

SENIOR OFFICIAL WORKSHOP: PULSAR, REPARIS FOR SMES, STAREP

International developments in financial reporting and sustainability reporting

EFRAG Sustainability Reporting – draft ESRS

29 November 2022



DISCLAIMER

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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





CSRD

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

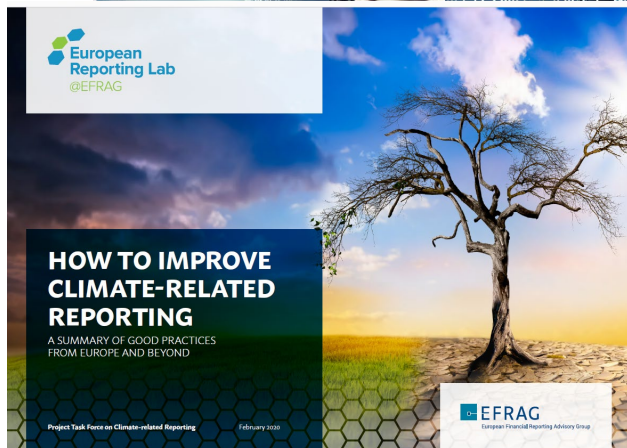
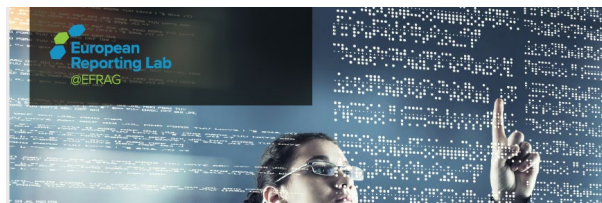
- “NFRD companies”: FY 2024 (first reports published 2025)
- Other large companies: FY 2025 (reports 2026)
- Listed SMEs: FY 2026 (reports 2027)
- Non-EU companies with branches/subsidiaries: FY 2028 (reports 2029)

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.



EFRAG AND DRAFT ESRS ARCHITECTURE

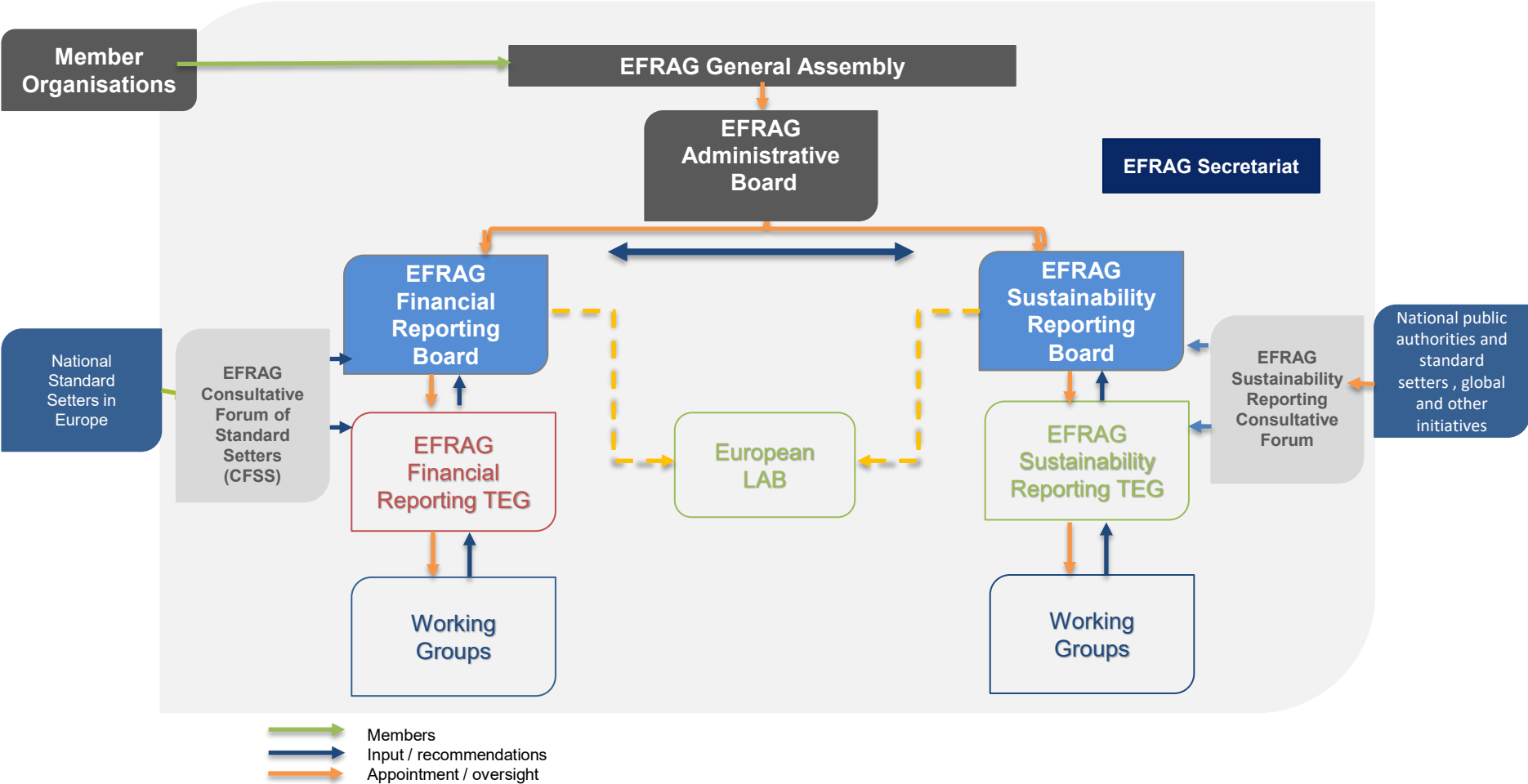
DELIVERABLES



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



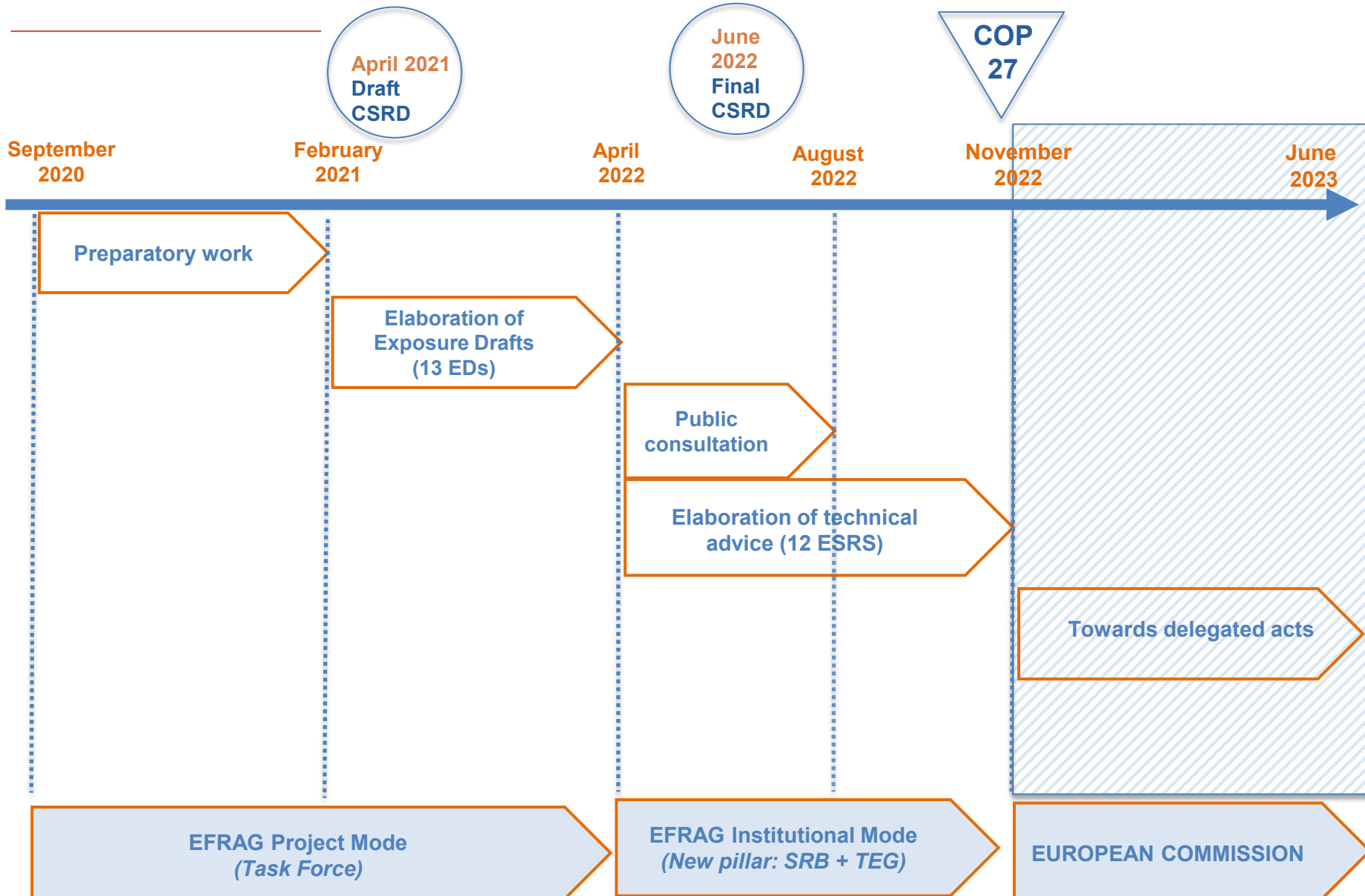
EFRAG'S INSTITUTIONAL REFORM TO MATCH NEW MISSION



GOVERNANCE REFORM – WHAT IS OUTSTANDING

- Update Due Process Procedures for final CSRD and digital taxonomy of ESRS
- Establishment of the Sustainability Reporting Consultative Forum (national public authorities, national standard setters, and possibly international initiatives)
- Consultative Forum of digital experts to help with the continuous development of the ESRS XBRL taxonomy
- Development of Friends of EFRAG
- Development of further funding means

ELABORATING AND ADOPTING THE FIRST SET OF STANDARDS OVER 34 MONTHS



FIRST SET OF DRAFT ESRS

- ✓ April 2022 13 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**
- ✓ **Submission** of first set of draft ESRS to EC on 22 November after **approval by EFRAG SRB on 15 November**
- ✓ **2023 work programme** for EC, EP and Council

FIRST SET OF DRAFT ESRS

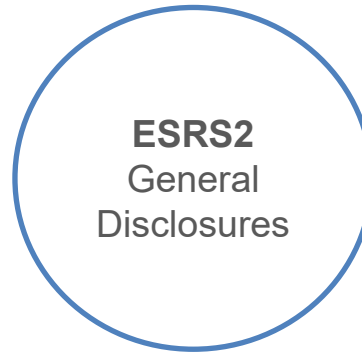
- ✓ XBRL Taxonomy first set of ESRS
 - ✓ Call for tenders deadline 24 October 2022
 - ✓ Building inhouse capacity
 - ✓ EFRAG ESRS Taxonomy Consultative Forum
 - ✓ Coordination with XBRL International and the IFRS Foundation
 - ✓ Submission to EC by September 2023

FIRST SET OF DRAFT ESRS : WHAT WAS SUBMITTED TO THE EC

- ✓ Cover letter
- ✓ Due process note
- ✓ Explanatory note, including its Annex, of how draft ESRS take account of the initiatives and legislation listed in Article 29b CSRD
- ✓ EFRAG's Cover Letter on the Cost-benefit analysis of the First Set of draft ESRS and Cost-benefit analysis of the First Set of draft ESRS prepared by CEPS and Milieu
- ✓ First set of 12 draft ESRS
 - Appendix I –Disclosure Requirements, Application Guidance index
 - Appendix II – CSRD requirements for the development of sustainability reporting standards and their coverage by the draft ESRS
 - Appendix III – Datapoints in accordance with EU laws in the ESRS
 - Appendix IV – TCFD Recommendations and ESRS reconciliation table
 - Appendix V – IFRS Sustainability Standards and ESRS reconciliation table
 - Appendix VI – Acronyms and glossary of terms

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

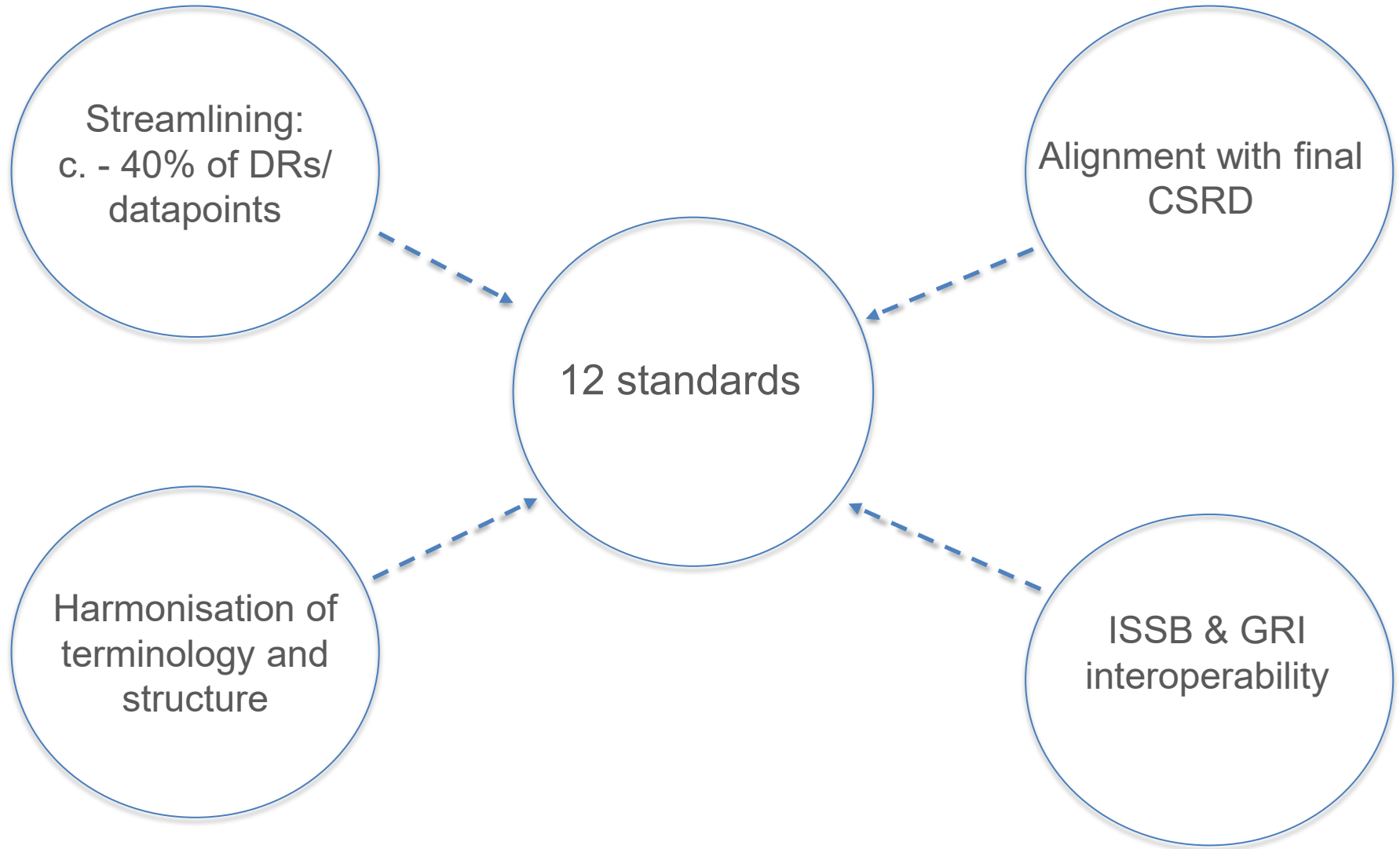
- S1: Own workforce
- S2: Workers in the value chain
- S3: Affected communities
- S4: Customers and end-users

Governance

- G1: Business conduct

FUNDAMENTAL TOPICS –DECISIONS AND CHANGES EU

- 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



- 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



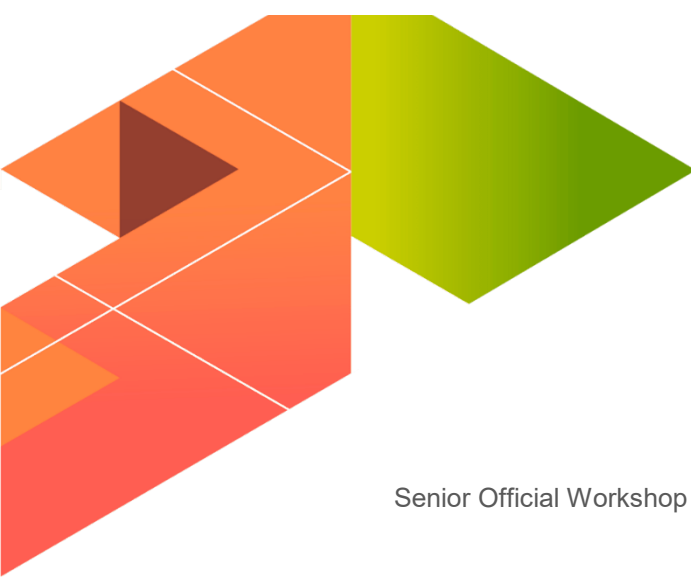
- Sector specific standards
 - 5 sectors covered by GRI: Agriculture, Coal Mining, Mining, Oil+Gas (upstream), Oil+Gas (mid-to downstream)
 - 5 high-impact sectors: Energy Production, Road Transport, Motor Vehicle Production, Food/Beverages, Textiles
- Standard for non-EU companies
- Standard for listed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



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