

REPORTS PUBLISHED ON DEVELOPMENT OF EU SUSTAINABILITY REPORTING STANDARDS

EFRAG Board

14 April 2021



European Financial Reporting Advisory Group



DISCLAIMER

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PROJECT ON PREPARATORY WORK FOR THE ELABORATION OF POSSIBLE EU NON-FINANCIAL REPORTING STANDARDS

FINAL REPORT

54 PROPOSALS FOR A RELEVANT AND DYNAMIC EU SUSTAINABILITY REPORTING STANDARD-SETTING

Link to the report: <https://www.efrag.org/Lab2>



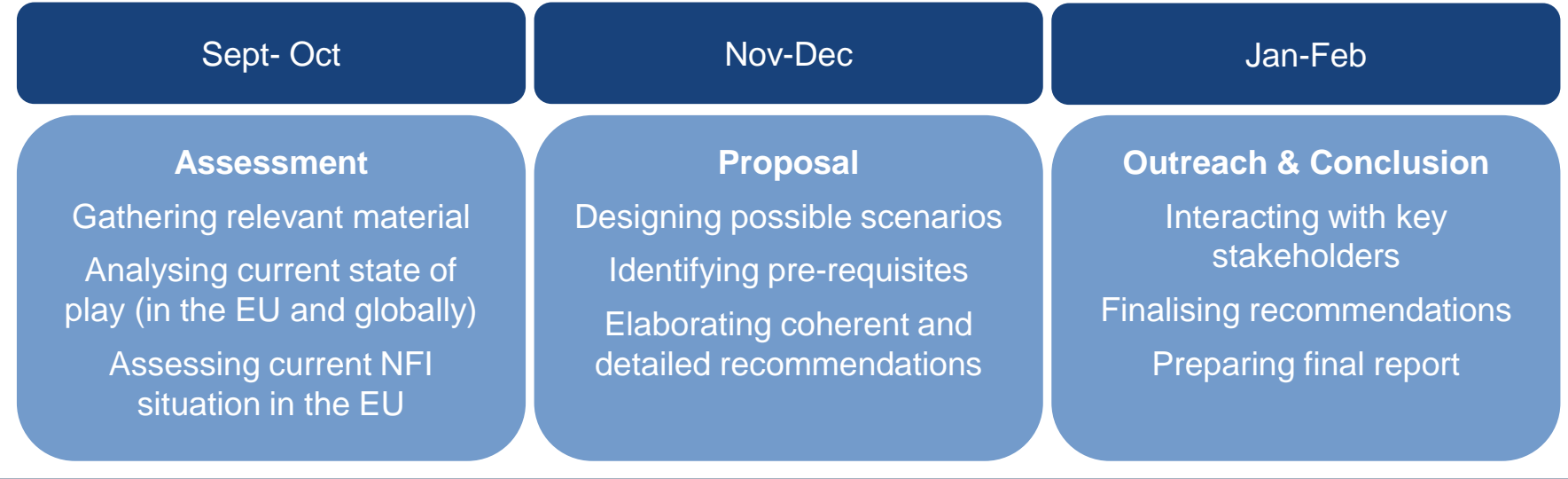
PTF ORGANISATION

A multi-stakeholder Project Task-Force

- 35 Members originating from 13 European countries
- 9 EU Public Authorities' representatives
- 18 PMO support (3 central + 15 dedicated to the streams)

In total, a full time equivalent of 30 to 40 people from 11 September 2020 to 19 February 2021.

A 3-phase approach



CONTEXTUAL ELEMENTS TO BE CONFIRMED AT LEGISLATIVE LEVEL (LEVEL 1)

- Mandatory standards – to be adopted by the European Commission via Delegated Acts
- Scope: possible extension of the scope of application to all large companies
- Double materiality concept
- Location of sustainability statements in the management report
- Assurance level for sustainability information
- Digital tagging

54 PROPOSALS FOR A RELEVANT AND DYNAMIC EU SUSTAINABILITY REPORTING STANDARD-SETTING

The report covers 4 sections:

- Building the next step of EU sustainability reporting from **robust and coherent standard-setting foundations**: 12 Proposals about Overarching principles and foundational building blocks.
- Anchoring key EU sustainability reporting concepts in robust **conceptual guidelines**: 16 Proposals about 6 Conceptual guidelines that should frame the standard-setting Conceptual Framework.
- Elaborating standards from **a state-of-the-art target sustainability reporting architecture**: 12 Proposals regarding topics, reporting areas and sustainability statements.
- Rolling out **a phased-in standard-setting roadmap** and addresses **co-construction**: 14 Proposals around prioritisation to achieve a qualitative game-changing standards over a limited number of years.

THE REPORT ORGANISATION AND STANDARDS STRUCTURE

Introduction: Purpose

1

Foundations

2 overarching principles:
+
6 building-blocks

2

Six Conceptual guidelines

Target architecture

Three Layers

Sector-agnostic

Sector-specific

Entity-specific

3 Reporting areas: Strategy, Implementation, Performance measurement

3 Topics: Environment, Social, Governance+

3

Sustainability Reporting = Sustainability Statements

4

Roadmap and co-construction

INTRODUCTION: PURPOSE OF SUSTAINABILITY REPORTING

‘The purpose of publicly available sustainability reporting is to **provide relevant, faithful, comparable and reliable information:**

- on (i) material sustainability impacts of the reporting entity on affected stakeholders (including the environment) and (ii) material sustainability risks and opportunities for its own value creation,
- Enabling users of information (i) to understand the reporting entity’s sustainability objectives, position and performance and (ii) to inform their decisions relating to their engagement with the entity.’

Nota bene: Sustainability reporting is directly related to management reporting systems enabling reporting entities to better understand, manage sustainability matters and ultimately improve sustainability performance.

2 overarching principles

1. An **inclusive range of sustainability reporting stakeholders** to maximise value creation by businesses in a balanced manner between stakeholders.
2. A **principle-based sustainability reporting system** well suited to the EU landscape.

6 building blocks

1. Supporting the **EU's sustainable development and sustainability reporting momentum**, highlighting the importance of catering for EU specificities and aligning the ESS with existing EU requirements.
2. **Building on and contributing to sustainability reporting global convergence** in a spirit of partnership and fruitful co-construction
3. Addressing the **specific challenges of financial institutions**, as both preparers, with specific sustainable finance requirements, and users of sustainability reporting.
4. **Including SMEs in the EU sustainability reporting landscape in a proportionate manner** as major players of the economy through a tailor-made proportionate approach.
5. **Fostering sector-specific sustainability reporting relevance** as a useful complement to cross-sector information to foster relevance and comparison with peers.
6. **Acknowledging the importance of intangibles in sustainability reporting** as a key lever for sustainable development and value creation of businesses.

ANCHORING KEY EU SUSTAINABILITY REPORTING CONCEPTS IN ROBUST CONCEPTUAL GUIDELINES

1. Developing standard-setting methodologies **to align standards with EU and global sustainability policy priorities** such as the 2030 Agenda and the Paris agreement.
2. Developing criteria supporting a standard-setting process aligned with the expected **characteristics of information quality**: relevance, faithful representation, comparability, understandability, reliability/verifiability which should allow sustainability information to be audited should it be required by the NFRD.
3. Defining detailed **retrospective and forward-looking sustainability information** components.
4. Developing standard-setting methodologies to **define levels of reporting based on clear boundaries** from own operations to value chain with possible more granular information depending on the sustainability matters.
5. Developing standard-setting assessment guidelines to operationalise the double materiality concept through guidelines for standard-setting and for reporting entities and always considering both Impact materiality and Financial materiality in their own right.
6. Defining methodologies and processes enabling **connectivity between sustainability reporting and financial reporting**.

ELABORATING STANDARDS FROM A STATE-OF-THE-ART TARGET SUSTAINABILITY REPORTING ARCHITECTURE 1/3



ELABORATING STANDARDS FROM A STATE-OF-THE-ART TARGET SUSTAINABILITY REPORTING ARCHITECTURE 2/3

3 LAYERS

Promoting proportionality, comparability and relevance through a three-layer reporting approach:

- The sector-agnostic layer sets a minimum basis for all reporting entities across sectors to allow comparability.
- The sector-specific layer fosters relevance and peer comparison.
- The entity-specific layer caters for reporting entities specificities allowing for faithfulness representation.

3 REPORTING AREAS

Strategy, Implementation, Performance measurement

Defining the relevant detailed sustainability reporting areas to ensure proper coverage:

- Strategy includes also Governance and materiality assessment of Risks, Opportunities and Impacts;
- Implementation includes Policies, Targets and Action plans; and
- Performance measurement including to monitor the transition trajectories through past performance and forward-looking perspectives.

ELABORATING STANDARDS FROM A STATE-OF-THE-ART TARGET SUSTAINABILITY REPORTING ARCHITECTURE 3/3

3 TOPICS

Environmental, Social, Governance⁺

Adopting the detailed sustainability topics and sub-topics structure **covering all aspects of the European sustainability goals and agenda and based on the ESG classification.**

Comprehensive subtopics should be articulated around:

- Environment with subtopics aligned on the EU taxonomy;
- Social with impacts on people organised around the categories of stakeholders (workforce, value chain workers, affected communities, consumers/end users); and
- Governance⁺ covering the full range of relevant matters relating to the reporting entity itself and its sustainable development.

SUSTAINABILITY REPORTING

Sustainability Statements

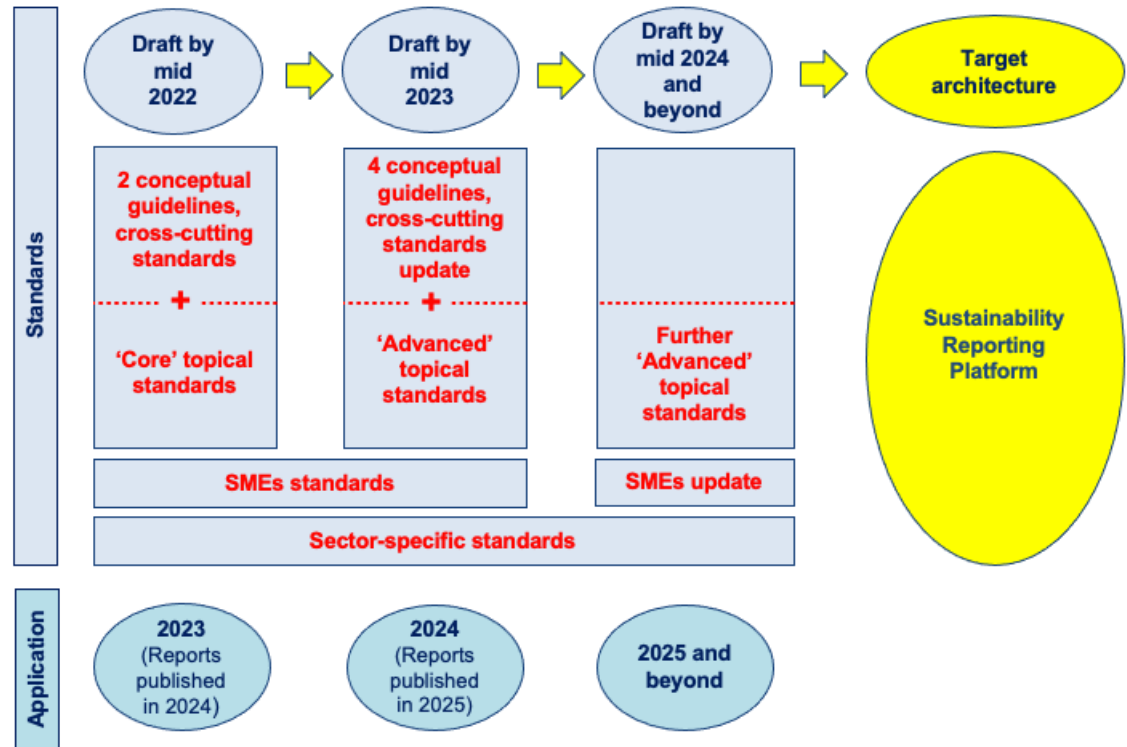
Promoting a unified sustainability reporting format and the related data taxonomy mechanism allowing easy digitisation:

- Location and structure of sustainability statements, where though the PTF proposes to accommodate a dedicated section of the management report.
- A digital taxonomy: on-boarding a tagging technique from the beginning.

ROLLING OUT A PHASED-IN STANDARD SETTING ROADMAP

Given the level of urgency and EU ambition to move swiftly, the PTF recommends that **the ESS be implemented in phases, with an enhancement of content approach**, to eventually achieve the target architecture and a robust sustainability standards platform over time.

The PTF mentioned, in particular, the importance to **build on TCFD recommendations** for climate change from a financial materiality perspective, to **ensure consistency with the disclosures required under the SFDR** and to **address SMEs needs fully**, considering the increasing demand and pressure they face from their stakeholders for sustainability information, whether in the scope of the NFRD or not.



POSSIBLE WAY FORWARD TO ONBOARD INTERNATIONAL INITIATIVES: A 2-STEP APPROACH

The last part of the report focuses on **how to build on international initiatives and contribute to international convergence while adapting and complementing information - if need be - to cater specific EU needs.**

The PTF proposes **possible criteria to assess the initiatives:**

- Congruence with EU priorities: identifying initiatives that would best support the implementation of the EU Sustainability Agenda.
- Understanding the due process and governance context.
- Understanding the level of global acceptance of the initiatives.

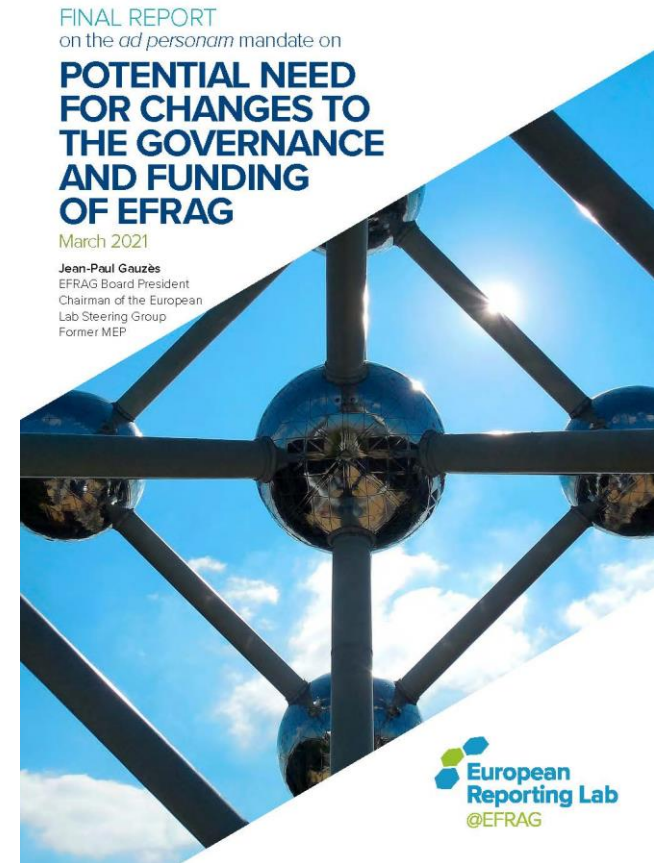
At selected disclosure level, congruence should also be assessed against ESS features: Building blocks, materiality approach, quality characteristics, roadmap.

The PTF also highlights **the need for the EU to be an active player of international cooperation and harmonisation** including the integration of disclosures from international initiatives as an excellent opportunity to establish confident bilateral relationships and the mention of possible joint projects and co-construction at global level.

JEAN-PAUL GAUZÈS AD PERSONAM MANDATE FINAL REPORT

RECOMMENDATIONS ON THE POSSIBLE
NEED FOR CHANGES TO THE GOVERNANCE
AND FUNDING OF EFRAG IF IT WERE TO
BECOME THE EU SUSTAINABILITY
REPORTING STANDARD SETTER

[Link to the report](#)



PUBLIC CONSULTATION AND OUTREACH

First public consultation on mandate – October 2020

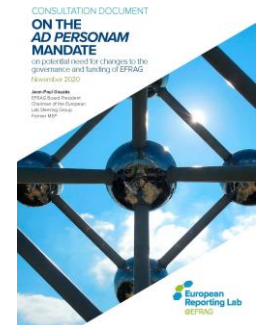
Publication of Progress Report – November 2020

Consultation with Member States represented in ARC on the role of Member States in the future governance and funding of the potential non-financial reporting pillar of EFRAG – December 2020

Second public consultation on preliminary proposals – December 2020

Feedback Statement – March 2021

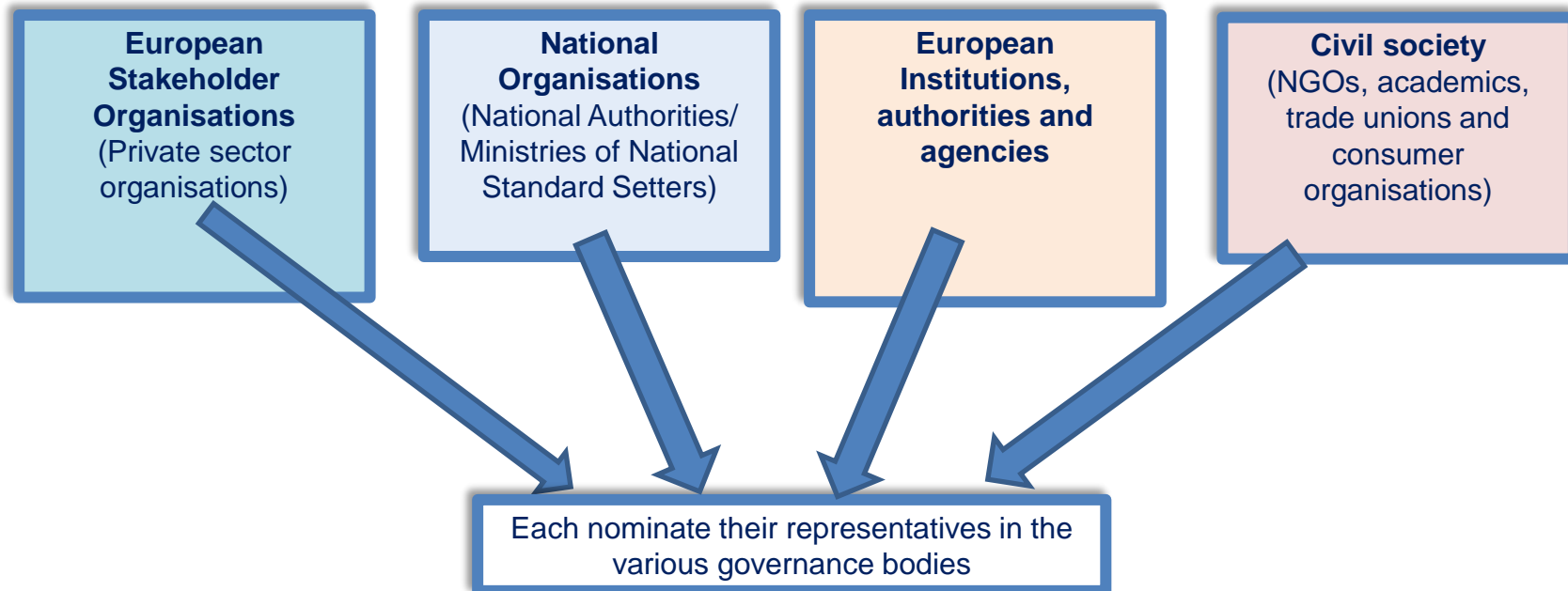
Final Report- March 2021



GOVERNANCE PRINCIPLES

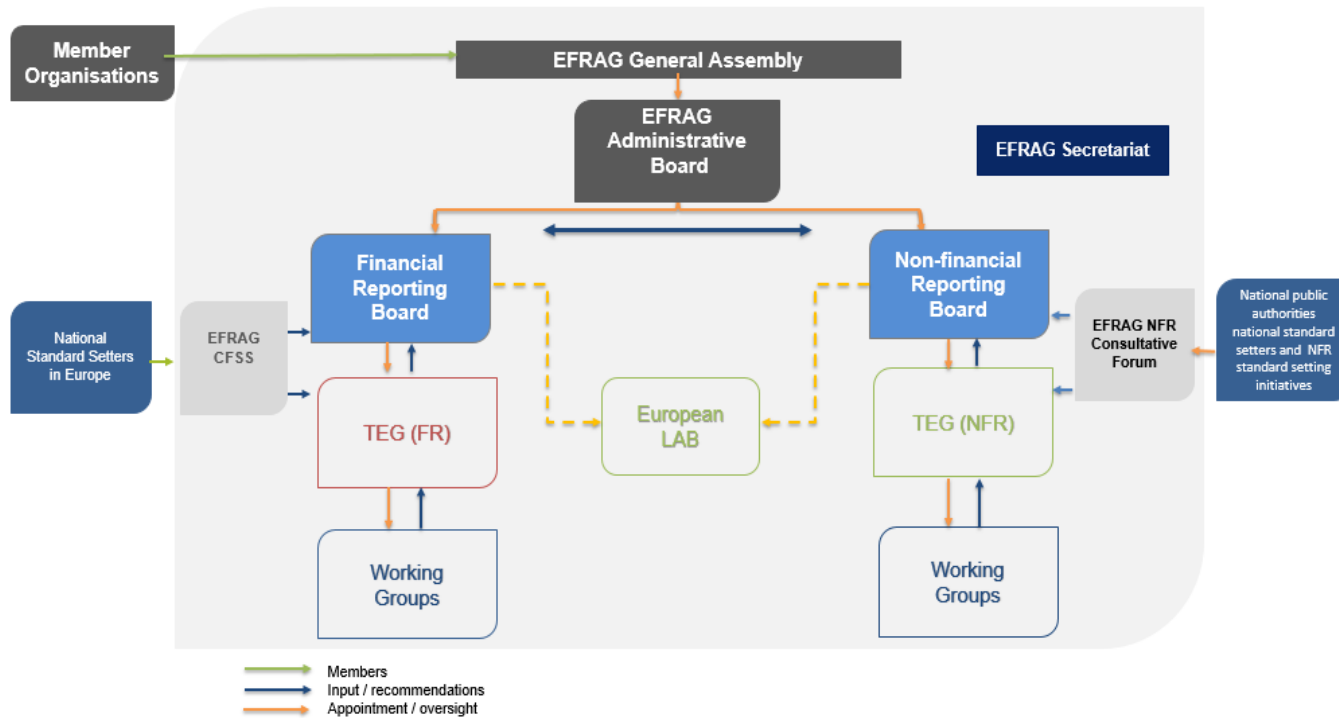
- Independent
- Open and transparent
- Due process
- Publicly accountable
- Legitimate
- Balanced (multi-stakeholder) membership
- Adequate funding
- Serving the European public interest
- Accessibility
- Truthfulness
- Efficiency

GENERAL ASSEMBLY



In addition to its legal tasks the General Assembly will provide a discussion forum for the member organisations to debate strategy and broader orientations.

EFRAG'S PROPOSED ORGANISATION CHART



RECOMMENDATIONS JEAN-PAUL GAUZÈS AD PERSONAM MANDATE

- **Non-financial reporting pillar** alongside EFRAG's existing financial reporting pillar, housed within EFRAG's legal entity based on a public-private partnership allowing for interconnectivity between pillars.
- **EFRAG General Assembly** with four Chapters: 1) European Stakeholder Organisations; 2) National Organisations; 3) European institutions, authorities and agencies; and 4) civil society and providing discussion forum for member organisations on strategy and broader orientations.
- **Administrative Board:** administrative, funding, due process and oversight (no technical tasks).
- **Non-Financial Reporting Board** responsible for defining the standard setting work plan and reviewing and approving of draft and final standards; any other non-binding guidance prepared and recommended by the Non-Financial Reporting TEG; ensuring interconnectivity with the Financial Reporting Board; and cooperating with the existing (global) non-financial reporting standard setters and initiatives.
- **Non-Financial Reporting TEG** responsible for developing standards, with the input from working groups and advisory panels including a SME/SMP Working Group, for approval by the Non-Financial Reporting Board; Cooperating with existing (global) non-financial reporting standard setters and initiatives.
- **Consultative Forum** of National Authorities and National Standards Setters of the Member States and other players for consultation on advice on the draft non-financial reporting standards.
- **European Lab** (project task forces) under Reporting Boards.

REPRESENTATION OF MEMBER STATES AND NATIONAL AUTHORITIES

- National Organisations (National Authorities/Ministries or National Standard Setters or other forms of bringing national stakeholders together) will be invited to be Member Organisations of EFRAG and will form one of the four chapters that form the EFRAG General Assembly.
- The Member Organisations forming part of this chapter will appoint their representatives in the various governance bodies of EFRAG for the seats allocated to them.
- A Consultative Forum will be set up for the Non-Financial Reporting Board and the Non-Financial Reporting Technical Expert Group which will bring together representatives with relevant expertise of the National Authorities and National Standards Setters of the Member States and other players and will be consulted for advice on the draft non-financial reporting standards.

EUROPEAN AUTHORITIES AND AGENCIES

- European institutions, authorities and agencies will be offered full membership of the non-financial reporting pillar and will form one of the four Chapters of the EFRAG General Assembly.
- European authorities and agencies would be directly involved in the development of standards as full members of the bodies responsible for setting these standards.
- To preserve the independence, relevant European authorities and agencies would have the possibility to annex their reasoned opinions to the Non-Financial Reporting Board's proposed non-financial reporting standards when submitted to the European Commission for adoption.
- These opinions will be attached to the proposed standard and will be an integral part of the proposal to the European Commission.

COOPERATION WITH OTHER STANDARD SETTERS AND INITIATIVES

- Reflection of the co-construction approach as foreseen in the recommendations of the PTF based on a two-way exchange of experience, expertise, tools and content, feeding into each other with the ultimate goal of fostering coherence and consistency between the EU and global sustainability reporting.
- Administrative Board will ensure that the Reporting Boards and EFRAG TEGs establish proper cooperation including reciprocity with the global and where relevant other standard setting initiatives.
- Cooperation agreements could be signed.
- The Consultative Forum could invite the relevant non-financial reporting initiatives to participate in its meeting.

MEANS AND HUMAN RESOURCES

- The funding of the existing financial reporting pillar should not be affected by the new activities except for its participating to the charges of structure and administration which should be proportionate.
- The non-financial reporting pillar would benefit from EFRAG's existing infrastructure, support and management functions.
- The EFRAG secretariat, will have to be complemented by the recruitment of new staff competent in the field of non-financial information and the drafting of standards.
- The funding structure of the non-financial reporting pillar should reflect the public private sector partnership model of EFRAG. European Union funding should play a leading part given the public interest mission in standard setting to support the implementation of EU law.
- Initial additional budget: estimated 3M€.



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THANK YOU



EFRAG
Aisbl - ivzw
35 Square de Meeüs
B-1000 Brussel
Tel. +32 (0)2 207 93 00
www.efrag.org

