

ESRS – GENERAL PRESENTATION

Chiara Del Prete

EFRAG SR TEG Chairwoman

*Chair of the International Forum of
Accounting Standard Setters*

Stockholm Sustainability Symposium



12 September 2023



Agenda

- Sector agnostic ESRS released as Delegated Act
- ESRS implementation support
- Focus on double materiality
- Interoperability with IFRS SS and GRI
- EFRAG developments ahead



Sector agnostic ESRS released as Delegated Act

* European Sustainability Reporting Standards

The sector agnostic standards on the finish line

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

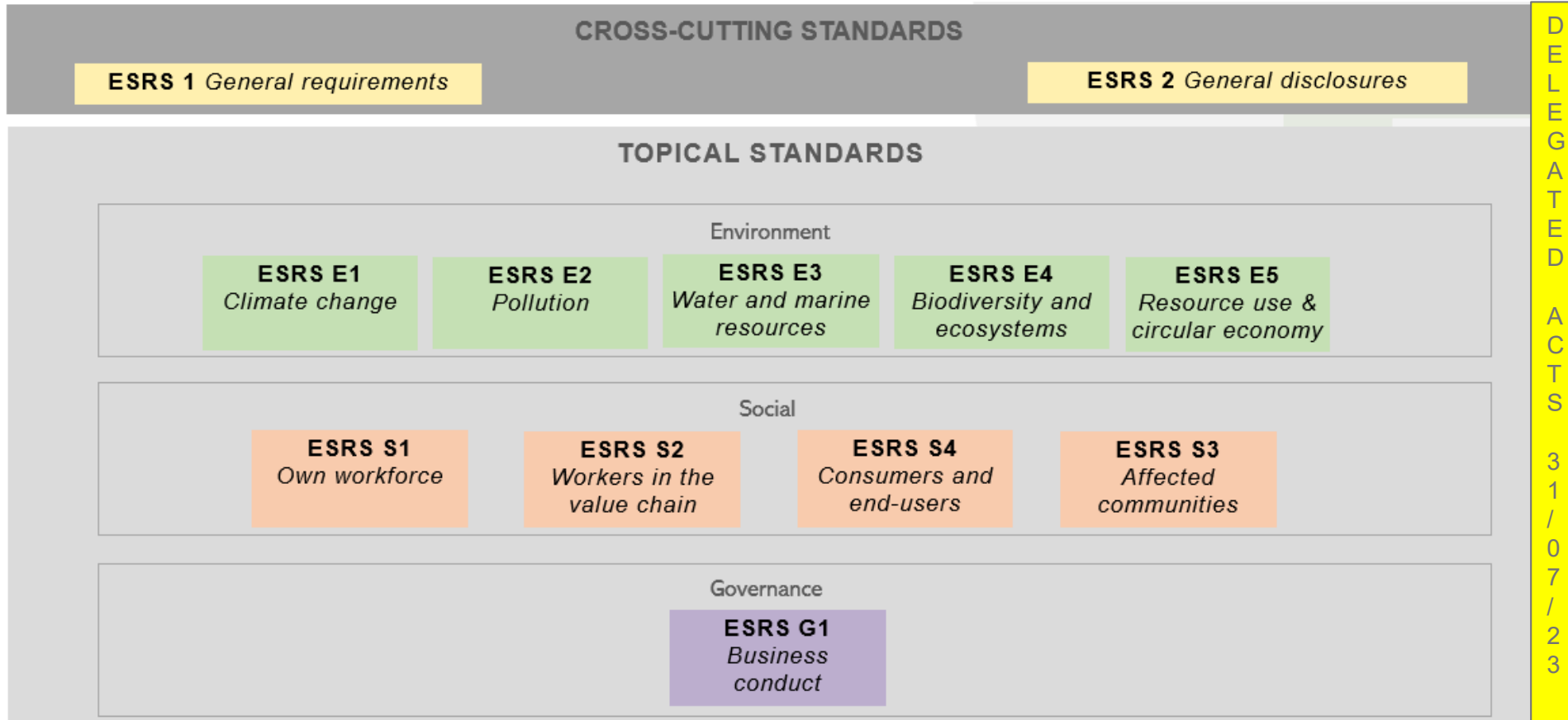
31 July 2023

Scrutiny period
Oct. 21 / (Dec 21)

ESRS EDs exposed
for comments

No changes to text,
but EP or Council
could reject

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 Delegated Act compared to the EFRAG November 2022 drafts

- **Materiality:** all standards, disclosure requirements and data points subject to materiality assessment
 - ESRS 2 *General Disclosures* and related IRO-1 Disclosures of topical standards: always mandatory
 - if Climate is considered not material have to explain + provide forward-looking analysis
 - datapoints from EU legislation to mention "not material" if omitted
- **Phasing-in:**
 - ✓ undertakings with less than 750 employees may omit:
 - first year: scope 3 GHG emissions, all disclosures on own work force
 - first two years: all disclosures on 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
- **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



ESRS
Implementation
Support

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
- **Available for 4 weeks of public feedback when approved in draft (Q4-23 or Q1-24)**
 - ✓ 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 23 August
SRB 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
opening soon!**



Focus on double materiality

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:
 - ✓ **"Impact Materiality"**: Sustainability matters that pertain to the undertaking's material actual or potential, positive or negative impacts on people or the environment over the short, medium or long term.
 - ✓ **"Financial Materiality"**: Sustainability matters that generate risks or opportunities that have or could reasonably be expected to have a material influence on the undertaking's development, financial position, financial performance, cash flows, access to finance or cost of capital over the short, medium or long term.
- In practice, under a dynamic perspective, most impacts can be anticipated to have financial effects short, medium or long term, therefore they also generate risks and opportunities
- Sometimes risks and opportunities may arise without impacts, e.g. dependencies on the availability of natural and human resources
- In substance, investor focus embedded into double materiality approach, very limited or no financial effect that would not be decision-useful for investors

The pivotal role of the materiality assessment

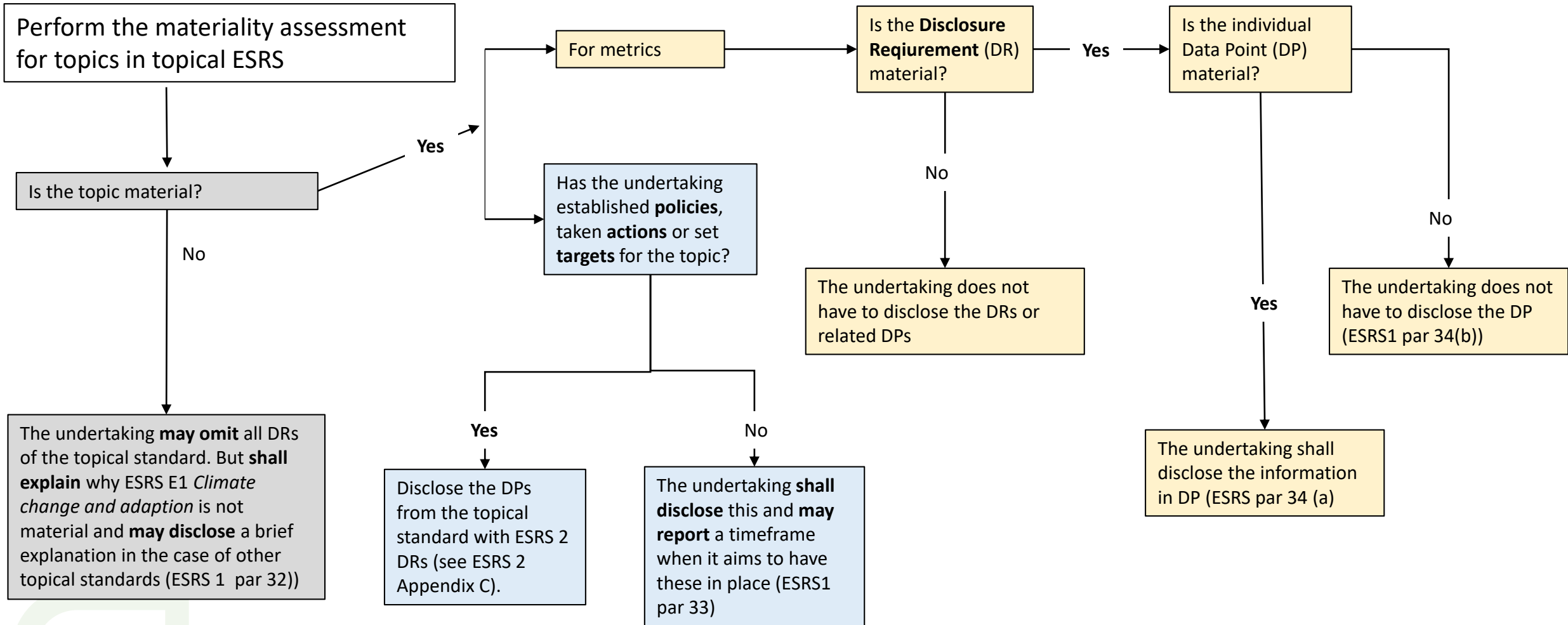


Sustainability statements shall reflect **all material** impacts, risks and opportunities (IROs): under an objective approach with thresholds. Thus, not all sector agnostic standards may be applicable to an undertaking.



Reporting entity to implement a **rigorous materiality assessment process** to determine material IROs (inc understanding of its value chain). This will be subject to audit.

Flow chart: from materiality of a topic to reported information



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



Interoperability with IFRS SS and GRI

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
 - ✓ **ESRS ‘an open system’**: possible to add disclosures from other standards as long as identified clearly (ESRS 1 §114 and ESRS 2 §15)

Interoperability with IFRS S1 and S2

International Sustainability Standards Board (ISSB)

IFRS®

- Architecture: 4 pillars TCFD
- Aligned definitions financial materiality and value chain
- All requirements in IFRS S1 included in ESRS 1 and 2
- All datapoints of IFRS S2 included in ESRS E1
- ESRS E1 includes also additional disclosures not included in IFRS SS due to European law and ambitions

Continuous ongoing cooperation, including on digital interoperability

ASSESSMENT OF INTEROPERABILITY, EFRAG SRB 23 AUGUST 2023:

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 for between ESRS E1 *Climate Change* and IFRS S1 and S2 – see SRB 23 August for the docs

Global Reporting Initiative



- Technical cooperation from the beginning of EFRAG PTF
- Aligned key concepts: impact materiality, due diligence
- GRI reporters well prepared to report on impacts under ESRS

Continuous ongoing cooperation, Next steps:

- **Reconciliation ESRS with GRI disclosures**
- **Digital interoperability**

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 23 Joint statement of interoperability



EFRAG developments ahead

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

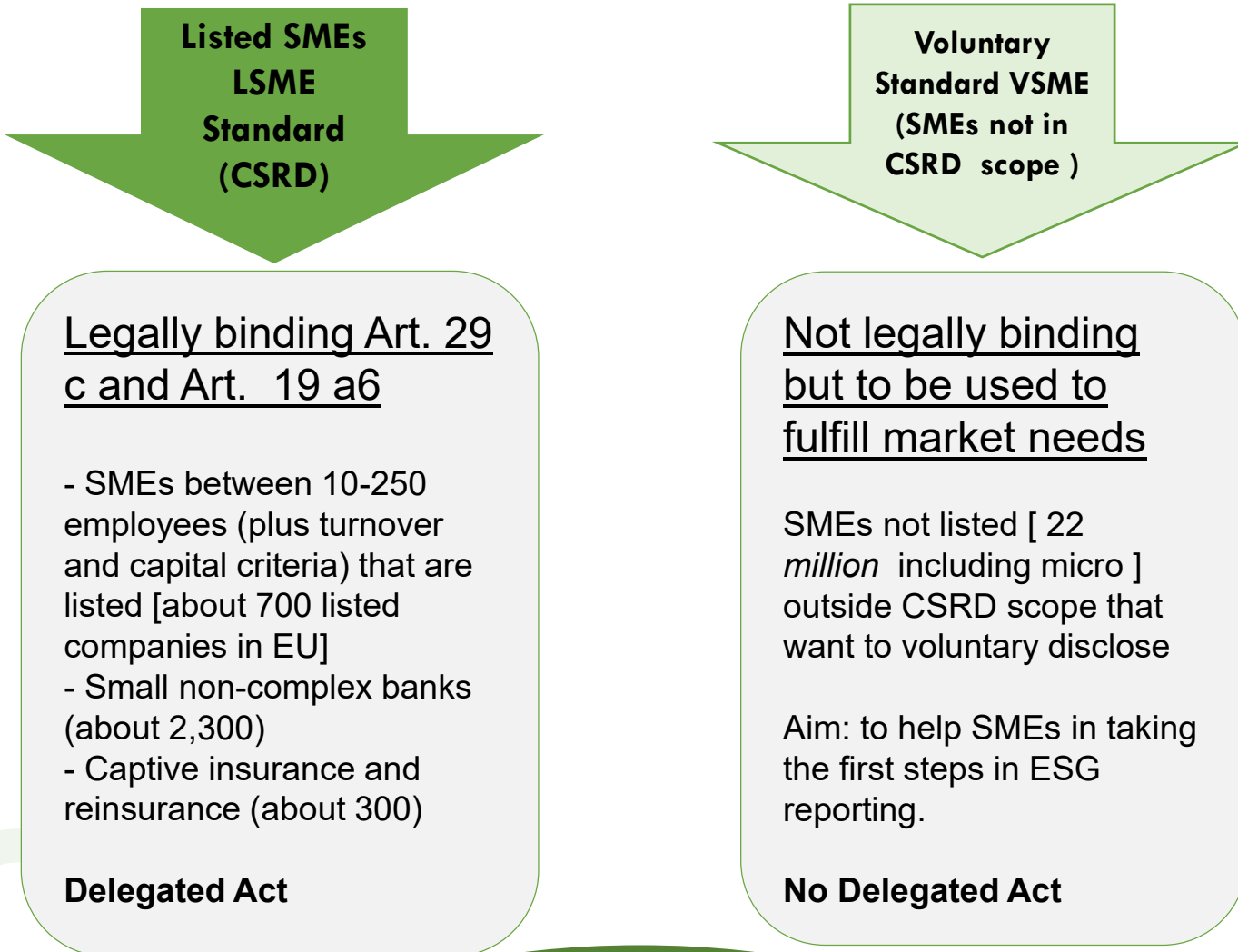
- First paragraph -> the description of the Disclosure Requirement
- Second paragraph: -> the objective of the disclosure requirement (principles-based approach)
- Following paragraphs: the specific datapoints to be included (« shall ») under a, b, c..., subdivided, if need be, as (i), (ii), (iii)...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

+ Application requirements

... 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:
 - ✓ Level 1: Disclosure requirement level
 - ✓ Level 2 (« nested »): a, b, c ...
 - ✓ Level 3 (« nested »): (i), (ii), (iii) ... (when required by ESRS)
 - ✓ Quantitative (numerical) and semi-narrative tags (Yes/No, Dropdowns) on all levels

High priority in EFRAG current workplan: SME



Consultation in Q4-23 or Q1-24

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 has no legal role and does not impact the cap.

The Draft LSME ESRS will define the limit of information that EFRAG may request from large undertakings, in line with art 29b(4) CSRD.

EFRAG VSME Workstream

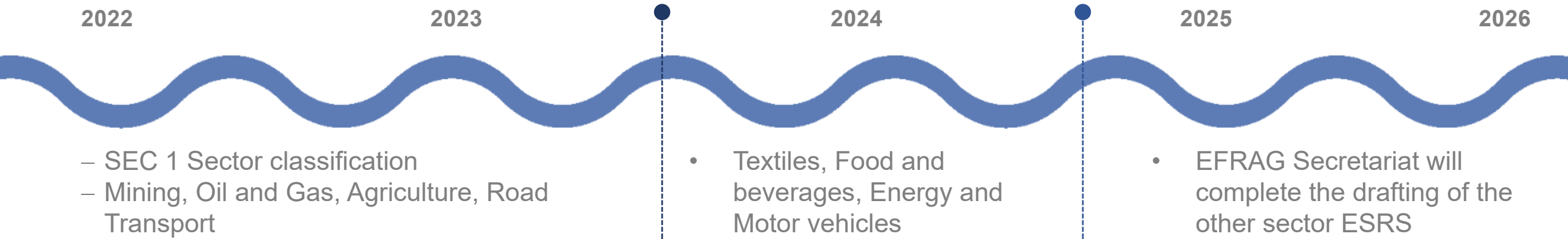


SMEs will adopt this standard to the extent that there is a market acceptance for it to present the common set of needed data for investors, lenders and other counterparties in the value chain

- EFRAG's work on a voluntary standard for non-listed micro, small and medium companies (VSME) is **outside the mandate defined in the CSRD and derives from the market need to have a common point of reference to be used by counterparties in the upstream value chain of SMEs and by lenders, when they define their data requests from non-listed SMEs and to support non-listed SMEs in the start of their sustainability journey.**
- This market need was highlighted in the EC impact assessment accompanying the CSRD proposal and confirmed by EFRAG LAB (Final Report 2021) and by former EFRAG PTF cluster in charge of SMEs that was composed by representatives of SMEs and banks.
- Following the feedback from stakeholders regarding ESRS and the need for a standardized VSME, **Commissioner Mc Guinness and the European Commission recommended EFRAG to work on a [draft] VSME.**

Sector ESRS – 39 Exposure Drafts in the coming years

Starting from high-impact sectors and financial institutions



Financial institutions (banking, insurance, asset management) to address also value chain specificities
Apply to Advisory Panel by 15 Sept. 23

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

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 IROs, 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



Thank you!

Stay tuned
Subscribe @

<https://www.efrag.org/Home/Subscribe>



Follow us:



35 Square de Meeûs, B-1000 Brussels
info@efrag.org - www.efrag.org



EFRAG is co-funded by the European Union and EEA and EFTA countries. The contents of EFRAG's work and the views and positions expressed are however the sole responsibility of EFRAG and do not necessarily reflect those of the European Union or the Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA). Neither the European Union nor DG FISMA can be held responsible for them.

