

xBRL EUROPE

**28th XBRL EUROPE
DIGITAL WEEK**

22-24 June 2021

A changing European ESG landscape

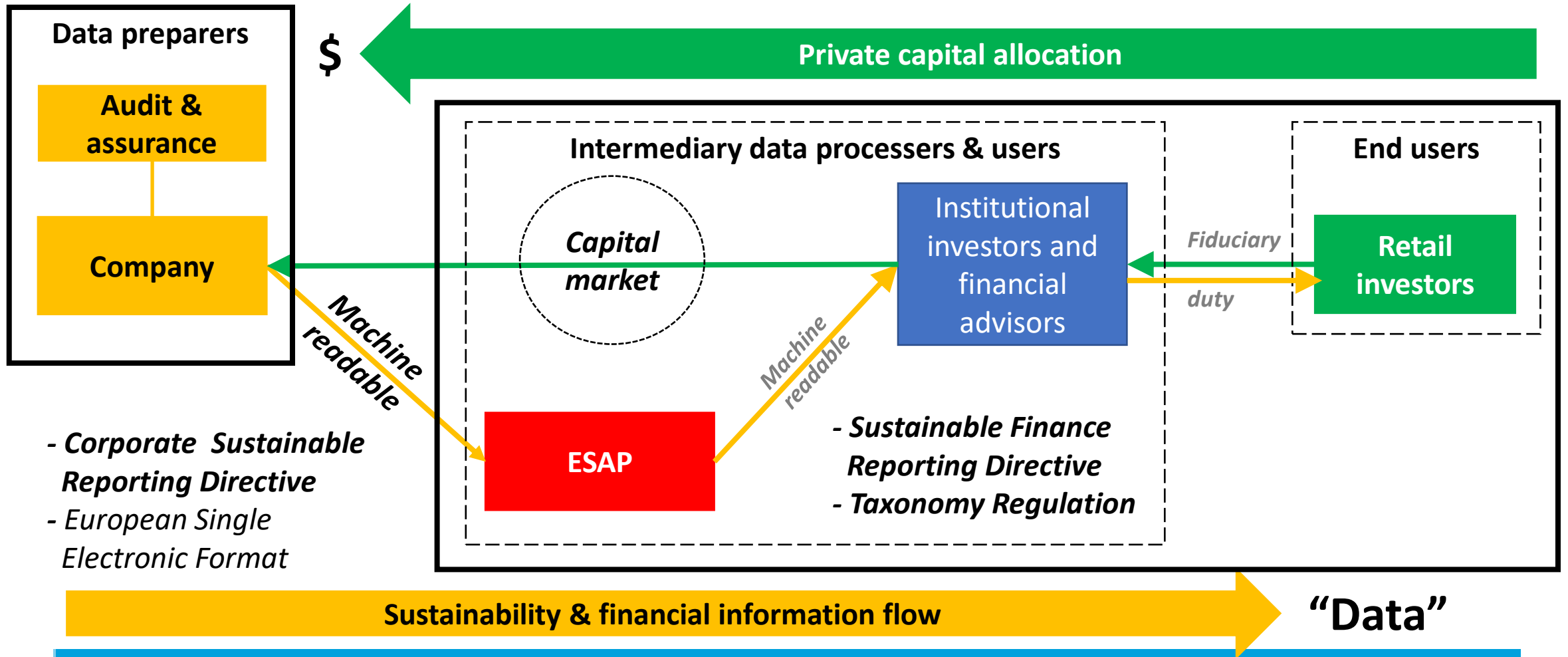
- Tord Andersson PhD
- RVA Consulting
- Member of XBRL Sweden & XBRL Europe Sustainability / ESG Working Group



Corporate Sustainability Reporting Directive: Digitalisation challenges and benefits

- Digitalization challenges:
 - ✓ Lack of widely accepted sustainability reporting standard
 - ✓ Development of the digital taxonomy concurrently with the sustainability standard setting
 - ✓ Assurance of sustainability and digital reporting
 - ❑ Company skills, processes and control mechanisms of digital sustainability information
 - Digitalization benefits:
 - Lower access costs for investors
 - Direct access to reported data will create better decision making for sustainable resource allocation of capital.
-

The emerging ecosystem for Sustainable Finance information



Financial ESG-data challenges:

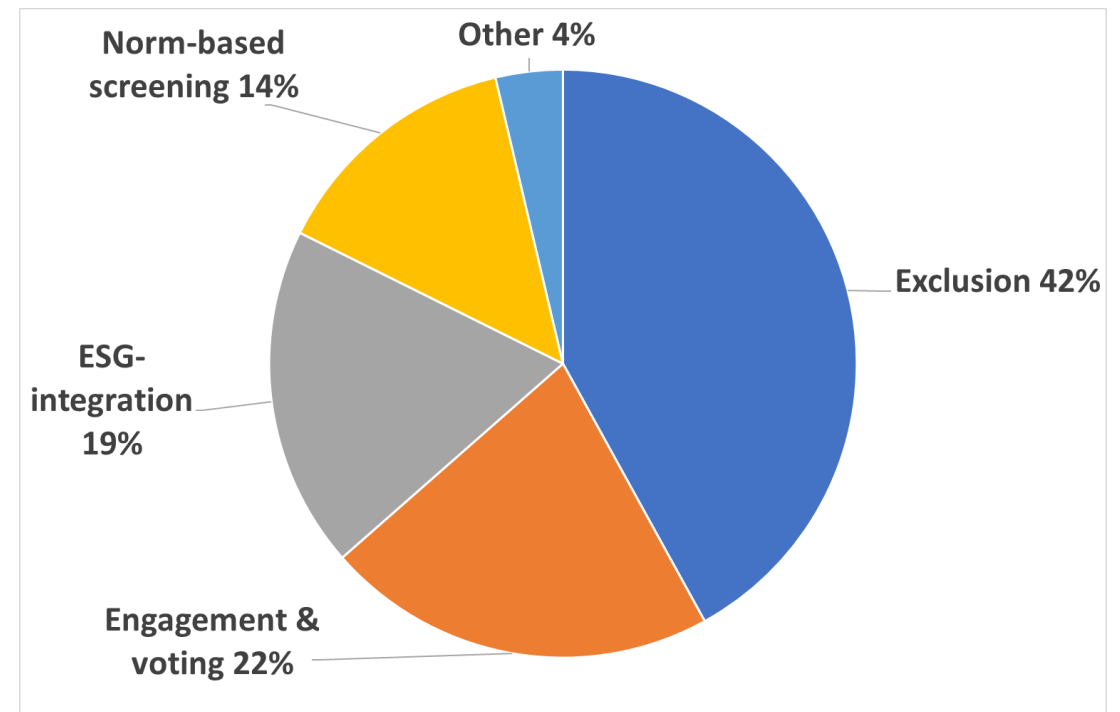
“Decision usefulness”

- A central challenge observed by the EU Commissions High Level Expert Group (HLEG 2017) was:
 - “to integrate ESG factors into financial decision making” (p 3)
 - as “... managers and investors may have difficulties when trying to incorporate it within valuation models, business strategies and decision making” (p 21)
 - This challenge is related to that material ESG factors are complex to integrate into traditional financial analysis and valuation.
 - It impose an ESG data challenge for investors in terms of:
 - Diverse ESG strategies
 - Defining high-value dataset
 - Approaches to ESG analysis & valuation
-

Financial ESG-data challenges: Investors ESG strategy

- The stock selection process is dependent of the investors ESG strategy, which may be:
 - Exclusion (value based)
 - Engagement and voting
 - ESG Integration
 - Norm based screening
 - Other:
 - Best in class
 - Sustainability themed
 - Impact investing

ESG Strategies in Europe 2017



Source: www.eurosif.org/wp-content/uploads/2018/11/European-SRI-2018-Study.pdf

Financial ESG-data challenges: High value datasets

- The CSRD and ESEF are “high value datasets”, a concept defined by the Open Data Directive (article 2) as:
 - “documents ... which is associated with important benefits for the society and economy, in particular ... for the creation of value-added services, applications ...”.
 - They will be (article 14):
 - availability free of charge,
 - machine readable,
 - provided via APIs
 - And provided as a bulk download, where relevant
 - Thematic categories of high-value datasets are (annex I):
 - geospatial
 - earth observation and environment
 - meteorological
 - statistics
 - **companies and company ownership**
 - mobility
-

Financial ESG-data challenges:

Approaches to ESG analysis and valuation

- The approach to ESG analysis depends on the investor's ESG investment strategy, which may be:
 - Alignment, independent of financial risk/return
 - Integration, concordance with financial risk/return
 - Impact, intersection with financial risk/return
 - With a diversified approach to ESG-analysis the data required is a challenge.
 - CSRD will significantly improve this.
 - Also the financial analysis can be improved through:
 - Integrated valuation approaches, as the value-driver adjustment approach.
 - Use of the nature of expense income statement, which reveal economic activities and business models from a stakeholders perspective.
-

Financial ESG-data challenges: ESG in an IFRS nature of expense income format

GRI, SASB, SDG

