

# EFRAG update on European Sustainability Reporting Standards (ESRS)

European Federation of Building Societies

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27 April 2023

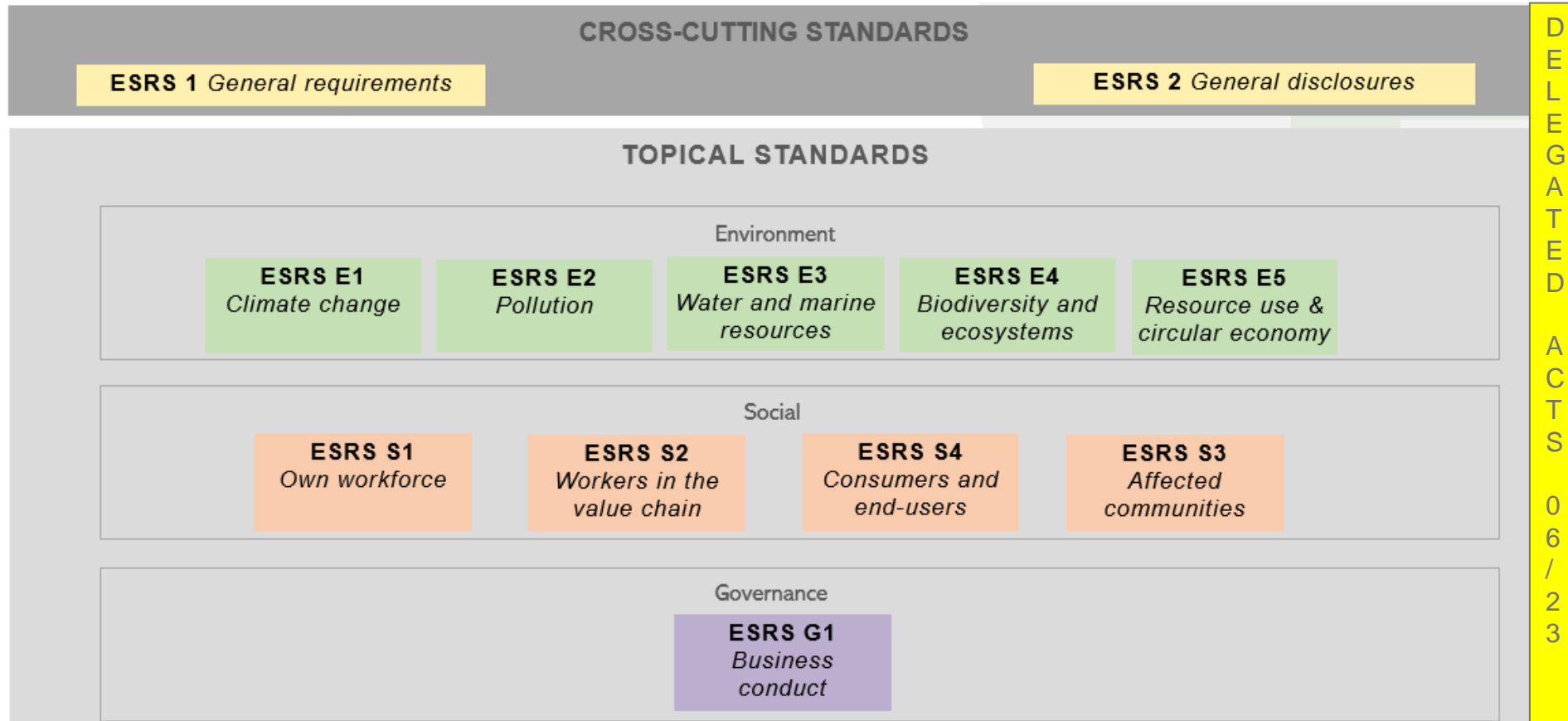


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# The package of ESRS standards released in November 2023

➔ A first set of sector-agnostic ESRS (proposed as « technical advice » to the EC)



## 84 Disclosure Requirements

Qualitative or quantitative

## Double materiality

- Financial materiality
- Impact materiality

## 4 pillars

- Governance
- Strategy
- Impacts, risks, and opportunities management
- Metrics and targets

# The accompanying documents

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- ✓ Cover letter
- ✓ Due process note
- ✓ Explanatory note, including its Annex, of how draft ESRS take account of the initiatives and legislation listed in Article 29b CSRD
- ✓ EFRAG's Cover Letter on the Cost-benefit analysis of the First Set of draft ESRS and Cost-benefit analysis of the First Set of draft ESRS prepared by CEPS and Milieu
- ✓ First set of 12 draft ESRS to be issued as delegated Acts
  - Appendix I – Disclosure Requirements, Application Guidance index
  - Appendix II – CSRD requirements for the development of sustainability reporting standards and their coverage by the draft ESRS
  - Appendix III – Datapoints in accordance with EU laws in the ESRS
  - Appendix IV – TCFD Recommendations and ESRS reconciliation table
  - Appendix V – IFRS Sustainability Standards and ESRS reconciliation table
  - Appendix VI – Acronyms and glossary of terms

# Simplifications and key changes from the EDs

## 1. Materiality approach

- The rebuttable presumption mechanism has been replaced by materiality approach, combined with a list of mandatory items
- Mandatory datapoints: ESRS 2, EU regulation datapoints (i.e. SFDR, Pillar 3 for banks, EU benchmark regulation), ESRS E1, for 250+ employees: S1.1/1.9
- Flexibility granted to disclose the outcome of the double materiality assessment
- Value chain refocused wording with emphasis on materiality

## 2. Significant streamlining of datapoints

- The number of disclosure requirements reduced from 136 in the April EDs to 82 (inc enhancing alignment with ISSB/GRI)
- Number of datapoints reduced by nearly half

## 3. Final text of the CSRD June 2022

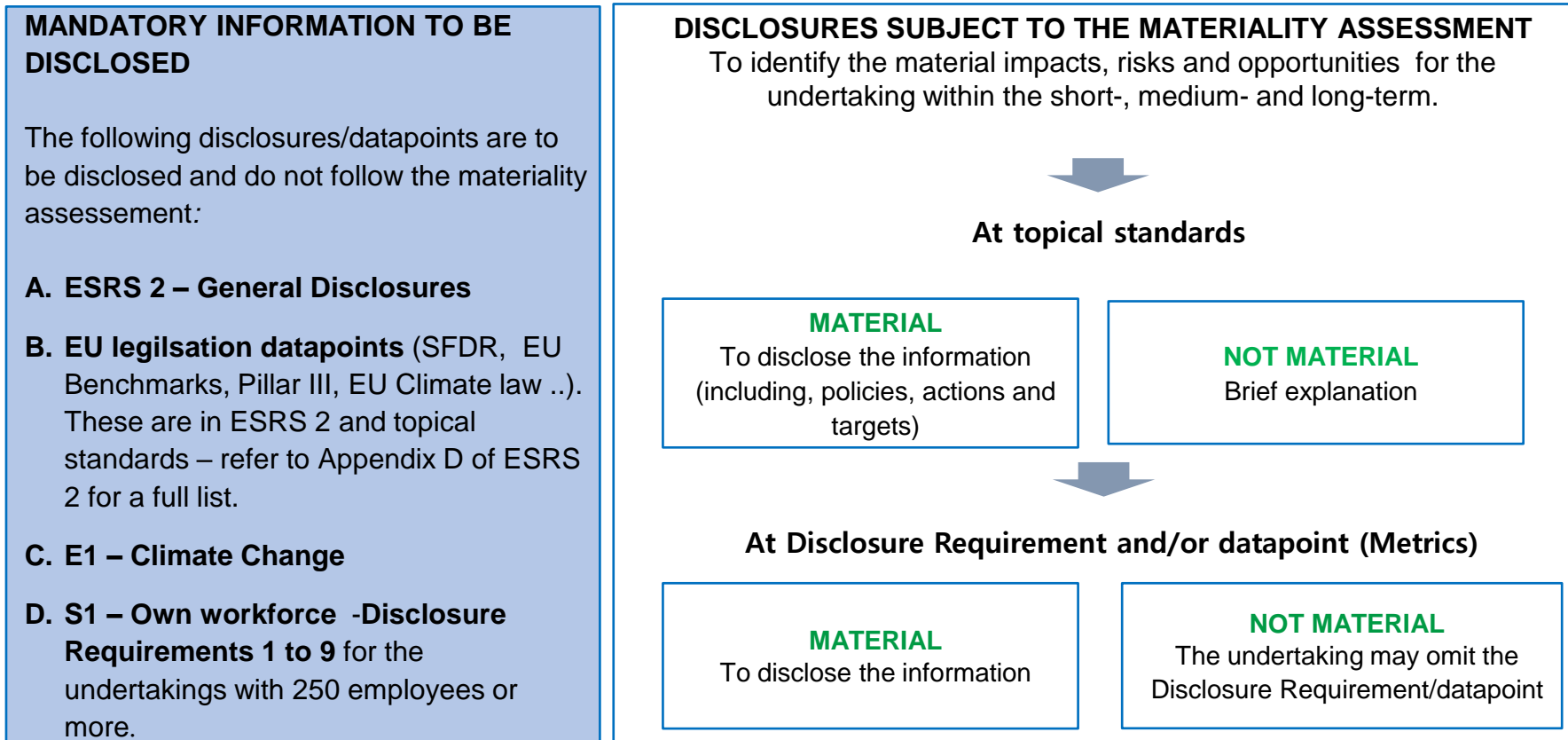
- 3-year transitional provisions for value chain information
- "Value chain cap" to be implemented in the LSME standard
- Governance factors limited to governance of sustainability matters. Merger of G1 into ESRS 2.

## 4. Global alignment

- Significantly increased alignment with IFRS and GRI

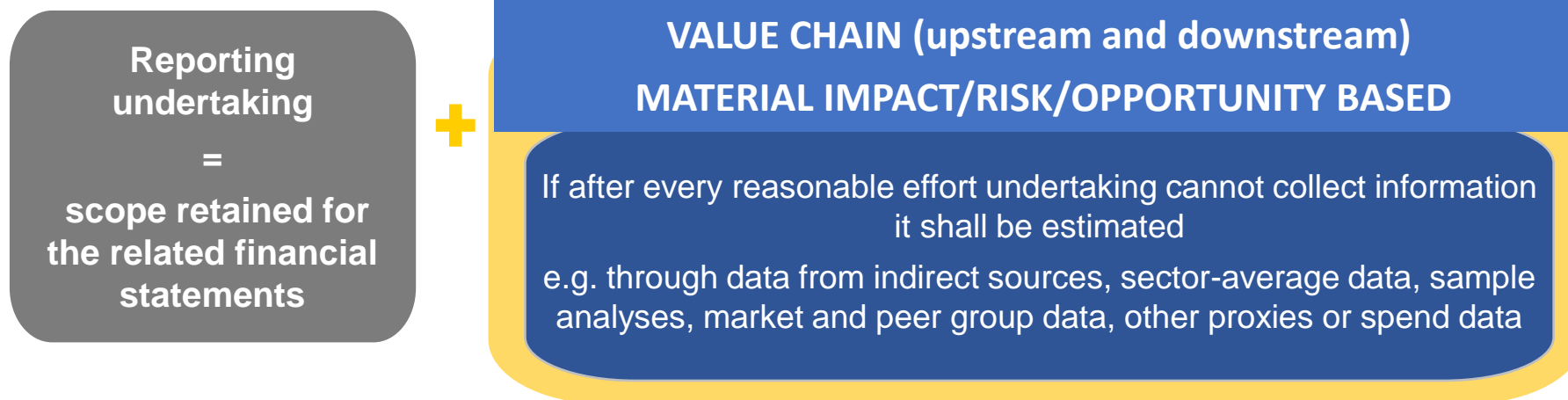
## 5. Transitional provisions

- Value chain postponed to take account of the difficulties companies may face in obtaining information, especially in the first few years. "Phase in" from 1 to 3 years for a number of datapoints (inc financial effects) to increase time for difficult areas



- Content Index / List of all Disclosure Requirements reported
- When a topic (ESRS) is not material, brief explanation required

- Incorporation of value chain information not required for each disclosure
- Language has been refocused to include value chain information only when specific provisions in the topical standards require to do so in the preparation of a specific disclosure and, in general, limited to impacts, risk or opportunity that are material.
- **Value chain:** *Information about the reporting undertaking provided in the sustainability statements shall be extended to include information on the material impacts, risks and opportunities connected to the undertaking through its direct and indirect business relationships in the upstream and/or downstream value chain. (ESRS 1 para 67)*
- **Impacts** *include those caused or contributed to by the undertaking and those which are directly linked to the undertaking's own operations, products, or services through its business relationships*



- **Policies, actions and targets**, the undertaking's reporting shall include value chain information to the extent that those policies, actions and targets do involve actors in the value chain.
- **Metrics**, in many cases, in particular for environmental matters for which proxies are available, the undertaking may be able to comply with the reporting requirements without collecting data from the actors in its value chain, for example, when calculating the undertaking's GHG Scope 3 emissions.
- Most of the metrics in the sector-agnostic standards are limited to the own operations (no value chain).



## GENERAL CHARACTERISTICS

**BP-1: General basis for preparation of the sustainability statements**

**BP-2: Disclosures in relation of specific circumstances**

- ✓ Time horizons ISSB
- ✓ Value chain estimation GRI
- ✓ Sources of estimation and outcome uncertainty
- ✓ Changes in preparation or presentation
- ✓ Reporting errors in prior period
- ✓ Disclosures stemming from local legislation or generally accepted sustainability reporting pronouncements
- ✓ Incorporation by reference

## GOVERNANCE

**GOV-1: The role the administrative, management and supervisory bodies**

TCFD  
GRI  
ISSB

**GOV-2: Information provided to and sustainability matters addressed by the undertaking's administrative, management and supervisory bodies**

TCFD  
ISSB  
GRI

**GOV-3: Integration of sustainability-related incentive schemes**

ISSB  
TCFD

**GOV-4: Statement on sustainability due diligence**

GRI

**GOV-5: Risk management and internal controls over sustainability reporting**

ISSB  
SFDR  
GRI

- *Architecture aligned with IFRS*
- *IFRS S2 entirely incorporated*
- *Significant streamlined and reduction of granularity*

# ESRS 2 – General disclosure



**SBM-1:** Market position, strategy, business model(s) and value chain GRI  
ISSB

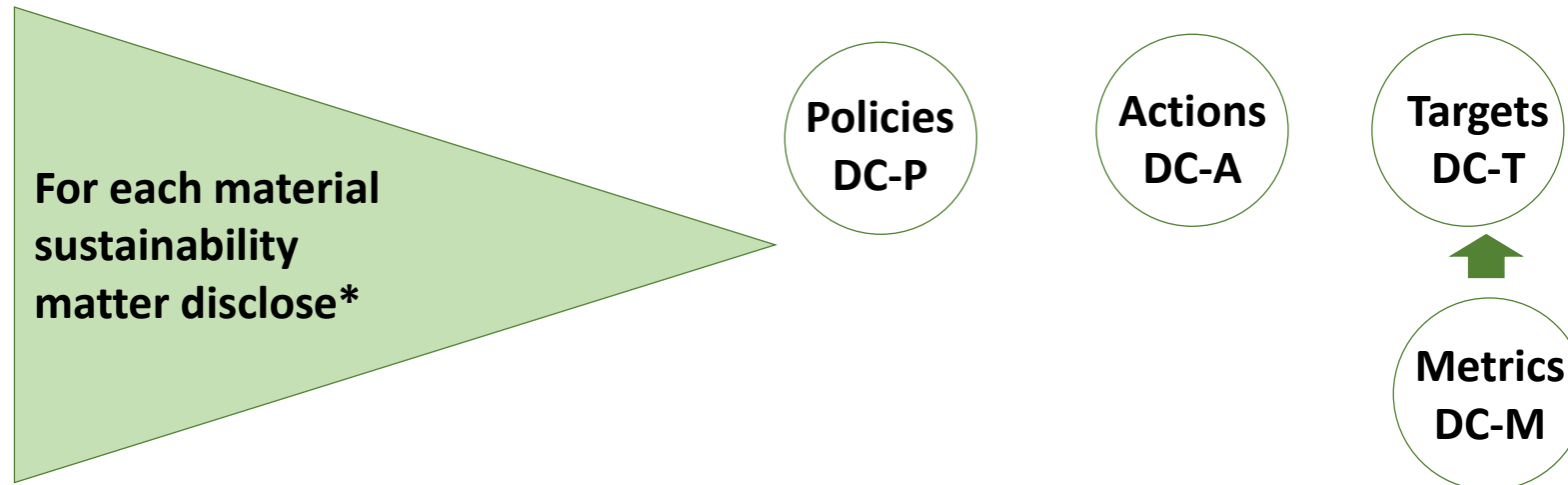
**SBM-2:** Interests and views of **stakeholders** GRI  
ISSB

**SBM-3:** **Interaction of risks and opportunities and the undertaking's strategy** and business model GRI  
ISSB  
TCFD

**IRO-1:** **Description of the processes** to identify material sustainability impacts, risks and opportunities ISSB  
TCFD  
GRI

**IRO-2:** Disclosure Requirements in ESRS by the undertaking's sustainability statement GRI

## DISCLOSURE CONTENT



\* If the undertaking has not defined policies, actions or targets, it should disclose this

# ESRS E1– Climate change - example of structure of all the other drafts

ESRS E1 is a climate standard aligned with IFRS S2 and TCFD

Covered topics: energy, CC mitigation and adaptation

## General requirements

DR related to GOV-3: Integration of climate change strategies and performance in **incentive schemes**

E1-1: **Transition plan** for climate change **mitigation**

DR related to SBM 3: **Resilience of strategy** and business model

DR related to IRO-1: Description of **processes to identify and assess** material climate-related impacts, risks and opportunities

## IRO management

E1-2: **Policies** related to:

- Climate change mitigation
- Climate change adaptation
- Energy efficiency
- Renewable energy deployment
- Other

E1-3: **Action plans** and **resources** in relation to climate change policies and targets

## Metrics and Targets

E1-4: **Targets** related to climate change mitigation and adaptation

E1-5: **Energy consumption and mix** (inc intensity)

E1-6: Gross Scopes 1, 2, 3 and Total **GHG emissions** (inc intensity)

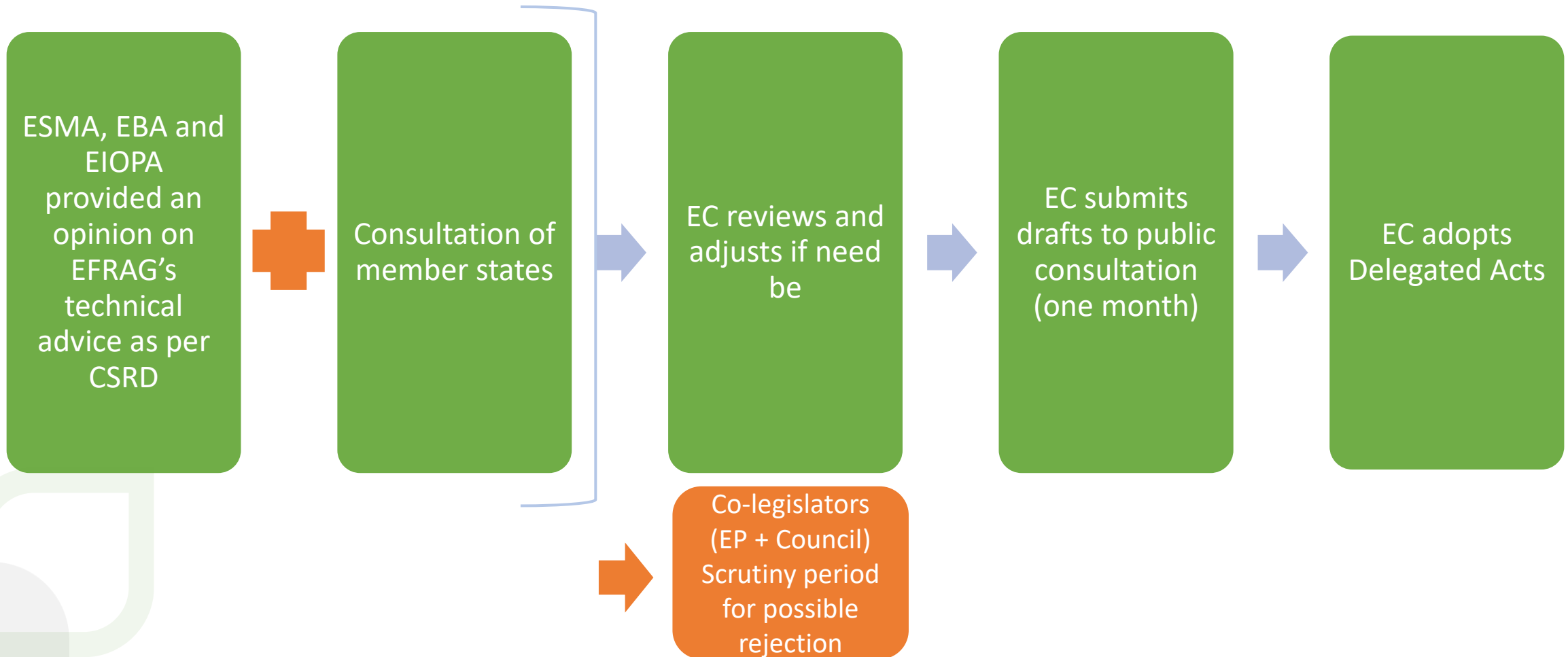
E1-7: **GHG removals** and GHG mitigation projects financed through **carbon credits**

E1-8: Internal **carbon pricing**

E1-9: **Potential financial effects** from material physical risks, material transition risks and climate-related opportunities

# Adoption process

➔ Process until Delegated Acts



# 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

## Implementation support

➔ Non authoritative guidance and implementation questions

3 deliverables ongoing: Materiality assessment, Value chain, Inventory of datapoints

- **Opening soon a channel for implementation questions**
- Available on EFRAG Website
- **Prioritised over sector work!**

# EFRAG's next sets (1/2)

## ➔ Standard-setting activities

### SET 2 (precise timing under consideration)

- **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)

# EFRAG's next sets (2/2)

## ➔ Standard-setting activities

**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 for third-party groups with branches and subsidiaries within the EU over a certain threshold + Amendment to Set 1 in order to implement the 'cap' on value chain information**



# Working on interoperability (1/2)

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

## 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

# Working on interoperability (2/2)

## International Sustainability Standards Board (ISSB)



- Meetings of the SSAF, 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

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