

Interoperability between IFRS standards and ESRS

Background

- 1 One of the changes in the revised text of the CSRD directive released the 30 June 2022 relates to the interoperability of ESRS with international initiatives, including IFRS Sustainability Standards.
- 2 In the articles the following text has been included:
The standards shall avoid disproportionate administrative burden on undertakings, including by taking account to the greatest extent possible the work of global standard-setting initiatives for sustainability reporting as required by paragraph 3, point (a).
- 3 In the recitals, the following text has been included:
To avoid unnecessary regulatory fragmentation that may have negative consequences for undertakings operating globally, European standards should contribute to the process of convergence of sustainability reporting standards at global level, by supporting the work of the International Sustainability Standards Board (ISSB). European standards should reduce the risk of inconsistent reporting requirements on undertakings that operate globally by integrating the content of global baseline standards to be developed by the ISSB, to the extent that the content of the ISSB baseline standards is consistent with the EU's legal framework and the objectives of the European Green Deal.
- 4 The level of alignment with the content of IFRS S1 and S2, including from some stakeholders, the suggestion to achieve a higher level of alignment, has been a recurring request in the outreach on the ESRS.
- 5 The CSRD text also foresees that *European standards should contribute to the process of convergence of sustainability reporting standards at global level, by supporting the work of the International Sustainability Standards Board (ISSB).*
- 6 **Considering the above, it is necessary for EFRAG SR TEG to assess the differences between the two sets of standards, in order to consider possible amendments to the wording in ESRS EDs, in order to achieve higher interoperability/integration/alignment to the contents of the IFRS EDs, already for the release of Set 1 of ESRS by mid-November 2022.**
- 7 One of the key considerations for EFRAG decision-making is the misalignment in timing. Set 1 of ESRS drafts will be delivered by EFRAG to the EC by mid-November 2022 (and the decision-making process of EFRAG should be completed by the end of October at the latest), while the ISSB will complete the deliberations on its two exposure drafts at the end of the year. The current text of the two IFRS EDs is currently in consultation and is subject to changes, in order to address the comments received during the consultation. It is likely that, whatever the level of alignment that can be finally achieved in Set 1, further changes will be needed and future amendments to the draft ESRS composing Set 1 would probably be needed in future periods to enhance further the interoperability, due to the changes to the exposure drafts in the finalization of the IFRS standards.
- 8 EFRAG should support the work of the ISSB and, where appropriate, IFRS sustainability standards could be amended to facilitate the alignment with the equivalent provisions in ESRS standards.

Objectives of this session

- 9 EFRAG SR TEG discussed the differences between ESRS E1 and IFRS S2 in the meetings of the 12 and 18 July.
- 10 In preparation of the work needed to achieve a higher interoperability, this session aims at:
 - (i) assessing the differences between key concepts and definitions in IFRS S1 (versus ESRS 1 and 2) and identifying opportunities for further alignment;
 - (ii) consider the differences in location/architecture;
 - (iii) identify, where applicable, integrations in ESRS 1 and 2 of text from IFRS S1 in order to enhance the alignment.
- 11 In assessing the consistency between the relevant requirement,

Papers for this session

- 12 In addition to this cover note, **Agenda Paper 02.02** is provided.

Questions to SR TEG members

- 13 For item 5. Value chain, a possibility to align the wording to the value chain definition of IFRS S1 could be considered. Would you support such alignment? Do you consider that the IFRS definition will be suitable also from a double materiality perspective?
- 14 For item 18: would you support that the requirement to disclose the link between material IROs and strategy and business model should be more clear, i.e. integrating where in the value chain IROs are concentrated?
- 15 For item. 19 would you support that in IFRS 1 DP 1.1 and 1.2 in addition to requiring info about the progresses toward the adopted target, the undertaking shall also disclose the progresses of plans disclosed in prior periods?
- 16 For item. 20 would you support the proposed integration?
- 17 For item 23: would you support to relocate DP 1-1 and 1-3 from ESRS 1 to ESRS 2 as they correspond to risk management in IFRS S1?
- 18 For item 23: would you support to integrate in ESRS 2 the requirement in IFRS S1 to illustrate how IRO identification/management is integrated into overall management?
- 19 For item 24: would you support to relocate DP 1 - 2 from ESRS 1 to ESRS 2 as they correspond to risk management in IFRS S1? Please explain.
- 20 For item 28: would you support to add para 31 of IFRS S1 in ESRS 1 DP 1.2?
- 21 For item 34: would you support to add para 39 of IFRS S1 in ESRS 2 para 18?
- 22 For item 37: would you support a full alignment of the text related to characteristics of quality?
- 23 Do you agree with the proposed course of actions identified for each of the items listed in the table in Agenda Paper 03.02? In particular, do you agree with the actions to foster alignment identified in green? And with the 'No Actions'? Please explain.
- 24 The Architecture of ESRS is structured on three blocks (cross-cutting/implementation and perf. measures) while the IFRS architecture adopt four blocks (governance/strategy/risk management/metrics). The Appendix to this cover note illustrate the reconciliation between the two architectures. The ESRS architecture has been designed in order to support a logic integration of the 11 topical standards. Subject to the discussions at points 17 and 19 above, do you agree for conceptual reasons to keep unchanged the Architecture in IFRS standards?
- 25 The proposed approach in Agenda paper 03.02 focuses on the alignment of the disclosure objectives in the main bodies of the standard (ESRS), in order to foster consistency between the two sets of standards. The text in ESRS application guidance would not be changed/eliminated, as it is considered a necessary tool to foster more robust and consistent application. Do you agree with this approach? Please explain.
- 26 Do you have any other comment or suggestion to further enhance the alignment of the cross-cutting ESRS with IFRS S1, not already identified in Agenda Paper 02.02?

Appendix – Architecture

High-level reconciliation

