

The Future of standard setting in ESG reporting

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TABLE OF CONTENTS

1. The key features of the European legal regime: the CSRD
2. The key features of the regulatory regime: the ESRS
3. Update on sector specific standard setting
4. Next sets



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

The key features of the European legal regime: the CSRD

- A mandatory regime for all large entities (250+ employees) and listed SMEs, 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

- 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
- Digitisation from the first reporting (2025 on reporting year 2024?)



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



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

The key features of the regulatory regime: the ESRS

Sector agnostic standards near the finish line

ESRS Exposure Drafts by EFRAG PTF

Draft ESRS released to EC

EC draft Delegated Act public consultation

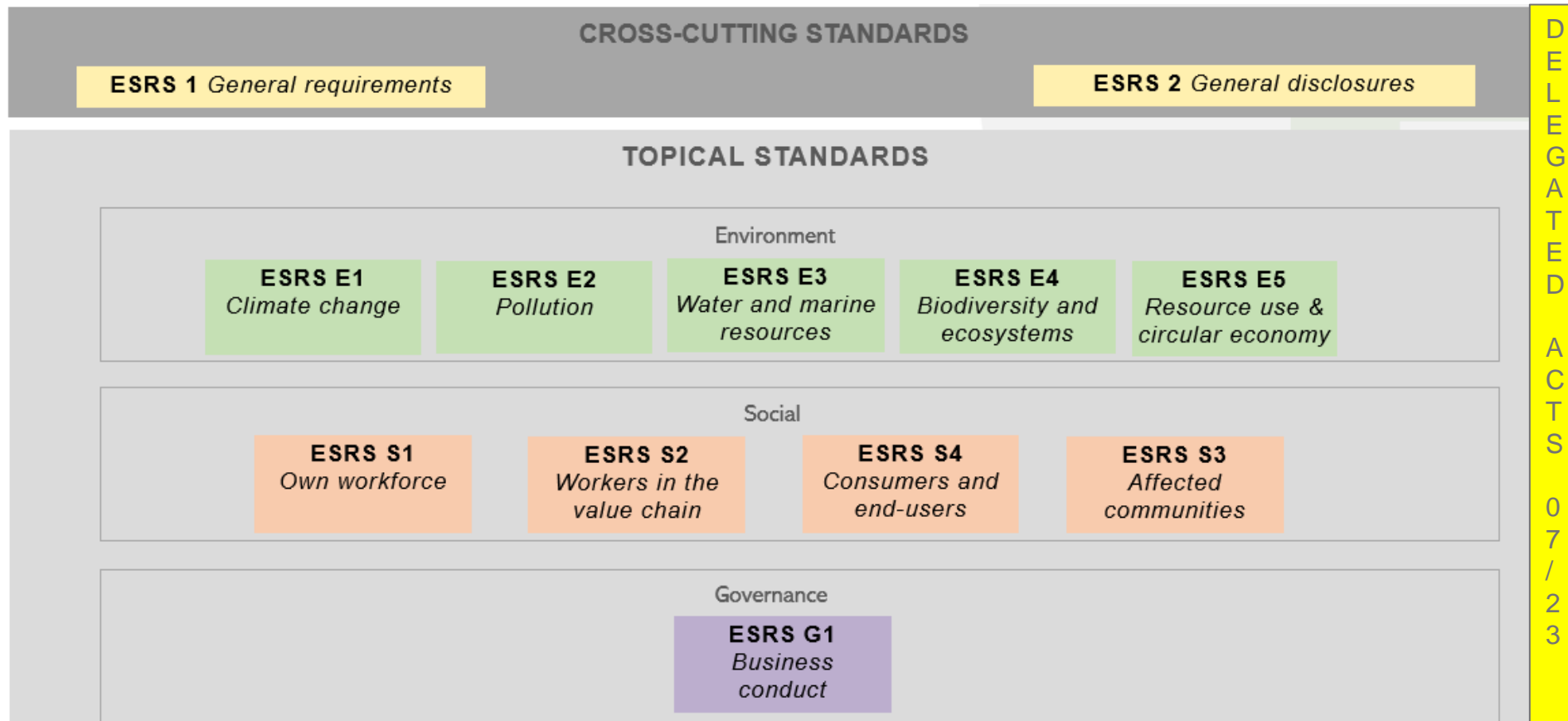


ESRS EDs exposed for comments

EC final Delegated Act

The key features of the European regulatory regime: the ESRS

➔ A first set of sector-agnostic ESRS



84 Disclosure Requirements

Qualitative or quantitative

1144 Datapoints

Double materiality

- Financial materiality
- Impact materiality

4 pillars

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

➔ Future sets: sector-specific standards, SMEs standards + implementation support

The standard structure of each ESRS

- Main body:
 - ✓ First paragraph of each disclosure requirement (bold): 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)
- Appendices:
 - ✓ A. Defined terms
 - ✓ B. Application requirement (« shall consider », « may disclose », « may consider »).
 - ✓ Other

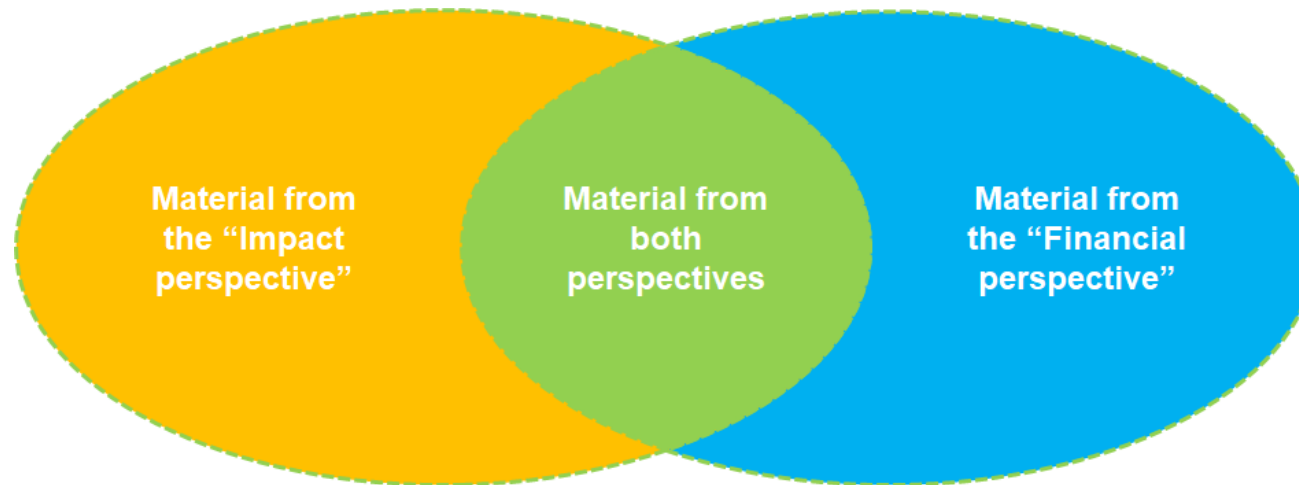
The translation of reporting into digital format

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



Double materiality

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:



The pivotal role of the materiality assessment

- Sustainability statements shall reflect **all material** impacts, risks and opportunities (IROs): under an objective approach with thresholds
- Reporting entity to implement a rigorous materiality assessment process to determine material IROs



3. Update on sector specific standard setting

Sector approach

In developing the draft sector ESRS, EFRAG has defined a decision tree:

1. EU-specific or international regulation
2. SASB sector standards
3. GRI sector standards
4. Other sources (researches, sector specific benchmarks, etc.)



EFRAG had established **Sector communities** to collect feedback and comments



4. Next steps

2 objectives:

- ✓ Building on and contributing to global sustainability reporting progress
- ✓ EU reporting entities: a single sustainability report

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

ESRS providing the EU data infrastructure and is more comprehensive:

- 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 stakeholders

Next steps

Non authoritative guidance and implementation questions

- EC asked EFRAG to **focus on providing additional guidance** for companies to apply the first set of horizontal standards rather than preparing for sector standards (**Materiality assessment, Value chain, Inventory of datapoints**)

Standard setting activities (Set 2)

- **Sector classification:** SEC 1
- **Sector-specific standards:** (standards for EU companies in 4 sectors) Agriculture, Mining Quarrying and Coal, Oil and Gas, Road Transport
- **SMEs:** Standard for listed SMEs (LSME) + Voluntary guidance for non-listed SMEs (VSME)

Standard setting activities (Set 3)

- **4 high-impact sectors:** Energy Production, Motor Vehicles, Food/Beverage, Textiles
- **Financial institutions** (banking, insurance, asset management)
- **The remaining 30 sector-specific standards**
- **Non-EU parent company standard**

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