

Prof. Dr. Kerstin Lopatta

An overview and future outlook: Sustainability reporting in Europe and globally

EU Initiative on ESG disclosure – From NFRD to CSRD

Extension of the scope and contents of the report

- Mandatory reporting is extended to all large companies (>250 employees, >50 million sales, >25 million total assets => two out of three)
- For listed SMEs, transition period of three years.

External assurance obligation for sustainability information

- In the mid-term, the intention is to move from an audit with limited assurance to an audit with reasonable assurance.
- Disclosure is provided in the management report.

Mandatory EU standards for sustainability reporting

- EU reporting standard for sustainability reporting to be developed by EFRAG.
- International frameworks such as GRI, SASB, IASB, TCFD to be considered.
- Reporting standard adopted in November, 2022 and by the EU commission in July 2023

Digitalization

- Sustainability information is to be published in ESEF (European Single Electronic Format) together with financial information.

Structure of ESRS

Cross-Cutting Standards

ESRS 1

General requirements

ESRS 2

General disclosures

Environment

Social

Governance

ESRS E1

Climate change

ESRS S1

Own Workforce

ESRS G1

Business conduct

ESRS E2

Pollution

ESRS S2

Workers in the value chain

ESRS E3

Water and marine resources

ESRS S3

Affected communities

ESRS E4

Biodiversity & ecosystems

ESRS S4

Consumers and end-users

ESRS E5

Resource use & circular economy

The pivotal role of the double materiality assessment (DMA)

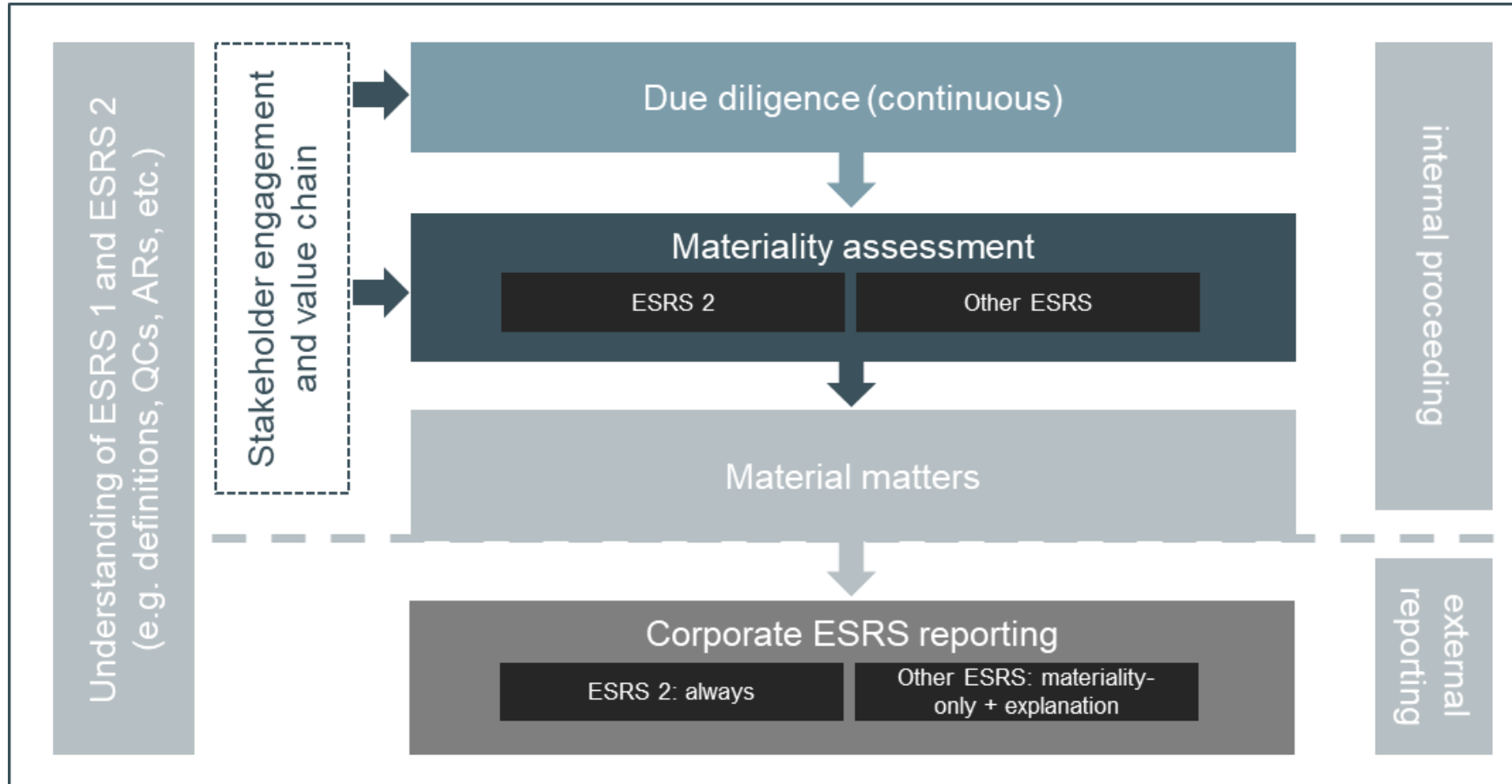


Sustainability statements shall reflect **all material** impacts, risks and opportunities (IROs): under an objective approach with thresholds. Thus, not all sector-agnostic standards may be applicable to an undertaking.



Reporting entity to implement a **rigorous materiality assessment process** to determine material IROs (including the understanding of its value chain). This will be subject to audit.

Flow Chart ESRS 1



IG1 – Main characteristics (1/2)

IG 1 covers...

1. Impact materiality thresholds: severity and likelihood for negative impacts. Refer to the illustrative visual for actual and potential impacts. Due diligence informing impact materiality.
2. Financial materiality thresholds: magnitude and likelihood and investors' lenses. Outcome of the undertaking.
3. Judgement exercised – MA IG supports how to structure such judgement.
4. Frequency of the materiality assessment. Annual ESRS reporting.
5. Materiality assessment for the group – unbiased identification of IROs including those of subsidiaries

EFRAG IG 1 provides guidance and illustrations of the materiality assessment and includes 25 FAQs

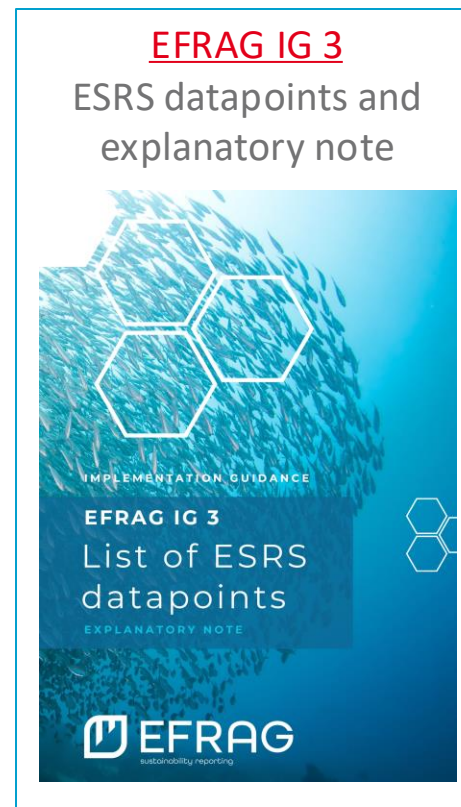


IG1 – Main characteristics (2/2)

1. Stakeholder engagement with AFFECTED stakeholders. This is an ongoing dialogue, leverage from existing initiatives and different groups of affected stakeholders for different matters.
2. Role of scientific evidence in stakeholder engagement.
3. Quantitative vs. qualitative evidence when assessing IROs.
4. Aggregation of information as long as not obscuring and no netting of positive and negative impacts.
5. Link with Art 8 taxonomy: Conceptual linkage between eligible activities and materiality assessment.

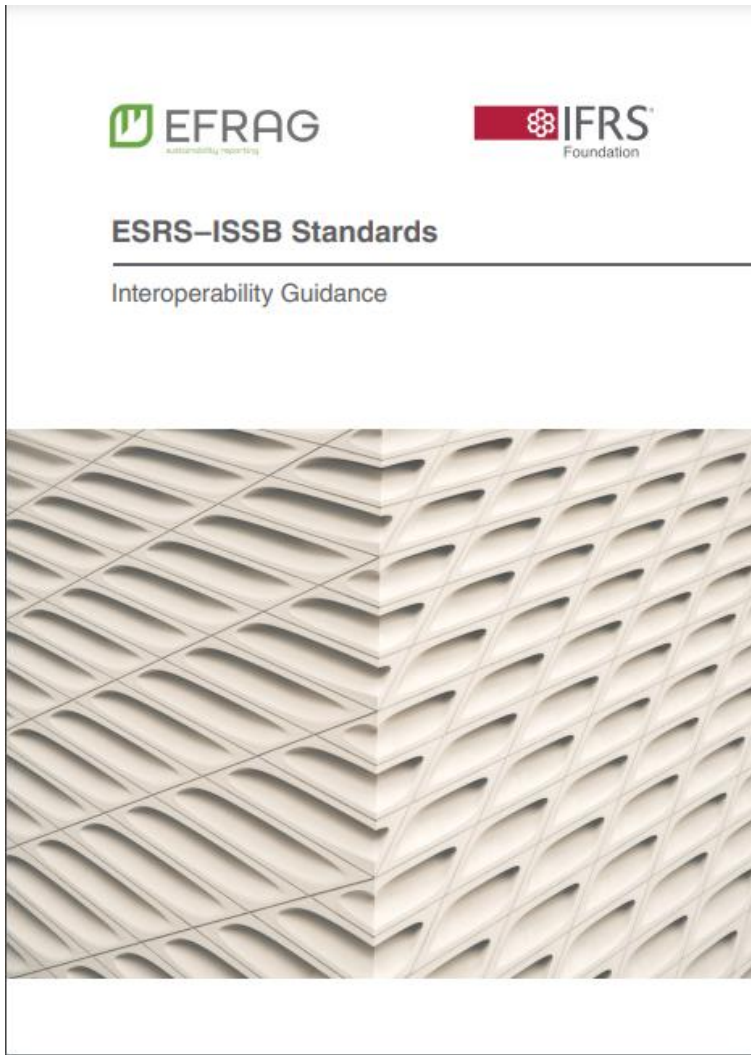
IG – Implementation Guidance

The first three ESRS IG's were published on 31 May 2024.



- IG is developed on EFRAG SRB initiative or in responses to question on Q&A platform.
- **Non-authoritative:** supports understanding of ESRS and illustrates the content with examples and FAQs but **cannot go beyond content** of issued ESRS nor include new provisions.
- Any approach or methodology illustrated is a **possible way to implement the standard.** Determination of implementation approaches stays in the responsibility of the preparer.
- Pipeline of new topics will be analysed by the SRB in the second half of September to select next topics

ESRS-ISSB interoperability guidance issued on 2 May 2024



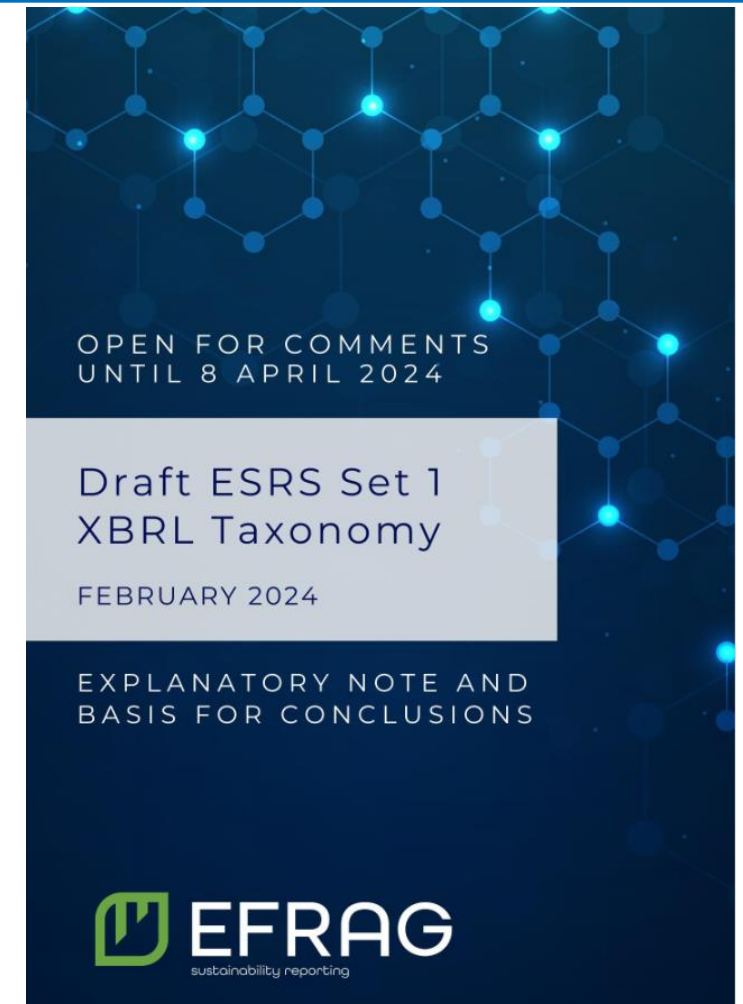
International Sustainability Standards Board (ISSB)



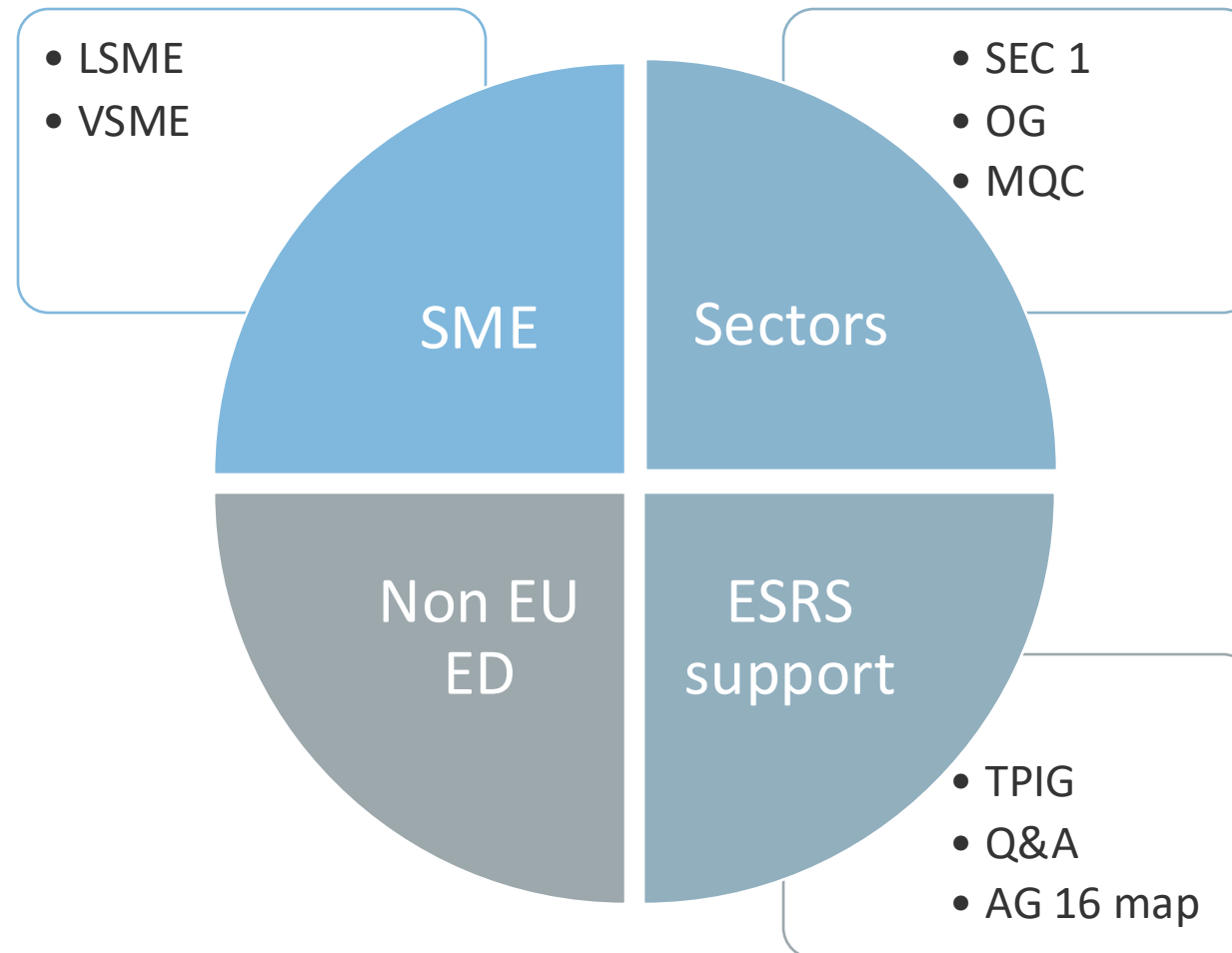
- Comments received: great desire for interoperability
- Result of two years dialogue during standard setting and after
- Illustrates high level of alignment
- ESRS preparers can report on climate, also in compliance with ISSB Standards, only with a very limited number of points to consider, clearly identified in Section 3 of this document.
- This document explains that ESRS preparers can use ESRS to comply with ISSB Standards to report on matters beyond climate.
- **Next steps:**
 - (1) digital interoperability
 - (2) sector standards
 - (3) HC and Nature disclosure (future ISSB standards)

Draft XBRL ESRS Set 1 Taxonomy released on 30 August 2024

- It XBRL taxonomy released by EFRAG represents the correct digital transposition of the human-readable ESRS Set 1, in EFRAG's opinion as the technical advisor to the European Commission that developed those standards.
- I will be the basis for ESMA to develop Regulatory Technical Standards for tagging the ESRS sustainability statement (including consultation on phasing in and cost benefit analysis)
- It has been released jointly with an “**Explanatory Note & Basis for Conclusions**” document, including *illustrations of application instructions* (IAI). Annex 1: XBRL taxonomy illustrated in Excel, Annex 2: Illustrative examples of XBRL reports
- EFRAG published as well the XBRL Taxonomy for Article 8 disclosures that the EC requested EFRAG prepare.



EFRAG key deliverables for Q4 2024



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The EU's standard-setting process

