



## Sustainability Reporting – Policy Initiatives and Standard Setting Challenges

# Within the next few years, the corporate reporting landscape will change fundamentally



- Companies inevitably need to **integrate sustainability aspects** into their **corporate strategy**
- **Sustainability reporting** will be **elevated** to the level of “**traditional**” **financial reporting** – with corresponding **requirements** for obtaining relevant data, establishing efficient controls and provide assurance
- The previous “**patchwork/alphabet soup**” of sustainability reporting standards continues to **consolidate**



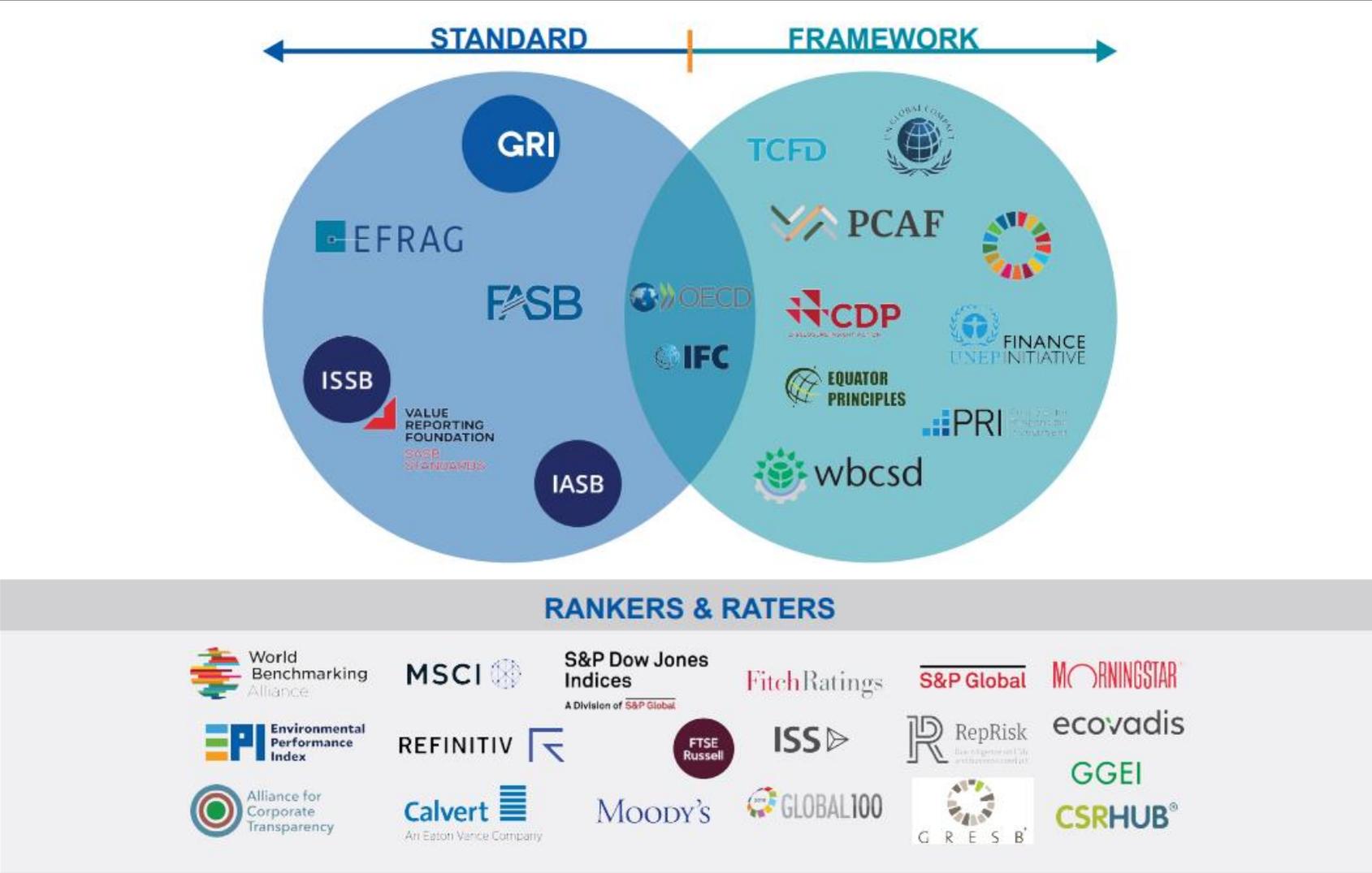
## Pressure from...

... investors and other capital markets participants

... regulators, supervisory authorities

... society, politics, NGOs

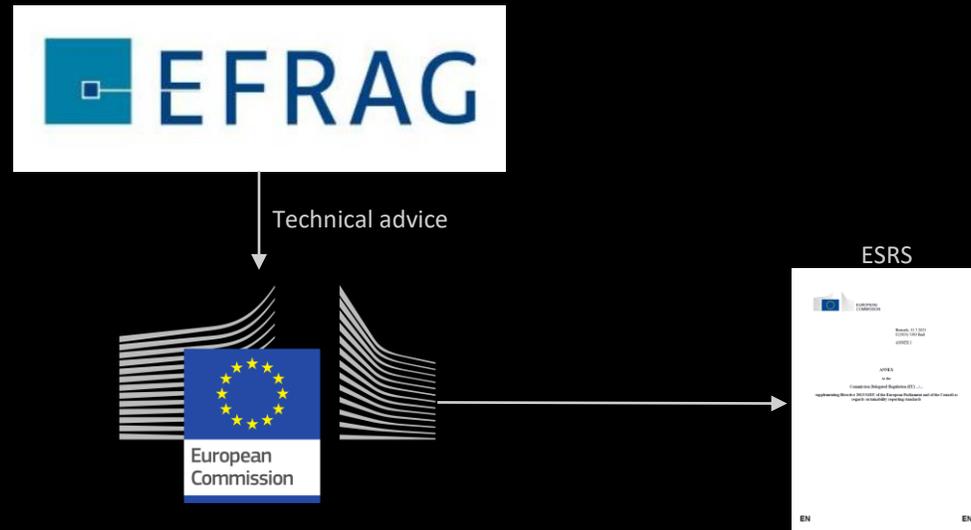
# From “alphabet soup” of sustainability reporting standardsetters and framework providers ...



Source: GRI, ESG standards, frameworks and everything in between, March 2022, <https://www.globalreporting.org/media/jxkgrggd/gri-perspective-esg-standards-frameworks.pdf>.

... to two frontrunners in the field of sustainability reporting standardsetting

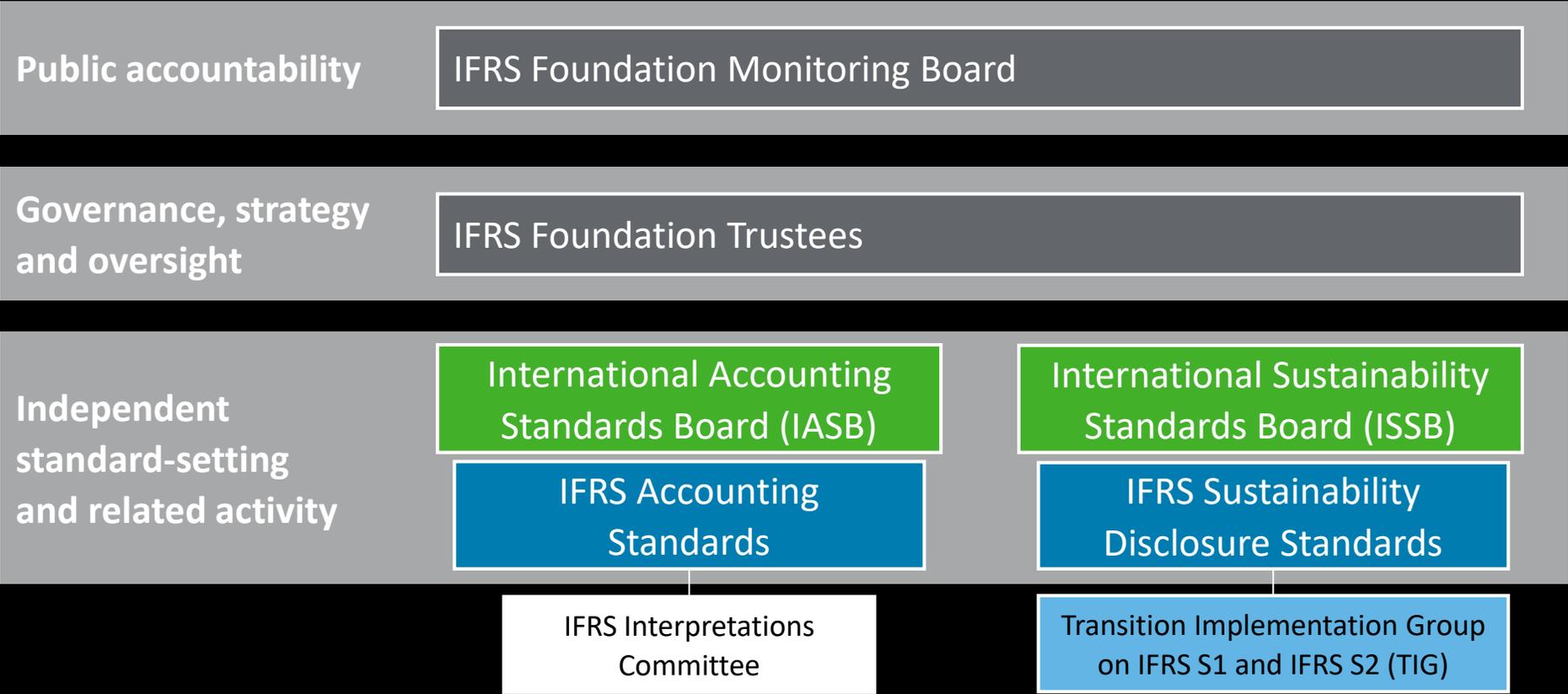
## EFRAG and European Commission



## IFRS Foundation

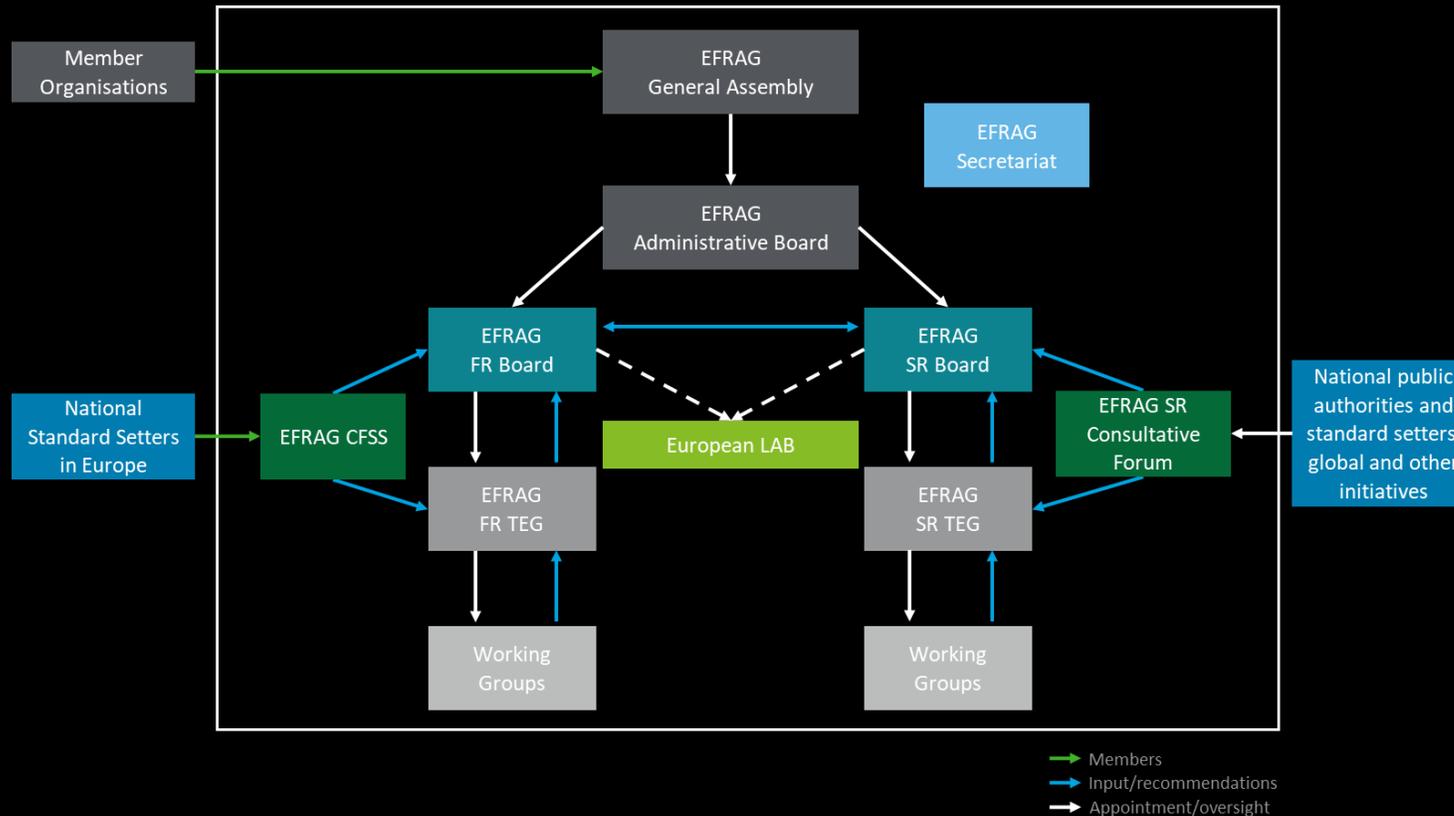


# Institutional setting: Governance structure of IFRS Foundation/IASB/ISSB



**IFRS Advisory Council**  
 (provides advice to Trustees, IASB and ISSB)

# Institutional setting: EFRAG's governance structure



## EFRAG Sustainability Reporting Technical Expert Group (EFRAG SR TEG):

- Technical support for EFRAG SRB
- Responsibility for preparing ESRS drafts

## EFRAG Sustainability Reporting Board (EFRAG SRB):

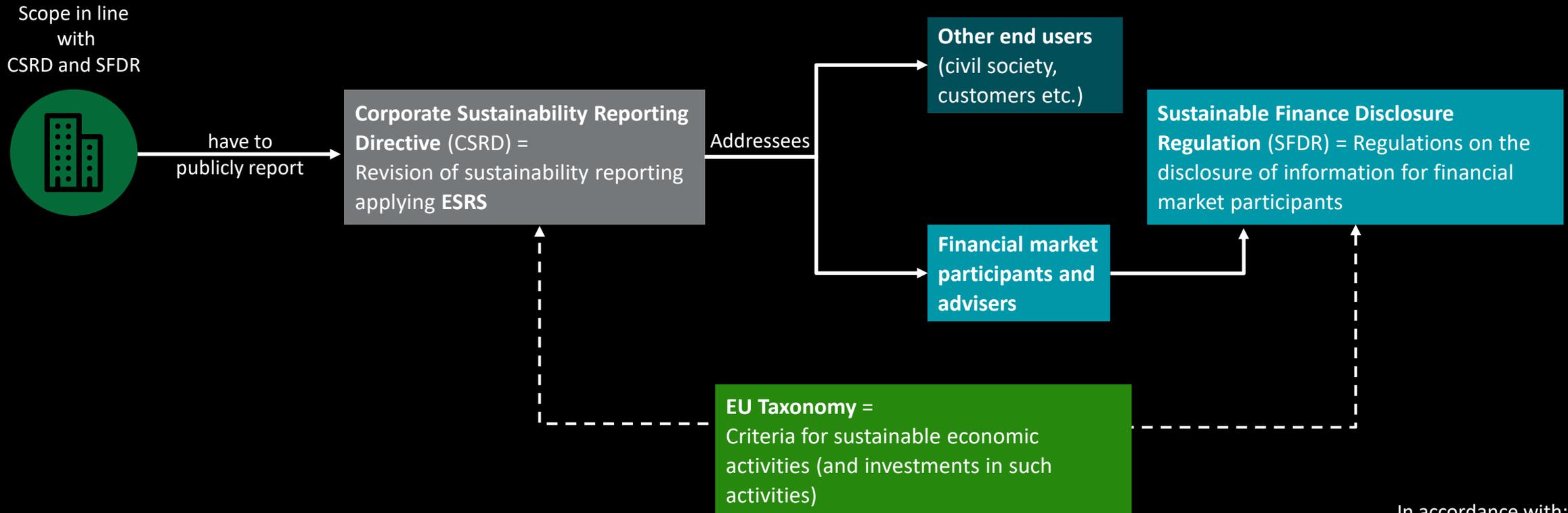
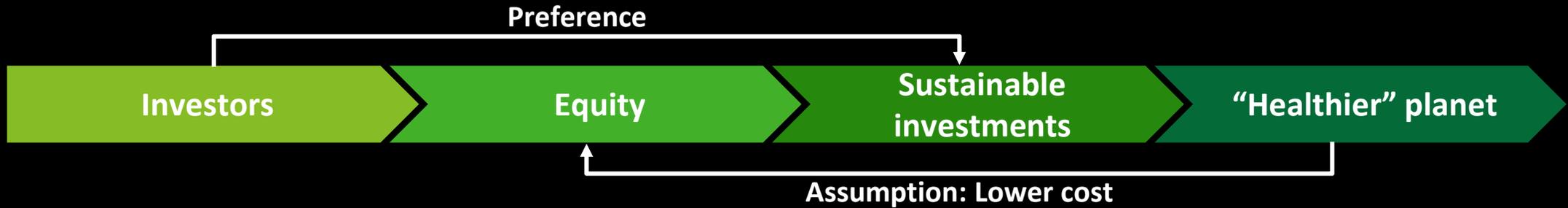
- Final responsibility for content of ESRS Drafts before submitting these as “technical advise” to the European Commission

## EU Commission/EU institutions

EU Commission needs to assess “technical advise” and consult with the following institutions according to CSRD:

- Member State Expert Group on Sustainable Finance and Accounting Regulatory Committee
  - ESMA, EBA und EIOPA
  - European Environment Agency, EU Agency for Fundamental Rights, ECB, Committee of European Auditing Oversight Bodies and Platform on Sustainable Finance
- European Council and EU Parliament can object during a 2-months period (can be extended by two months). Final delegated acts will be published in Official Journal of the EU

# The background for comprehensive EU sustainability reporting is the EU Green Deal



In accordance with:  
[European Commission](https://ec.europa.eu/economy_finance/)

# The CSRD is the new framework for sustainability reporting in the EU



**Publication** in the Official Journal of the EU on 16 December 2022



**Effective date** 5 January 2023 and **transposition** into national law of the member states by 6 July 2024



## Scope and first-time application

1

- **1 January 2024:** Large PIEs (→ NFRD undertakings)
- **1 January 2025:** All other large EU undertakings
- **1 January 2026:** Listed SME, including EU small and non-complex credit institutions as well as captive insurance undertakings (with opt-out from 1 January 2028)
- **1 January 2028:** certain non-EU undertakings with significant operations in the EU
- **Exemption** of subsidiaries generally possible, **exception:** large listed subsidiaries

## Disclosure requirements

2

- Dedicated section of the **management report**
- **Sustainability aspects** and **process for determining** this information are subject to reporting requirements
- Application of European Sustainability Reporting Standards (**ESRS**), Set 1 finalized in July 2023

<b>Cross-cutting</b>	ESRS 1 General requirements	ESRS 2 General disclosures			
<b>Environment</b>	ESRS E1 Climate Change	ESRS E2 Pollution	ESRS E3 Water and marine resources	ESRS E4 Biodiversity and ecosystems	ESRS E5 Resource use and circular economy
<b>Social</b>	ESRS S1 Own workforce	ESRS S2 Workers in the value chain	ESRS S3 Affected communities	ESRS S4 Consumers and end-users	
<b>Governance</b>	ESRS G1 Business conduct				

- Separate reporting standards for **sectors, SMEs** and **third-country undertakings**, still under development

## External audit

3

- Mandatory audit with **limited assurance** (later possibly “reasonable assurance” - review clause)
- Can be carried out by the undertaking’s **financial statement auditor**
- Audit also possible by third country auditor or other “independent assurance services provider”, if properly certified
- Appointment of a **Key Sustainability Partner** by auditor necessary

# Standard-setting challenges shaped the final product which will continue to evolve over time

## Challenges

### Urgency of action

- Time pressure and short time horizons
- Short public consultation periods
- “Project-led standard setting”
- New governance and due process and build-up of expertise at EFRAG
- No field-testing possible

### Subject matter and resources

- Highly complex subject matter
- Limited resources for a multitude of tasks: ESRS Set 1, specific ESRS for SMEs, sectors, third-country undertakings, Implementation Guidance, Q&A Hub
- Diverse composition of EFRAG SRB and SR TEG

### Interoperability, alignment and collaboration

- Interoperability of ESRS particularly with ISSB and GRI standards
- Alignment with EU legal framework and other regulations
- Collaboration between EFRAG SRB/SR TEG and EC

## ESRS “Set 1”

### Complexity and granularity of ESRS

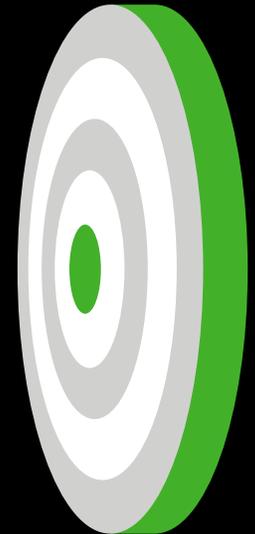
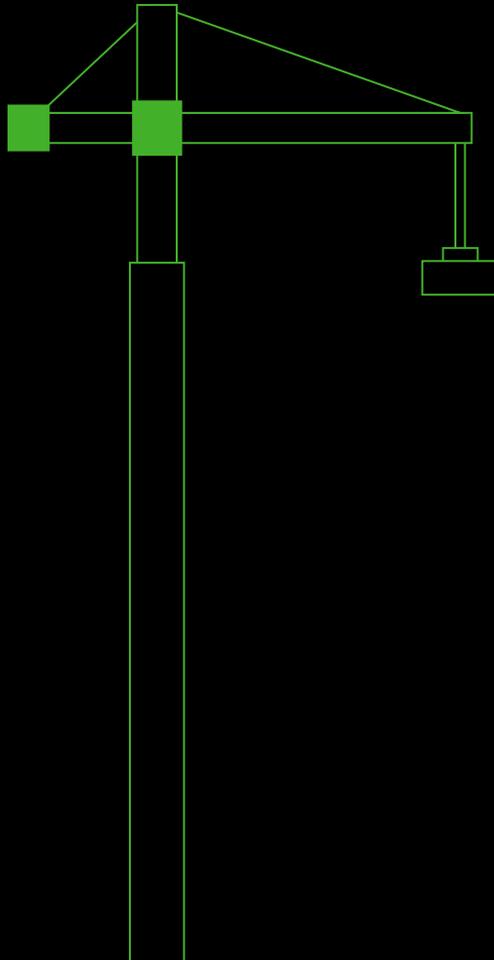
- Highly complex and granular disclosure requirements covering a wide range of ESG topics in-depth
- More than 1.000 datapoints
- “Mix & match & add” approach

### Interpretation

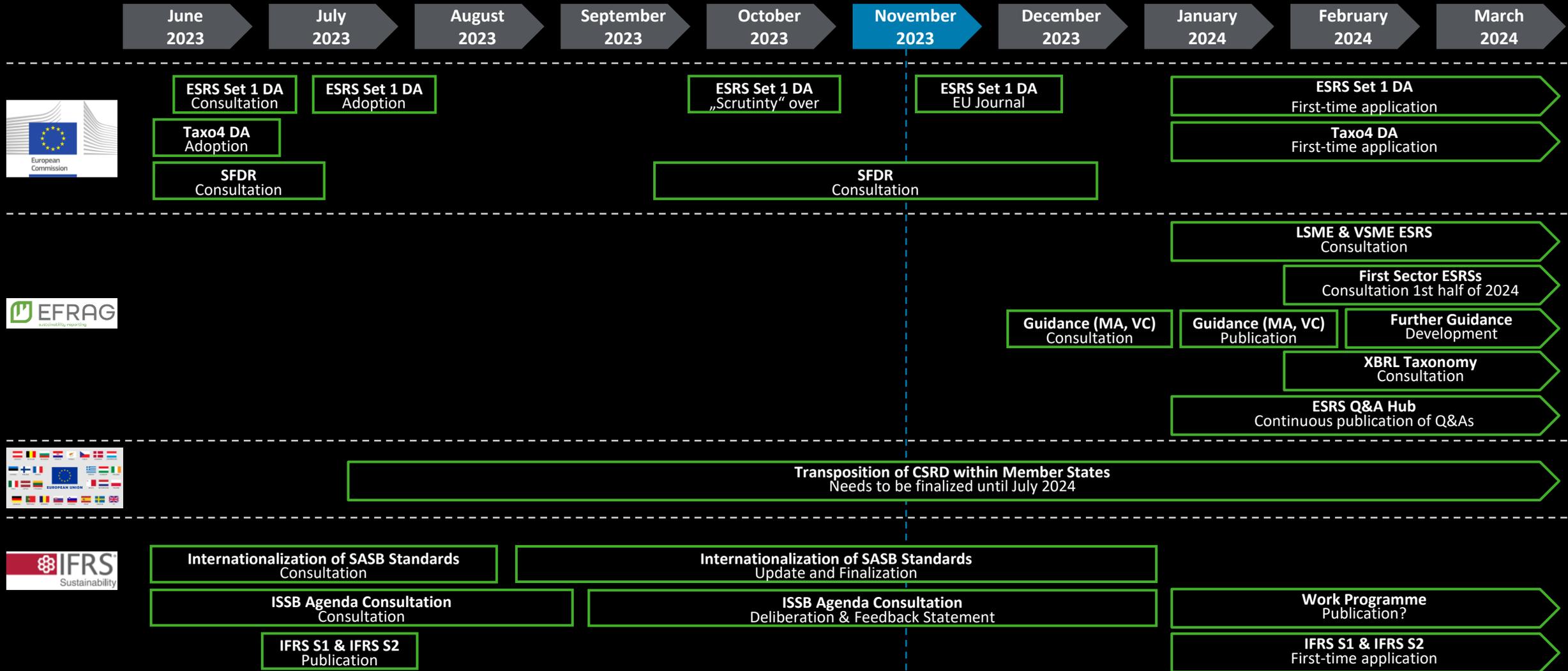
- Interpretation issues: Need for further guidance
- EFRAG’s Implementation Guidance & Q&A Hub: non-binding guidance shall not go beyond standards
- Assurance on sometimes unclear or even conflicting requirements a challenge

### Interoperability

- Progress made, but interoperability in practice still unclear



# The story is not over yet: There will be much activity within the next few months



# Key takeaways and remaining challenges

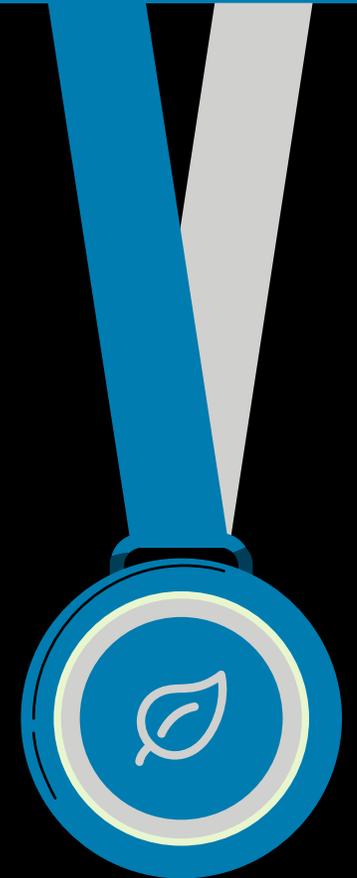


**Sustainability reporting can play a major part in the transition towards a sustainable future!**



**But: There are several conditions for this to happen:**

- **Users** of sustainability reporting need **high quality** and **relevant information** about sustainability matters.
- For such information to be of **high quality** and **relevant**, underlying **high quality reporting standards and implementation** that focus on **user needs** are essential.
- **External assurance** of sustainability information is a must have!
- **Consolidation** of previously fragmented sustainability reporting landscape is beneficial for all.
- **Huge challenges** for companies to implement CSRD/ESRS reporting due to **complexity** and **granularity** of **ESRS**: Companies need to establish **processes**, collect **data**, implement **controls**.
- Further **guidance** accompanying ESRS is needed and welcomed, but must be **helpful** and provide **robust application support**.
- **Interoperability** with global baseline is key – this is acknowledged by the CSRD: Double reporting would lead to excessive burden for companies and confusion for users.





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