The Digital European Sustainability Reporting Standards (ESRS)

ITCG, 12 October 2023

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sustainability reporting

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- the EFRAG Financial Reporting Board (FRB),
- the EFRAG Financial Reporting TEG (FR TEG),
- the EFRAG Sustainability Reporting Board (SRB) and
- the EFRAG Sustainability Reporting TEG (SR TEG).

This document presents EFRAG secretariat insights on the ESRS XBRL taxonomy. The content of this presentation has not been discussed nor approved by SR TEG or SRB and as such cannot be understood to represent an EFRAG position.

It has been prepared on the basis of the EFRAG Secretariat latest understanding of the future ESRS XBRL taxonomy, that at this stage is still in progress and has not yet been finalized nor approved by EFRAG SR TEG or SRB nor it has been subject to the public comments.

As such, samples of the ESRS XBRL taxonomy could differ from what will be published as a final ESRS XBRL taxonomy.

WHO IS EFRAG

Located in Brussels, Belgium

Private not-for-profit established in 2001

Encouraged by the EC to serve the public interest

Since 2010 over 50% funded by the European Union

2018 European Corporate Reporting Lab@EFRAG following EC Action Plan: *Financing Sustainable growth*

2022 Sustainability reporting pillar

Agenda

1. The key features of the European legal regime: from the CSRD to the ESEF Regulation
2. ESRS Digital Taxonomy: Methodology & Architecture
3. Next steps

1. The key features of the European legal regime: the CSRD

With the CSRD, the EU wishes to bring sustainability reporting on an equal footing with financial reporting over time in order to meet the level of ambition of the Green Deal and the Union's objective of climate neutrality by 2050

The key features of the European legal regime: the CSRD – Corporate Sustainability Reporting Directive (1/2)

- Broad scope of application: all large entities (250+ employees) and listed SMEs, subsidiary exemption [not for Listed Entities]
- A progressive phase-in: 2024 reporting year for NFRD reporters, 2025 for the other large entities, 2026 for listed SMEs (with opt-out option until 2028), 2028 for Non-EU companies with branches/subsidiaries
- Other SMEs encouraged to adopt a simplified voluntary reporting – possibly also micro-entities

All listed and unlisted companies or PIE (including non-EU listed on in the EU) exceed at least two of the three following criteria : (i) 250 for the average number of employees, (ii) €40m net turnover and (iii) €20m balance sheet total

Listed SMEs – except micro-entities, entities that meet at least two of the following criteria: (i) average number of employees between 10 and 250, (ii) €700k and €40m net turnover, and (iii) €350k and €20m balance sheet total.

Non-EU companies generating at least €150m net turnover in the EU and with at least one branch (generating at least €40m net turnover in the EU) or one subsidiary in the EU (large entity or listed SME).

Subsidiaries exemption (except large listed) - if they are in a group which publishes consolidated “CSRD compliant” sustainability statements.

The key features of the European legal regime: the CSRD – Corporate Sustainability Reporting Directive (2/2)

- Mandating the use of European Sustainability Reporting Standards (ESRS) developed by EFRAG and adopted by the EC via delegated acts - comprehensive coverage of sustainability matters: E, S & G
- A key concept: double materiality (impacts and financial risks/opportunities)
- Location and timing of reporting: in the management report, i.e., at the same time as financial statements
- Mandatory limited assurance to start with, moving to reasonable assurance by the end of the decade

➡ ***Transposition into national law (by July 2024): focused on some points as harmonisation level is already high***

CSRD & ESEF Regulation: Machine-readable format

CSRD
DIRECTIVE (EU) 2022/2464

USERS

Recital (55): Directive 2013/34/EU [Accounting Directive] does not require that undertakings provide their management reports in a digital format, which hinders the findability and usability of the reported information. **Users of sustainability information increasingly expect such information to be findable, comparable and machine-readable in digital formats**.

AMS Bodies

Recital (59): Article 33 of Directive 2013/34/EU requires Member States to ensure that the members of the administrative, management and supervisory bodies of an undertaking have collective responsibility for ensuring that the annual financial statements, the consolidated financial statements, the management report, the consolidated management report, the corporate governance statement and the consolidated corporate governance statement are drawn up and published in accordance with the requirements of that Directive. **That collective responsibility should be extended to the digitalisation requirements laid down in Delegated Regulation (EU) 2019/815, to the requirement to comply with Union sustainability reporting standards and to the requirement to mark up sustainability reporting**.

AUDITOR

Recital (60): […] Therefore, a progressive approach to enhancing the level of the assurance required for sustainability information should be considered, starting with an obligation on the statutory auditor or audit firm to express an opinion about the compliance of the sustainability reporting with Union requirements based on a limited assurance engagement. **That opinion should cover the compliance of the sustainability reporting with Union sustainability reporting standards, the process carried out by the undertaking to identify the information reported pursuant to the sustainability reporting standards and compliance with the requirement to mark up sustainability reporting**.

CSRD & ESEF Regulation: Machine-readable format

CSRD
DIRECTIVE (EU) 2022/2464

Amendment to the Accounting Directive
(Directive 2013/34/EU)

Article 29d

Single electronic reporting format

1. Undertakings subject to the requirements of Article 19a of this Directive shall prepare their management report in the electronic reporting format specified in Article 3 of Commission Delegated Regulation (EU) **2019/815*** (1) and **<u>shall mark up their sustainability reporting</u>,** including the disclosures provided for in Article 8 of Regulation (EU) 2020/852, **<u>in accordance with the electronic reporting format specified in that Delegated Regulation</u>**.
2. Parent undertakings subject to the requirements of Article 29a shall prepare their consolidated management report in the electronic reporting format specified in Article 3 of Delegated Regulation (EU) **2019/815*** and **<u>shall mark up their sustainability reporting</u>**, including the disclosures provided for in Article 8 of Regulation (EU) 2020/852, **<u>in accordance with the electronic reporting format specified in that Delegated Regulation</u>**.

ESEF Regulation
Commission Delegated Regulation (EU) 2018/815

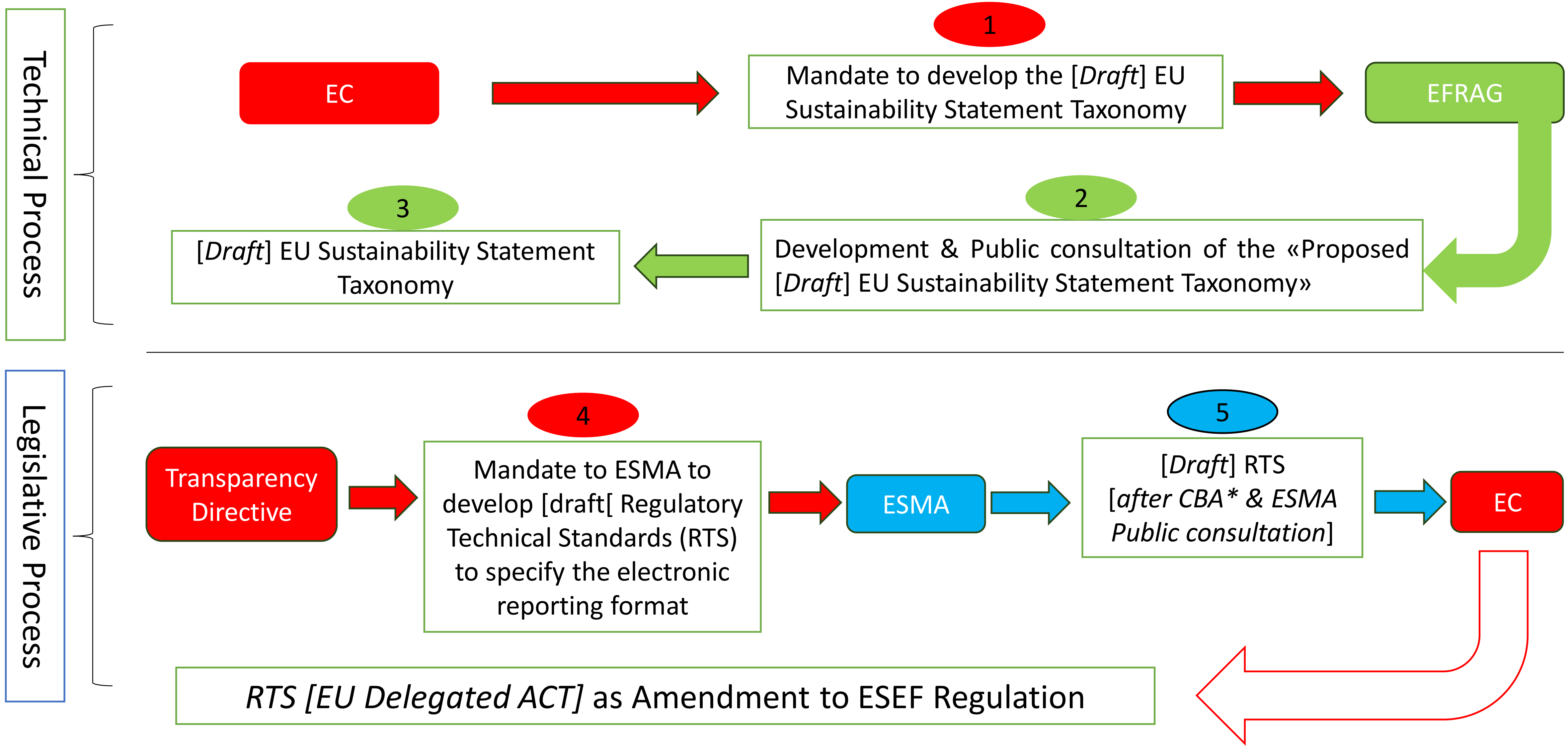
supplementing **Transparency Directive** [Directive 2004/109/EC] with regard to RTS on the specification of a single electronic reporting format

<u>Art. 4 - *Marking up IFRS consolidated financial statements*</u>

1. Where annual financial reports include IFRS consolidated financial statements, issuers shall mark up those consolidated financial statements.

*wrong reference to the ESEF Regulation

CSRD & ESEF Regulation: Machine-readable format



**COST BENEFIT ANALYSIS REQUIRED BY THE TRANSPARENCY DIRECTIVE*

The "Set 1" ESRS Delegated Act bas been adopted by the EC

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CROSS-CUTTING STANDARDS

- **ESRS 1** *General requirements*
- **ESRS 2** *General disclosures*

TOPICAL STANDARDS

Environment

- **ESRS E1** *Climate change*
- **ESRS E2** *Pollution*
- **ESRS E3** *Water and marine resources*
- **ESRS E4** *Biodiversity and ecosystems*
- **ESRS E5** *Resource use & circular economy*

Social

- **ESRS S1** *Own workforce*
- **ESRS S2** *Workers in the value chain*
- **ESRS S4** *Consumers and end-users*
- **ESRS S3** *Affected communities*

Governance

- **ESRS G1** *Business conduct*

Summary: Digital Sustainability Reporting Taxonomy

- The **Corporate Sustainability Reporting Directive (CSRD)** requires undertakings in the EU to report **EU Taxonomy** disclosures and **ESRS** statements as part of the management report, starting from FY 2024.
- The **European Single Electronic Format (ESEF)** will be used, which is based on **Inline XBRL**.
- Companies have to tag (markup) the disclosures with a **digital XBRL taxonomy,** having a unique defintions for every data point.
- The XBRL taxonomy has **more than 1000 data points** with a wide range of types, e.g. GHG emissions, water & energy consumptions, headcount, pollution, and large number of **narrative disclosures** etc.
- The Inline XBRL report is **human-readable and maschine-readable** at the same time.
- It allows users (analyists, investors, etc.) to **easily identify individual disclosures** and **extract numerical data points** for analytical purpose.

2. ESRS Digital Taxonomy: Methodology & Architecture

Example: ESRS 2 SBM-1

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Disclosure Requirement SBM-1 – Market position, strategy, business model(s) and value chain

36. **The undertaking shall disclose its market position, the elements of its strategy that relate to or impact sustainability matters, its business model(s) and its value chain.**

37. The objective of this Disclosure Requirement is to describe: the undertaking's market position; the elements of its general strategy that relate to or affect sustainability matters, the undertaking's business model(s) and key value chain, in order to provide an understanding of the undertaking's exposure to impacts, risks and opportunities and where they originate.

38. The undertaking shall disclose the following information about the undertaking's market position and the key elements of its general strategy that relate to or affect sustainability matters:

(a) a description of:

i. significant groups of products and/or services offered, including changes in the reporting period (new/removed products and/or services);

ii. significant markets and/or customer groups served, including changes in the reporting period (new/removed markets and/or customer groups);

iii. headcount of employees by geographical areas; and

iv. where applicable and material, products and services under bans in certain markets, including potential bans in relation to material public initiatives and considerations;

(b) a breakdown of total revenue, as included in its financial statements, by significant ESRS sectors. When the undertaking provides segment reporting as required by IFRS 8 *Operating segments* in its financial statements, this sector revenue information shall be, as far as possible, reconciled with IFRS 8 information;

(c) a list of the additional ESRS sectors beyond the ones reflected under paragraph 38(b), in which the undertaking develops significant activities, or in which it is or may be connected to material impacts. The identification of these additional ESRS sectors shall be consistent with the way these have been considered by the undertaking when performing its materiality assessment and with the way it discloses material sector-specific information;

(d) where applicable, a statement indicating, together with the related revenues, that the undertaking is active in:

i. the fossil fuel (coal, oil and gas) sector[5], i.e mining, extraction, production, processing, st transportation, storage and trade, of fossil fue Regulation (EU) 2018/1999 of the European P

ii. chemicals production[6], i.e., its activities fall unc (EC) No 1893/2006;

iii. controversial weapons[7] such as anti-person weapons and biological weapons; and/or

iv. the cultivation and production of tobacco[8];

(e) its sustainability-related goals in terms of groups categories, geographical areas and relationships wit

(f) an assessment of its current market positions in relat

(g) a statement of the intended direction of the elements of the undertaking's strategy that relate to or impact sustainability matters, including the main challenges ahead, critical solutions or projects to be put in place, when relevant for sustainability reporting.

39. The undertaking shall disclose a description of its business model(s) and value chain, including:

(a) its inputs and its approach to gathering, developing and securing those inputs;

(b) its outputs and outcomes in terms of current and expected benefits for customers, investors and other stakeholders; and

(c) the main features of its upstream and downstream value chain and the undertaking's position in its value chain, including a description of the main business actors (such as key suppliers, customers distribution channels and end-users) and their relationship to the undertaking. When the undertaking has multiple value chains, the disclosure shall cover the key value chains.

40. Reflecting the specific circumstances of the undertaking, there may be more than one value chain to be reported on in the sustainability statements. As a convention, in this and other [draft] ESRS the term "value chain" refers to both single and multiple value chains.

[ESRS2.SBM-1] Market position, strategy, business model(s) and value chain
- Disclosure of market position, elements of strategy that relate to or impact sustainability matters, business model(s) and value chain [text block] — L1
  - Disclosure of information about market position and key elements of general strategy that relate to or affect sustainability matters [text block] — L2
    - Description of significant groups of products and (or) services offered [text block] — L3
    - Description of significant markets and (or) customer groups served [text block] — L3
    - Number of employees (head count) — Numerical
    - Number of employees (head count) [abstract]
      - Number of employees (head count) [table]
        - Country [axis]
        - Geographical area [axis]
      - Number of employees (head count) [line items]
        - Number of employees (head count)

      Numerical/table
    - Description of products and services under bans in certain markets [text block] — L3
    - Revenue
    - Revenue [abstract]
      - Revenue [table]
        - Operating segment [axis]
        - Economic activity [axis]
          - Economic activity [member]
      - Revenue [line items]
        - Revenue

      Numerical/table
    - Description of ESRS sectors other than those reflected under paragraph 38(b), in which significant activities are developed or in which un... — L3
    - Undertaking is active in fossil fuel (coal, oil and gas) sector
      - Revenue from fossil fuel (coal, oil and gas) sector
    - Undertaking is active in chemicals production
      - Revenue from chemicals production
    - Undertaking is active in controversial weapons
      - Revenue from controversial weapons
    - Undertaking is active in cultivation and production of tobacco
      - Revenue from cultivation and production of tobacco

    Boolean/Numerical
    - Description of sustainability-related goals in terms of groups of products and services, customer categories, geographical areas and relation... — L3
    - Disclosure of assessment of current market positions in relation to goals [text block] — L3
    - Statement of intended direction of elements of strategy that relate to or impact sustainability matters [text block] — L3
  - Description of business model(s) and value chain [text block] — L2
    - Description of inputs and approach to gathering, developing and securing inputs [text block] — L3
    - Description of outputs and outcomes in terms of current and expected benefits for customers, investors and other stakeholders [text block] — L3
    - Description of main features of upstream and downstream value chain and undertaking's position in value chain [text block] — L3

Narrative Disclosures
- L1= Level 1
- L2 =Level 2
- L3 = level 3

Example: E1 GHG Emission E2 Pollution in Inline XBRL

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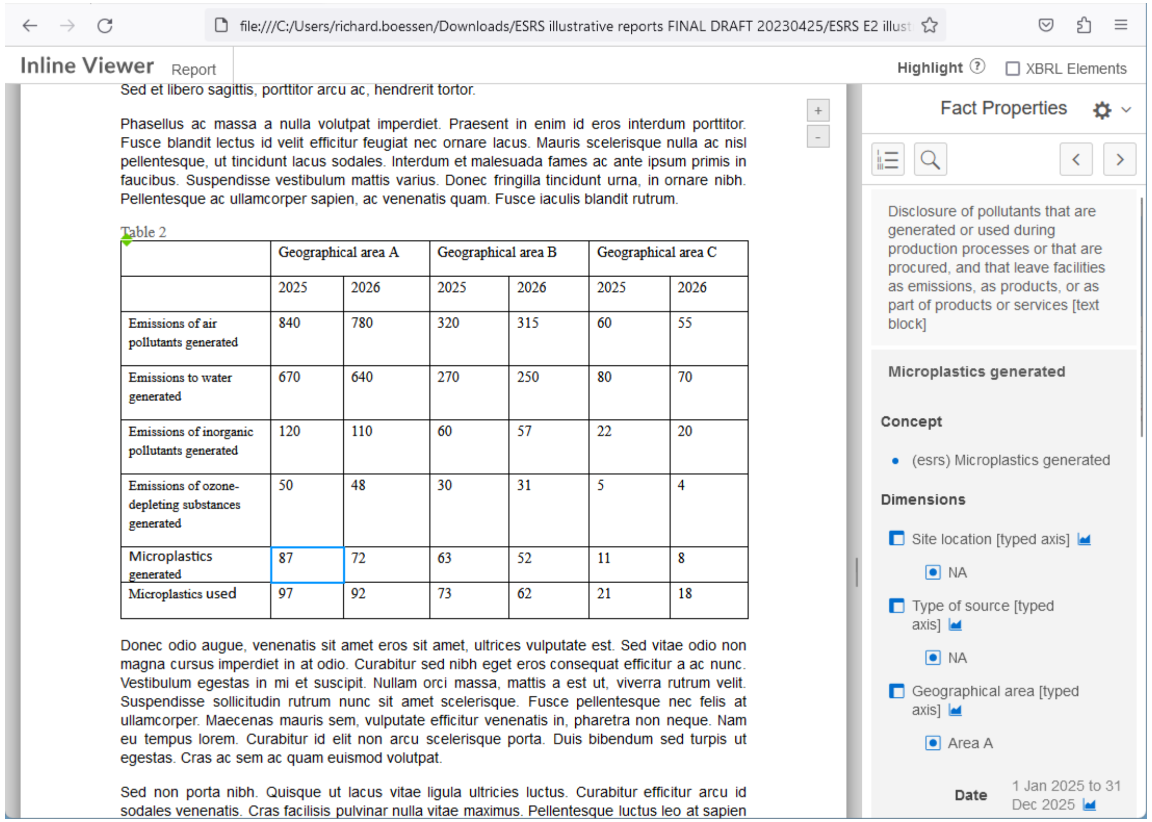
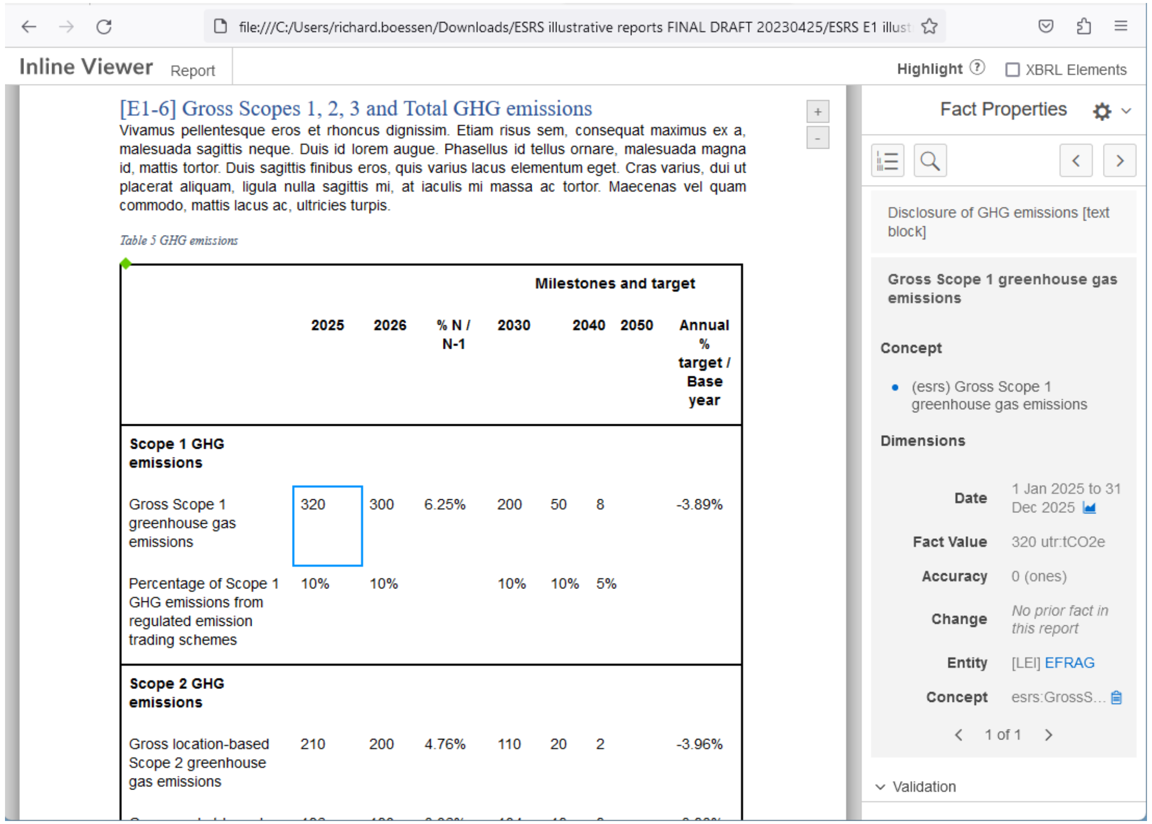


	Geographical area A		Geographical area B		Geographical area C	
	2025	2026	2025	2026	2025	2026
Emissions of air pollutants generated	840	780	320	315	60	55
Emissions to water generated	670	640	270	250	80	70
Emissions of inorganic pollutants generated	120	110	60	57	22	20
Emissions of ozone-depleting substances generated	50	48	30	31	5	4
Microplastics generated	87	72	63	52	11	8
Microplastics used	97	92	73	62	21	18



				Milestones and target			
	2025	2026	% N / N-1	2030	2040	2050	Annual % target / Base year
Scope 1 GHG emissions							
Gross Scope 1 greenhouse gas emissions	320	300	6.25%	200	50	8	-3.89%
Percentage of Scope 1 GHG emissions from regulated emission trading schemes	10%	10%		10%	10%	5%	
Scope 2 GHG emissions							
Gross location-based Scope 2 greenhouse gas emissions	210	200	4.76%	110	20	2	-3.96%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Further reading: ESRS XBRL Taxonomy Architecture and Methodology

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- EFRAG is developing the Sustainability Reporting (SR) XBRL Taxonomy, including:
  - ESRS XBRL taxonomy, which will reflect the approach and granularity of tagging that EFRAG, as advisory to the EC in charge of developing the content of draft ESRS, considers appropriate, i.e. technically consistent with the content of the draft ESRS delivered to the EC.; and
  - Article 8 XBRL taxonomy;
- The SR XBRL taxonomies will be issued for public consultation by EFRAG.
- ESMA is responsible for developing the draft RTS that relies on the taxonomy prepared by EFRAG. The draft RTS regulates the implementation (i.e. timing, level of tagging) of the Sustainability Reporting XBRL taxonomies described above.
- European Commission to adopt the XBRL taxonomy following the submission of the draft RTS from ESMA.
- An extensive XBRL Taxonomy methodology and architecture paper has been published and discussed in the SR TEG and SRB. https://efrag.org/Meetings/2303221128397656/EFRAG-SR-TEG-Meeting-17-April-2023

EFRAG sustainability reporting

EFRAG SR TEG 17 April 2023
Issues Paper 03-02
EFRAG Digital Reporting Team

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG SR TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG SRB or EFRAG SR TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG SRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

Draft ESRS XBRL Taxonomy Methodology and Architecture Issues Paper

1. Objective and purpose of this paper

1 This paper illustrates the key methodological working assumptions and decisions adopted by EFRAG in developing the draft ESRS XBRL taxonomy for the first Set of ESRS.

2. Background

2 EFRAG issued on November 2022 the first set of draft ESRS. They will be issued as Delegated Act in June 2023.

3 The digital XBRL Taxonomy is designed for undertakings to report their sustainable reporting in a structured, machine-readable data format, helpful to the users of companies' sustainable information. The intent is for undertakings to digitally *tag* (or mark-up) sustainability information within their current human-readable reporting format, reflecting the content of the relevant requirements in ESRS.

4 The legal basis of the development of a digital taxonomy for the sustainability reporting is provided by the CSRD.

(a) The recital 55 states that "*Digitalisation creates opportunities to exploit information more efficiently and holds the potential for significant cost savings for both users and undertakings. Digitalisation also enables the centralisation at Union and Member State level of data in an open and accessible format that facilitates reading and allows for the comparison of data*" (ESAP Regulation).

(b) The art. 29d of the CSRD provides that "*undertakings (…) shall prepare their management report in the electronic reporting format specified in Article 3 of Commission Delegated Regulation (EU) 2019/815 (*) and* ***shall mark up their sustainability reporting****, including the disclosures provided for in Article 8 of Regulation (EU) 2020/852, in accordance with the electronic reporting format*

EFRAG SR TEG meeting, 17 April 2023 *Paper 03-02, Page 1 of 22*

3. Next steps

Next steps

- Finalization of the Draft ESRS XBRL Taxonomy and approval in the SR TEG and SRB
- Finalization of the Draft Article 8 XBRL Taxonomy
- Development of tagged illustrative reports and accompanying documentation (guidance)
- Public consultation on the draft XBRL taxonomies
- Work on digital interoperability with IFRS Sustainability Standards and GRI
- Final Sustainability Reporting XBRL Taxonomy to be handed over to EC and ESMA in 2024

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