

EFRAG CONFERENCE
Where is corporate reporting heading?
7 December 2022 – Brussels

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Sustainability reporting becoming « mainstream » with EFRAG's crucial contribution.

With the CSRD sustainability reporting is becoming « mainstream » in the EU. It is a major step forward in a journey to create a robust second pillar of standardised corporate reporting, with sustainability reporting on an equal footing with financial reporting as a goal.

To achieve such a game-changing goal sustainability reporting standards- now known as ESRS (European Sustainability Reporting Standards)- are required by the directive as its indispensable operational complement. This legal framework combining Level 1 and Level 2 provisions mirrors the structure successfully adopted for financial reporting and is indeed a key success factor for sustainability reporting.

EFRAG is proud to be tasked with the elaboration of draft standards as technical advice to the European Commission. We fully understand the public interest nature of the delegation we have received and the specific responsibility we are entrusted with.

EFRAG started working on this under the umbrella of the Lab it created in 2018. At the request of the Commission, we started on sustainability reporting *per se* in project task force mode in September 2020, first to carry out preparatory work (with recommendations delivered in February 2021), second to elaborate exposure drafts (submitted to public consultation in April 2022).

In parallel EFRAG was creating a second institutional pillar dedicated to sustainability reporting, with a Board and a TEG (Technical Expert Group). In

March-April 2022 the project task force seamlessly passed the baton to the SRB and SR TEG, which are fully in charge since.

Let me highlight the clear standard-setting model chosen for EFRAG, for both pillars as a matter of fact, in order to reflect the EU specific context and culture. The key option is to operate from a multi-stakeholder composition to make sure that what is done is aligned with the broadest spectrum of expectations. To reflect in its composition the specific context of sustainability reporting EFRAG has added a Civil Society Chapter which complements the pre-existing chapters. From a general standpoint the counterpart is that all members of SRB and SR TEG have to promote and seek consensus, arbitrating in the best of all spirits between the various « ideal » expectations.

As an illustration I am happy to be able to say today that, under Kerstin Lopatta's leadership as acting chair, and following very dense discussions, the SRB achieved consensus mid-November on the 12 draft standards delivered as technical advice to the European Commission : the vote was unanimous except for one abstention in relation to 5 standards.

I would like also to mention that, even if EFRAG was under resource and time pressures, we have been able to comply with all the steps of a demanding due process. This is paramount for EFRAG and the quality of its standard-setting.

A balanced set 1 of sector-agnostic ESRS delivered on time

The consensus I mentioned earlier did not happen by accident. From exposure drafts to draft standards intensive work has been carried out to improve relevance and adequacy before releasing our technical advice two weeks ago.

As former chair of the project task force I knew when the public consultation was launched that the EDs were most probably on the high side in terms of required information depth and that we would have to revisit terminology and relevance in certain cases, depth and phasing in all cases and the allocation between sector-agnostic and sector-specific disclosures. I knew also that we would have to work further on our compatibility with other key standard-setting initiatives.

From the end of April to mid-November we organised a public consultation with about 500 respondents filing 700 surveys , we organised 16 outreach events and we had many other opportunities to interact with stakeholders. We also launched and analysed a cost benefit analysis performed by a recognised consultant. And once informed, at Board and TEG levels, we had very fruitful debates -sometimes early in the morning- allowing stakeholder representatives to express views and concerns in a constructive manner and to find the path to an acceptable consensus. All the above fueled by the work performed restlessly by the secretariat.

The outcome in a nutshell ! Four major improvements. One, a reduction of the disclosure burden by 45% while by the same token improving the substance and potential efficiency of the reporting under double materiality. Two, of course, an alignment with the final CSRD following the trilogue conclusion in June and a careful onboarding of other relevant EU regulations. Three, a fine tuning of terminology and concepts to adopt the four internationally acknowledged reporting areas and to replace the rebuttable presumption by a simpler approach combining mandatory disclosures and disclosures subject to materiality assessment. And four, a careful monitoring of potential differences with others standards, in particular the ISSB and GRI ones, to foster commonality and interoperability to the maximum extent possible and avoid at all cost multiple reporting.

We believe the outcome is a balanced set of standards which I hope is a reasonable compromise between the various levels of expectations. We do hope our assessment will be shared by all stakeholders. On the preparers' side we know that implementing this may still be a challenge, at least for the « smaller large ». However the CSRD tactfully introduced phasing in provisions. We of course recommend starting the implementation process as soon as possible. On the users' side we know than more information may have been expected but we think the proposed step forward is a major Union-wide achievement already. In both cases time is of the essence !

Supportive from the beginning of a global momentum we made every effort to ensure interoperability with the ISSB work, under an investor focus, and with the GRI standards, under an impact focus. Our goal is that whoever is complying with ESRS would also comply with the ISSB future standards and that businesses applying GRI standards would be well prepared to elaborate their ESRS reports.



As stated almost three years ago by Vice-President Dombrovskis the EU must capitalise upon and contribute to relevant international initiatives.

Beyond a balanced and interoperable first set of standards, as required by the CSRD EFRAG has already started elaborating the future sets within a focus on SMEs, listed or not, and sector-specific standards. We will do this with the same dedication and under a strict due process.

To conclude I would like to pay tribute to all contributors to the EFRAG adventure and to its international partners. Their enthusiasm is an inspiration for all of us. It demonstrates the strong momentum that supports the development of sustainability reporting, which if properly implemented is so crucial for people and planet.