

CFRR REPARIS

STRENGTHENING CORPORATE GOVERNANCE IN ALBANIA AND KOSOVO: SUSTAINABILITY REPORTING AND INCREASED ROLE OF AUDIT COMMITTEES

New European Sustainability Reporting Requirements and Standards

10 November 2022



DISCLAIMER

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ABOUT EFRAG

HISTORY and INTRODUCTION

WHO IS EFRAG

EFRAG

Private not-for-profit established in 2001

Encouraged by the EC 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 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.



EC AND CSRD

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 December 2019 including need for increased disclosure on climate and environmental data => review NFRD



CSRD AT A GLANCE

- **Scope** extended to all large and all listed companies, plus some non-EU.
- Mandatory, European **standards**...
- Drafts developed by EFRAG as technical advisor
- Adopted by EC as delegated acts.
- Standards by topic and by sector.
- Proportionate standards for listed SMEs, and standards for non-EU.
- Assurance requirement, starting with limited, later reasonable

A ROBUST MANDATORY REGIME OF SUSTAINABILITY REPORTING IN THE EU

- A legal regime of sustainability reporting under double materiality



- Comprehensive coverage of environmental, social and governance matters: sector agnostic, then sector specific
- Report located in a separate section of the management report: Sustainability statements

SCOPE

- ✓ 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
- ✓ *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:

- *Separate standards*
- *Not covering all reporting areas: impact focus, no reporting on risks*

PHASED ENTRY INTO APPLICATION

- “NFRD companies”: FY 2024 (first reports published 2025)
- Other large companies: FY 2025 (reports 2026)
- Listed SMEs: FY 2026 (reports 2027)
- Non-EU companies with branches/subsidiaries: FY 2028 (reports 2029)

Value Chain: 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.

CONDITIONS EC TO CONSIDER EFRAG's ADVICE

- Developed with proper due process, public oversight and transparency of relevant stakeholders
- Developed with sufficient public funding to ensure its independence
- Developed on the basis of a work programme on which the EC has been consulted (EC to consult EP and Member States)
- Accompanied by cost-benefit analyses
- Accompanied by an explanation of how it takes account of the initiatives and legislation listed in Article 29b(3)
- Participation in the EFRAG technical work is based on expertise in sustainability reporting and is not conditional on any financial contribution

EC TIME LINE TO ADOPT STANDARDS

30 June 2023

- standards to specify information to report according to articles 19a/29a (all sustainability topics)
- at least covering needs of financial market participants under SFDR

30 June 2024

- Sector-specific standards
- Standards for listed SMEs
- Complementary information where necessary
- Standards for non-EU companies

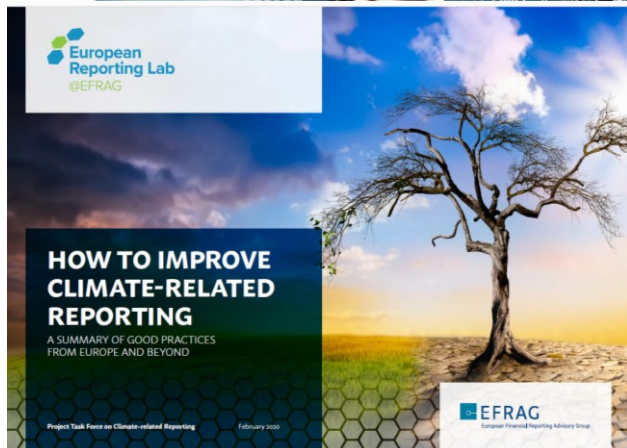
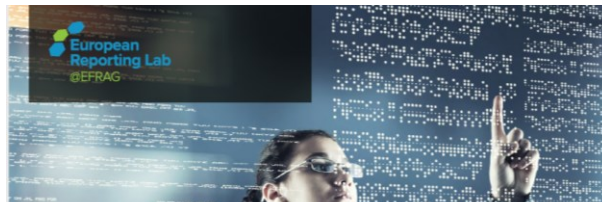
Note

- obligatory review and possible amendment of every standard every 3 years
- minimum 4 month period between adoption by EC and entry into application



EFRAG DEVELOPMENTS

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



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

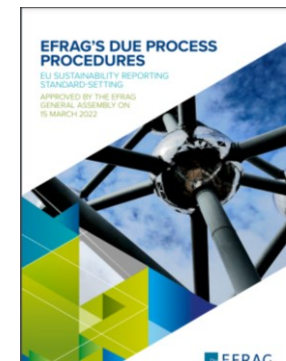
Public consultation on Due Process Procedures on EU Sustainability Reporting Standard- Setting (DPP) – Summary report published Nov 2021 – Approval DPP EFRAG General Assembly - 15 March 2022

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

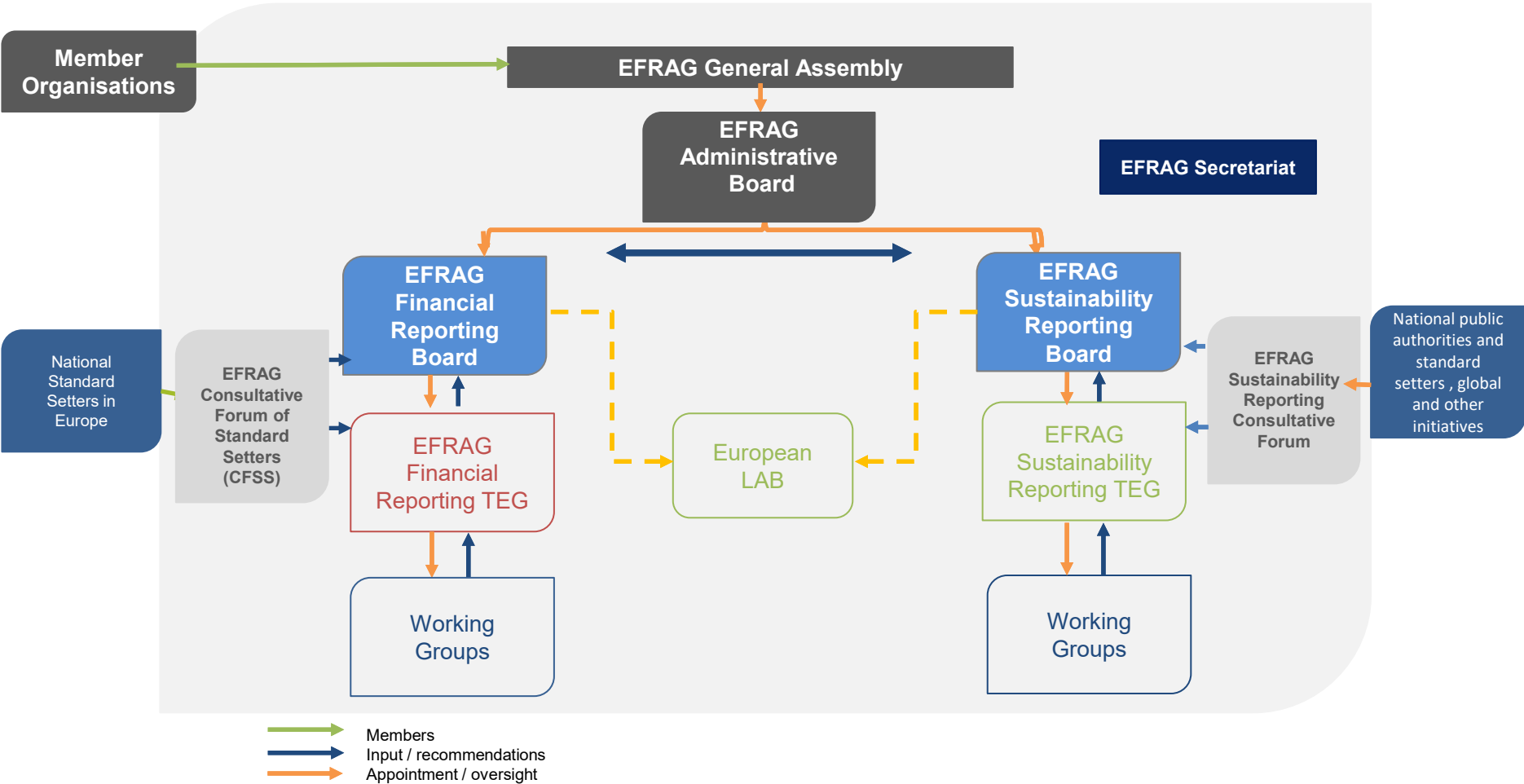
Friends of EFRAG – Sustainability Reporting

Approval revised EFRAG Statutes and Internal Rules- January 2022

Call for candidates by the EC for EFRAG SRB Chair and for EFRAG FRB Chair – deadline 1 February 2022: nominations by EC expected soon



EFRAG'S INSTITUTIONAL REFORM TO MATCH NEW MISSION



MILESTONES (CONTINUED)

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- appointed by EFRAG SRB 13 April 2022 + 2

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

Public consultation on exposure drafts of first set of draft ESRS– April 2022 with deadline 8 August 2022 Bases for conclusions published 31 May (not for comment)

Public Educational joint sessions EFRAG SRB and EFRAG SRT – recordings available
Outreach events and activities with country and stakeholder focus during public consultation May- July 2022

Cost benefit analysis including impact assessments – Q3 2022

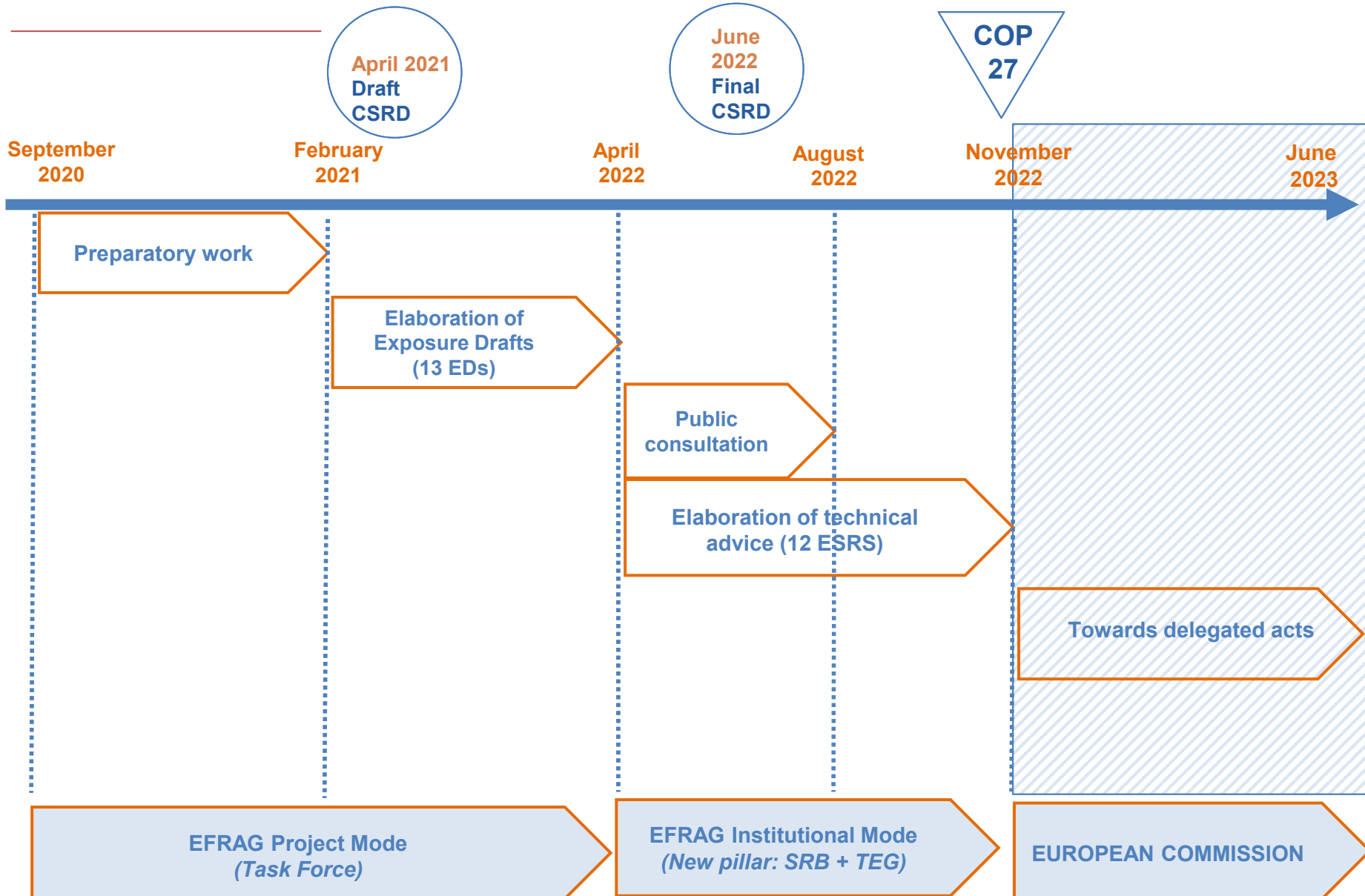
Comment letter analysis, deliberations, first set of draft ESRS

Call for tenders XBRL Taxonomy first set of draft ESRS: deadline 24 October 2022



DRAFT ESRS

ELABORATING AND ADOPTING THE FIRST SET OF STANDARDS OVER 34 MONTHS



PROGRESS TO DATE

- ✓ April 2022¹³ Exposure Drafts: first set of draft ESRS issued for comment by 8 August 2022
- ✓ During public consultation period (May- August):
 - ✓ Transition to permanent structure
 - ✓ 16 outreaches at country and stakeholder level
 - ✓ Educational sessions on each ED
- ✓ Discussion of results of public consultation (>700 submissions)
- ✓ Meetings EFRAG SRB and EFRAG SR TEG are **public**
- ✓ **2023 work programme** for EC, EP and Council

Cross-cutting standards

- ESRS 1 General principles
- ESRS 2 General strategy, governance and materiality assessment

Environment

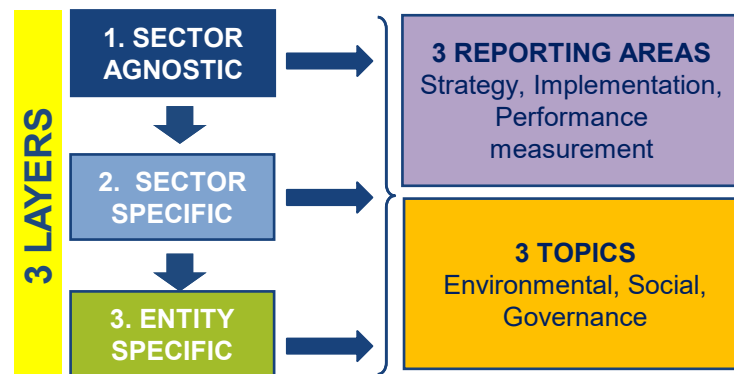
- ESRS E1 Climate change
- ESRS E2 Pollution
- ESRS E3 Water and marine sources
- ESRS E4 Biodiversity and ecosystems
- ESRS E5 Resource and circular economy

Social

- ESRS S1 Own workforce
- ESRS S2 Workers in the value chain
- ESRS S3 Affected communities
- ESRS S4 Consumers and end users

Governance

- ESRS G1 Governance, risk management and internal control
- ESRS G2 Business conduct



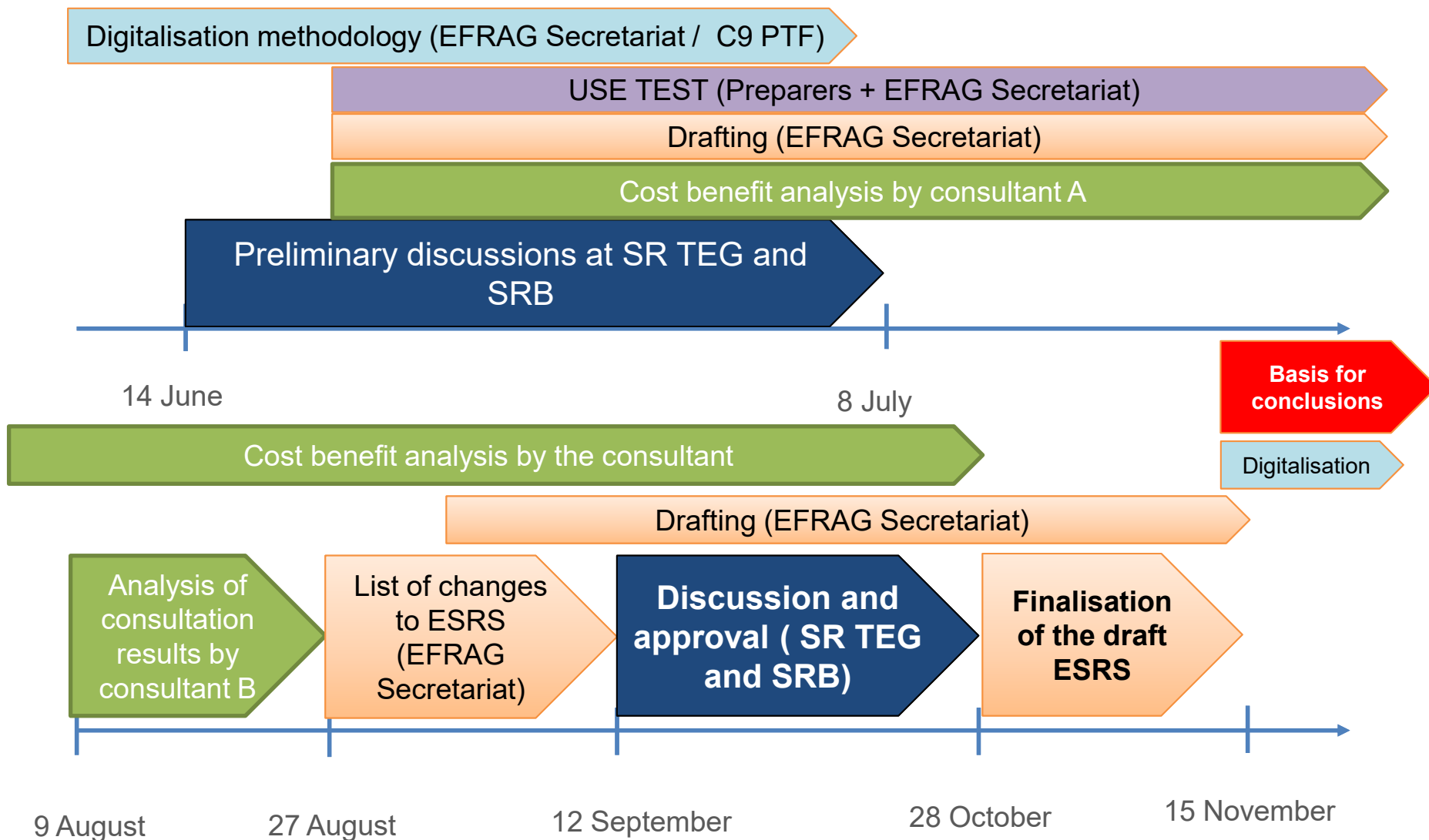
PROGRESS TO DATE

- ✓ Cost Benefit Analysis
 - ✓ developed based on EDs but to be updated for draft ESRS
 - ✓ On basis of NFRD impact assessment
 - ✓ All stakeholders
 - ✓ Benefits in addition to costs
- ✓ XBRL Taxonomy first set of ESRS
 - ✓ Call for tenders deadline 24 October 2022
 - ✓ Building inhouse capacity
 - ✓ EFRAG ESRS Taxonomy Consultative Forum
 - ✓ Coordination with XBRL International and the IFRS Foundation

FUNDAMENTAL TOPICS – TENTATIVE DECISIONS

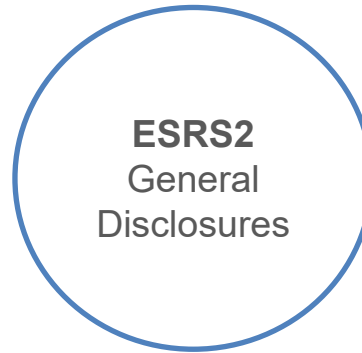
- Materiality approach (replace rebuttable presumption with materiality assessment)
- Additional guidance on double materiality
- CSRD changes
- SFDR, EU benchmark requirements and sector agnostic Pillar 3 mandatory (outside materiality assessment)
- ISSB alignment – to the maximum extent possible in available timeframe, amendments in next years - GRI alignment
- Significant simplification (number of DRs/granularity/language), following detailed analysis of relevance to simplify – see decision tree next slide
- Phasing-in (including 3 years for value chain)
- Due diligence: stronger alignment with international guidelines without pre-empting the contents of future CSDDD

FOCUS ON JUNE TO NOVEMBER 2022



A COHERENT ARCHITECTURE OF STANDARDS: 12 ESRS

Cross-cutting



- Governance
- Strategy
- Impact/ Risk management
- Metrics and Targets

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Environment

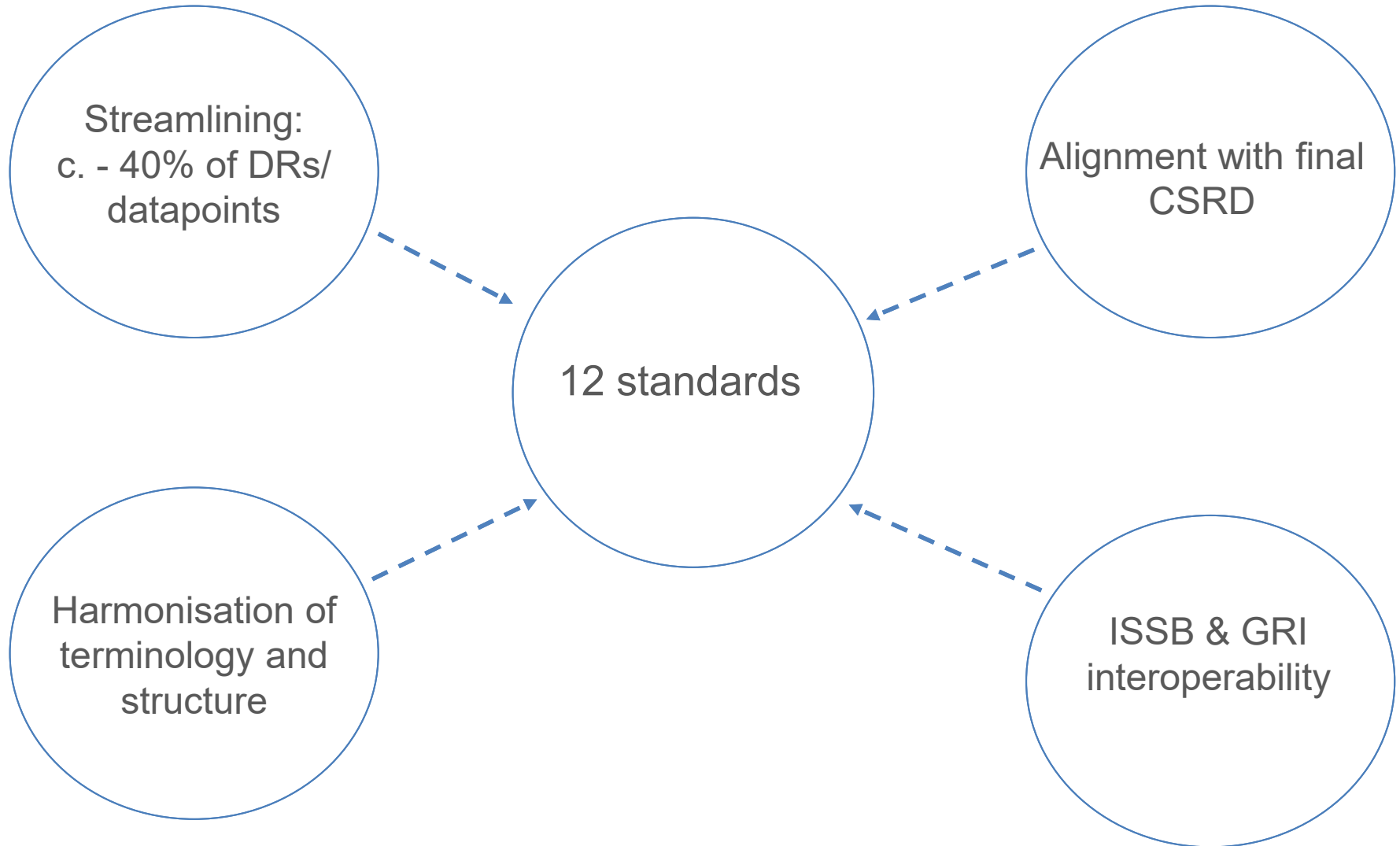
- E1: Climate change
- E2: Pollution
- E3: Water & Marine resources
- E4: Biodiversity & Ecosystems
- E5: Resources & circular economy

Social

- S1: Own workforce
- S2: Workers in the value chain
- S3: Affected communities
- S4: Customers and end-users

Governance

- G1: Business conduct



- 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



- Sector specific standards
 - 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
- Standard for non-EU companies
- Standard for listed SMEs
- Voluntary guidance for non-listed SMEs
- Amendment to Set 1 in order to implement the ‘cap’ on value chain information => **most likely set 3**

Work on draft sector ESRS in progress (workshops in June/July) and new series of workshops in October/November (news item)

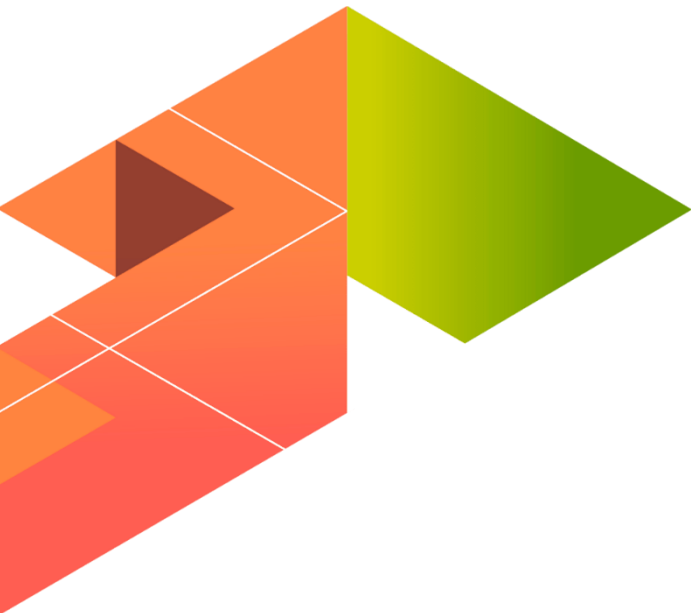
Followed by two further sets of sector specific standards

TENTATIVE TIME LINE

	Preparation	Consultation	Comment analysis/CBA/ Redeliberation	Digitisation
Set 1		1 May - 8 August 2022	9 August 2022 - 15 November 2022	November 2022 - Sept 2023
Set 2	August 2022 - February 2023	March/April- June 2023 (staggered)	July 2023- November 2023	November 2023 - Sept 2024
Set 3	August 2023 - February 2024	March - June 2024	July 2024- November 2024	November 2024 - Sept 2025
Set 4	August 2023 - February 2025	March - June 2025	July 2025- November 2025	November 2025 - Sept 2026



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