

# EFRAG & DRSC Outreach Event - Germany

## ESRS - European Sustainability Reporting Standards

### OVERVIEW OF THE EXPOSURE DRAFTS - INTRODUCTION

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# DISCLAIMER

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# Agenda

1. Sustainability reporting state of play
2. Project Task-Force achievements
3. ESRS: Overview
4. ESRS: Next steps





# Sustainability reporting state of play

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# 1.1 ESG Reporting: Three main standard-setting projects underway. A political priority for Europe with ambitious content and timeline



- **Green Deal: Directing capital allocation to sustainable investments** ⇒ **An advanced regulatory package**
  - **SFDR** - Sustainable Finance Disclosure Regulation: ESG reporting by financial actors
  - **Environmental taxonomy\***: « Green » financial ratios
  - **CSRD** - Corporate Sustainability Reporting Directive\*: ESG reporting by companies in general
  - **CSDDD** – Corporate Sustainability Due Diligence Directive\*: European duty of care, management/governance responsibilities, climate transition plan
  - **GBS** - Green Bonds Standard\*: label for « green » bonds
- **European Pillar of Social Rights**



- Creation of EFRAG SRB (Sustainability Reporting Board) and SR TEG (Technical Expert Group) – Responsible for developing ESRS draft standards
- First 13 draft standards under consultation\* (2 on « General principles », 5 on « Environment », 4 on « Social », 2 on « Governance »)



**International sustainability standards**  
⇒ **The start of a global baseline for sustainability reporting**



- Creation of ISSB (International Sustainability Standards Board) (integration of SASB, CDSB and VRF) – Responsible for developing IFRS S standards
- First 2 draft standards under consultation\* (« General principles » and « Climate »)



**US SEC regulations for listed companies**  
⇒ **A thematic approach**



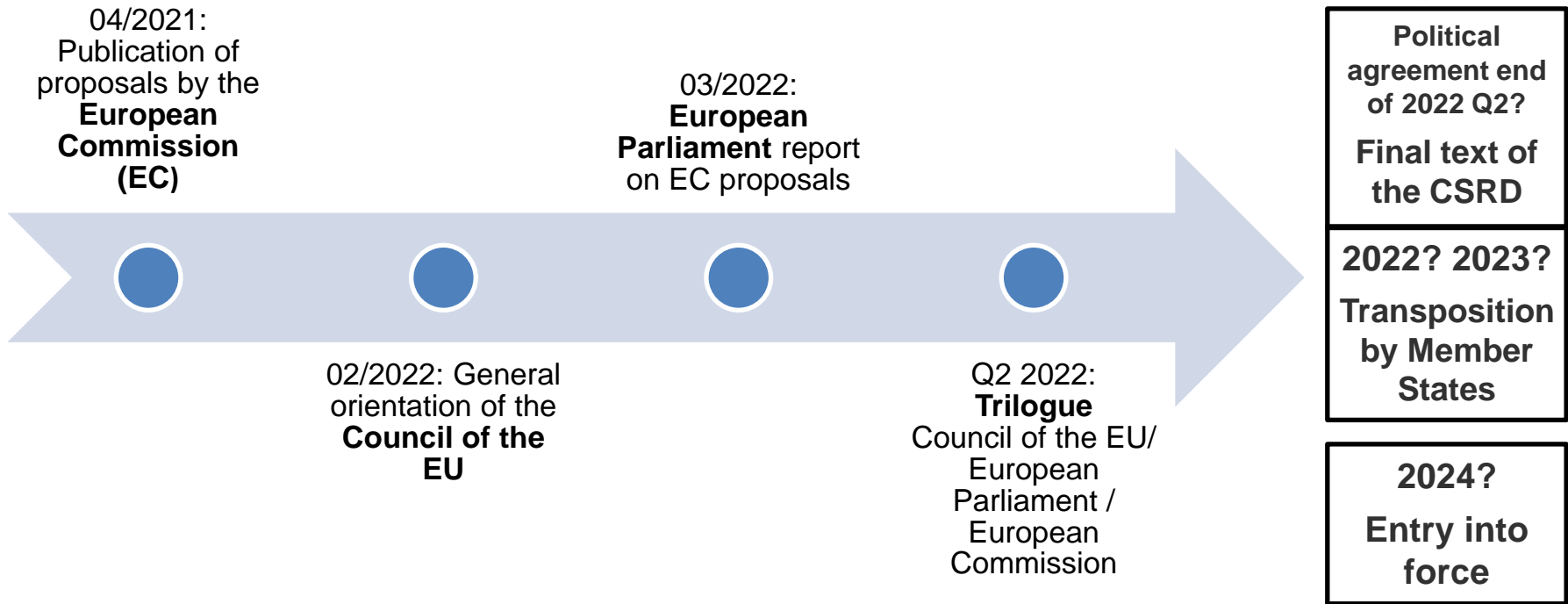
- Draft regulation under consultation\* ( « Climate » and shortly on « Human capital »)

\*Proposals

# 1.2 Corporate Sustainability Reporting Directive (CSRD): The timetable

**Level 1 text: CSRD to be transposed into EU legislation**  
Level 2 text (delegated acts): draft standards developed by EFRAG

Current negotiations will determine



## 1.3 Draft CSRD: Main provisions (I/II)

Publication in April 2021 – Proposed entry into force: 2023 (2026 for listed SMEs)\*

### 1. Reporting areas (on the 3 ESG topics)\*

- **Business model and strategy**, including plans to ensure compatibility with the transition to a sustainable economy and limiting global warming to 1.5°C and considering stakeholders' interests
- Sustainability **objectives** and **progress** towards the objectives
- Role of **governance bodies** on sustainability
- Sustainability **policies**
- **Description** of (i) due diligence, (ii) adverse value chain impacts and (iii) remedial actions
- Sustainability **risks** and management thereof
- **Indicators** related to the above
- **Intangibles** (intellectual, human, social and relational capital [ $\langle IR \rangle$  / WICI])\*
- **Assessing materiality** - process for identifying information to be reported
- **Time horizon**: short, medium and long term
- **Value chain including**: own operations, products and services, business relationships and supply chain

### 2. Characteristics

- **3 levels of reporting**: Sector-agnostic, sector-specific & entity-specific
- **Double materiality**
- **Connectivity** with financial reporting

\*Ongoing discussions - Changes expected in the final CSRD text

## 1.3 Draft CSRD: Main provisions (II/II)

Publication in April 2021 – Proposed entry into force: 2023 (2026 for listed SMEs)\*

### 3. Main new features (vs NFRD)

- **Mandatory sustainability reporting standards** drafts developed by EFRAG and issued as Delegated Acts
- Extended **scope of application**\*
  - All **large companies**<sup>(1)</sup> within the meaning of the Accounting Directive: 2 of the 3 criteria: >250 employees, balance sheet total >€20M and turnover >€40M
  - All **companies listed** on EU regulated markets (except micro-enterprises, i.e. less than 10 employees among others)\*
- **Location** in the management report
- **Digitalisation**
- **Moderate assurance**, towards reasonable assurance\*
- **Standards for SMEs**

### 4. Topics (ESG)

- **Environment:** (alignment with the 6 environmental objectives of the Taxonomy)
- **Social**\*: (i) equal opportunities (ii) working conditions and (iii) human rights
- **Governance**\*: (i) Composition and role of governance bodies, (ii) business ethics & culture, (iii) political engagement, (iv) management and quality of relationships with business partners and (v) internal control and risk management systems

<sup>(1)</sup> Large undertakings are defined in the Accounting Directive for each country.

\*Ongoing discussions - Changes expected in the final CSRD text



# 1.4 International Sustainability Standards Board (ISSB): Aiming to propose a global benchmark as basis for sustainability reporting



November 2021: Announcement of the creation of the **International Sustainability Standards Board (ISSB)**

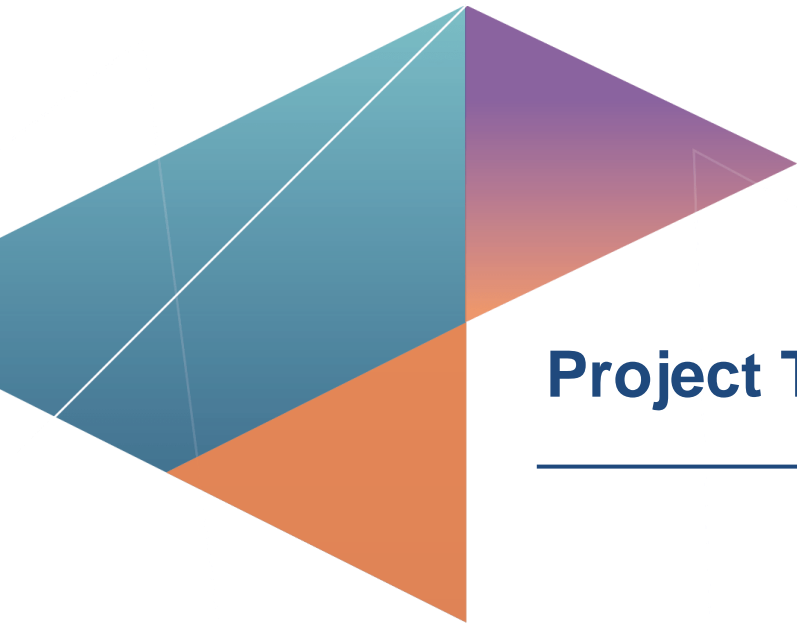
- Develop **standards that provide a global basis for sustainability information** - « *a global baseline of sustainability disclosure standards* »
- Working with the International Accounting Standards Board (IASB) to ensure connectivity and compatibility of International Accounting Standards (IFRS/IAS) and ISSB (IFRS S)

**First 2 exposure drafts** (comments by 29 July)

- IFRS S1: General provisions for sustainability-related financial disclosures - « *General requirements for disclosure of sustainability-related financial information* »
- IFRS S2: climate-related disclosures - « *Climate-related Disclosures* »

**Further standards on other topics will be published later**

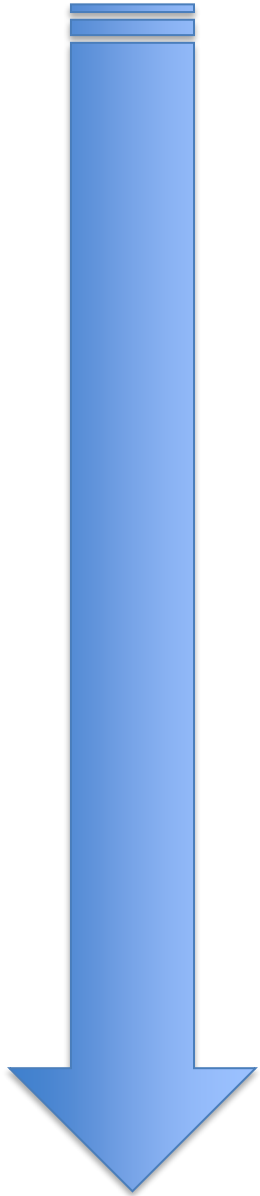
- Regular technical exchanges between ISSB and EFRAG.
- Jurisdictional Working Group to enhance compatibility between global baseline and jurisdictional initiatives (May 2022): *the SEC, EFRAG and ISSB representatives all acknowledged that there is significant compatibility between their proposals.*
- Bilateral dialogue also taking place.
- Detailed comparison of ESRS 1&2 and ESRS E1 with IFRS S1&2 available in appendix V.



## **Project Task-Force achievements**

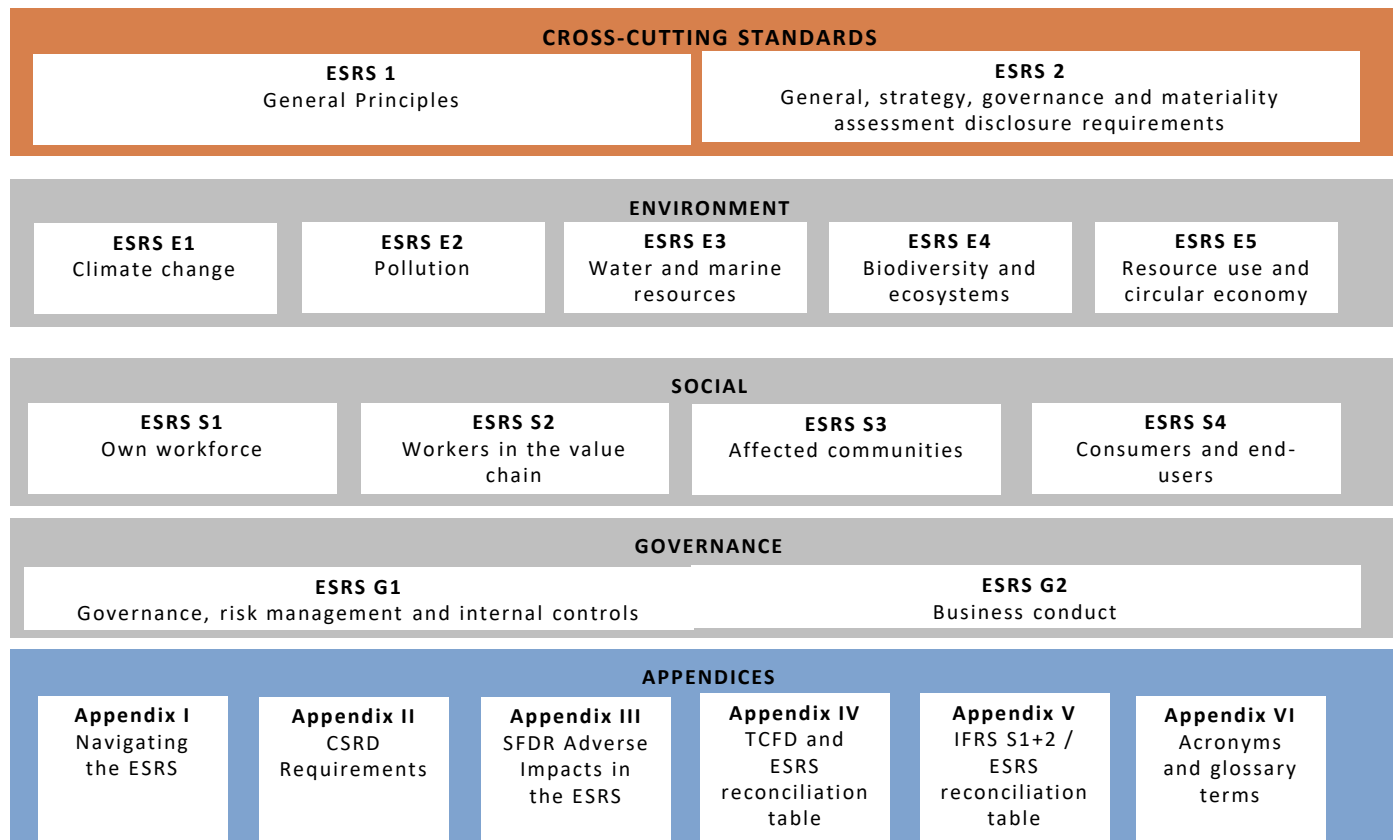
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## 2.1 Project Task-Force achievements – Main steps



- **1st Task-Force 2020/2021** for « Proposals for a relevant and dynamic EU sustainability reporting standard-setting » - report issued on 8 March 2021
- **Proposal by the EU Commission for a new CSRD on 21 April 2021**
- **2<sup>nd</sup> Task-Force re-launched in June 2021** following invitation letter from Commissioner McGuinness received on 12 May 2021 in order to start elaborating standards in project mode (PTF):
  - 35 members from 13 different Member States
  - Supported by Secretariat members (30 full-time equivalent)
  - Input from Expert Working Groups (appointed in November 2021)
  - Co-construction with GRI, Shift, WICI + dialogue with the IFRS Foundation (TRWG/ISSB) + meeting with the SEC
- **Final PTF –ESRS plenaries in Brussels and approval of the Exposure Drafts** for public consultation on 25/26 April 2022
- **Public consultation 13 Exposure drafts - 29 April 2022**

## 2.2 Project Task-Force achievements – Overview of deliverables to date on the basis of the CSRD architecture



**Set 1 exposure drafts: 13 for public consultation**



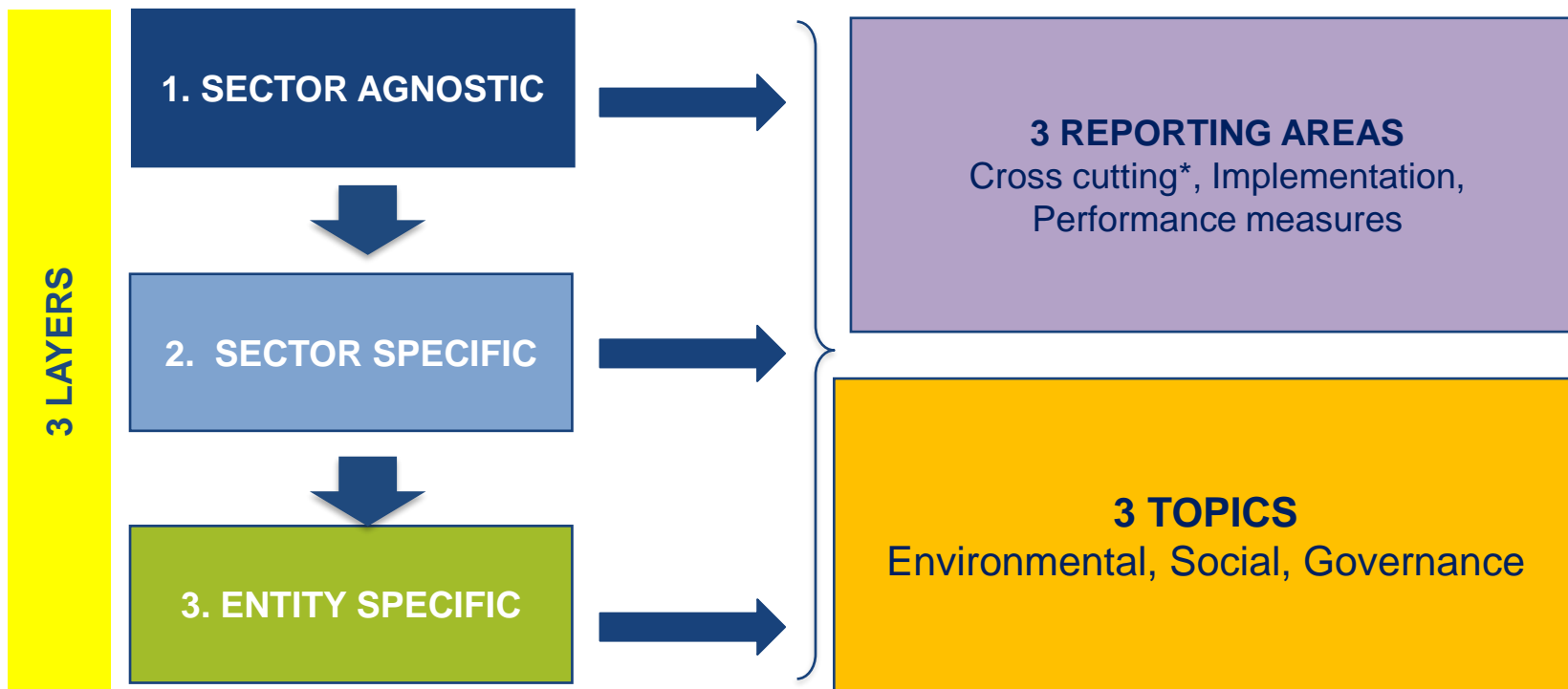
# ESRS: Overview

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# 3.1 ESRS Overview: Architecture

## An EU comprehensive sustainability reporting

The 'rules of three' approach for the architecture of a mandatory sustainability reporting regime



**DOUBLE MATERIALITY : Financial materiality and impact materiality**

(\*) Cross-cutting standards: General principles and disclosures related to General Requirements, Strategy and Business Model (SBM), Impacts, risks and opportunities (IROSs) and Governance (GOV)

## 3.2 Compatibility with TCFD and IFRS S1 core contents

The structure and location of ESRS requirements reflects the need to cover the entire set of topics (not only one topic). Cross-cutting contents are dealt with in a single place, while implementation and performance measures are left at topical level





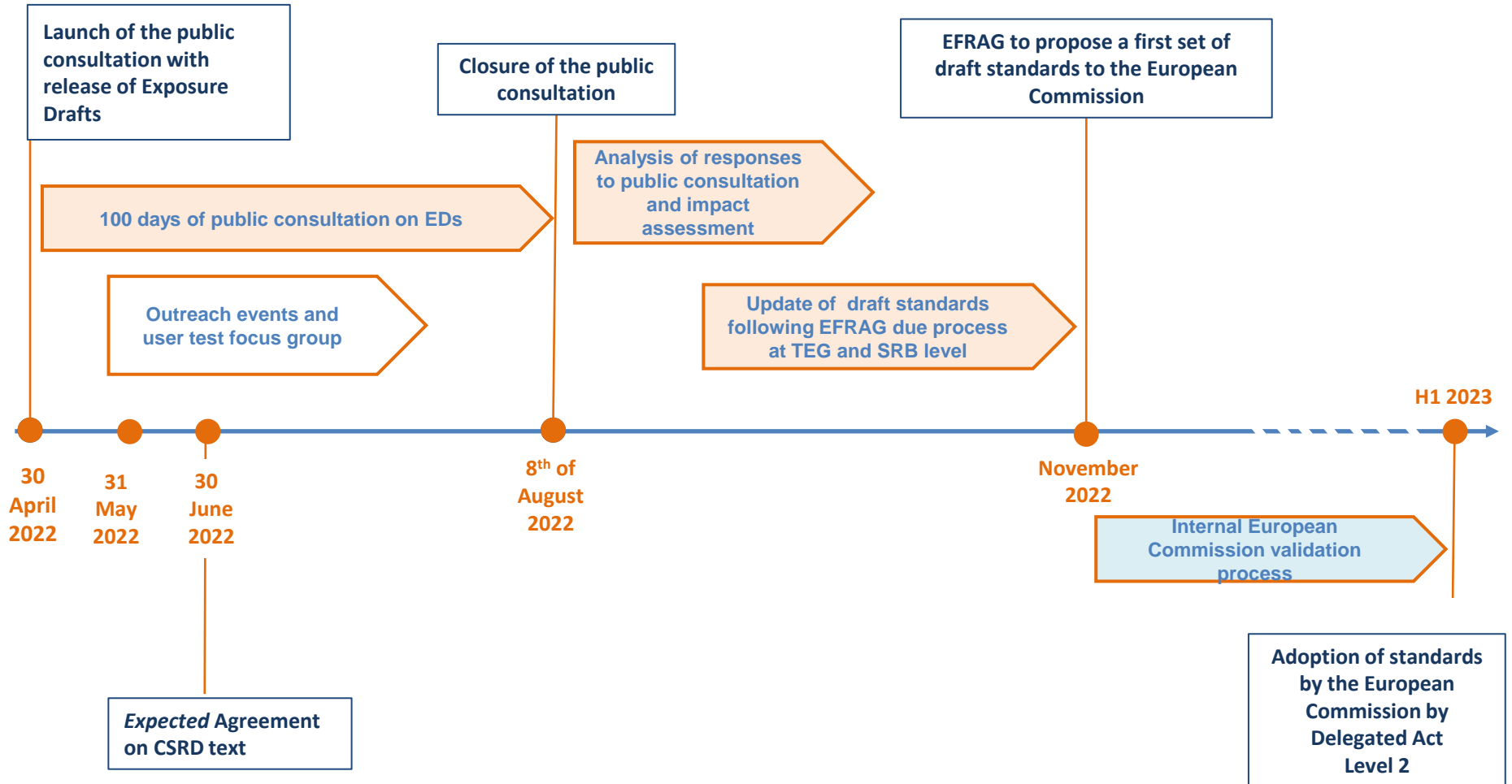
## Next steps: Timetable

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# 4.1 Next steps: Timetable

A critical step in the process of adopting European sustainability reporting standards

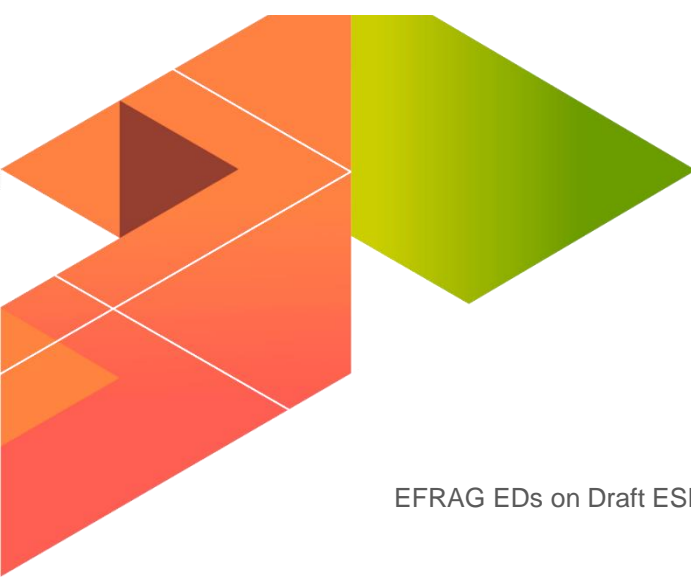


## 4.2 Public consultation EDs first set of draft ESRS (1/2)

- **Feedback from constituents on three key aspects of the EDs and the survey has followed the same structure :**
  1. The relevance of (i) the proposed architecture, (ii) the implementation of the CSRD principles and (iii) the overall content of each ED
  2. The possible options for prioritising / phasing-in the implementation of the ESRS, and
  3. the adequacy of each disclosure requirement mandated by each ED.
- **Section 3 of the survey on disclosure requirements split as follows:**
  - 3A. Cross Cutting standards
  - 3B. Environmental standards
  - 3C. Social standards
  - 3D. Governance standards
- **Respondents are strongly encouraged to respond to section 1 and 2.**
- **Due to comprehensive nature of section 3, constituents may select the questions and standards to which they provide feedback (no need for complete responses).**



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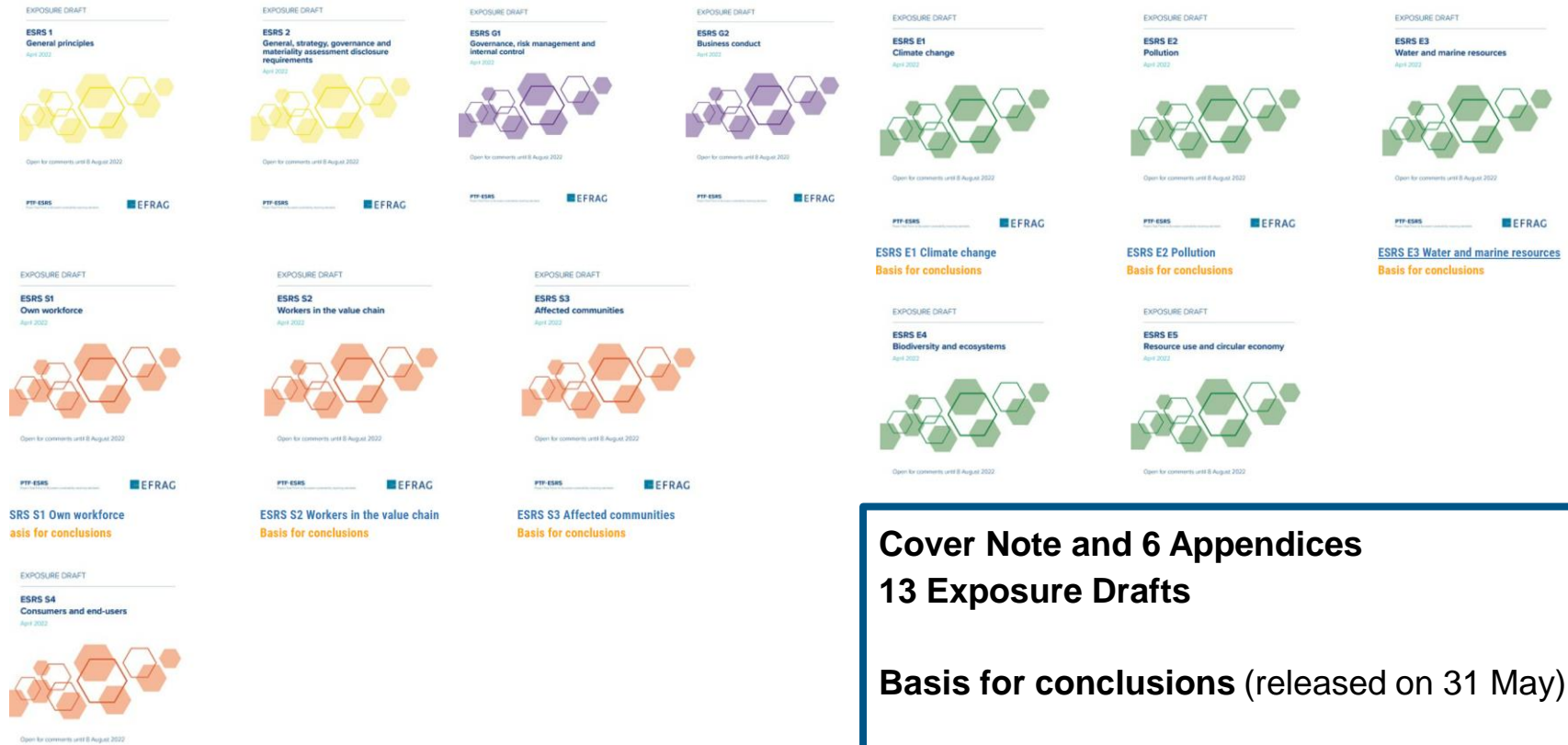


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# 1.4 EFRAG Consultation. Exposure Drafts issued on 29 April and open for consultation until 8 August

Implementing concepts, contents, approach and timeline defined by the CSRD.



## 2.2 Project Task-Force : a robust due process

**20 January 2022:** 1st set of working papers released by the Task Force: Cross-cutting standards and Climate



**20 January – 25 March 2022 :** Remaining working papers released by the Task Force: Environmental, Social & Governance; Sector Specific classification and Sustainability Statements



**February to April 2022:** All working papers subject to the **triple review process:**

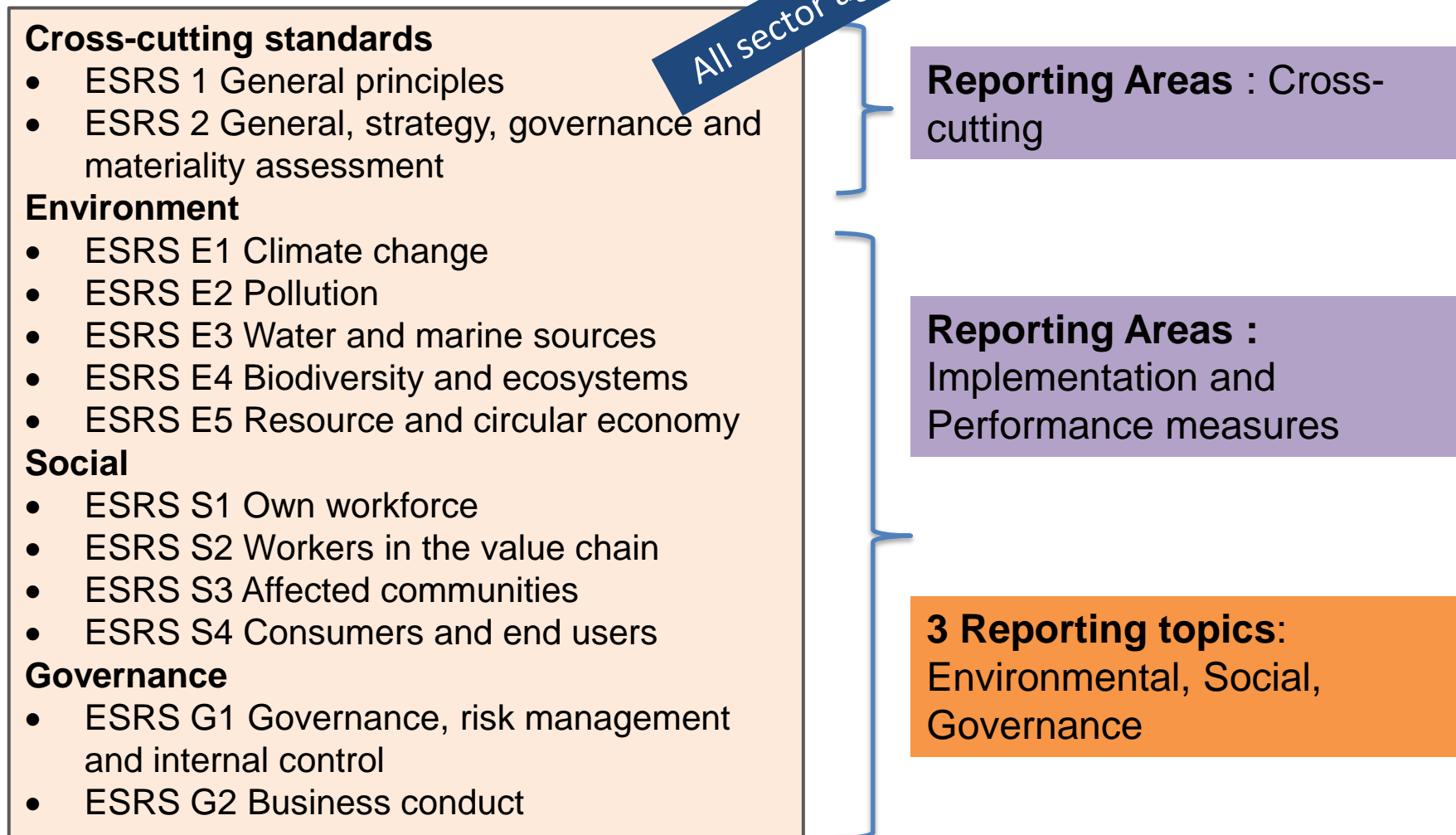
- Consensus Building within the PTF at plenary
  - Review Panel from the PTF
  - Expert Working groups
- + Feedback received and meetings arranged with European Commission (DG FISMA, DG ENV, DG EMPL, DG GROW, DG JUST)
- + Other feedback (Platform of Sustainable Finance, ESAs)



### **OUTPUT:**

- **Exposure drafts issued on 29th April 2022**
- **Basis for Conclusions (not part of the Delegated Act) on 31st May 2022**

## 3.2 ESRS Overview – Exposure drafts release



# 3.4 ESRS Overview : Sustainability statements – as a second pillar of standardised corporate reporting

FOCUS

## 1. Cross-cutting information

### General provisions

- **ESRS 2** General requirements DRs

### Strategy and business model

- **ESRS 2** Strategy, Business Model DRs
- **Specific topical DR/AG from topical standards**

### Governance and Organisation

- **ESRS 2 – Governance** DRs
- **Specific topical DR/AG from topical standards**

### Impacts, Risks and Opportunities

- **ESRS 2 - Impacts, Risks & Opportunities** DRs
- **Specific topical DR/AG from topical standards**

+ Sustainable Corporate Governance initiative?

## 2. Environmental information

- **PTAPR related DR from ESRS E1 to E5**
- **Performance DR from ESRS E1 to E5**
- **Additional DR from relevant sector specific standards**
- **Potential additional entity specific information\***

Disclosures pursuant to Article 8 of the taxonomy regulation

## 3. Social information

- **PTAPR related DR from ESRS S1 to S4**
- **Performance DR from ESRS S1 to S4**
- **Additional DR from relevant sector specific standards**
- **Potential additional entity specific information\***

## 4. Governance information

- **PTAPR related DR from ESRS G1 to G2**
- **Performance DR from ESRS G1 to G2**
- **Additional DR from relevant sector specific standards**
- **Potential additional entity specific information\***

\*Prepared in compliance with ESRS 1 general provisions

**NOTE:**  
**DR:** Disclosure requirement  
**AG:** Application Guidance  
**PTAPR:** Policies, targets, action plans and resources (Implementation reporting area)  
**Performance:** Performance measures

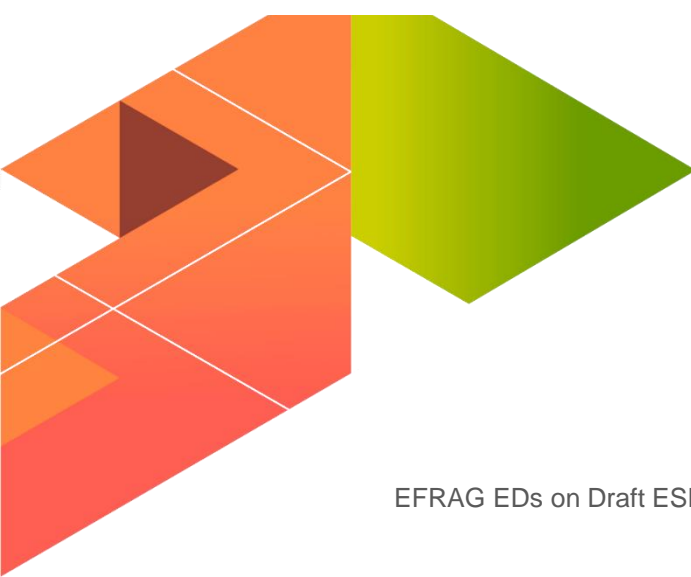
## 4.3 Public consultation EDs first set of draft ESRS (2/2)

- **Other information included in the public consultation:**
  - Cover note
  - Appendix I: Navigating the ESRS
  - Appendix II: CSRD requirements mapping
  - Appendix III: SFDR PAI mapping
  - Appendix IV: TCFD recommendations and ESRS reconciliation table
  - Appendix V: IFRS Sustainability standards and ESRS reconciliation table
  - Appendix VI: Acronyms and glossary of terms
- **EC survey tool**
- **Not consulting on second set of draft ESRS (SMEs and and sector specific)**
- **Outreaches during consultation period**





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