April**
 - **SR TEG Working Groups and Panels**

EFRAG membership: green only Sustainability Reporting Pillar

- **European Stakeholders Organisations Chapter**
 - **Business- general:** BusinessEurope
 - **Business- listed companies:** EuropeanIssuers
 - **Business-SMEs/SMPs:** EFAA
 - **Asset Management:** EFAMA
 - **Banking:** EACB, EBF, ESBG
 - **Insurance:** Insurance Europe
 - **Accountancy Profession:** Accountancy Europe
 - **Users:** EFFAS and Eurosif

- **National Organisations Chapter (countries)**
 - **Austria:** Austrian Group of Standard Setters
 - **Denmark:** Group of five Danish Organisations
 - **France:** Autorité des Normes comptables (ANC)
 - **Germany:** Accounting Standards Committee of Germany (ASCG)
 - **Italy:** Organismo Italiano di Contabilità (OIC)
 - **Luxembourg:** Commission des Normes comptables (CNC)
 - **Netherlands:** Dutch Accounting Standards Board (DASB)
 - **Spain:** Instituto de Contabilidad y Auditoria de Cuentas (ICAC)
 - **Sweden:** The Association for Generally Accepted Principles in the Securities Market

- **Civil Society Organisations Chapter**
 - **NGOs:** Climate Finance Fund of the European Climate Foundation; Economy for the Common Good; Environmental Defense Fund Europe; Frank Bold Society; Publish What You Pay; Transport & Environment; and WWF
 - **Consumer Organisations:** BETTER FINANCE and Finance Watch
 - **Trade unions:** ETUC
 - **Academics:** European Accounting Association



EFRAG Due Process Procedures Sustainability Reporting

DUE PROCESS PROCEDURES (DPP) EU SUSTAINABILITY REPORTING STANDARD SETTING

- Proposal for CSRD: “Commission shall take into account the technical advice of EFRAG provided such advice has been developed with **proper due process, public oversight and transparency** and with the expertise of relevant stakeholders and is accompanied by cost-benefit analyses that include analyses of the impacts of the technical advice on sustainability matters.”
- **EFRAG Administrative Board and its Due Process (oversight) Committee** in charge of due process oversight
- **Proposed Due Process Procedures (DPP)** on EU Sustainability Reporting Standard Setting issued **16 June** with a comment deadline of **15 September**
 - **38** responses received from a wide range of stakeholders
 - **Overall support** for objective and principles and steps identified
 - **Summary report** published 22 November with messages EFRAG Board President
 - **Final** Due Process Procedures approved 15 March by the EFRAG General Assembly => published with **feedback statement week 28 March 2022**

SUMMARY OF THE COMMENTS RECEIVED IN RESPONSE TO

EFRAG'S PUBLIC CONSULTATION ON ITS DUE PROCESS PROCEDURES FOR EU SUSTAINABILITY REPORTING STANDARD SETTING

November 2021



DUE PROCESS PROCEDURES (DPP) EU SUSTAINABILITY REPORTING STANDARD SETTING

Objective: A rigorous and transparent due process must underpin standard-setting and is critical for the long-term credibility and independence of the standard-setting

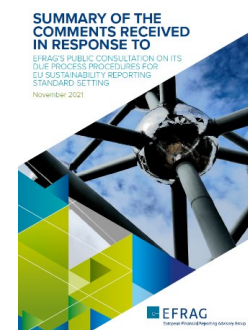
- **Two levels:**
 - **Minimum steps to be applied in all cases**
 - **Additional non-mandatory steps**
- **Due Process Procedures**



Mandatory Steps	Non-mandatory Steps
Debating proposals in public meetings	Consultation with consultative forum
Taking into account relevant developments	Publication of discussion papers
Considering interactions with EU legislation	Establishing working groups
Issuing exposure drafts and other documents	Outreach and public events
Considering comments	Fieldwork and field testing

DUE PROCESS PROCEDURES (DPP) EU SUSTAINABILITY REPORTING STANDARD SETTING

- Finalisation DPP and other DPP issues discussed EFRAG Administrative Board **public meetings**
- Review after three years but additionally after one year for the first time to take account of developments
- More work is needed on procedures for **digital reporting and cos-benefit analysis** once the EFRAG Sustainability Reporting Board and the EFRAG Sustainability Reporting TEG are in place and experience is gained





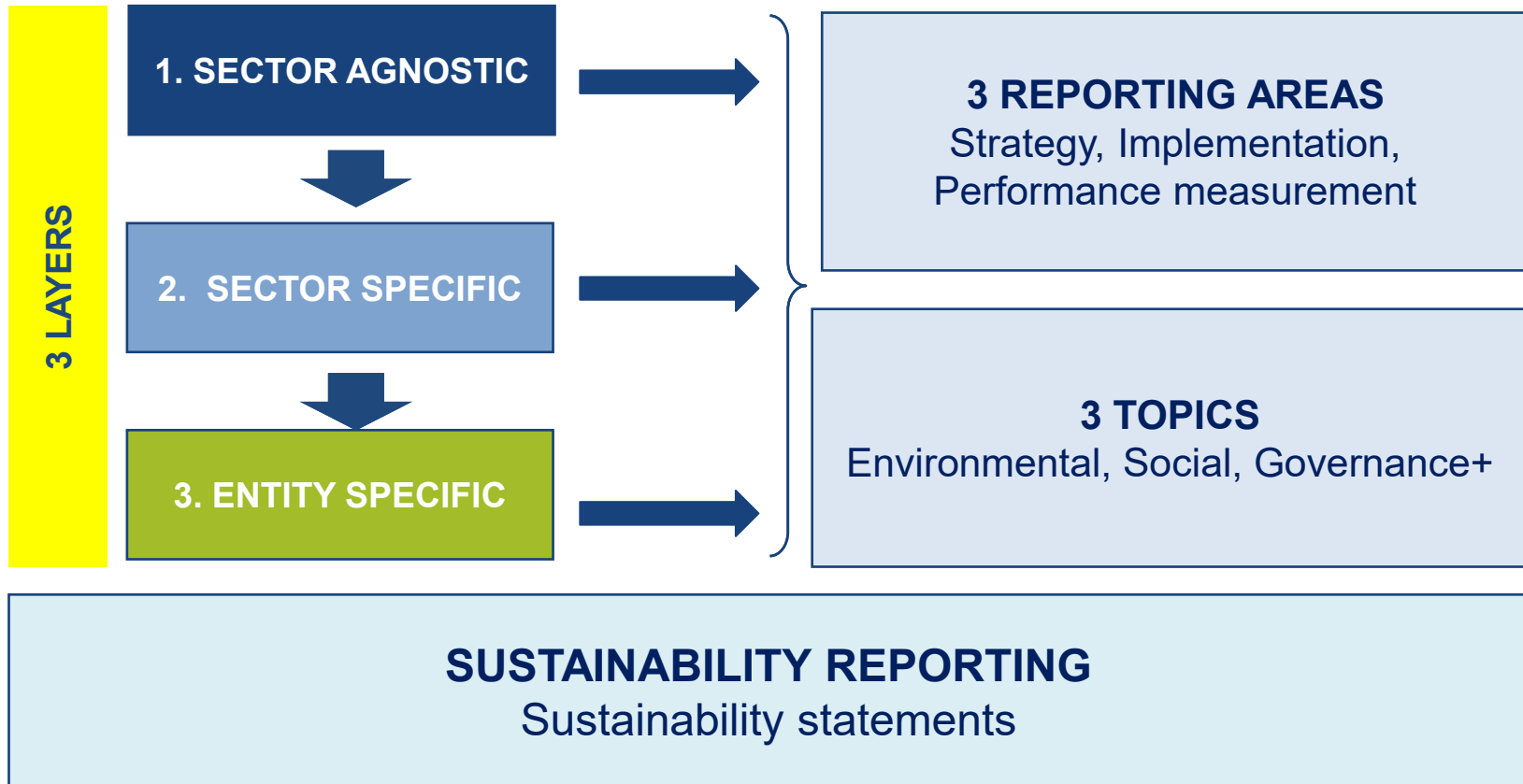
**Project Task-Force achievements:
exposure drafts delivered
by the end of April**

Project Task-Force achievements – Main steps

- **1st Task-Force 2020/2021** for « Proposals for a relevant and dynamic EU sustainability reporting standard-setting » - report issued on 8 March 2021
- **Proposal by the EU Commission for a new CSRD on 21 April 2021**
- **2nd Task-Force has been relaunched in June 2021** following mission letter from Commissioner McGuinness received on 12 May 2021 in order to start elaborating standards in project mode:
 - 35 members from 13 different Member States
 - Supported by secretariat members (30 full-time equivalent)
 - Reviewed by Expert Working Groups (appointed in November 2021)
 - Co-construction with GRI, Shift, WICI + dialogue with TRWG/ISSB

An EU comprehensive sustainability reporting

The 'rules of three' approach for the architecture of standards



Project structure & organisation

CLUSTER 0: COORDINATION & MONITORING

CLUSTER 1: CONCEPTUAL GUIDELINES & CROSS-CUTTING STANDARDS

**CLUSTER 2:
ENVIRONMENT
– CLIMATE**

**CLUSTER 3:
ENVIRONMENT
– OTHER**

**CLUSTER 4:
SOCIAL –
WORKFORCE**

**CLUSTER 5:
SOCIAL –
OTHER**

**CLUSTER 6:
GOVERNANCE+**

CLUSTER 7: SECTOR SPECIFIC STANDARDS

CLUSTER 8: SMEs

CLUSTER 9: FORMAT

Combining alignment with EU priorities and convergence with international initiatives

Alignment with EU priorities is ensured in the project mode (PTF –ESRS)

- Thorough mapping and onboarding of current and expected **European legislation and regulation** resulting in sustainability information requirements
- Participation of the **European Public Authorities** (ESMA, EBA, EIOPA, EBC, EIB, EEA, FRA, CEAOB) to the PTF-ESRS clusters and Plenary meetings
- Regular connections with the **Platform on Sustainable Finance** to ensure proper alignment between the Taxonomy (existing regulations and more recent considerations and proposals) and the future sustainability reporting standards
- Contact with relevant **European Commissions DGs** under FISMA coordination

Proactive engagement with international initiatives since the launch of the PTF-ESRS in June, resulting in:

- **Statement of cooperation** signed with GRI, Shift and WICI ensuring their representation and participation to relevant clusters: more opportunities being examined with other organisations
- **Regular technical discussions** with the IFRS Foundation TRWG/ISSB on the respective climate prototypes, approach to materiality and standards architecture and with SASB/VRF in 2021 on sector/industry specific disclosures

Project Task-Force achievements – Overview of progress to date

CONCEPTUAL GUIDELINES	SECTOR-AGNOSTIC STANDARDS				SECTOR-SPECIFIC STANDARDS		PRESENTATION
	Cross-Cutting	Environment	Social	Governance	Classification	ESG sector-specific disclosures	
<p>ESRG 1 - Double materiality</p> <p>ESRG 2 - Characteristics of information quality</p> <p>ESRG 3 - Time horizons</p> <p>ESRG 4 - Boundaries and levels of reporting</p> <p>ESRG 5 - EU and international alignments</p> <p>ESRG 6 - Connectivity</p>	<p>ESRS 1 - General provisions</p> <p>ESRS 2 - Strategy & Business model</p> <p>ESRS 3 - Governance</p> <p>ESRS 4 – Impacts, Risks and opportunities</p>	<p>ESRS E1 - Climate (mitigation and adaptation)</p> <p>ESRS E2 - Pollution</p> <p>ESRS E3 - Water & Marine resources</p> <p>ESRS E4 - Biodiversity & ecosystems</p> <p>ESRS E5 - Circular economy</p>	<p>ESRS S1: Own workforce -General</p> <p>ESRS S2 - Own workers: working conditions</p> <p>ESRS S3 - Own workers: equal opportunities</p> <p>ESRS S4 - Own workers: other work-related rights</p> <p>ESRS S5 - Workers in the value chain</p> <p>ESRS S6 - Affected communities</p> <p>ESRS S7 - Consumers/ End-users</p>	<p>ESRS G1 - Governance, risk management, internal control</p> <p>ESRS G2 - Products and services, management and quality of relationships with business partners</p> <p>ESRS G3 - Responsible business practices</p>	<p>ESRS SEC1 - Sector classification</p>		<p>ESRS P1 – Sustainability statements</p>

Notes:

- i) ESRS 5 merged with ESRS1
- ii) Working released as of 25th March 2022

Set 1 standards: 21
Working papers released to date: 21

Project Task-Force : a robust due process

20 January 2022: 1st set of working papers released by the Task Force: Cross-cutting standards and Climate



20 January – 25 March 2022 :
Remaining working papers released
by the Task Force: Environmental,
Social & Governance; Sector
Specific classification and
Sustainability Statements



Ongoing : Triple review process for
all working papers

- Consensus Building at Plenary
 - Review Panel
- Expert Working groups

OUTPUT: Exposure drafts by end of April 2022

Next steps:

⇒ Launch of public consultation: end of April

⇒ Outreach events in May in 6/7 EU locations

Sustainability statements as a second pillar of standardised corporate reporting

1. Cross-cutting information
General provisions
<ul style="list-style-type: none">• ESRS 1 related information
Strategy and business model
<ul style="list-style-type: none">• ESRS 2 Strategy & Business Model 8 DR• Specific topical DR from topical standards, eg DR1 and DR2 from ESRS E1
Governance and Organisation
<ul style="list-style-type: none">• ESRS 3 - Governance & Organisation 4 DR• Specific topical DR from topical standards, eg DR3 and DR4 from ESRS E1
Impacts, Risks and Opportunities
<ul style="list-style-type: none">• ESRS 4 - Impacts, Risks & Opportunities 4 DR• Specific topical DR from topical standards, eg DR5 and DR6 from ESRS E1

+ Sustainable Corporate Governance initiative?

2. Environmental information
<ul style="list-style-type: none">• PTAPR related DR from ESRS E1 to E5• Performance DR from ESRS E1 to E5• Additional DR from relevant sector specific standards• Potential additional entity specific information*
<p>Disclosures pursuant to Article 8 of the taxonomy regulation</p>
3. Social information
<ul style="list-style-type: none">• PTAPR related DR from ESRS S1 to S7• Performance DR from ESRS S1 to S7• Additional DR from relevant sector specific standards• Potential additional entity specific information*
4. Governance information
<ul style="list-style-type: none">• PTAPR related DR from ESRS G1 to G3• Performance DR from ESRS G1 to G3• Additional DR from relevant sector specific standards• Potential additional entity specific information*

*Prepared in compliance with ESRS 1 general provisions



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