



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**



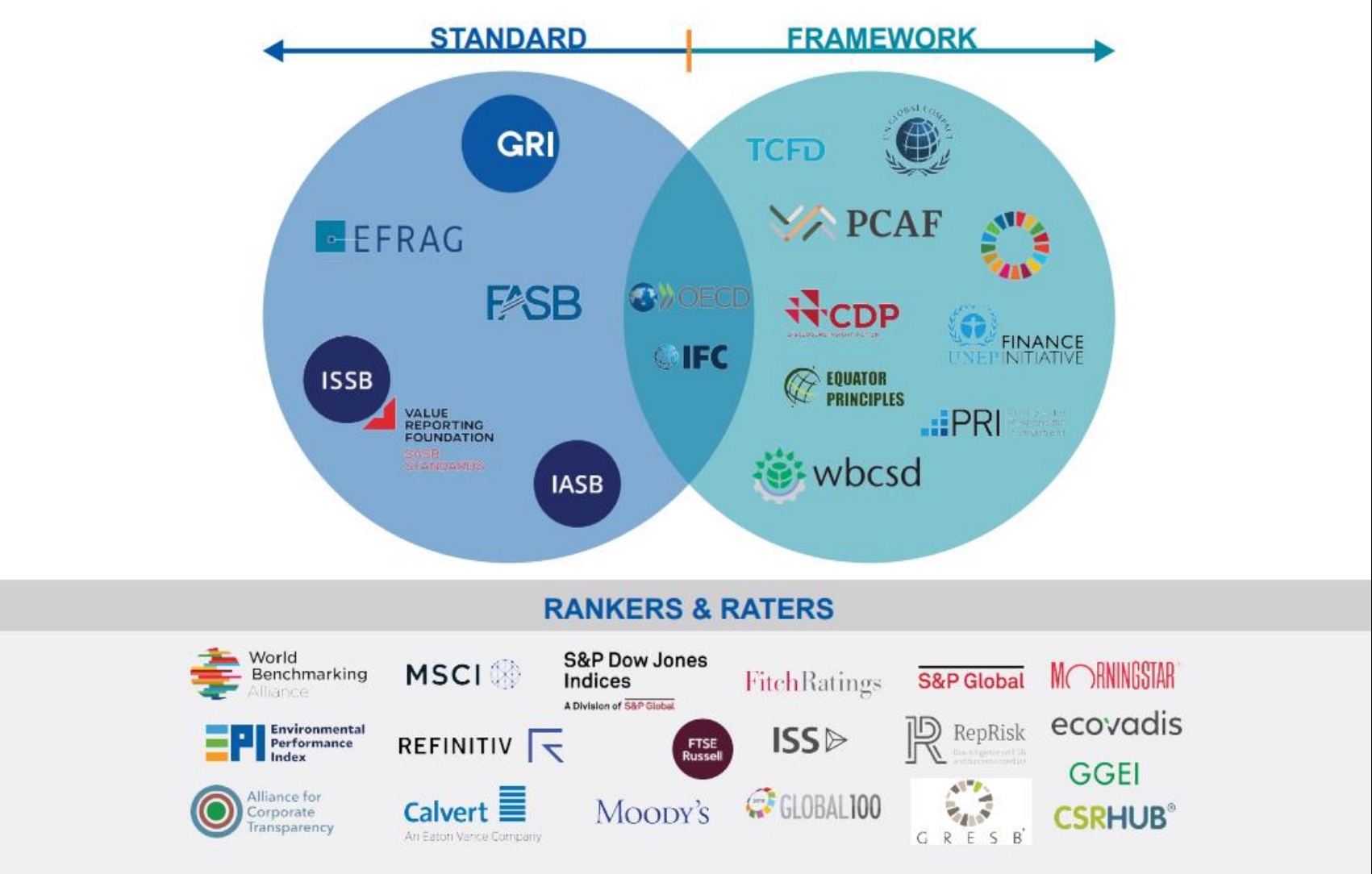
Pressure from...

... investors and other capital markets participants

... regulators, supervisory authorities

... society, politics, NGOs

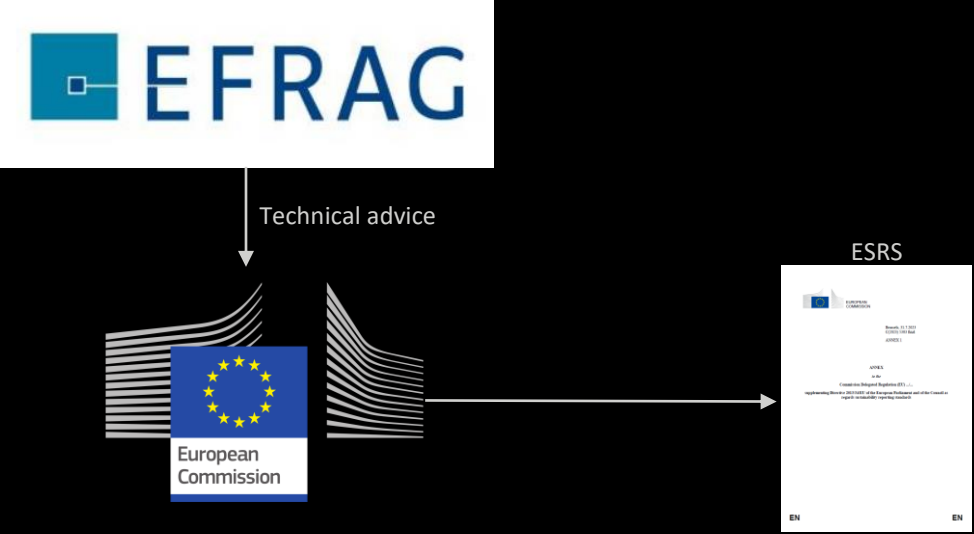
From “alphabet soup” of sustainability reporting standardsetters and framework providers ...



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

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

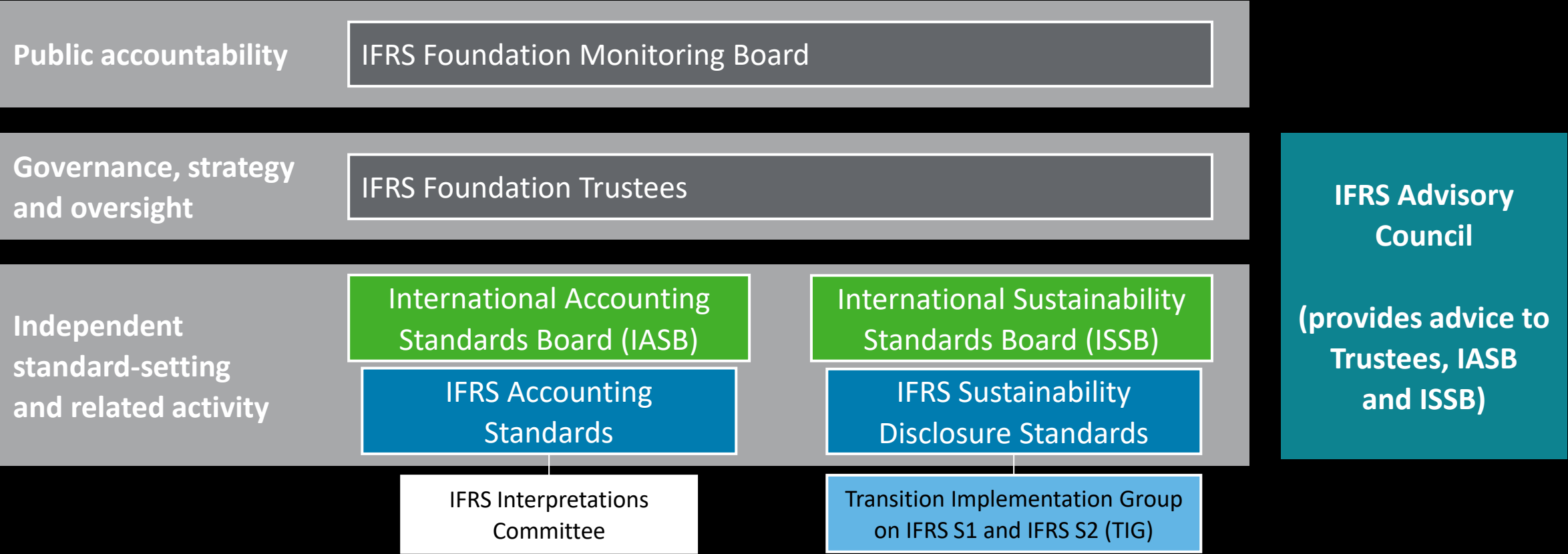
EFRAG and European Commission



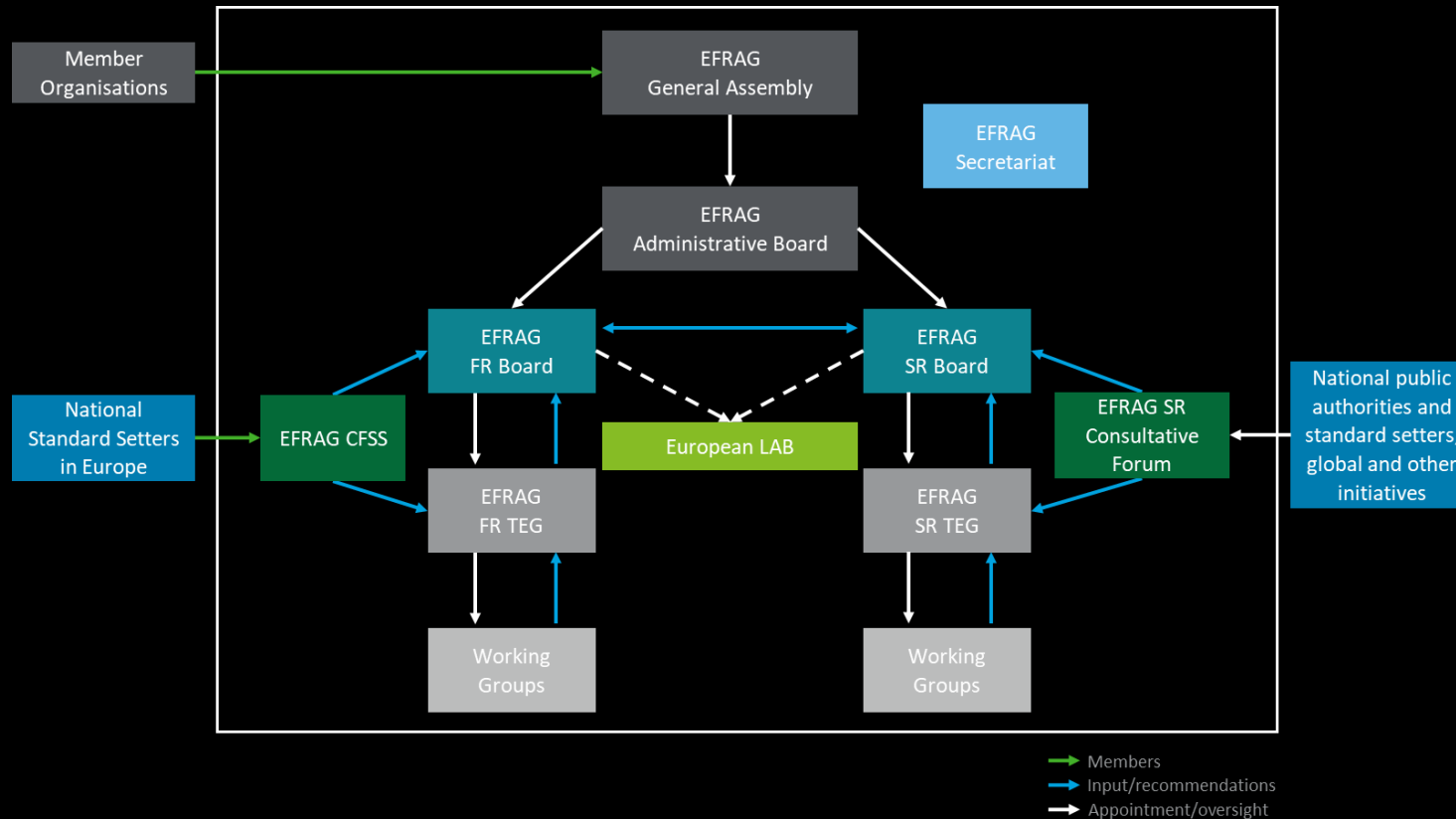
IFRS Foundation



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



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):

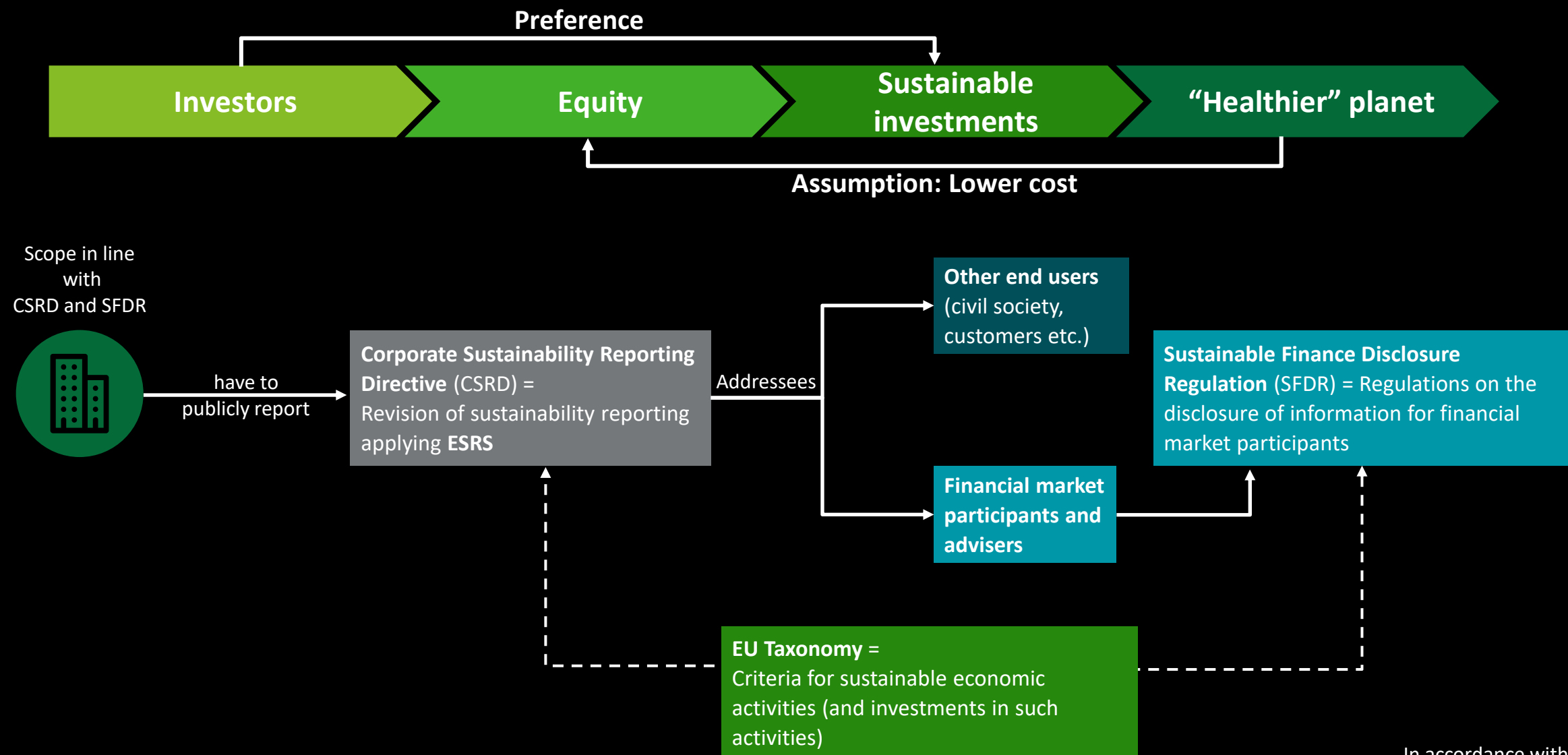
- Final responsibility for content of ESRS Drafts before submitting these as “technical advice” to the European Commission

EU Commission/EU institutions

EU Commission needs to assess “technical advice” 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](#)

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

Cross-cutting	ESRS 1 General requirements	ESRS 2 General disclosures			
Environment	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
Social	ESRS S1 Own workforce	ESRS S2 Workers in the value chain	ESRS S3 Affected communities	ESRS S4 Consumers and end-users	
Governance	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

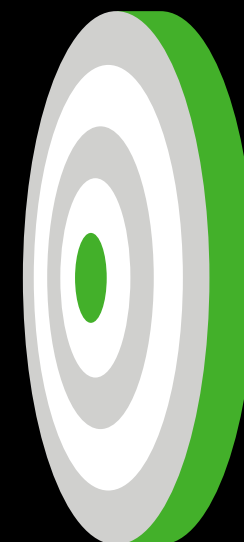
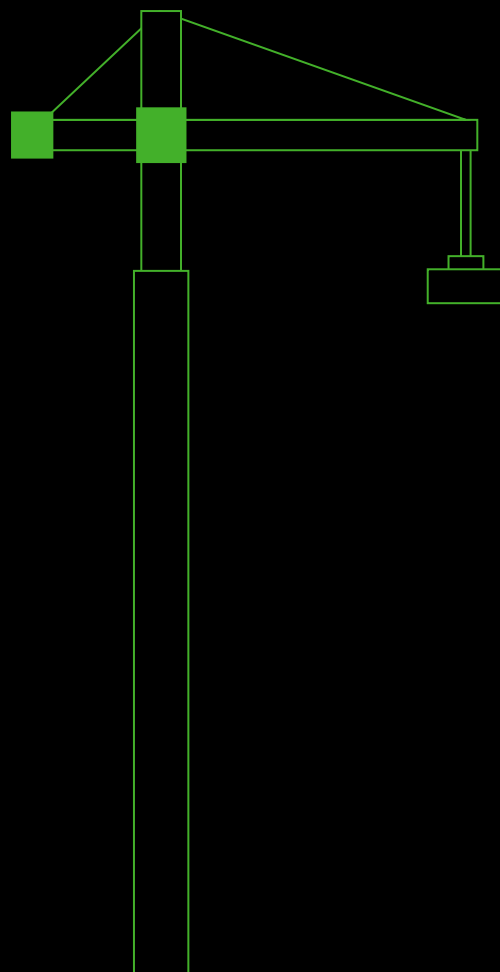
- Highly complex and granular disclosure requirements covering a wide range of ESG topics in-depth
- More than 1.000 datapoints
- “Mix & match & add” approach

Interpretation

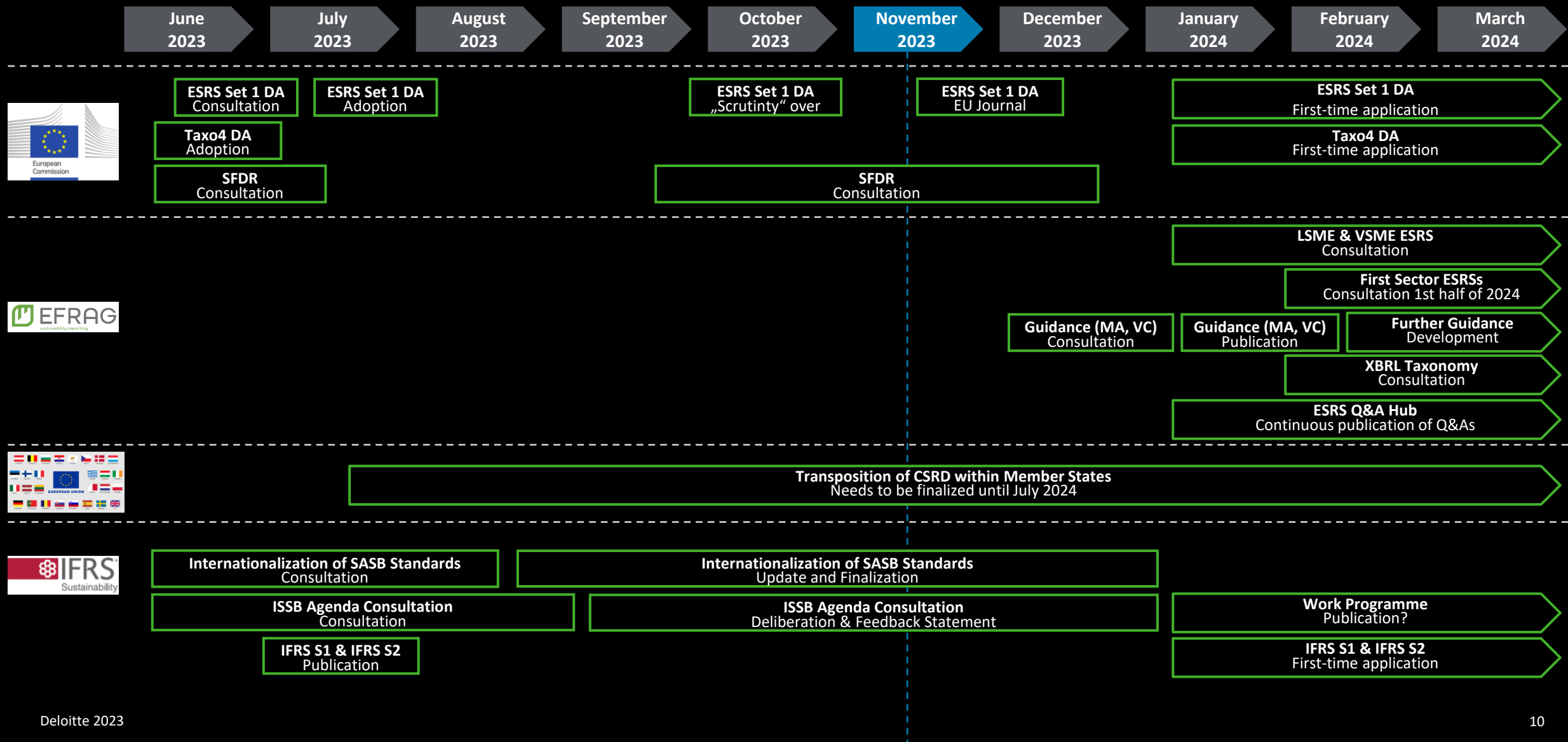
- Interpretation issues: Need for further guidance
- EFRAG’s Implementation Guidance & Q&A Hub: non-binding guidance shall not go beyond standards
- Assurance on sometimes unclear or even conflicting requirements a challenge

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

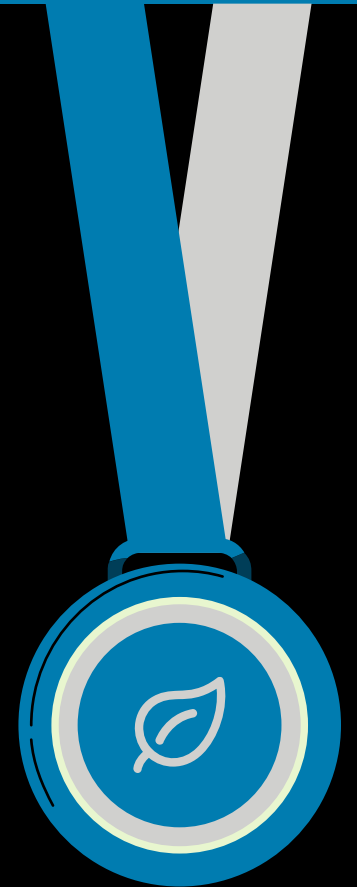


Sustainability reporting can play a major part in the transition towards a sustainable future!



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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