

OVERVIEW OF ESRS

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Disclaimer:

- The views expressed in this presentation are those of the presenters, except where indicated otherwise
- At the date of preparation of these slides, the European Commission has not yet launched the public consultation on the draft Delegated Acts of ESRS Set 1. The content of this presentation refer to the draft ESRS released by EFRAG in November 2022 and it is subject to change in the issuance of the Delegated Acts.



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

With the CSRD, the EU wishes to bring sustainability reporting on an equal footing with financial reporting over time in order to meet the level of ambition of the Green Deal and the Union's objective of climate neutrality by 2050

The key features of the European legal regime: the CSRD – Corporate Sustainability Reporting Directive (1/2)

- EFRAG to develop technical advice to the European Commission
- Broad scope of application: 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

All listed and unlisted companies or PIE (including non-EU listed on in the EU) exceed at least two of the three following criteria 2: (i) 250 for the average number of employees, (ii) €40m net turnover and (iii) €20m balance sheet total

Listed SMEs – except micro-entities, entities that meet at least two of the following criteria 2: (i) average number of employees between 10 and 250, (ii) €700k and €40m net turnover, and (iii) €350k and €20m balance sheet total.

Non-EU companies generating at least €150m 5 net turnover in the EU and with at least one branch (generating at least €40m 6 net turnover in the EU) or one subsidiary in the EU (large entity or listed SME).

Subsidiaries exemption (except large listed) - if they are in a group which publishes consolidated “CSRD compliant” sustainability statements.

The key features of the European legal regime: the CSRD – Corporate Sustainability Reporting Directive (2/2)



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



Transposition into national law (by July 2024): focused on some points as harmonisation level is already high



2. The key features of the regulatory regime: Draft ESRS issued by EFRAG in November 2022

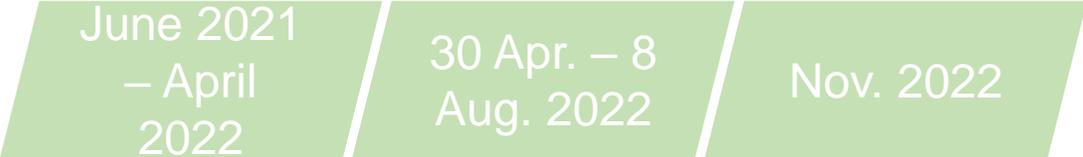
The key features of the regulatory regime: the ESRS

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

Sustainability Statements content at a glance

Article 19 (a) / 29 (a) Content of the ESRS

1. **Business model and strategy** Resilience to sustainability-related risks and opportunities; transition plan in line with Paris agreements...)

2. **Policies and time-bound targets** related to sustainability matters

3. **Administrative, management and supervisory bodies (AMS)** re sustainability matters : role, expertise & skills and incentive schemes

4. **Due Diligence process.** Principal and potential adverse impacts connected with the undertaking's own operations and value action; actions to identify and monitor impacts and actions to prevent, mitigate or remediate those.

5. **Principal risks and how the undertaking's manages those**

6. **Indicators relevant to 1-5 above**

Article 29 (b) ESG Matters to be covered

1. **Environmental factors :** i) Climate change mitigation and adaptation; ii) water and marine resources; iii) resource use and circular economy; iv) pollution; v) biodiversity and ecosystems.

2. **Social and human rights factors:** i) equal treatment and opportunities (e.g. gender equality); ii) working conditions (e.g. collective bargaining); and iii) respect for the human rights, fundamental freedoms, democratic principles and standards

3. **Governance factors :** i) role and composition of AMS; ii) internal control and risk management re sustainability matters; iii) business ethics and corporate culture; iv) political influence activities; v) relationships with customers, suppliers and communities.

Sustainability Statements content at a glance

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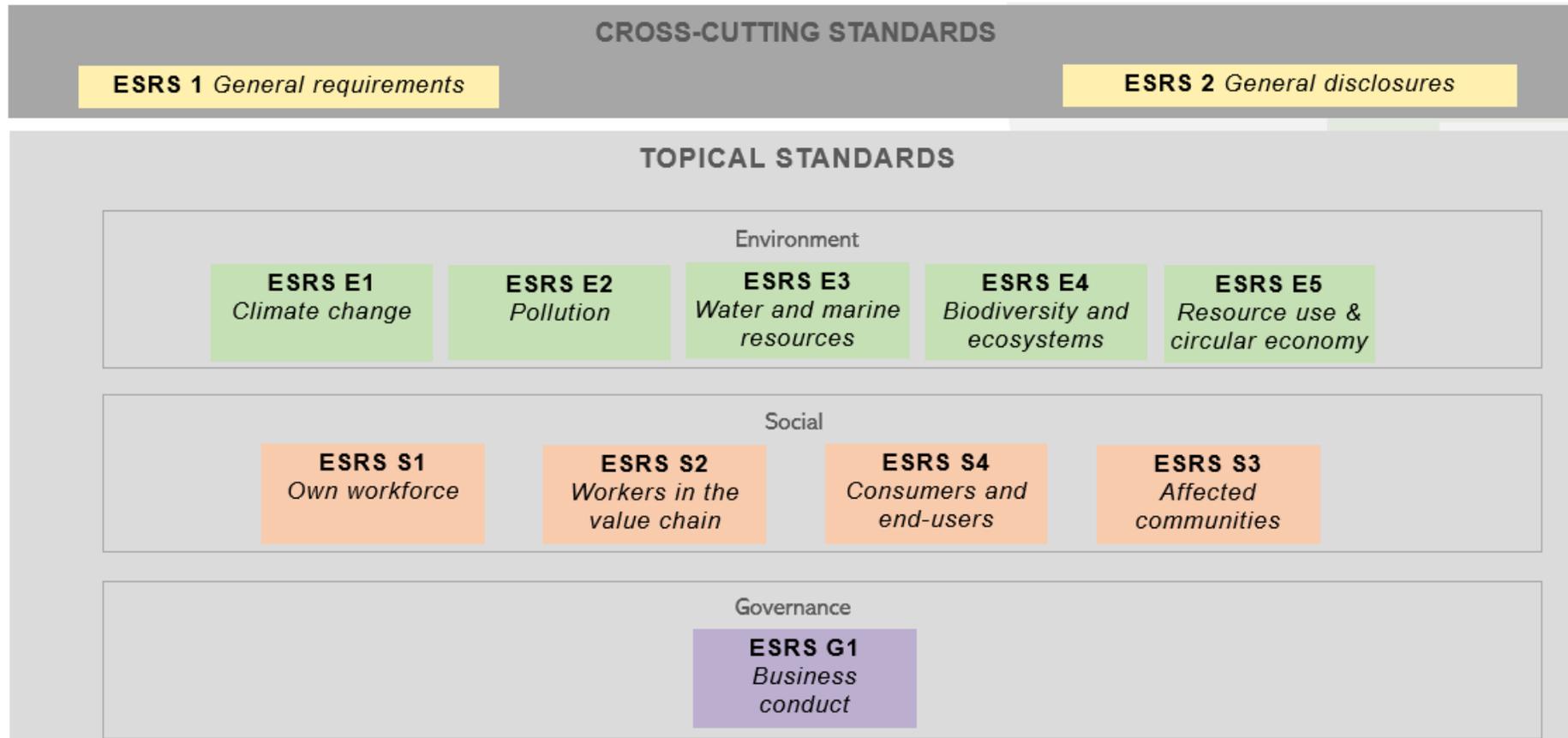
ENTITY-SPECIFIC information not covered below

SECTOR SPECIFIC STANDARDS (39 sectors)
Starting from high impact sectors: Oil and gas; Mining, quarrying and coal; Agriculture; Motor vehicles ...
Sectors critical to the capital markets: Banks, insurance, investment managers

SECTOR AGNOSTIC STANDARDS (across industries and sectors)
Environmental factors
Social and human rights factors
Governance factors

The key features of the European regulatory regime: the ESRS

➔ A first set of sector-agnostic ESRS



84 Disclosure Requirements

Qualitative or quantitative

Double materiality

- Financial materiality
- Impact materiality

4 pillars

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

XBRL taxonomy

➔ Sector agnostic + sector specific + entity specific = ESRS universe

Double materiality

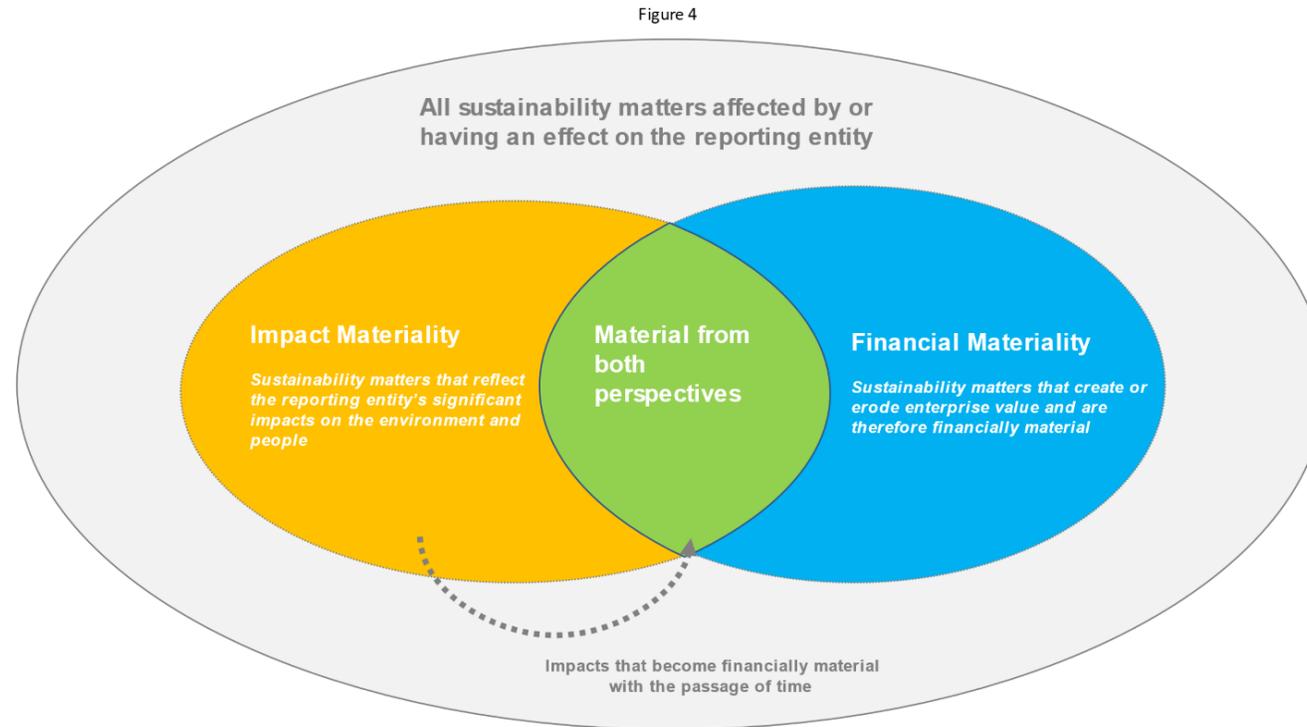
Based on both outside-in (financial) and inside-out (impact) materiality.

Material from either an impact or financial perspective or both. 

Negative and positive impacts

Actual and potential impacts

Due diligence informing the process of double materiality, including stakeholder engagement



Risks and opportunities -> current and anticipated financial effects

Interoperability

2 objectives:

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

International Sustainability Standards Board (ISSB)



- Meetings of the JWG, bilateral meetings at management level and bilateral meetings of climate experts: continued dialogue and cooperation
- High level of alignment:
 - Financial materiality concept in ESRS is intended to be aligned
 - Qualitative characteristics of the info are the same
 - Value chain definition is the same
 - Flexible definition of time horizons in ESRS
 - TCFD/IFRS – Strategy/Governance/IRO management/Metrics and Targets
 - ESRS integrate to the maximum extent possible the content of IFRS S1/2
 - ESRS E1 includes additional datapoints
- ESRS broader coverage of ESG topics and double materiality

Global Reporting Initiative (GRI)



- Technical cooperation from the beginning
- High level of 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



3. What is next

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**)

Set 1 taxonomy (XBRL)

Standard setting activities (Set 2) – 2023/2024

- **Sector classification:** SEC 1 and General approach to sector ESRS
- **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 from 2025

- **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



Appendices

ESRS Draft Delegated Act – Flexibilities introduced

9 June 2023

Broader scope of materiality assessment

- EU datapoints
- E1 Climate
- S1 Own Workforce

ESRS 2 remains outside the materiality assessment

Datapoints that are now 'voluntary' (MAY disclose)

- ESRS 2 Explanation when topic not material
 - Reconciliations of monetary amounts
 - E4: biodiversity transition plans
- S1: metrics on non-employees and various breakdowns
- G1: number and nature of incidents

Interoperability with ISSB E1 climate and IFRS S2

EU legal framework:

- Pay Transparency Directive
- Energy consumption: nuclear vs non-renewable
- European Pollutant Release and Transfer Register

Additional flexibilities .E.g potential to anticipated financial effects, option to omit material information classified or sensitive

ESRS Draft Delegated Act – Flexibilities introduced

9 June 2023

Additional phasing-in

- Undertakings with less than 750 employees may omit **in the first year** *
 - scope 3 GHG emissions
 - ESRS S1 *Own workforce*

- Undertakings with less than 750 employees may omit **in the first two years***
 - ESRS E4 *Biodiversity and ecosystems*
 - ESRS S2 *Workers in the value chain* /S3 *Affected Communities* /S4 *Consumers and end-users*

- All undertakings may omit **in the first year**:
 - anticipated financial effects related to pollution, water, biodiversity, and resource use
 - certain datapoints related to their own workforce (characteristics of non-employee workers, collective bargaining non-EU, social protection, persons with disabilities, work-related ill-health, and work-life balance).

*Minimum disclosures on ESRS 2 SBM-3 detailed in para 17 in relation to Policies, actions and targets + metrics.

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