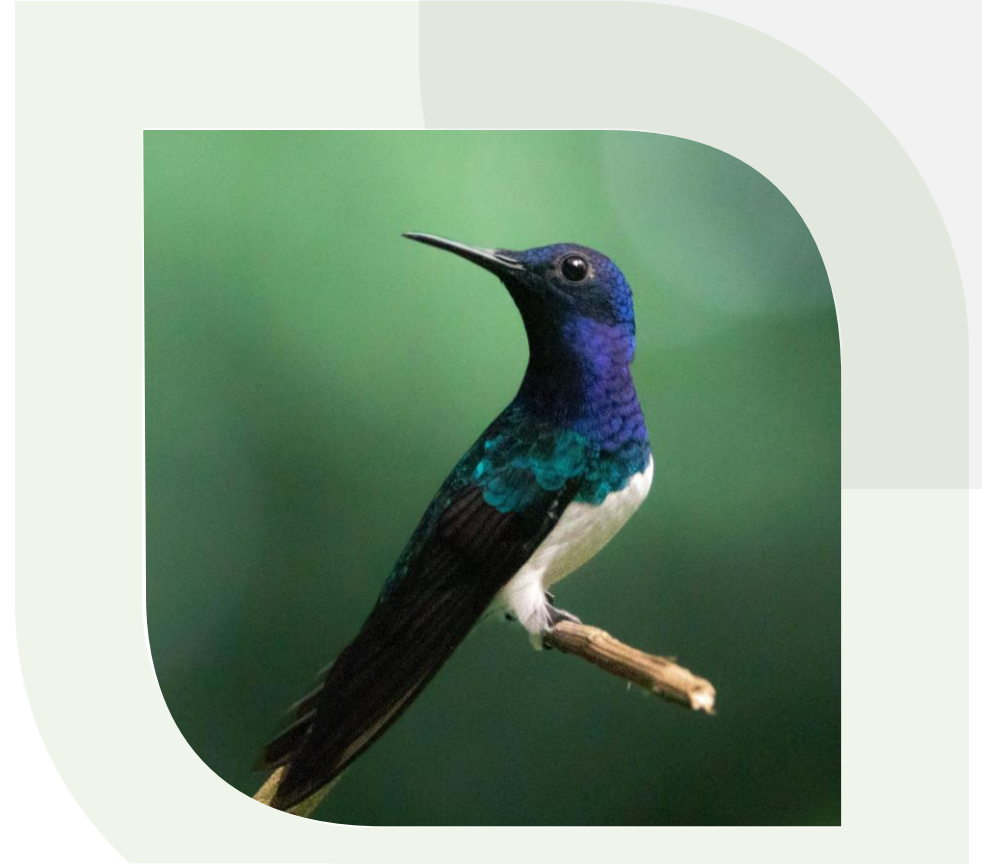


Sustainability Reporting Implementation: Challenges and opportunities

Perspectives of the challenges and opportunities in implementing and assuring sustainability reporting in the EU

11 December 2024

Saskia Slomp, EFRAG CEO



Ministry of
Finance
of Ukraine



EU-FAAR

DISCLAIMER

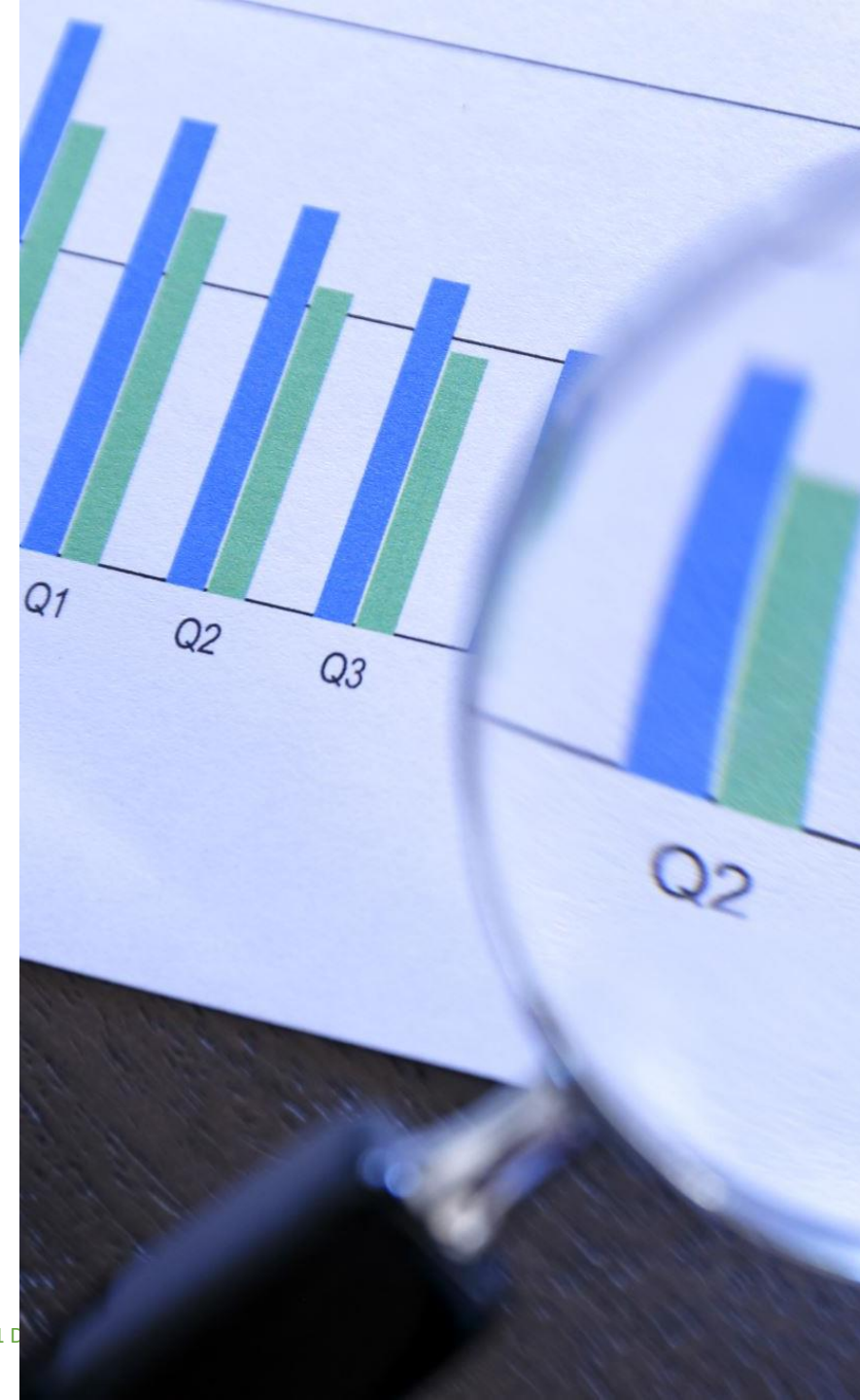
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EFRAG

What is EFRAG?

- Established **2001**, serving European public interest
- **Missions**: mandated to provide technical advice to the European Commission on
 - the development of ESRS (sustainability reporting pillar) and
 - the endorsement of IFRS (financial reporting pillar)
- Involved in sustainability reporting since **2018**
- **Robust governance**: multi-stakeholder composition and involvement
- Overall: EFRAG positioned in a **leading role** in support of front-running European reporting regime and in support of global sustainability reporting momentum.





Sector agnostic

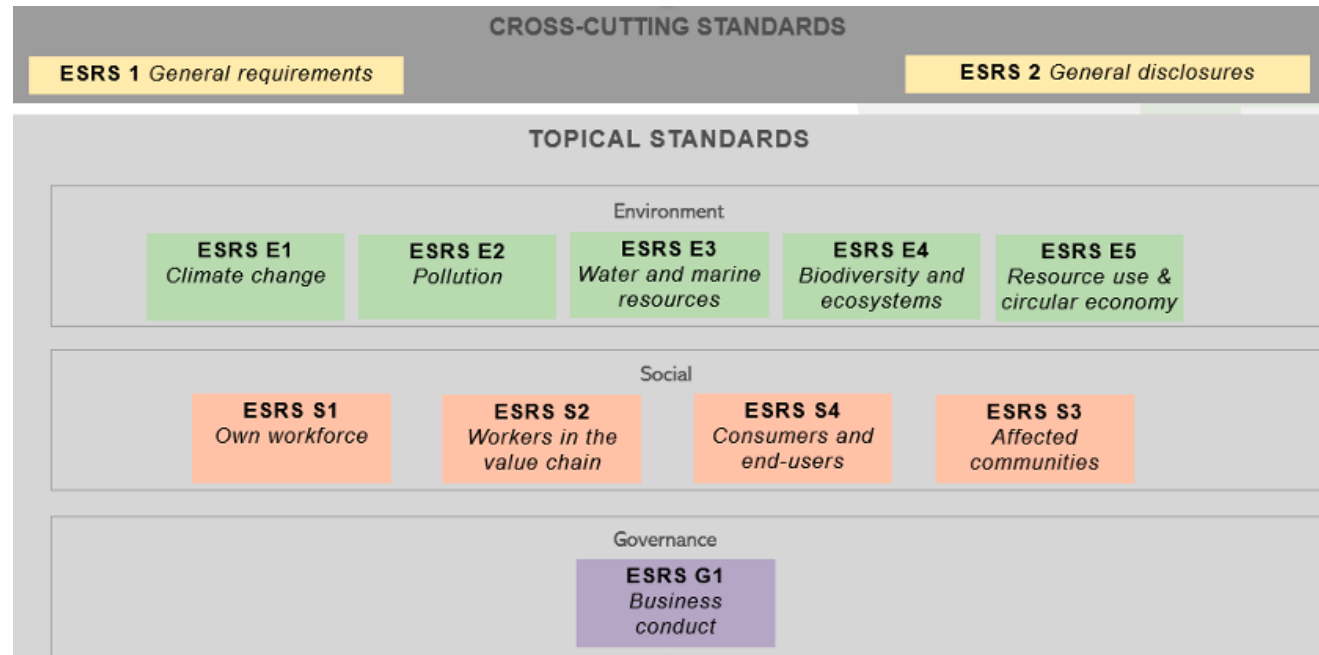
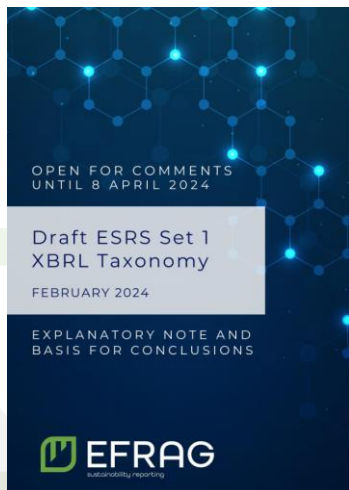
The first set of sector agnostic ESRS

- Categories of ESRS Standards for large companies (EU criteria)

- Cross cutting standards
- Topical Standards
- Sector specific standards



- XBRL Taxonomy Set 1



4 Reporting areas :

- Governance (Gov)
- Strategy (SBM)
- Impacts, Risks and Opportunities management (IRO)
- Metrics and Targets (topical standards)

Two different standards support SME'S access to finance

ESRS for listed SMEs - LSME

- Part of EFRAG mandate in CSRD', delegated act, effective 01/01/26 (two-year opt out)
- **Public-interest relevance:**
 - SMEs with bonds, shares and other securities traded in regulated market in the EU
 - small and non-complex institutions (SNCIs)
 - captive insurers/ reinsurers
- To set requirements proportionate and relevant to the scale and complexity of the activities and to the capacities and characteristics of LSMEs.
- Expected to support LSMEs in better access to finance and avoid discrimination against them on the part of financial market participants

Voluntary standard for non listed SMEs - VSME

- Outside the CSRD mandate: [EC SME Relief Package](#) of September 2023: to support SMEs in accessing sustainable finance.
- Non-listed micro- + SMEs
- Simple reporting tool to assist in responding to requests for sustainability information from business counterparts in an efficient and proportionate manner
- Facilitate SMEs transition to sustainable economy
- To standardise the current multiple ESG data requests by reducing the number of uncoordinated requests they receive.

Key features

- Outside the CSRD mandate: [EC SME Relief Package](#) of September 2023: to support SMEs in accessing sustainable finance.
- Non-listed micro + small and medium enterprises (SMEs)
- Simple reporting tool to assist in responding to requests for sustainability information from business counterparts in an efficient and proportionate manner
- To standardise the current multiple ESG data requests by reducing the number of uncoordinated requests they receive.
- Facilitate SMEs transition to sustainable economy

State of play

- January 2024: VSME Exposure Draft
- January – May: Public Consultation on the Exposure Draft.
 - **Public consultation participants:** 311 respondents
 - **Field Test participants:** 164 respondents
 - **22 comment letters** received outside the online survey
- During EFRAG SR TEG and EFRAG SRB meetings in July, September, October and November, changes on the VSME standard were discussed and agreed upon based on the feedback received from the public consultation.
- The VSME Standard was approved at EFRAG SR TEG on 22 October 2024, and at EFRAG SRB on 13 November 2024.

BASIC MODULE

- Entry level for non-listed SMEs
- Target for micro-undertakings
- Simplified language
- **11 Disclosures** including narrative disclosures simplified and ESG Topical Metrics.
- Simplification: all required BUT whenever it is appropriate 'IF APPLICABLE'



COMPREHENSIVE MODULE

- To provide more comprehensive information on top of Basic module, requested by business partners.
- Sustainable Finance datapoints (Table 1 SFDR PAI, EBA Pillar 3, Benchmark Regulation) as proxies for ESG management.
- Further language simplification achieved, wherever it is appropriate "IF APPLICABLE"
- **9 disclosures**
- Applying the Basic module is a prerequisite for applying the Comprehensive module

For future consideration: link to the simplified EU taxonomy tool for aligned and eligible activities that the Platform on Sustainable Finance is currently developing.



ESRS implementation support

ESRS Q&A platform

Initiated in October 2023

*777 questions received
68% addressed through IGs or
compilations issued in February, May,
July and December 2024*

supported by SR TEG

Welcome to the
EFRAG ESRS Q&A Platform

to support the implementation of ESRS



Dedicated due process procedures have been designed

- Categorisation and answers are discussed in public
- Log of questions available on EFRAG website



Exposed to feedback/comments:

- Implementation Guidance (30 days public feedback)
- Possible amendments to ESRS (full due process)

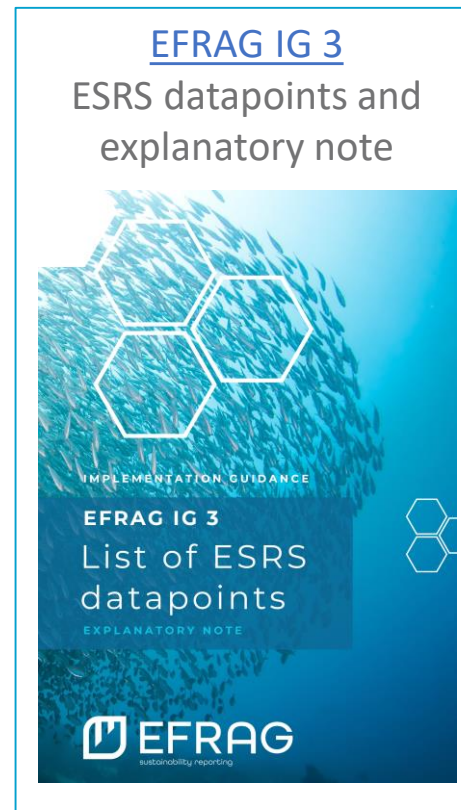


Not exposed to public feedback:

- Explanations
- Rejections (mainly because the topics are already covered or for technical reasons)
- You find them here: [Compilation of explanations](#)

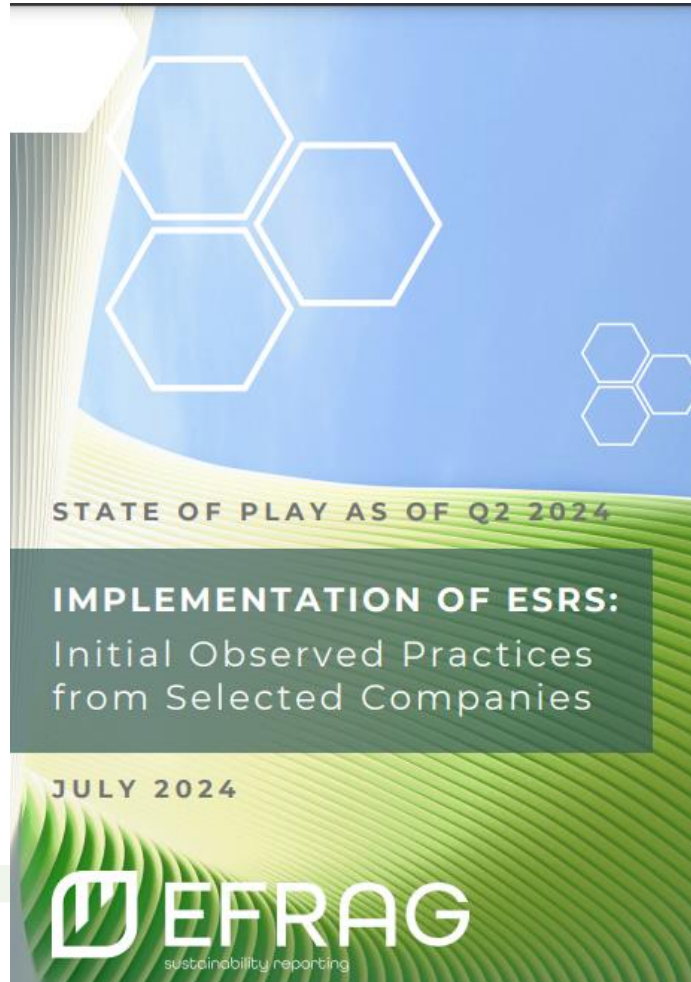
Implementation guidance documents

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.
- Ongoing the drafting of an IG on **Climate Transition Planning**
- Pipeline of future IGs includes several topics, including topical guidance

Initial observed practices from selected companies



- Educational material (no public feedback)
- It illustrates preliminary practices of ESRS implementation
- Based on interviews of 28 large EU-headquartered undertakings across eight sectors split between financial and non-financial enterprises.
- The emerging practices were analysed against four focus areas particularly relevant to the implementation of ESRS: Materiality assessment, Value Chain, Gap analysis on datapoints, ESG reporting organisational approach.
- The study intentionally focuses on larger undertakings and thus is not representative of the diverse mix of companies that will apply the ESRS.

Implementation support: what is next?

- Climate Transition Plan Implementation Guidance
- Mapping of AR 16 matters with Set 1 DRs (Q&A ID 177 – as an Explanation) expected to be approved by end November by SRB
- Coming in 2025
 - Reporting on GHG targets in the banking sector
 - Gross versus Net IG
 - Topical guidance (e.g. definitions for water and training)
 - VSME Implementation Guidance



Sector specific standards

Role and objective of Sector ESRS

- Sector ESRS will complement the requirements in sector agnostic ESRS
- Pending issuance of sector ESRS, transition provisions require to cover sector information with entity specific disclosures, which is judgmental and challenging to prepare
- Built following interoperability approach: SASB, GRI and other sectoral frameworks as a starting point, plus European specificities
- Expected to replace large share of entity specific disclosure, reducing efforts
 - Predefined list of sustainability matters ***most relevant for the sector***
 - ***Sector specifications to DRs in ESRS Set 1*** (e.g. new datapoint with sector nature, breakdowns, aspects to cover when describing topical PAT)

Multi annual programme on Sector ESRS – timeline to be confirmed

- Estimated number of sectors approx. 35
- Prioritisation given to **high-impact sectors**

- Oil and Gas
- Mining, quarrying and coal

- Motor vehicles
- Road transport

- Agriculture
- Food and beverage

- Energy production
- Textiles, footwear, jewellery and accessories

- Financial services sector: Banks, Insurance and Capital markets (3 in total)
- Sector Classification ED (SEC 1) based on NACE
- **EFRAG to endeavour to release these 11 sectors to the European Commission in two annual batches over the second half of 2025 and second half of 2026**
- To meet the deadline in current CSRD text, consultation on batch 1 in Q1/Q2 2025 (120 days)



Other activities in the
workplan

Interoperability workstreams

Objective: To avoid double reporting

- Required by CSRD
- Financial materiality definition aligned with IFRS Foundation
- Impact materiality definition aligned with GRI
- Implementation support material issued jointly
- Paving the way to digital interoperability

- EFRAG and IFRS Foundation [interoperability guidance](#) (ESRS and IFRS S standards)



- GRI-ESRS interoperability [index](#)

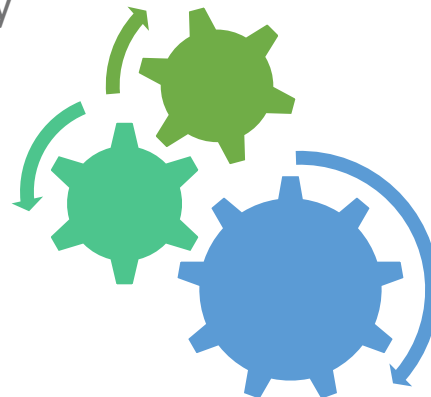
- Mapping with the [TNFD](#)



- MoUs with CDP; CEN-CENELEC



- New MoU's signed: TISFD



ESRS STANDARD SETTING - OVERVIEW OF DELIVERABLES



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The work programme was approved at the end of 2023. The EFRAG SRB will approve 2025 workplan in the next few weeks. The content presented here is therefore subject to changes.

- LSME: draft standard to EC (and publication) by 20 December 2024
- Non-EU draft standard to EC (and publication) by December 2025
- First batch of draft sector standard to EC by end 2025 (after public consultation)
- Endeavour draft standards for eight high-impact sectors to EC by December 2026
- Financial institutions also by December 2026
- VSME draft standard (except for BCs) to EC by 20 December 2024
- VSME BCs – publication in January 2025

ESRS IMPLEMENTATION SUPPORT AND INTEROPERABILITY

ONGOING ACTIVITY

Implementation support

- Q&A platform
- IG on transition plans: public feedback Jan 2025; publication Q2 2025

Interoperability

- GRI interoperability for sector standards (embedded in the standard setting OG/MQC, exchanging material on Textile and Financial Institutions)
- Digital interoperability with ISSB, GRI, CDP and NZDPU
- Sector ESRS – SASB/ISSB interoperability
- ISSB: Human Capital and Biodiversity

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