

# A deep dive on the European sustainability reporting journey

Eurofiling, 6 June 2024

Patrick de Cambourg, Sustainability Reporting Board Chair



## Disclaimer

The views expressed in this presentation are those of the presenter, except where indicated otherwise. EFRAG positions, as approved by the EFRAG SRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.



## In a nutshell ...

The goal is to organise a second pillar of standardised corporate reporting alongside financial reporting on an equal footing and therefore ...

... to provide quality sustainability related information on E, S & G to capital markets and other stakeholders in order ...

... to avoid green or ESG washing and ...

... to foster the creation of a single harmonised and reliable data platform under human and digital readability



1. CSRD & first set of sector agnostic ESRS
2. Paving the way to digital reporting
3. Including SMEs into the sustainability reporting momentum
4. Supporting implementation
5. EFRAG and the sector work
6. Fostering global interoperability
7. Non-EU Standard



## CSRD & first set of sector agnostic ESRS

- A robust mandatory legal regime of sustainability reporting under double materiality

- CSRD

LEVEL 1

- ESRS

LEVEL 2

- Draft ESRS developed by EFRAG
- Provided as technical advice to the EC
- Adopted as delegated acts by the EC

- Firstly, sector agnostic, then sector specific



# The key features of the CSRD



Mandating the use of European Sustainability Reporting Standards (ESRS) developed by EFRAG and adopted by the EC via delegated acts - comprehensive coverage of sustainability matters: E, S & G



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 limited assurance to start with, moving to reasonable assurance by the end of the decade



Both human and machine-readable using European Single Electronic Format (ESEF) from 2025/2025 (timing to be confirmed) – EFRAG tasked to develop the draft XBRL taxonomy

# The first set of sector agnostic ESRS

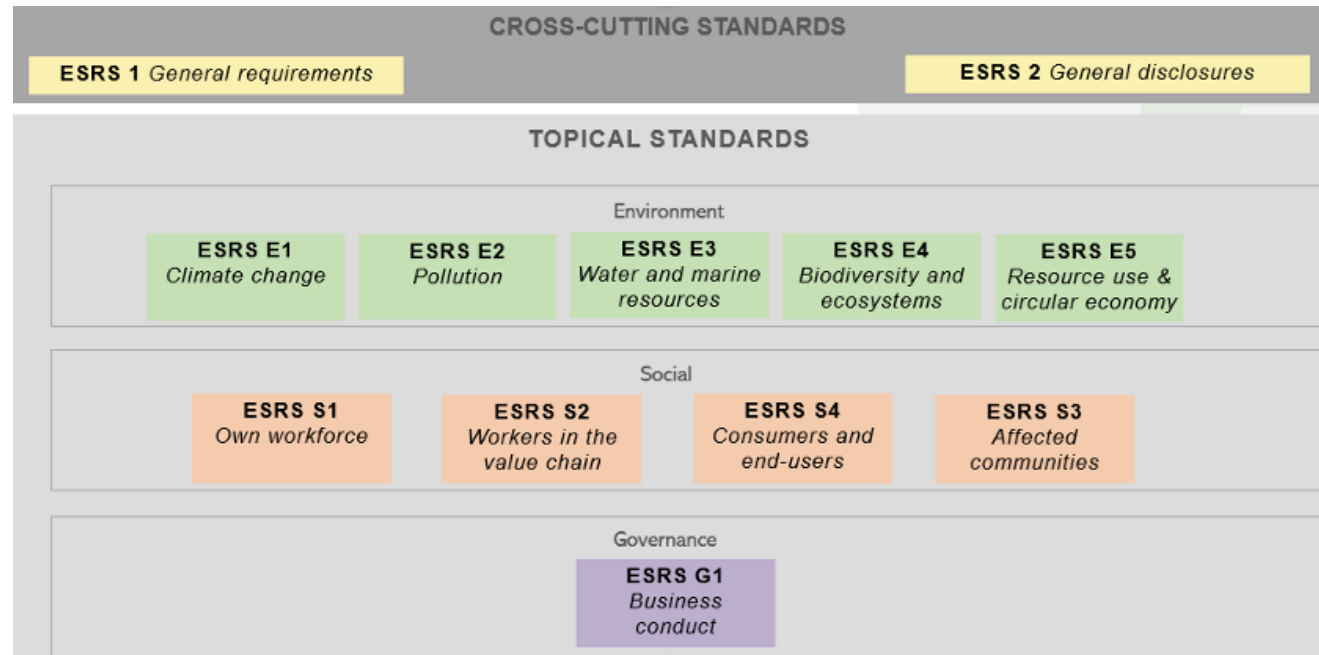
- Categories of ESRS Standards for large companies (EU criteria)

- Cross cutting standards
- Topical Standards
- Sector specific standards



- Other ESRS Standards

- LSME standard (Listed SME)
- VSME (voluntary SME)



## 4 Reporting areas :

Governance (Gov)

Strategy (SBM)

Impacts, Risks and Opportunities management (IRO)

Metrics and Targets  
*(topical standards)*

## Standardisation of reporting whilst creating a platform of sustainability data within the EU

- > SFDR PAIs for financial market participants
- > Art. 8 taxonomy



# 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 the understanding of its value chain). This will be subject to audit.



Paving the way to digital  
reporting

EFRAG, under the mandate of the EC, developed the ESRS XBRL Taxonomy, which will be part of ESEF RTS

The ESRS XBRL Taxonomy is a digital transposition of the human-readable ESRS

*‘Digitalisation creates opportunities to exploit information more efficiently and holds the potential for significant cost savings for both users and undertakings. Digitalisation also enables the centralisation at Union and Member State level of data in an open and accessible format that facilitates reading and allows for the comparison of data’<sup>1</sup>*

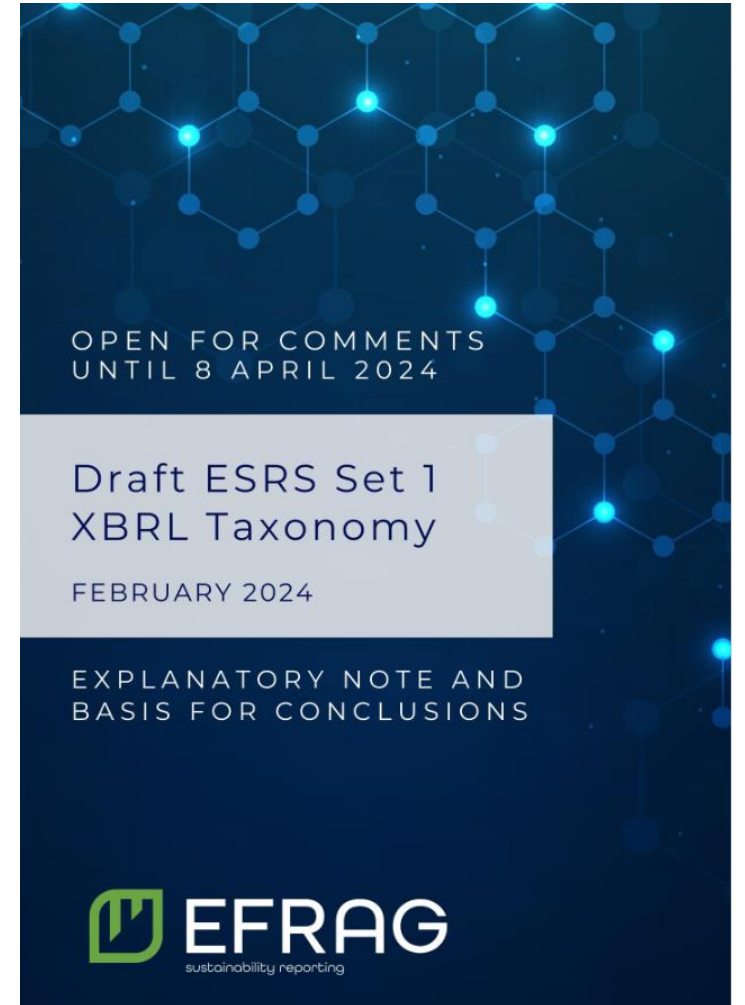
**Preparers** can use the ESRS XBRL Taxonomy to better structure their sustainability statements

**Users** benefit from the digital tagging as they will be able to use ESRS data more easily

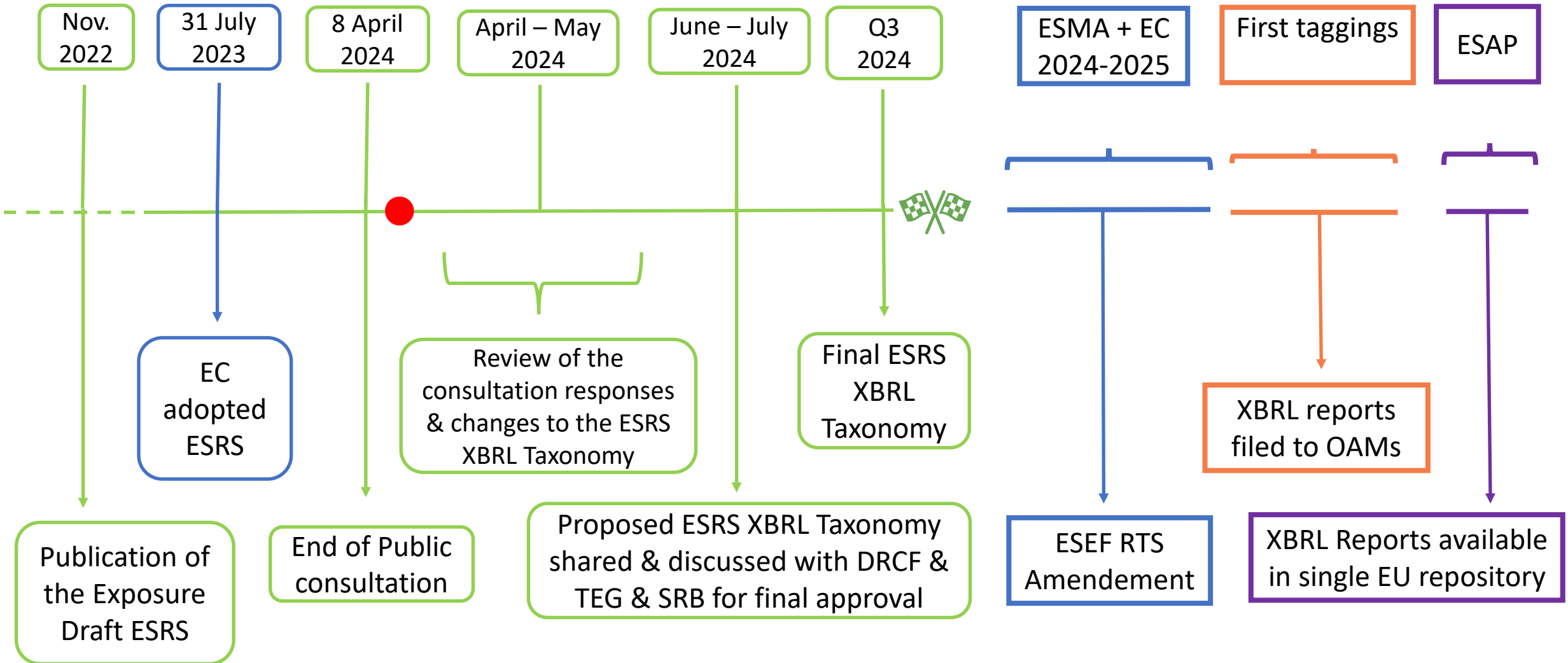
<sup>1</sup> Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022, Recital 55

# Draft XBRL ESRS Set 1 Taxonomy consultation

- The ESRS Set 1 Draft XBRL Taxonomy has been issued on the 8 February 2024 on EFRAG's webpage.
- Additionally, a Draft XBRL Taxonomy for **Article 8 disclosures** has been issued for consultation as well.
- The consultation on the taxonomy itself is accompanied by an “**Explanatory Note & Basis for Conclusions**” document, including *illustrations of application instructions* (IAI).
- Two **non-authoritative accompanying documents** have been provided as appendices to the consultation in order to allow for a more informed response:
  - The XBRL taxonomy illustrated in Excel
  - Illustrative Examples of tagged ESRS reports.
- **The consultation has been closed**, 48 responses have been provided and ~400 individual comments. The secretariat is currently preparing for the re-deliberation to address the comments.



# Timeline: Final XBRL Taxonomy to be handed over to EC/ESMA in Summer 2024





Including SMEs into the  
sustainability reporting momentum

# SME Exposure drafts

- Exposure drafts for both LSME (for listed SMEs) and the voluntary reporting standard for unlisted SMEs (VSME) was issued on 22 January 2024 with deadline for comments on 21 May 2024
- Discussion with CFSS on 17 January 2024
- Educational videos issued on 16 February 2024
- Public outreach event: 20 February 2024
- Work on field tests, outreach events and cost benefit analysis ongoing
- Both draft standards to be delivered as technical advice to the EC in December 2024

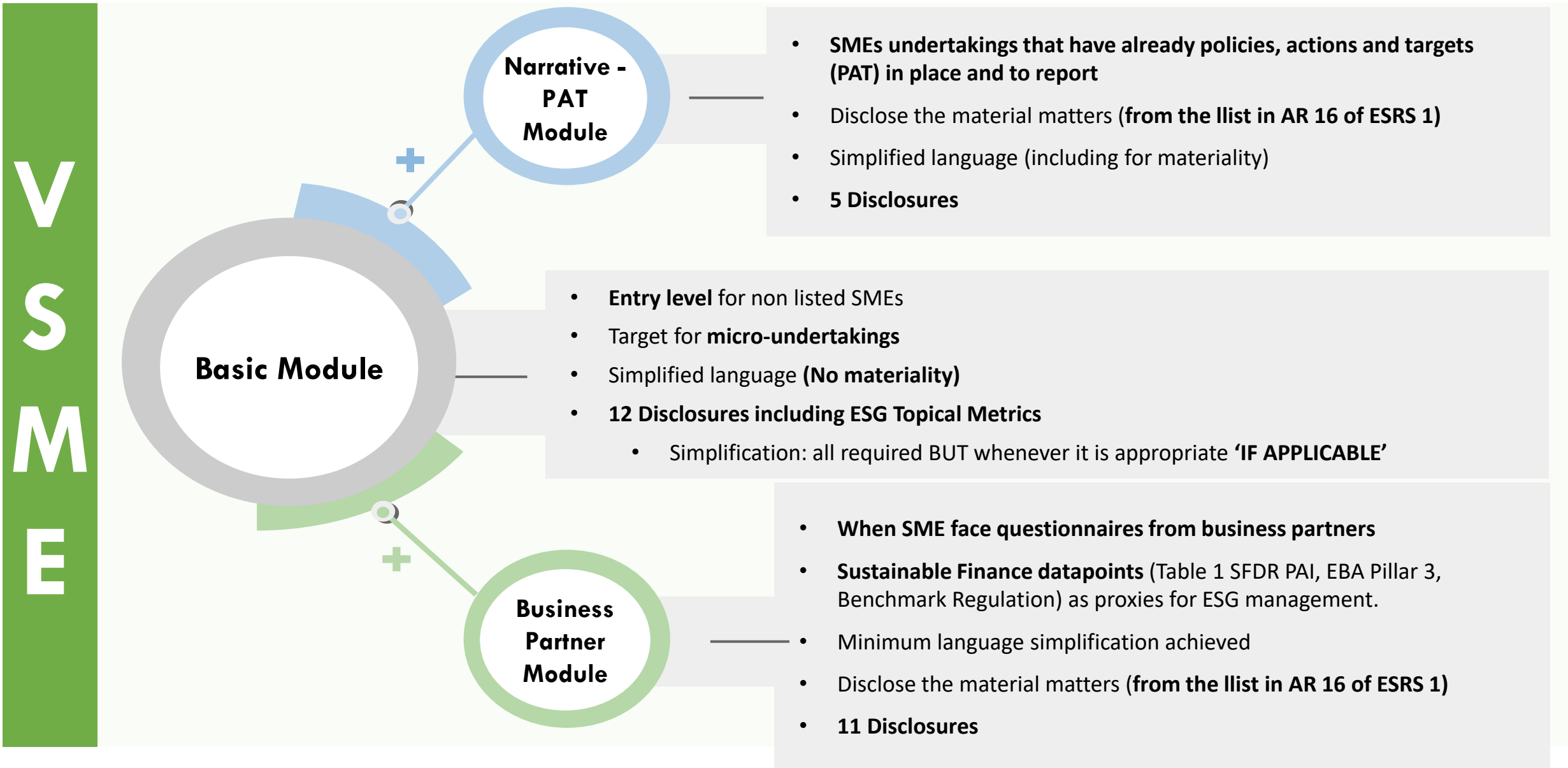


The graphic features the EFRAG logo at the top right. On the left, the text reads: **EFRAG PUBLIC CONSULTATION**, **Exposure drafts on sustainability reporting standards for SMEs**, and *Deadline: 21 May 2024*. On the right, there are two draft document covers. The left cover is dark blue with a yellow band and contains the text: **VOLUNTARY ESRS FOR NON-LISTED SMALL- AND MEDIUM-SIZED ENTERPRISES (VSME ESRS)**, **JANUARY 2024**, and **OPEN FOR COMMENTS UNTIL 21 MAY 2024**. The right cover is yellow with a dark blue band and contains the text: **ESRS FOR LISTED SMALL- AND MEDIUM-SIZED ENTERPRISES (ESRS LSME)**, **JANUARY 2024**, and **OPEN FOR COMMENTS UNTIL 21 MAY 2024**.

- To provide a simple reporting tool, that can credibly replace a substantial part of the questionnaires used by business partners (**lenders, investors and corporate clients – supply chain dimension**) in requesting ESG data from SMEs and that can support SMEs in monitoring their sustainability performance.
- While the ED has been built **mainly on the basis of questionnaires from business partners**, the resulting information is expected to also benefit SMEs by improving their management of sustainability issues and, in this way, contribute to a more sustainable and inclusive economy.



# Modular approach to maximise proportionality



## Value chain cap: LSME, VSME AND trickle-down effect

- SMEs receive data requests from large undertakings for business and reporting reasons, including the CSRD reporting obligations using ESRS.
- To limit the amount of these requests, according to CSRD, ESRS should not specify disclosures that would require large undertakings to obtain information from SMEs in their value chain that exceeds the information to be disclosed in accordance with LSME ESRS ED. EFRAG work identifies this legal requirement as '**value chain cap**'.
- Beyond the legal provisions of CSRD, VSME ED is also intended to play a key role in supporting SMEs, when they prepare the information needed by large undertakings for ESRS reporting, as well as for other obligations including for business purposes.



## Supporting Implementation

# Implementation support: IGs



3 documents issued on 22 December 2023 with a deadline for comments on 2 February 2024, covering:

- Materiality assessment
- Value chain
- Datapoints

- Transition plans
- ESRS 1 Application Requirements 16 (table of sustainability matters) mapping to Disclosure Requirements
- Training Implementation Guidance (IG)
- Other IGs
  - Pension fund emissions
  - Guarantees of origin and other certificates
  - Water storage
  - Resource use

# Implementation support: EFRAG ESRS Q&A platform

Update Q&A Platform as of 3 April 2024

Question related to:	Number of questions received since 24 October 2023
x-cutting	138
Environment	113
Social	74
Governance	12
XBRL	9
VSME	1
LSME	0
Sectors	0
Other	54
not yet allocated to the above	0
<b>TOTAL</b>	<b>401</b>





## EFRAG and the sector work

- Eleven workshops on SEC 1 (Standard-setting approach and classification standard) during February 2024
- **Advisory panels for financial institutions (Banking, Capital Markets and Insurance) announced and kick-off meetings held**
- SEC 1 and sector EDs on *Oil and Gas* as well as *Mining, Quarrying and Coal Mining* available in *H2 2024*
- Sector EDs for *Road transport* and *Textiles, accessories, jewellery and footwear* planned to be available in Q1 2025, but depends on resources
- Other high-impact sectors: preparation ongoing with SR TEG and SRB discussions in 2025 onwards
- **V1 of FI sector standards planned for SR TEG discussion in December 2024/January 2025 and ED issuance in H2 2025**



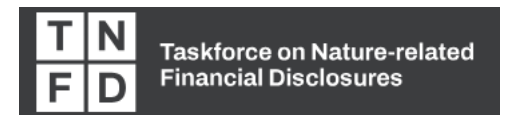




Interoperability

# Interoperability maps

- To avoid double reporting (key EU objective: no duplication)
- Leveraging on the high-level of interoperability achieved in published ESRS
- Implementation support material issued jointly
- Illustration of the correspondence of detailed requirements in ESRS that correspond to the other standard, with clarification of differences in terminology and substance (if any)
- Paving the way to digital interoperability





Non-EU standard

- Scope A. article 40a(1): Large subsidiaries including unlisted and public interest SME subsidiaries:
  - ✓ they are in the CSRD scope in their own right
  - ✓ in addition, information on group level to be provided if net Group turnover in the EU > €150 million
- Scope B. article 40a(1): If no subsidiary in scope A, information on group level if a branch generating more than €40 million if net Group turnover in the EU > €150 million
- Adoption of separate standards specially for non-EU companies foreseen
- Deadline proposed to postpone to June 2026 -> EFRAG to deliver its advice to the EC by November 2025.
- The consultation on an Exposure Draft will start in **Q4-2024 or Q1-2025 at the latest.**

## Article 40a (content of sustainability reporting)

[...] a sustainability report covering the information specified in points (a)(iii) to (a)(v), points (b) to (f) and, where appropriate, point (h) of Article 29a(2) at the group level of that ultimate third-country parent undertaking.

(a) a brief description of the group's business model and strategy, including:

~~(i)~~ the resilience of the group's business model and strategy in relation to risks related to sustainability matters;

~~(ii)~~ the opportunities for the group related to sustainability matters;

(iii) the plans of the group, including implementing actions and related financial and investment plans, to ensure that its business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1,5 °C in line with the Paris Agreement and the objective of achieving climate neutrality by 2050 as established in Regulation (EU) 2021/1119 and where relevant, the exposure of the group to coal-, oil- and gas-related activities;

(iv) how the group's business model and strategy take account of the interests of the group's stakeholders and of the impacts of the group on sustainability matters;

(v) how the group's strategy has been implemented with regard to sustainability matters;

(b) a description of the time-bound targets related to sustainability matters set by the group, including, where appropriate, absolute greenhouse gas emission reduction targets at least for 2030 and 2050, a description of the progress the group has made towards achieving those targets, and a statement of whether the group's targets related to environmental factors are based on conclusive scientific evidence;

(c) a description of the role of the administrative, management and supervisory bodies with regard to sustainability matters, and of their expertise and skills in relation to fulfilling that role or the access such bodies have to such expertise and skills;

- (d) a description of the group's policies in relation to sustainability matters;
- (e) information about the existence of incentive schemes linked to sustainability matters which are offered to members of the administrative, management and supervisory bodies;
- (f) a description of:
  - (i) the due diligence process implemented by the group with regard to sustainability matters, and, where applicable, in line with Union requirements on undertakings to conduct a due diligence process;
  - (ii) the principal actual or potential adverse impacts connected with the group's own operations and with its value chain, including its products and services, its business relationships and its supply chain, actions taken to identify and monitor those impacts, and other adverse impacts which the parent undertaking is required to identify pursuant to other Union requirements to conduct a due diligence process;
  - (iii) any actions taken by the group to prevent, mitigate, remediate or bring an end to actual or potential adverse impacts, and the result of such actions;
- ~~(g)~~ a description of the principal risks to the group related to sustainability matters, including the group's principal dependencies on those matters, and how the group manages those risks;
- (h) indicators relevant to the disclosures referred to in points (a) to (g).



Follow us



35 Square de Meeûs, B-1000 Brussels  
[info@efrag.org](mailto:info@efrag.org) - [www.efrag.org](http://www.efrag.org)



EFRAG is co-funded by the European Union through the Single Market Programme in which the EEA-EFTA countries (Norway, Iceland and Liechtenstein), as well as Kosovo participate. Any views and opinions expressed are however those of the presenter only and do not necessarily reflect those of the European Union, the European Commission or of countries that participate in the Single Market Programme. Neither the European Union, the European Commission nor countries participating in the Single market Programme can be held responsible for them.

THANK YOU