The Digital European Sustainability Reporting Standards (ESRS)

ITCG, 12 October 2023
Disclaimer

The views expressed in this presentation are those of the presenters, except where indicated otherwise. They are not approved by:

- the EFRAG Administrative Board,
- 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.
HISTORY and INTRODUCTION

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

<table>
<thead>
<tr>
<th>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</th>
</tr>
</thead>
<tbody>
<tr>
<td>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.</td>
</tr>
<tr>
<td>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).</td>
</tr>
<tr>
<td>Subsidiaries exemption (except large listed) - if they are in a group which publishes consolidated “CSRD compliant” sustainability statements.</td>
</tr>
</tbody>
</table>
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
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.

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.

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.
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* 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 specified in that Delegated Regulation.

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 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 specified in that Delegated Regulation.


Art. 4 - Marking up IFRS consolidated financial statements
1. Where annual financial reports include IFRS consolidated financial statements, issuers shall mark up those consolidated financial statements.
CSRD & ESEF Regulation: Machine-readable format

Technical Process

1. EC
Mandate to develop the [Draft] EU Sustainability Statement Taxonomy

2. EFRAG
Development & Public consultation of the «Proposed [Draft] EU Sustainability Statement Taxonomy»

3. [Draft] EU Sustainability Statement Taxonomy

Legislative Process

4. Transparency Directive
Mandate to ESMA to develop [draft] Regulatory Technical Standards (RTS) to specify the electronic reporting format

5. ESMA
[Draft] RTS [after CBA* & ESMA Public consultation]

RTS [EU Delegated ACT] as Amendment to ESEF Regulation

*COST BENEFIT ANALYSIS REQUIRED BY THE TRANSPARENCY DIRECTIVE

ITCG Meeting - www.efrag.org
The “Set 1” ESRS Delegated Act has been adopted by the EC

<table>
<thead>
<tr>
<th>CROSS-CUTTING STANDARDS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ESRS 1</strong> General requirements</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TOPICAL STANDARDS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Environment</strong></td>
</tr>
<tr>
<td><strong>ESRS E1</strong> Climate change</td>
</tr>
<tr>
<td><strong>Social</strong></td>
</tr>
<tr>
<td><strong>ESRS S1</strong> Own workforce</td>
</tr>
<tr>
<td><strong>Governance</strong></td>
</tr>
<tr>
<td><strong>ESRS G1</strong> Business conduct</td>
</tr>
</tbody>
</table>
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 definitions 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 machine-readable at the same time.

It allows users (analysts, 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

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

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.

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.

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 description of:
  - Significant groups of products and/or services offered, including changes in the reporting period (new/removed products and/or services);
  - Significant markets and/or customer groups served, including changes in the reporting period (new/removed markets and/or customer groups);
  - Headcount of employees by geographical area;
  - Where applicable and material, products and services under ban in certain markets, including potential bans in relation to material public initiatives and considerations;

- 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 and its financial statements, this sector revenue information shall be, as far as possible, reconciled with IFRS 8 information.

- A list of the additional ESRS sectors beyond the ones reflected under paragraph 38(b), in which the undertaking develops significant activities, in which it may be connected to material impacts. The identification of these additional ESRS sectors shall be consistent with the methodology described above.

- Where applicable, a statement indicating, together with the relevant numbers, that the undertaking is active in:
  - Fossil fuel (coal, oil and gas) sector;
  - Chemical production;
  - Controversial weapons such as anti-personnel weapons and biological weapons;
  - The cultivation and production of tobacco;

- An assessment of its current market positions in relation to its sustainability-related goals in terms of current and expected benefits for customers, investors and other stakeholders and their relationship to the undertaking. When the undertaking has multiple value chains, the disclosure shall cover the key value chains.

Narrative Disclosures

Numerical/Boolean/...
Example: E1 GHG Emission E2 Pollution in Inline XBRL

<ersl:GrossScope1GreenhouseGasEmissions contextRef="c-32" unitRef="u-2" id="fact-188" decimals="0">320</ersl:GrossScope1GreenhouseGasEmissions>

<ersl:MicroplasticsGenerated contextRef="c-10" unitRef="u-3" id="fact-159" decimals="0">87</ersl:MicroplasticsGenerated>
Further reading: ESRS XBRL Taxonomy Architecture and Methodology

- 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
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
EFRAG is co-funded by the European Union through the Single Market Programme in which the EEA-EFTA countries (Norway, Iceland and Liechtenstein), as well as Kosovo participate. Any views and opinions expressed are however those of the presenter only and do not necessarily reflect those of the European Union, the European Commission or of countries that participate in the Single Market Programme. Neither the European Union, the European Commission nor countries participating in the Single Market Programme can be held responsible for them.