

THE EUROPEAN SUSTAINABILITY REPORTING MOMENTUM

REPARIS FOR SMEs CONFERENCE

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OVERVIEW

- WHO IS EFRAG?
- THE KEY FEATURES OF THE CORPORATE SUSTAINABILITY REPORTING DIRECTIVE (CSRD)
- ESRS SECTOR AGNOSTIC
- SECTOR-SPECIFIC ESRS



WHO IS EFRAG?

EFRAG – EUROPE’S VOICE IN CORPORATE REPORTING

- Private not-for-profit established in 2001
- 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.





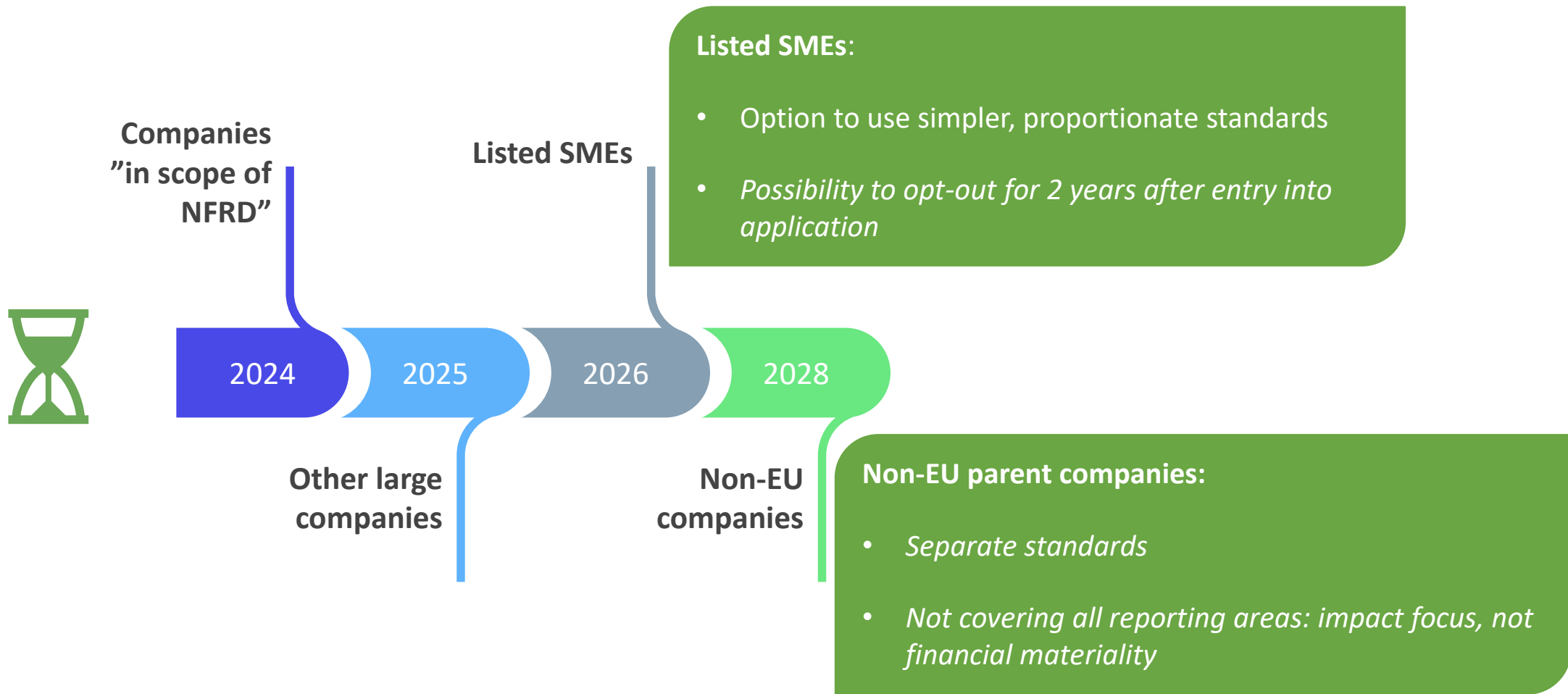
THE KEY FEATURES OF THE THE CSRD*

* Corporate Sustainability Reporting Directive

CSRD: SCOPE

- Groups and individual entities. Subsidiary exemption mechanism defined
- All companies > 250 employees operating with the European Union
 - all large companies
 - all listed companies (except listed micro-enterprises)
- 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 ELEMENTS

GOAL: addressing the quality issue of sustainability-related data by placing sustainability reporting on an equal footing with financial reporting

- A **comprehensive coverage of sustainability matters**: E, S & G, under standards elaborated by EFRAG (multi-stakeholder approach, consensus based) and adopted by the EC via delegated act
- 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 audit**: limited assurance to start with, moving to reasonable assurance
- **Digital tagging** of the ESRS and Article 8 « EU Taxonomy » disclosures



ESRS SECTOR AGNOSTIC

THE SECTOR AGNOSTIC STANDARDS - TIMELINE

ESRS Exposure Drafts by EFRAG PTF

Draft ESRS released to EC
 EC draft Delegated Act Public feedback

EC adopted

June 2021 – April 2022

Apr. 30 – Aug. 8 2022

Nov. 2022

June 9 – July 7 2023

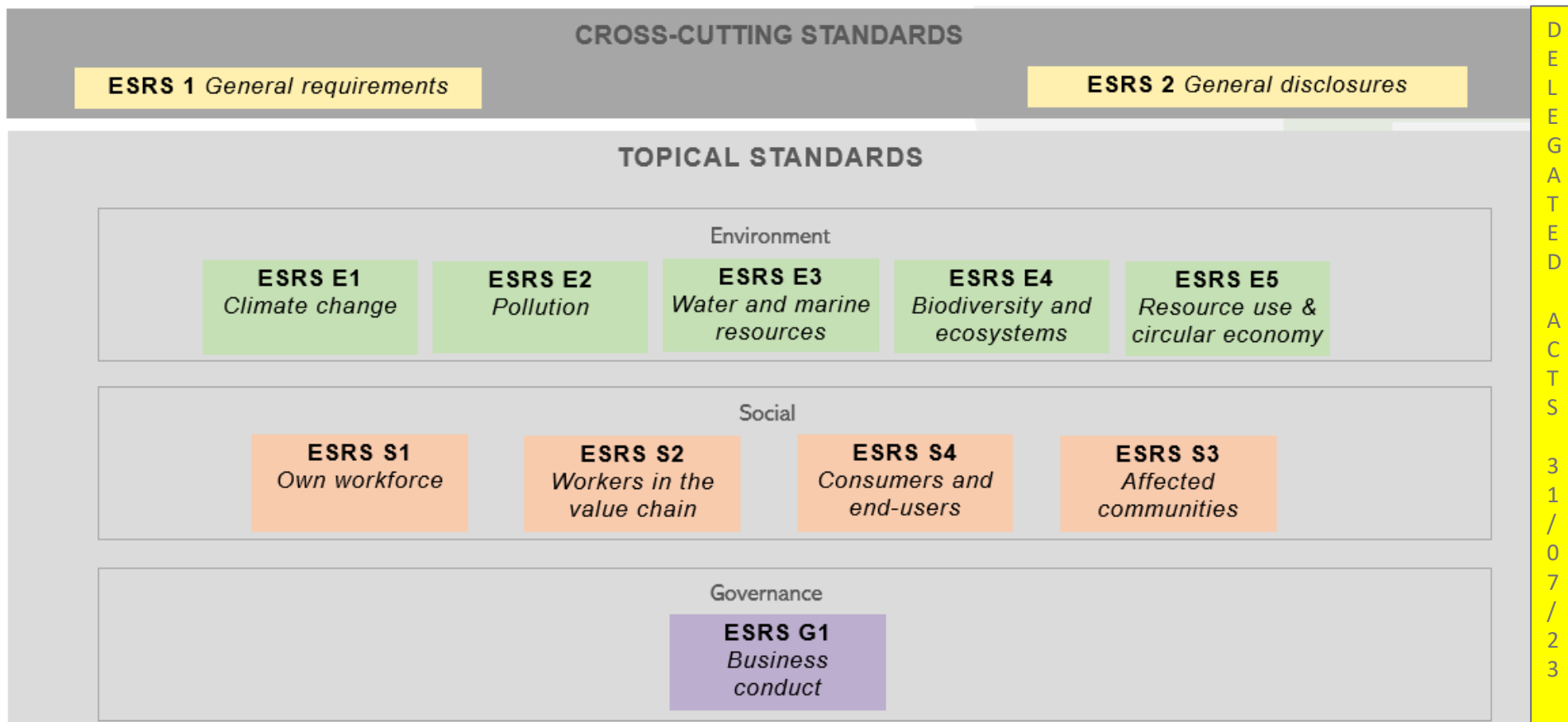
31 July 2023

18 October 2023

ESRS EDs exposed for comments

EP rejected rejected a motion aimed at scrapping ESRS

THE FIRST SET OF SECTOR AGNOSTIC ESRS ELABORATED BY EFRAG



84 Disclosure Requirements

Qualitative or quantitative

Double materiality

- Financial materiality
- Impact materiality

4 pillars

- Governance
- Strategy
- Impact, risk and opportunity management
- Metrics and targets

... to be complemented by sector specific standards + SME standards (next steps)

INTRODUCTION TO ESRS – GENERAL DISCLOSURES

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**

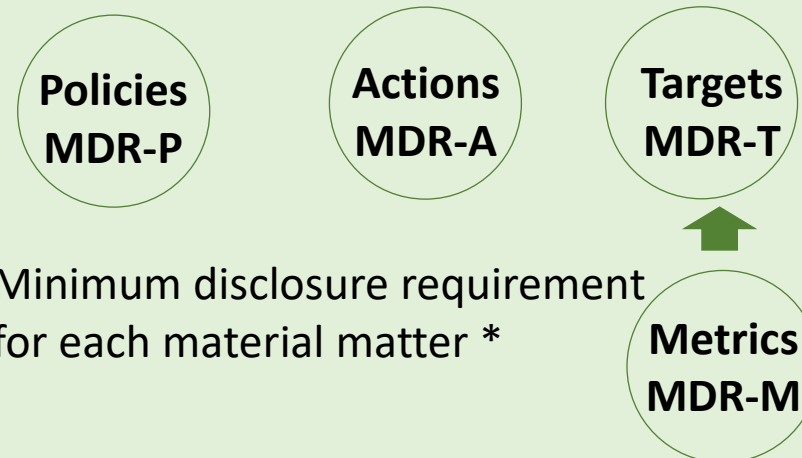
STRATEGY

- 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



* If the undertaking has not defined policies, actions or targets, it may disclose this

INTRODUCTION TO ESRS – CLIMATE CHANGE

ESRS 2 General disclosures

- **DR related to ESRS 2 GOV-3** Integration of sustainability-related performance in incentive schemes
- **DR E1-1** Transition plan for climate change mitigation
- **DR related to ESRS 2 SBM-3** Material impacts, risks and opportunities and their interaction with strategy and business model(s)
- **DR related to ESRS 2 IRO-1** Description of the processes to identify and assess material climate-related impacts, risks and opportunities

IRO management

- **DR E1-2** Policies related to climate change mitigation and adaptation
- **DR E1-3** Actions and resources in relation to climate change policies

Metrics and targets

- **DR E1-4** Targets related to mitigation and adaptation
- **DR E1-5** Energy consumption and mix (including intensity per revenue)
- **DR E1-6** Gross Scopes 1, 2, 3 and total GHG emissions (including intensity per revenue)
- **DR E1-7** GHG removals and GHG mitigation projects financed through carbon credits
- **DR E1-8** Internal carbon pricing
- **DR E1-9** Potential financial effects from material physical and transition risks and potential climate-related opportunities

INTEROPERABILITY AT THE HEART OF THE ESRS APPROACH

- Building on and contributing to global sustainability reporting progress:
 - ✓ Long-standing achievements as a key source of inspiration: GRI, UN, OECD, TCFD
 - ✓ Support to the global baseline developments: ISSB, SASB, IIRC, CDSB
- Avoiding multiple reports:
 - ✓ Counterproductive for the overall progress of sustainability reporting
 - ✓ Burdensome for preparers, difficult to understand for users
 - ✓ Both in human-readable and machine-readable formats
 - ✓ Possibility to add disclosures stemming from other sets of standards as long as identified clearly (ESRS 1 §114 and ESRS 2 §15)

KEY INTEROPERABILITY STEPS ACHIEVED IN PRACTICE

International Sustainability
Standards Board (ISSB)



- Decisions included in the delegated act:
 - 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

EFRAG's interim assessment of interoperability:

EFRAG assesses a very high degree of interoperability between the two sets of standards:

ESRS preparers will to a very large extent report the same information as companies that use ISSB standards; and

This significantly reduces the risk that ESRS reporters will have to report the same information twice.

EFRAG has published a mapping table working document which illustrates the above

KEY INTEROPERABILITY STEPS ACHIEVED IN PRACTICE

Global Reporting Initiative (GRI)



We had a

- Technical cooperation from the beginning to seek alignment on key concepts: impact materiality, due diligence approach, etc.
- Reconciliation of ESRS disclosures with GRI disclosures underway
- Digital taxonomy coordination underway

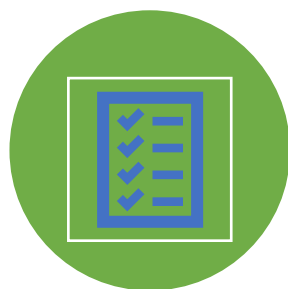
EFRAG and GRI agreement:

A high level of interoperability has been achieved in respect to impact reporting

Entities complying with ESRS considered reporting *with reference* to GRI Standard (as defined by GRI 1)

EFRAG and GRI have issued on September 4th a joint statement of interoperability

ESRS: THE PIVOTAL ROLE OF THE MATERIALITY ASSESSMENT

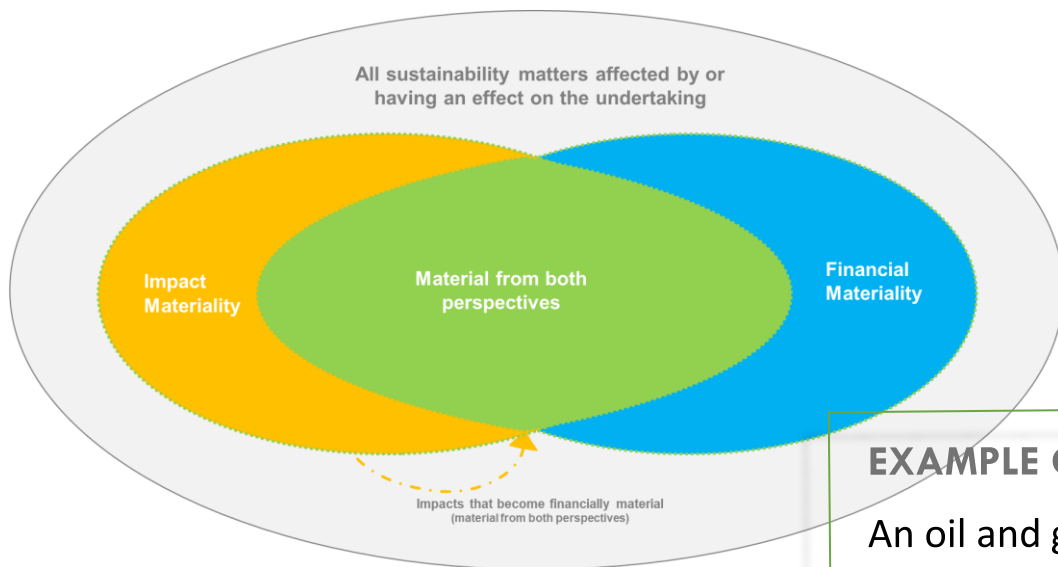


Sustainability statements shall reflect **all material** impacts, risks and opportunities (IROs): under an objective approach with thresholds. Thus, not all sector agnostic standards may be applicable to an undertaking.



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.

MATERIALITY: IROs



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)

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

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

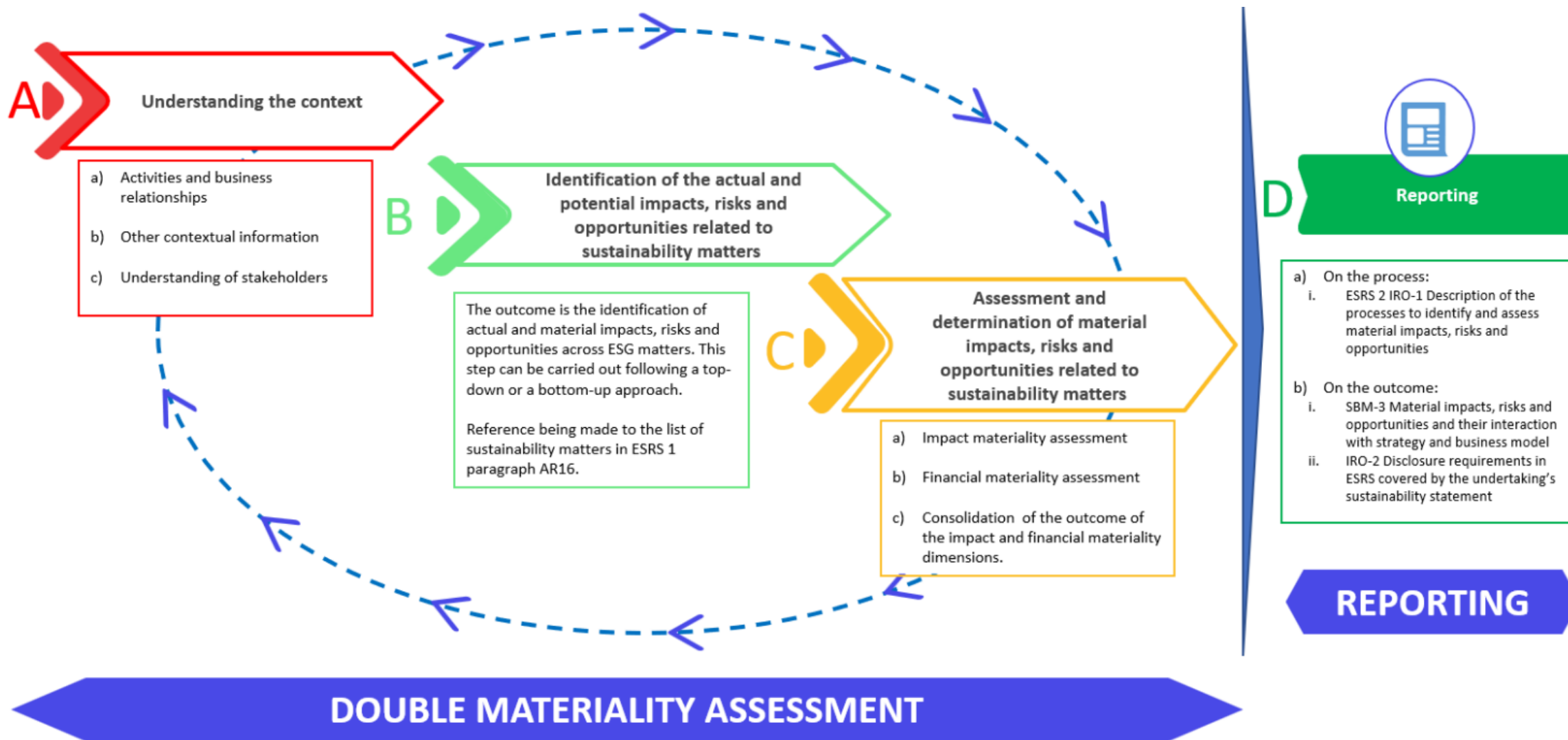
- material actual or potential, positive or negative impacts over short-, medium- and long-term

- 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

EXAMPLE OF MATERIALITY ASSESSMENT (MATERIAL MATTERS)



CRITERIA TO IDENTIFY IROs AND ASSESS THEIR MATERIALITY

How do you identify IROs

supported by AR16 ESRS 1

Impacts

- Activities
- Business relationships
- Regulatory landscape
- Other sources
- Understanding the affected stakeholders
- Informed by due diligence process (see UNGP/OECD)

Risks and opportunities

- 1) **Impacts:**
 - People and environment
- 2) **Dependencies:**
 - Human, natural, relationship capitals
 - Availability/price/quality
- 3) **Others:** e.g. climate physical risk, change in legislation on systemic impacts

How to determine which are material?

- Appropriate thresholds necessary
- Some existing standards and frameworks use the term "most significant impacts"
- **Likelihood and Severity**
- *Scale, scope, irremediable character*
- *Negative **human rights** impact: severity takes precedence over likelihood*

- Appropriate thresholds necessary
- Likelihood and magnitude
- Effects on the undertaking's performance, financial position, cashflows and access to capital

VALUE CHAIN: FOCUS ON WHERE IN THE VC MATERIAL IROs ARISE

Information shall be extended to include information on the material impacts, risks and opportunities connected with the undertaking through direct and indirect business relationships in the upstream and/or downstream value chain (“value chain information”). (ESRS 1 para 63)

** Impacts include those connected with its own operations and value chain, including through its products and services, as well as through its business relationships*

Scope of the Reporting undertaking (OWN OPERATIONS) is the same as for the related financial statements

VALUE CHAIN (upstream and downstream)
IRO BASED

If after **reasonable effort** undertaking unable to collect VC information, it shall be estimated.

Examples: data from indirect sources, sector-average data, sample analyses, market and peer group data, other proxies

- Except very few, most of the **metrics** in the topical standards **do not cover value chain**
- **Policies, actions and targets**, include value chain information **to the extent that those PAT involve actors in the value chain**
- Requirement to integrate standardised information with entity-specific disclosures including on value chain, when necessary



EFRAG
DEVELOPMENTS AHEAD

EFRAG NON AUTHORITATIVE IMPLEMENTATION GUIDANCE

- Providing **non-authoritative guidance**:
 - ✓ How to perform the materiality assessment?
 - ✓ How to address value chain disclosures under the ESRS?
- Normative chapters and FAQs
- Discussed in public meetings from SRB 23 August 2023
- **XBRL Taxonomy**
 - ✓ Inventory of datapoints in xls to perform a « gap analysis » (released jointly with the XBRL taxonomy)
 - ✓ Other documents may follow in the next year(s)

See 6 November
SR TEG meeting
documents for
latest DRAFT
versions

EFRAG TO SUPPORT IMPLEMENTATION WITH FAQ PROCESS

- Answering FAQs
 - ✓ Access point
 - ✓ Process to provide answers
- Facilitating access to relevant documents and education
- Under due process and in cooperation with EC

ESRS Q&A portal

ON LINE NOW!

[EFRAG ESRS Q&A Platform](#)

ESRS XBRL TAXONOMY

A clear structure for each disclosure requirement in ESRS....

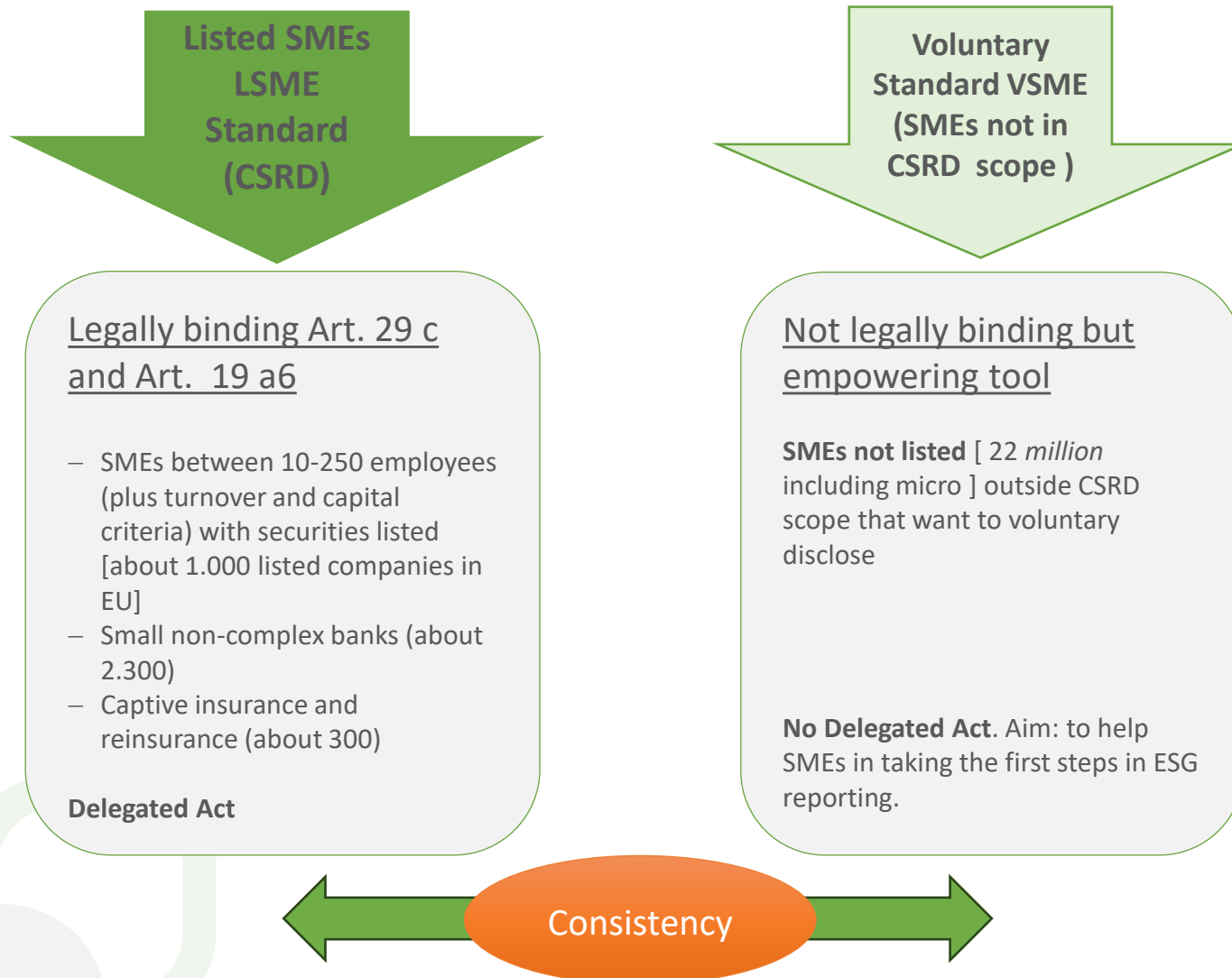
- First paragraph -> the description of the Disclosure Requirement
- Second paragraph: -> the objective of the disclosure requirement (principles-based approach)
- Following paragraphs: the specific datapoints to be included (« shall ») under a, b, c..., subdivided, if need be, as (i), (ii), (iii)... (non-limitative list)

... facilitating digitisation

- Digital XBRL taxonomy underway at EFRAG, facilitating usability and comparability of ESRS statements in the ESAP
- Draft version will be available **for public consultation in Q4-2023 or Q1-2024**, enabling digital tagging and « taxonomy-centric » report preparation
- Tagging aligned with standard structure allowing for 3 levels of reading

Public
Consultation
Q4-23 or Q1-24

SUSTAINABILITY REPORTING FOR SMES



CSRD 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).

VSME: A MODULAR APPROACH

BASIC

Entry level for non listed SMEs

Target for micro-undertakings

Simplified language (No materiality)

[11] Disclosure Requirements

- Simplification: all required (no omissions) BUT whenever it is appropriate the language is 'IF APPLICABLE'
- Introduction of "practices" (new)

OPTION A: Basic Module (only)

OPTION B: Basic Module and Narrative Module

OPTION C: Basic Module and SF Module

OPTION D: Basic Module, Narrative Module and SF Module.

Narrative – Policies, Actions and Targets (PAT)

SMEs undertakings that have already PAT in place and to report

Simplified language (including for materiality)

List of material matters (out of AR 16)

Narrative info on Policies and Actions in place and, if applicable, Targets

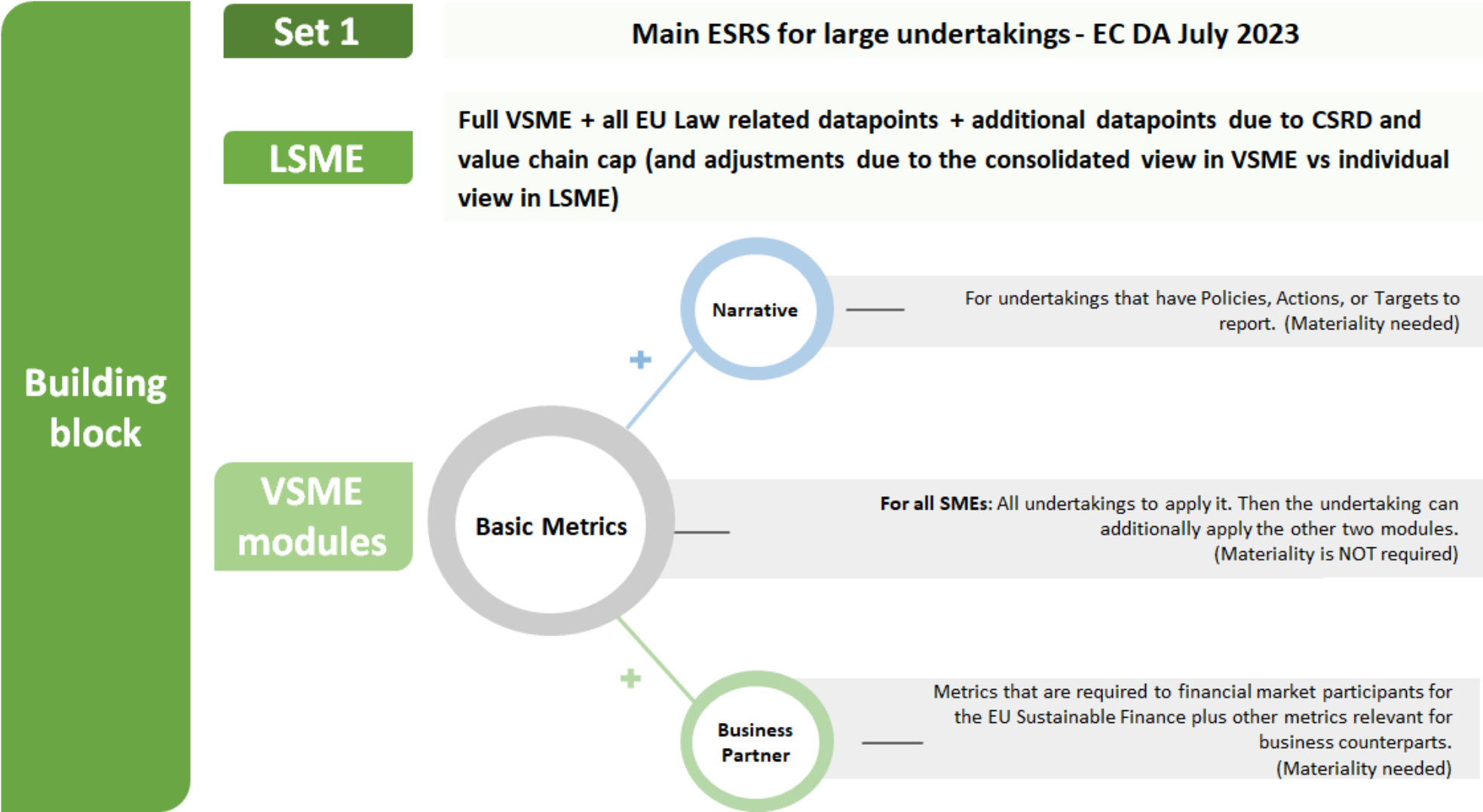
Business partners

When SME are required to face questionnaires by banks or business partners

Sustainable Finance datapoints

- Table 1 SFDR, Pillar 3, Benchmark regulation
- Same approach as in Set 1 ('not material for the undertaking')

BUILDING BLOCKS APPROACH



SMEs: POSSIBLE BENEFITS FROM SUSTAINABILITY REPORTING

INTERNAL BENEFITS

VISION & STRATEGY

SMEs can set direction by placing their purpose, vision and strategy into the context of global sustainability. The sustainability reporting process helps to make this explicit to stakeholders.



MANAGEMENT SYSTEMS

Sustainability management and reporting requires management systems, which improve data quality. Tracking data highlights opportunities for improvement, efficiency and cost saving.



STRENGTH & WEAKNESS

Early warnings of emerging issues can help management seize opportunities or evaluate potentially damaging developments early, before they emerge as unwelcome surprises.



EMPLOYEE MOTIVATION

Engaging the workforce in sustainability efforts reduces absenteeism, attracts new talent and increases productivity through a motivated workforce. It is also a great way to upscale efforts.



EXTERNAL BENEFITS

REPUTATION & TRUST

Proactive and transparent communication about your sustainability efforts builds goodwill, reducing reputation risks. It also improves product image, brand name and reputation.



ATTRACTING CAPITAL AND AVOID DOUBLE REPORTING

Reducing risk through sustainability management and communication can provide potential for new sources of capital and lower costs. Replace the multitude of questionnaires from business partners.



STAKEHOLDER ENGAGEMENT

Ongoing learning from the outside-in. Stay up-to-date on the regulatory environment. Sustainability reporting is a powerful tool to build or restore trust among stakeholders.



COMPETITIVE ADVANTAGE

Customers are looking for suppliers that minimize environmental and social risks. By reporting, SMEs can increase customer satisfaction and loyalty, and access the supply chain.



ESRS FOR NON-EU GROUPS

- At group level of ultimate third-country parent undertaking
- *Art. 29 a 2 Points (a)(iii) to (a)(v)* – plans and actions to ensure bus model and strategy compatible with 1,5 °C, how the strategy and bus model take account of stakeholders’ views and interests and how strategy has implemented with regard sustainability matters
- *Art. 29 a 2 Points (b) to (f)* – targets, governance bodies, policies, incentive schemes, due diligence, material impacts, actions
- *Art. 29 a 2* where appropriate, indicators for the above.

NON-EU COMPANIES IN SCOPE
Net turnover > EUR 150 million
and:

- with a subsidiary in the EU that follow the criteria applicable to EU companies (i.e., being listed on the European market except micro or being within the large company threshold) or
- with a branch in the EU generating more than EUR 40 million net turnover

Effective from 2028, EFRAG will work on it after SME and first batch(es) of Sector ESRS



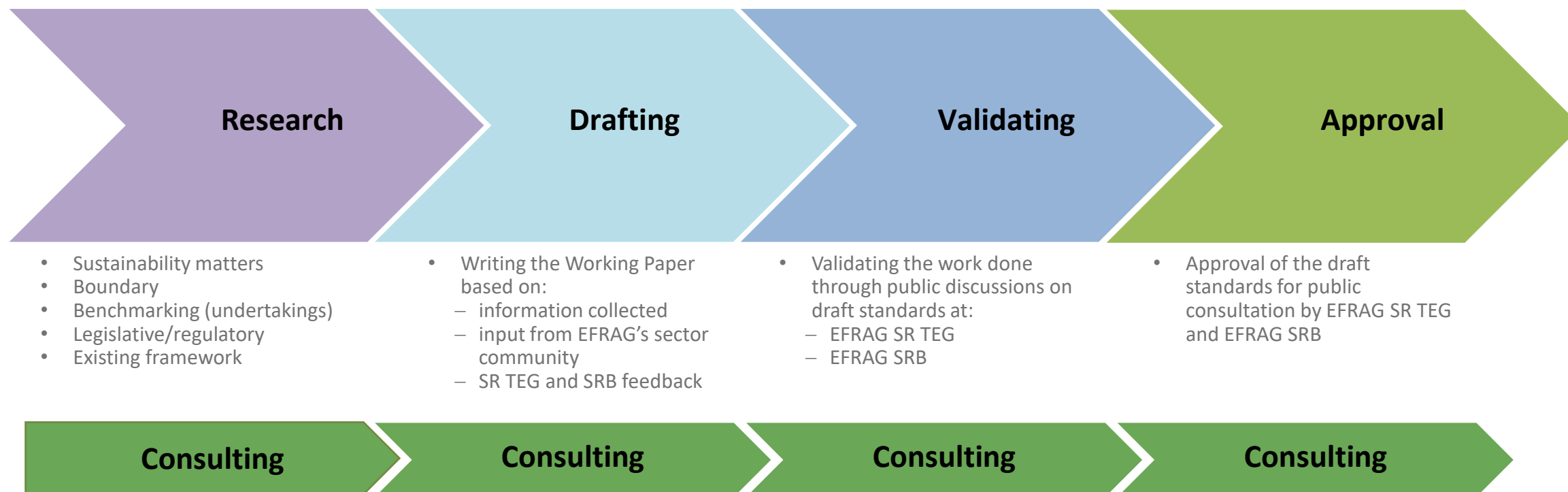
SECTOR-SPECIFIC ESRS

INTRODUCTION TO SECTOR SPECIFIC ESRS

- As part of its mandate granted by the Corporate Sustainability Reporting Directive ('CSRD') to provide technical advice to the European Commission ('EC') on European Sustainability Reporting Standards ('ESRS'), EFRAG is tasked to develop a set of sector-specific draft ESRS
- It will be multi-year exercise
- In September 2022, EFRAG started the development of the first set of Exposure Drafts, including SEC1 Sector Classification and 4 sector standards
- In March 2023, the EC asked EFRAG to prioritise work related to the implementation of the sector-agnostic ESRSs. As a consequence, EFRAG has reviewed and adjusted the process of consultation of its on-going sector work

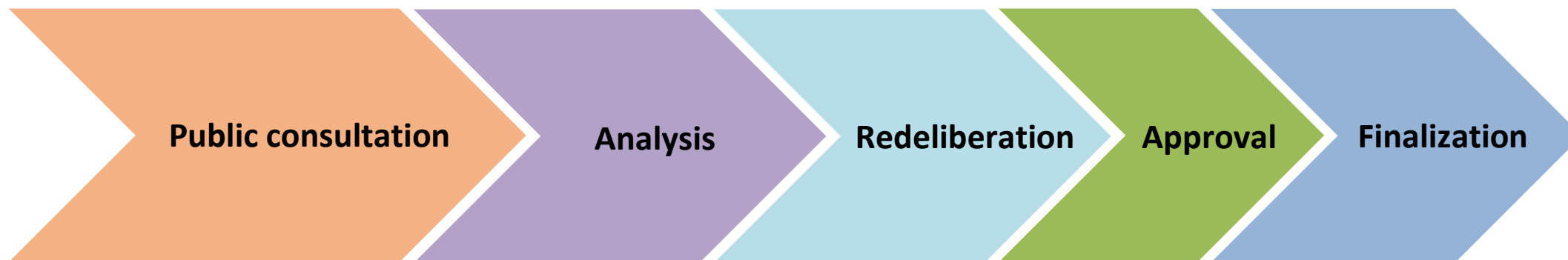
SECTOR-SPECIFIC STANDARD DEVELOPMENT PROCESS (1/2)

Exposure draft stage



SECTOR-SPECIFIC STANDARD DEVELOPMENT PROCESS (2/2)

Final draft stage




- Public consultation on ED to collect feedback and comment letters

- Analysis of the comments
- Updating of the Sector ED

- Redeliberation at SR TEG and SRB

- Approval at SR TEG and SRB

- ED to European Commission



The time estimated to complete an entire development cycle for one standard may be up to 24 months

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](#)



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