

Sustainability reporting in the European Union

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1. The key features of the European legal regime: the CSRD*

* Corporate Sustainability Reporting Directive

The key features of the European legal regime: the CSRD 1/2

- A mandatory regime for all large entities (250+ employees) and listed SMEs with subsidiary exemption
- A progressive phase-in: 2024 reporting year for NFRD reporters, 2025 for the other large entities, 2026 for listed SMEs (with opt-out option until 2028), 2028 for Non-EU companies with branches/subsidiaries
- Other SMEs encouraged to adopt a simplified voluntary reporting
- A comprehensive coverage of sustainability matters: E, S & G, under standards elaborated by EFRAG and adopted by the EC via delegated acts

The key features of the European legal regime: the CSRD 2/2

- 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 taxonomy available from the beginning



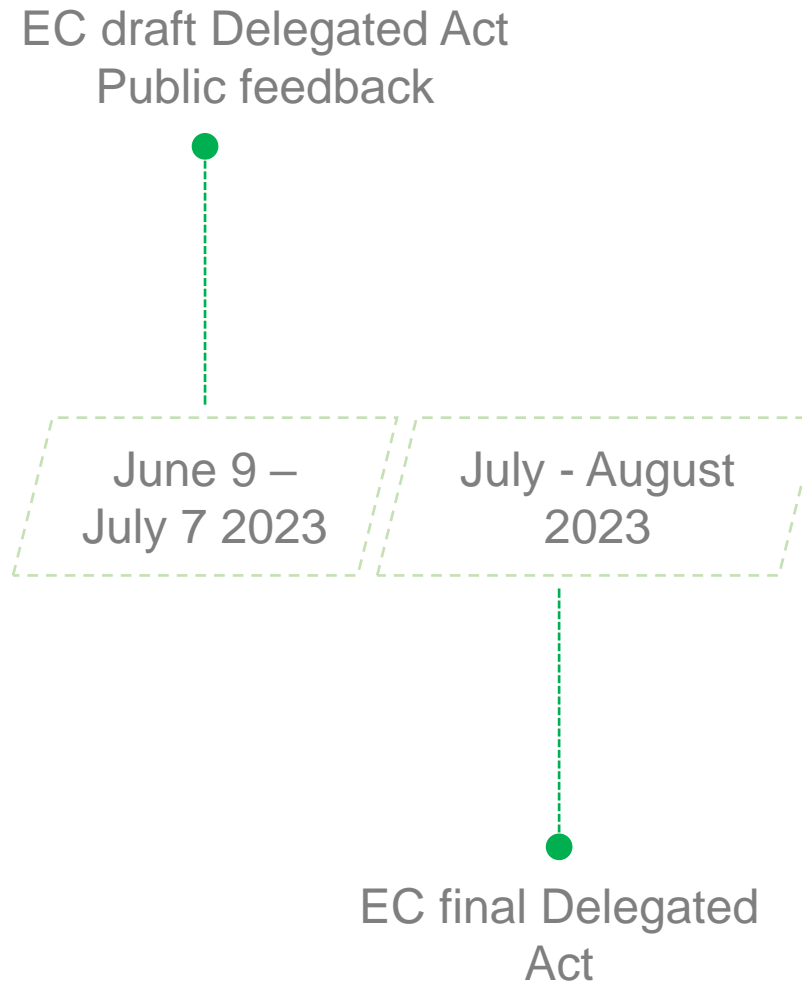
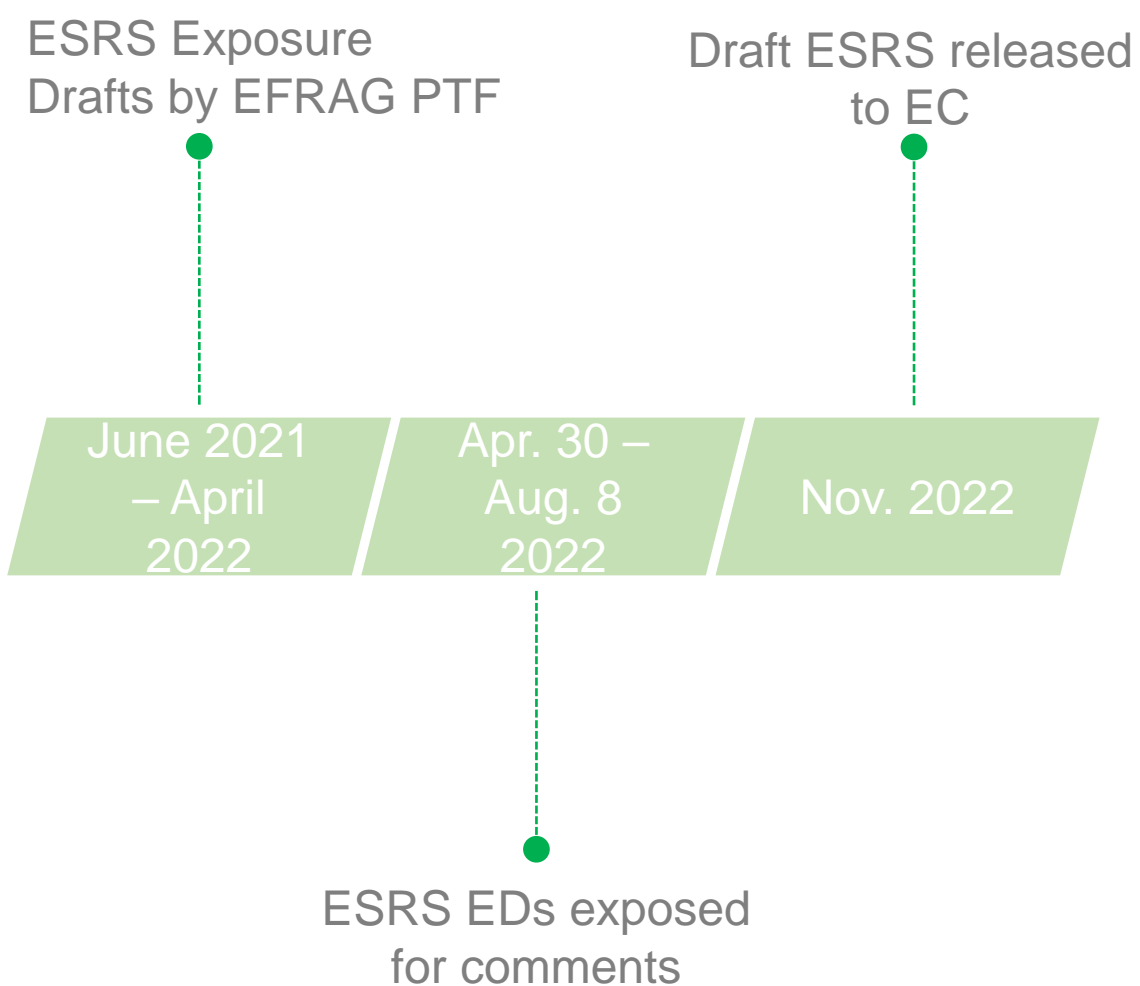
Transposition into national law: probably focused on some specific points as harmonisation level already high



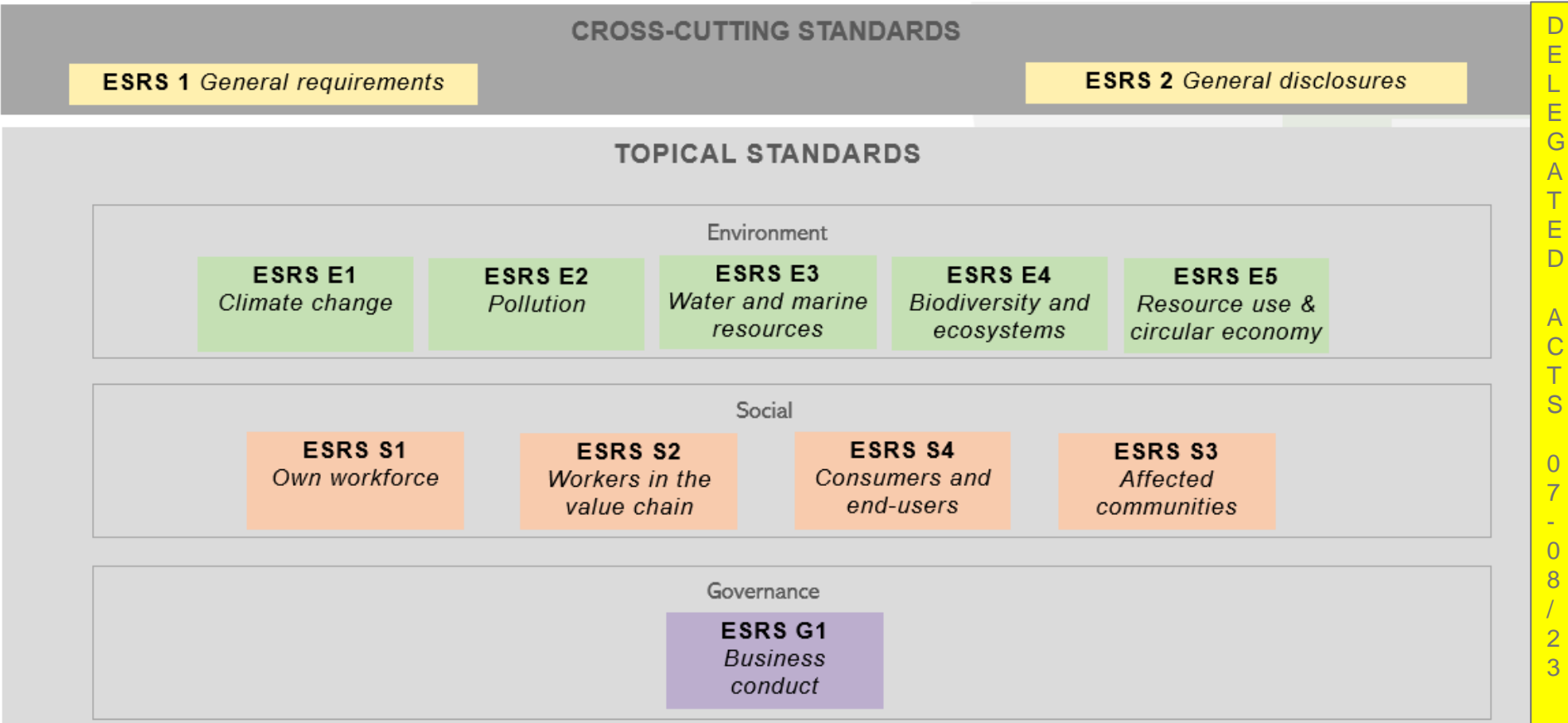
2. The key features of the regulatory regime: the ESRS*

* European Sustainability Reporting Standards

The sector agnostic standards near the finish line



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)

The modifications introduced in the draft delegated act published for public feedback

- Materiality: all standards, disclosure requirements and data points subject to materiality assessment (except for ESRS 2)
- Phasing-in:
 - ✓ undertakings with less than 750 employees may omit:
 - first year: scope 3 GHG emissions, own work force
 - first two years: biodiversity, value chain workers, affected communities, consumers and end-users
 - ✓ All undertakings:
 - first year: anticipated financial effects on non-climate environmental issues, certain data points on own workforce
- Additional voluntary disclosures, for example: biodiversity transition plans; certain indicators on « non-employees » in the workforce; explanations of non-materials topics
- Additional flexibility + coherence with EU legal framework + interoperability + editorial

A clear structure for each disclosure requirement

- First paragraph of each disclosure requirement: the description of the information required
- 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)

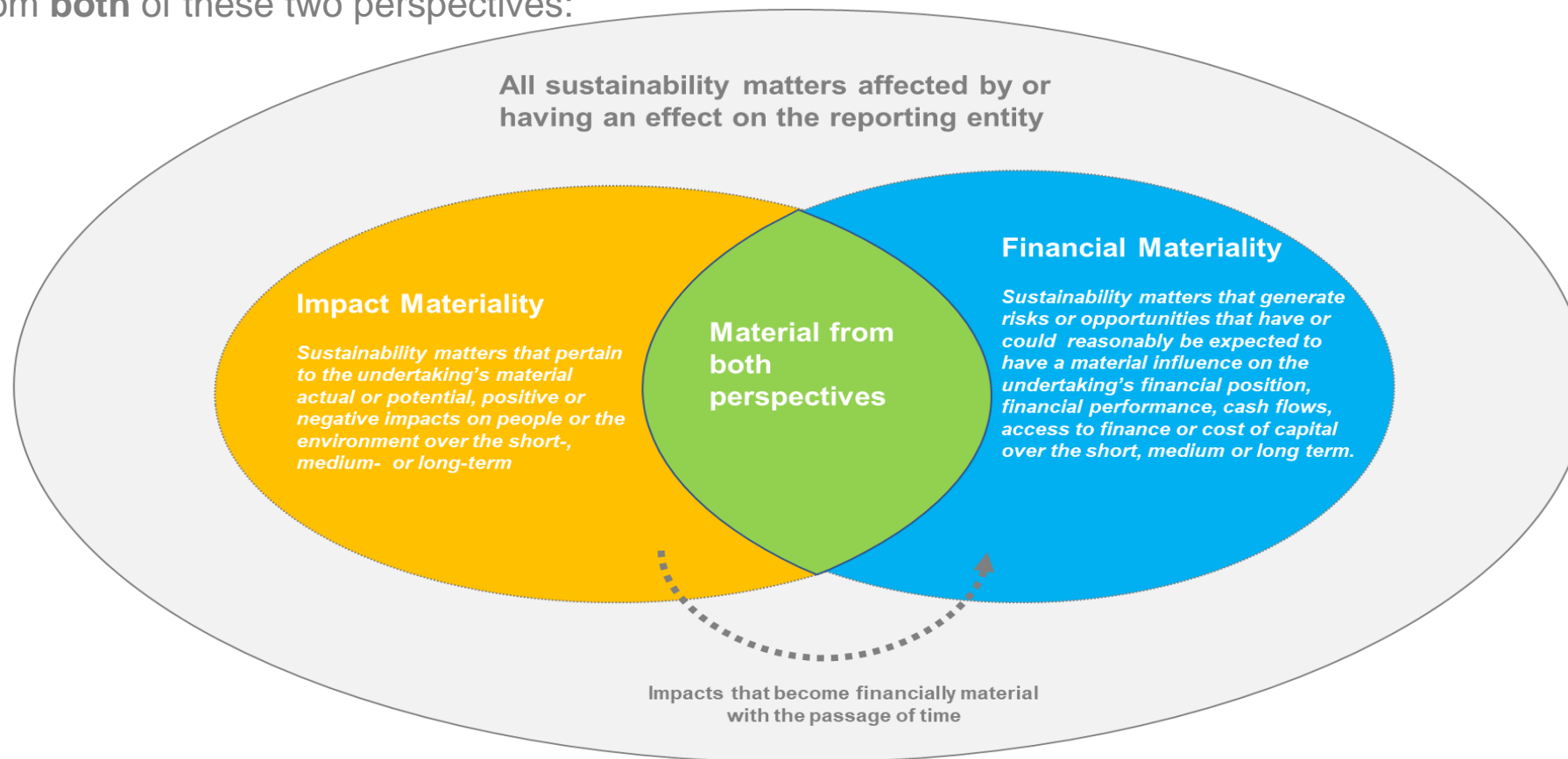
+ Application requirements

... Facilitating digitisation

- Digital taxonomy underway at EFRAG under XBRL
- Tagging to be available in line with reporting timeline, link with ESAP
- Tagging aligned with standard structure allowing for 3 levels of reading:
 - ✓ Level 1: Disclosure requirement level
 - ✓ Level 2 (« nested »): a, b, c ...
 - ✓ Level 3 (« nested »): (i), (ii), (iii) ... (when required by ESRS)

The double materiality principle

- A sustainability matter is material, if it is material from the **impact perspective** or from the **financial perspective** or from **both** of these two perspectives:



- In practice, under a dynamic perspective, most (if not all) impacts can be anticipated to have financial effects short, medium or long term.

The pivotal role of the materiality assessment

- Sustainability statements shall reflect **all material** impacts, risks and opportunities (IROs): under an objective approach based upon appropriate thresholds, no prioritisation
- Reporting entity to implement a rigorous materiality assessment process to determine material IROs and to disclose process followed and outcome



3. Interoperability as a key EU focus

Interoperability at the heart of the ESRS approach

- Building on and contributing to global sustainability reporting progress:
 - ✓ Long stand 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

Key interoperability steps achieved in practice

International Sustainability Standards Board (ISSB)



- 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 and scope at this stage

Global Reporting Initiative (GRI)



- Technical cooperation from the beginning to seek alignment on key concepts: impact materiality, due diligence approach ...
- Comments received and bilateral meetings underway

Of course, ESRS more comprehensive on certain aspects:

- Double materiality
- EU sustainable finance regulation for financial services (SFDR, Pillar 3)
- Other EU regulation and international human rights instruments (for example, Climate law)
- Broader stakeholder perspective

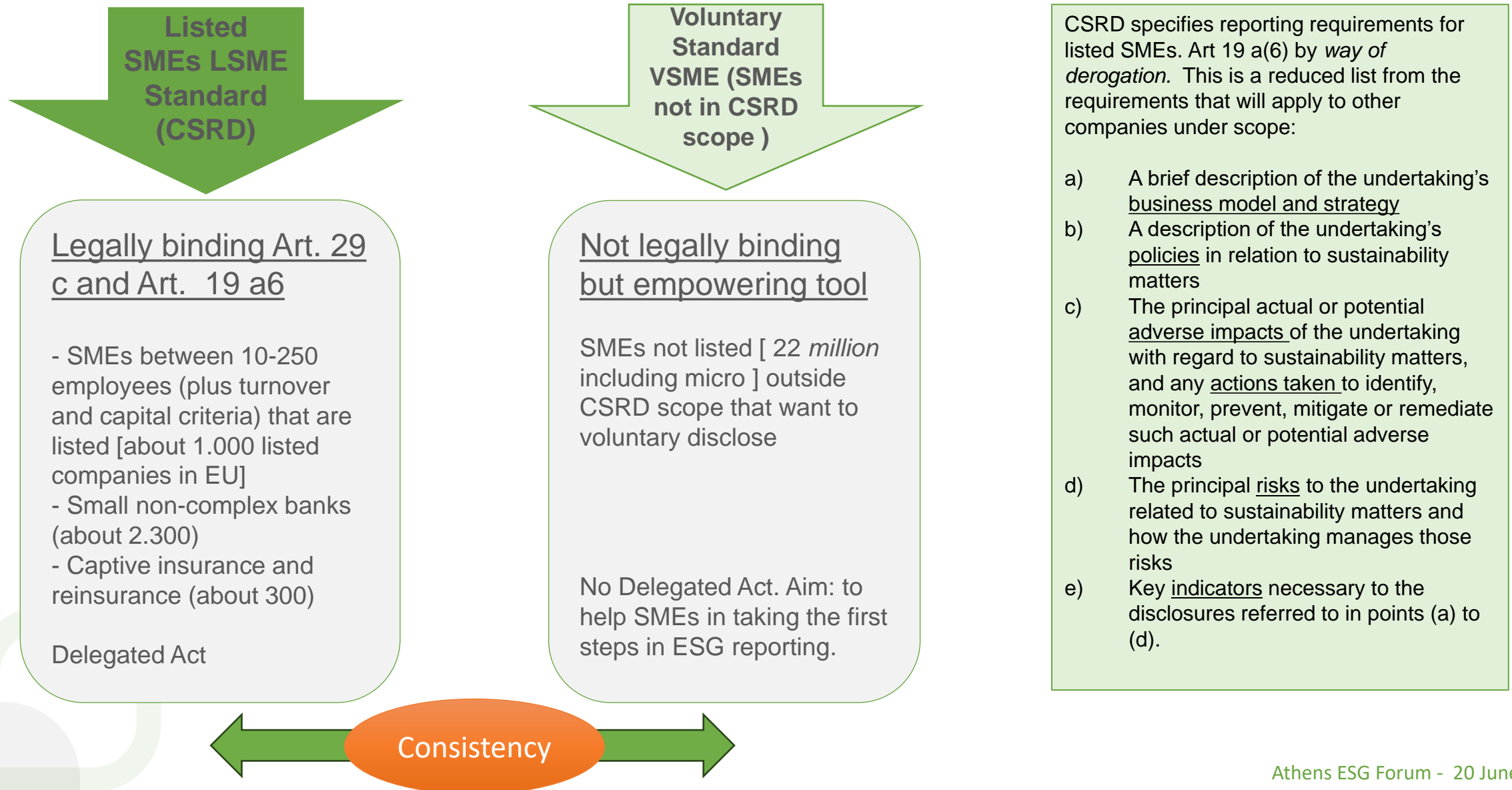


4. Developments ahead

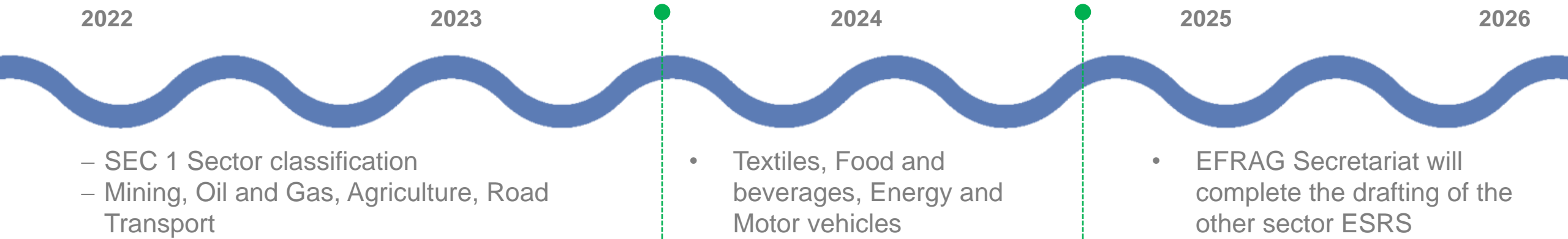
EFRAG to support implementation of ESRS

- Providing non-authoritative guidance:
 - ✓ How to perform the materiality assessment?
 - ✓ How to address value chain disclosures under the ESRS?
 - ✓ What potential data points to consider to perform a « gap analysis »?
 - ✓ + other guidance to be considered in due course
- Answering FAQs:
 - ✓ Access point
 - ✓ Process to provide answers
- Facilitating access to relevant documents and education
- Under due process and in cooperation with EC

Sustainability reporting for SMEs: Q4-23/Q1-24



Sector update – 39 Exposure Drafts in the coming years



Sector standards are being developed over a period of 4/5 years (2022-2026) and are **complementary to sector-agnostic**

Illustrative timeline – timetable to be confirmed

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