

EFRAG 20 CONFERENCE 23

EUROPEAN CORPORATE REPORTING:
TWO PILLARS FOR SUCCESS



Summary
Report

 EFRAG

This report has been prepared for the convenience of European constituents by the EFRAG Secretariat and has not been subject to review or discussion by neither the EFRAG Board nor the EFRAG Technical Expert Group. It has been reviewed by the speakers at the event.

Background

Organised in cooperation with the European Commission, the 2023 EFRAG Conference "European Corporate Reporting: two pillars for success" took place in Brussels on 28 November 2023. Approximately 350 interested stakeholders attended in person, and 2,000 joined the event online, enabling many to share their experience with sustainability reporting, corporate reporting, and financial reporting. Topics ranged from opportunities of digital reporting, to ESRS implementation support, to European sustainability standards for SMEs. This report has been prepared for the convenience of European constituents to summarise the conference. Readers are encouraged to consult the [programme](#), review the speakers' [biographies](#), and watch [videos](#) of the keynote speeches, panel discussions, and tribute to **Jean-Paul Gauzès**, former EFRAG Board President and MEP.



Hans Buysse

To open the conference, participants and panellists were welcomed by EFRAG Administrative Board President **Hans Buysse**. He invited to the stage MEP and Rapporteur CSRD **Pascal Durand**, IOSCO Chair **Jean-Paul Servais**, ISSB Chair **Emmanuel Faber**, and EFRAG SRB Chair, **Patrick de Cambourg**, who delivered keynote speeches on the theme "Sustainability Reporting: state of play".



Commissioner McGuinness

Keynote speech – Mairead McGuinness – Corporate Reporting

Mairead McGuinness, European Commissioner for Financial Stability, Financial Services and the Capital Markets Union (FISMA), began by emphasising EFRAG's "groundbreaking" contribution to the progress in corporate reporting and that now "we all need to finish what we have started". Commissioner McGuinness spoke of the importance of rigorous financial reporting so that investors know where to invest and its importance for financial stability in Europe. She highlighted the crucial role of sustainability reporting: successful companies need to be sustainable, and sustainability reporting will be key for the transition to net-zero. Commissioner McGuinness also marked the fact that Europe is the first place in the world to have a comprehensive, mandatory set of sustainability reporting standards, and thanked EFRAG for its work in this respect. She recommended the focus now be on transition, "helping companies apply the new standards and making sure that they become a success", ensuring smaller companies are not unfairly burdened, and prioritising guidance for companies on implementing sustainability reporting. Commissioner McGuinness applauded EFRAG's online Q&A platform, where stakeholders can submit practical questions and receive answers. Looking ahead, she spoke of the need for two sets of standards: one for listed SMEs, and a simpler set of voluntary standards for unlisted SMEs. Finally, Commissioner McGuinness paid tribute to Jean-Paul Gauzès for

his leadership and “enormous contribution to building a society and an economy that values sustainability and financial [matters].”

Tribute to Jean-Paul Gauzès

Tributes to the late **Jean-Paul Gauzès**, former EFRAG Board President and MEP, were delivered in turn by Hans Buysse, EFRAG CEO Saskia Slomp, EFRAG FRB Chair Wolf Klinz, EFRAG SRB Chair Patrick de Cambourg, and Commissioner Mairead McGuinness.



Jean-Paul Gauzès

- *“Jean-Paul was somebody who was driving and striving for consensus.”*
– Hans Buysse
- *“Jean-Paul would be very proud...to see that the first set of European sustainability standards is in law and is a reality.”* – Saskia Slomp
- *“He had the gift to analyse a problem systematically and develop scenarios of how to solve it... Jean-Paul, thank you for your contribution to the European cause, and thank you for your friendship.”* – Wolf Klinz
- *“His roots made him what he was: a man of dedication, passionate...for what he was doing, pragmatic and ambitious, lucid and modest, available and loyal.”* – Patrick de Cambourg
- *“He did great work, he did not waste his time, and his work will live forever because he worked for people, and his dedication to public service was never in doubt.”* – Commissioner McGuinness

Keynote speeches - Sustainability reporting: State of play

The session “Sustainability reporting: State of play” was an opportunity for leaders from IOSCO, International Sustainability Standards Board (ISSB), EFRAG and the European Parliament to provide an update on EU and international sustainability reporting developments.



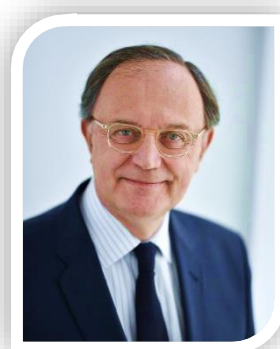
Pascal Durand



Jean-Paul Servais



Emmanuel Faber



Patrick de Cambourg

Speeches were delivered by **Pascal Durand**, Rapporteur CSRD, MEP, **Jean-Paul Servais**, IOSCO Chair, **Emmanuel Faber**, ISSB Chair, and **Patrick de Cambourg**, EFRAG SRB Chair.

Pascal Durand said that the European vision of sustainability, encompassing environmental, social, and governance aspects, aligned with the broader holistic vision of the European Green Deal. There is a debate on whether the sustainability text should primarily serve a financial vision in the context of evolving globalisation and climate change. The climate transition plan is seen as financial support, with issues beyond the business scope considered irrelevant to sustainability reporting. However, the European Commission defines the general interest as a specific vision of sustainability: a prosperous economy which upholds environment and human rights. The Commission's commitment to balance extends to considering impacts generated by companies. Ethically, there is a call to address sustainability issues and ensure the right to seek information in an orderly, reliable, and objective manner.

The EU legislature, supported by EFRAG, is committed to transparency, rigor, and balance, ensuring a fair methodology and interoperability with global standards. The Commission and Commissioner McGuinness ensure that the EU plays a decisive role in setting its own legal standards rather than passively following international ones. The EU has the right to make rules and define its vision for society. The delegated act aligns with the initial mandate, preserving double materiality and responding to criticism. Pascal expressed gratitude to EFRAG for its work, integrating into a global organisation and contributing to the European Union's political and economic project for a more sustainable and fairer world.

In addressing global risks tied to greenwashing, **Jean-Paul Servais**, Chair of IOSCO, stressed the need for a comprehensive and balanced framework in sustainability reporting. IOSCO, uniting market regulators worldwide, is positioned as a key player in safeguarding investors and ensuring the integrity of financial markets. Servais argued that the evolving global landscape, shaped by factors like globalisation and climate change, necessitates an ambitious yet proportionate financial regulation. He emphasised the importance of limiting regulatory fragmentation for these cross-border challenges.

Within the broader regulatory landscape, IOSCO promotes transparency, rigor, and balance. Transparency involves the dissemination of relevant and material information on climate, social, and governance issues throughout the value chain. Rigor entails promoting a global framework for all relevant operators, complete with standards for assurance by auditors and assurance professionals. The imperative of balance extends to ensuring interoperability with global standards, particularly in the domain of climate-related matters. Commending the European Commission for setting legal standards and acknowledging auditors for bolstering trust in corporate reporting, Jean-Paul highlighted the achievements in sustainability disclosure reporting. He underscored the importance of trust and integrity in the marketplace, endorsing robust frameworks while recognising the challenges companies face in adopting new standards and advocating for a balanced, realistic, and step-by-step approach.

Emmanuel Faber expressed heartfelt congratulations to the European Commission, Parliament, and Pascal Durand for their visionary and courageous efforts in delivering the CSRD. He acknowledged the hope sparked by Europe's commitment to redefining a transformative economic outlook through the Green Deal. Despite

navigating challenges like the COVID crisis and geopolitical tensions, including the war in Ukraine and inflationary pressures, the CSRD was successfully finalised, aligning with the evolving global political consensus to shaping a sustainable future. Emmanuel extended gratitude to EFRAG for its collaborative work, emphasising the treasure of interoperability achieved for future global standards.

He acknowledged the shared journey with ISSB and EFRAG, highlighting the inclusion of Scope 3 in ISSB's final climate standard and the alignment on the definition of the same investor materiality in the ESRS and ISSB Standards as a crucial mechanism of interoperability, and as pivotal achievements that enhance the comparability of data for global users. He underscored the significance of this alignment beyond climate matters, providing a global baseline for international capital markets. Emmanuel stated that well-informed global capital markets are essential for supporting European public policies, highlighting the dual necessities of committed public policies and well-informed capital markets to address the challenges of climate transition. He commended the CSRD's strategic potential to encourage companies to pivot their business models towards greater sustainability. He concluded with a call for continued cooperation, emphasising ongoing progress and the need for collective efforts in the coming year.

Patrick de Cambourg noted that it was a milestone moment for corporate reporting in the European Union. He commended the creation of the European sustainability reporting framework as a significant milestone achieved through collaborative efforts and a multi-stakeholder approach. With the adoption of the Corporate Sustainability Reporting Directive (CSRD) in 2022 and the European Sustainability Reporting Standards (ESRS) in 2023, sustainability reporting is now an integral part of the European legal framework. Patrick spoke of the importance of quality data, elevating sustainability reporting to the level of financial reporting and creating a standardised and robust foundation for corporate reporting.

Patrick outlined the key components of the sustainability reporting process, emphasising the EU legal framework with robust standards, self-standing sustainability statements by undertakings themselves under the leadership of their management and the oversight of their governance, independent auditor and expert assurance, supervision by financial markets and authorities, and of course, in the end, the potential scrutiny of all interested stakeholders. Access to information free of charge is also key both in human-readable and machine-readable formats. Patrick highlighted the comprehensive coverage of sustainability matters. He acknowledged the ambitious scope but asserted that the adjusting was carefully balanced to manage sustainability comprehensively without prioritising one aspect over others. Patrick expressed EFRAG's commitment to rapid progress in sustainability reporting worldwide. He emphasised cooperation with organisations like GRI, the IFRS Foundation, and the ISSB, ensuring interoperability and avoiding the fragmentation of reporting. He spoke of EFRAG's dedication to supporting the successful implementation of sustainability reporting, highlighting resources dedicated to implementation guidance, interoperability issues, and sector-specific standards. He also underlined EFRAG's commitment to facilitating SMEs' entry into sustainability reporting through a voluntary standard designed for them and ongoing work on the digital taxonomy and future sector standards.

Keynote speeches - Opportunities of digital reporting from the start

Richard Boessen, EFRAG Senior Manager Digital Reporting, and **John Turner**, XBRL International CEO, delivered speeches on the opportunities provided by digital reporting from the start.



Richard Boessen

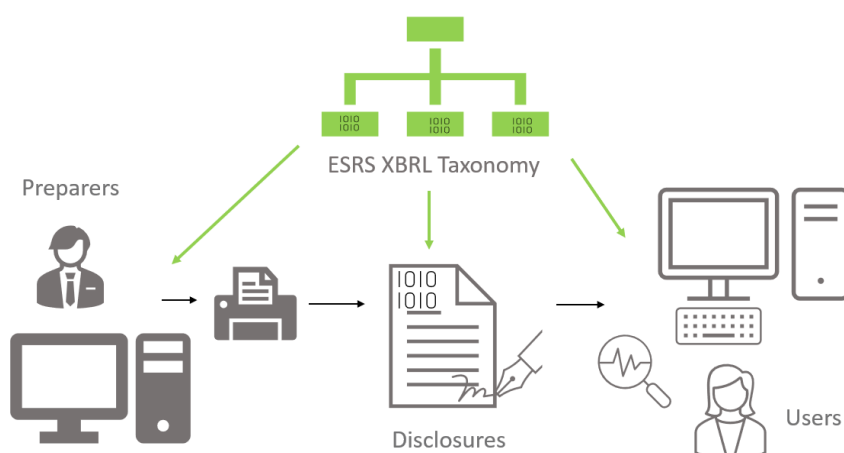


John Turner

In his keynote speech, “Enabling digital ESG disclosures: The Draft ESRS XBRL Taxonomy on the finish line”, **Richard Boessen** (responsible for EFRAG’s digital XBRL taxonomies) emphasised the role of digital tagging and announced that the ESRS XBRL Taxonomy would be published as an exposure draft by the beginning of

2024, following approval from the EFRAG SRB. The digital XBRL taxonomy, which reflects the ESRS, will enable companies to digitally tag (markup) ESRS statements as part of the “human-readable” management report, by providing corresponding XBRL elements (tags) for every data point.

The digital taxonomy has been developed according to a methodology approved by EFRAG SR TEG and SRB and will “make the unstructured content digitally consumable, useable and comparable”. Richard noted, the draft taxonomy is useful for companies preparing ESRS statements because it helps to structure ESRS disclosures, which will be prepared for the first time, even before mandatory tagging for companies (as implemented by ESMA and EC in the ESEF format) might be in place.



The speaker concluded that digital taxonomies are building bridges and called for support of his personal vision: paperless reporting from companies to users based on digital reporting.

Figure 1 Picture presented as part of the keynote speech on digital tagging: The digital structuring of data eliminates the need for printing of disclosures as well as the manual process of finding, extracting and categorising data points (indicated by magnifier). At the same time, the speaker emphasised that digital tagging is key for AI: digitally tagged disclosures enable machine learning in the first place.

In the second speech, **John Turner**, CEO of XBRL International, introduced the basics of digital reporting with XBRL to the audience. The four pillars of digital reporting include:

- **How:** John Turner emphasised the role of standard setters, which are using XBRL specifications to define “alphabets” or “dictionaries”. These are then used by corporates to “mark-up” disclosures (demonstrated on the example of the digital AVIVA PLC Annual report 2022), which then enables sophisticated analysis.
- **Why:** the speaker noted that Artificial Intelligence is not able to replace digital tagging, because it is not able to produce full reliable data, if the extracted information is only correct to 90%, it might not be enough for decision making. He concluded that data prepared by corporates is either digital, or invisible. Additionally, he noted that digital tagging enables connecting “sister” disclosure standards.
- **What:** the speaker called for the development of digital concordance tables that will practically enable to even convert disclosures prepared by different standards, ideally even automatically to a high degree.
- **Who:** John Turner finished his speech with a call to all participants of the conference, to standard setters, regulators, companies, auditors, software vendors, data providers, investors and other stakeholders to get involved and to work together to enable a successful digital reporting.

Panel Discussion - Implementation support for ESRS



Chiara Del Prete

Chiara Del Prete, EFRAG Sustainability Reporting Technical Expert Group Chair, introduced the Panel by sharing with the audience EFRAG’s key activities to support the implementation of ESRS: the developing of implementation guidance (on list of ESRS datapoints, value chain, and materiality assessment), the answering of technical implementation questions through the ESRS Q&A Platform (receiving regular question flows on a daily basis from 24 October 2023), and the issuing of interoperability maps with other standards and frameworks (GRI, IFRS, TNFD).



Kerstin Lopatta

The following panellists engaged in a discussion on the implementation support for ESRS, moderated by **Kerstin Lopatta**, EFRAG Sustainability Reporting Board Vice-Chair:

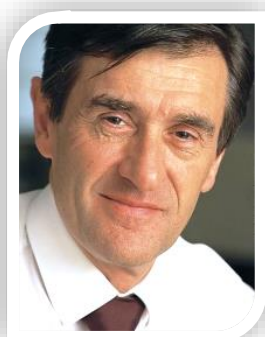
- **Luc Vansteenkiste**, EFRAG Sustainability Reporting Board member and Chair EuropeanIssuers
- **Mark Vaessen**, Accountancy Europe President
- **Eelco van der Enden**, GRI CEO
- **Sébastien Godinot**, EFRAG Administrative Board

Panellists started by sharing their views on the most significant challenges and related potential solutions connected with the implementation of the ESRS.



Mark Vaessen

Mark Vaessen observed that preparers might experience time pressure in meeting the new disclosure requirements. However, they should remain transparent as to where they are in their reporting journey, even when not all requirements can be met immediately. He added that EFRAG identified some extremely relevant issues through its implementation guidance and that further support to help companies present and communicate their sustainability efforts to the market would be welcome. He noted that further insights on the status of the implementation guidance could be helpful.



Luc Vansteenkiste

Luc Vansteenkiste agreed that some companies perceive timing as extremely stringent for ESRS, given the complexity of the matter and its close link to core business strategies, and considering the amount of time it took to reach a harmonised system in financial reporting. Furthermore, he noted that the experts (e.g. realtors, banks, insurers, investors, asset managers) providing support to organisations in their reporting journey, as of now, would lack the proper skills for proposing solutions, nor would those solutions be readily available (requiring high-tech engineering skills that are not yet developed). The complex set of datapoints in value chains also poses a severe problem for companies, given their current lack of traceability.



Sébastien Godinot

Sébastien Godinot remarked that, at present, companies mainly rely on their own company-level materiality assessment processes, lacking proper monitoring and reporting procedures. This is due to the elimination and postponement by EU policymakers of, respectively, a set of mandatory KPIs to report on ESRS and a sector-specific guidance for companies. It would be, therefore, fundamental to, on one hand, rely on EFRAG's mandate to issue guidance on materiality assessment and value chains, and on the other, to ensure that the sector-specific standards be issued as soon as possible to support companies in having more targeted reporting.



Eelco van der Enden

Eelco van der Enden provided his view on the perceived burden of compliance by companies, which have to meet also non-standardised information requirements by rating agencies and other institutions, often undermining their enthusiasm.

To the same question, 67% of the audience replied that preparers face the biggest challenge in collecting ESRS data from their supply chain.

On a question concerning stakeholder involvement in ESRS implementation, **Luc Vansteenkiste** intervened by saying that, considering the variety of positions stakeholders may have, additional guidance will be needed. But the support of other actors that are currently not as visible, namely local standard setters, will also be crucial given their ability to translate local needs, know-how and knowledge into the most suitable systems for training local companies to build up their own sustainability reporting processes. Having a system for continuous analysis, like the one in financial reporting, is highly desirable.

Mark Vaessen added that national standard setters are equally as important, not only for their understanding of the local context, but also for their ability to reach out to a large number of companies and bring together different national stakeholders (be it preparers, auditors, users, or national institutes) to educate them. National standard setters could potentially function as a filter for the large volume of enquiries received by EFRAG through the ESRS Q&A Platform.

The panellists were then asked to provide their thoughts on civil society's role in ESRS-related capacity building.

Sébastien Godinot highlighted EFRAG's efforts in the sphere of standard development, and the necessary engagement between NGOs and auditors on concerns regarding the current expertise level of the latter in auditing reporting data. Additionally, cooperation between regulators or supervisors and higher education institutions was emphasised as critical for disclosures on transition issues. NGOs are also expected to conduct their own analysis of the credibility and robustness of the data reported by companies.

Sébastien Godinot then identified a few existing tools that organisations may use in support of their sustainability reporting with ESRS: 1) the LEAP methodology, developed by the TNFD for the definition of nature-related issues, is particularly relevant in terms of interoperability; 2) ENCORE, allowing the exploration of natural capital opportunities, risks and exposures; 3) WWF's nature risk tools on biodiversity and water. Moreover, sector-specific guidance is of utter importance for allowing companies to transition to proper reporting in a more targeted way, improving comparability and quality for data users.

Another question for the panellists concerned ways in which to help preparers understand the positive effects of sustainability reporting, beyond mere compliance.

Mark Vaessen noted that reporting should always be strongly connected with strategy if it is to be meaningful. Endorsement by leadership is fundamental.

Luc Vansteenkiste conveyed the inevitable mandatory nature of the future reporting system, having, in fact, the characteristics of a strategic management system to which companies will need to convert to. **Eelco van der Enden** further highlighted the roles of CEOs, corporate reporting functions, business lines for data collection, and procurement, especially for Scope 3 GHG emissions, for a successful implementation of ESRS. To ensure implementation consistency across organisations and countries, he emphasised the importance of sharing best practices and use cases, involving the entire supply chain, and educating advisors to facilitate insightful industry discussions. Each panellist was then asked to give a final message to the audience on ESRS implementation.

Luc Vansteenkiste reflected on the limitations of the financial system in Europe to meet companies' complex financial needs to transition to sustainability reporting. Action will need to be taken to ensure that more companies join the stock market, as banks may be averse to financing projects perceived as risky.

Mark Vaessen highlighted that we are on a collective journey where mistakes are inevitable and should be accepted. He stressed the need for collaboration among stakeholders and continuous transparency from companies in their reporting implementation, to keep the market informed about their progress.

Eelco van der Enden invited businesses and regulators not to give way to cynicism, nor to get defeated by criticism when problems arise during the journey. Instead, they should persevere and make things work.

Sébastien Godinot emphasised the multiple global crises we are facing and the urgency to accelerate progress in addressing climate change, biodiversity loss, and sustainable development, otherwise risking further significant costs on society and the economy. He stressed the imperative of aligning with sustainability goals and the role reporting requirements can play for faster transition. He suggested that mandatory KPIs and sector-level guidance could offset the perceived reporting burden, ensuring comparable data among companies.

The session ended with **closing remarks** by Eelco van der Enden on the importance of implementation. He urged preparers not to focus on the perceived complexity of the current sustainability reporting system, as in a few years it might become as embedded in practice as the financial reporting system. He praised the alignment effort to reach interoperability between the ESRS and standards like GRI and ISSB, as this de-complexifies sustainability reporting for preparers and improves the comparability of disclosures, not only in Europe, but also globally. Eelco van der Enden also highlighted that, despite businesses being driven by profitability, a moral judgement of the drivers of action for business is unnecessary, as long as the sustainability agenda is implemented further. He concluded by agreeing on the urgency of sector-specific guidance, given the increasing interdependence and interrelations across the E, S and G domain, making more sense to bundle certain matters by sector instead of by topic, and of retraining supply chains to deal with certain topics.

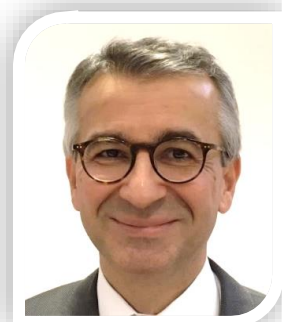
Panel Discussion - European Sustainability Standards for SMEs



Elisa Bevilacqua

Elisa Bevilacqua, EFRAG SR Senior Technical Manager, briefly introduced the two standards that EFRAG is developing for listed and non-listed SMEs. LSME is a derogation from main ESRS (EC to adopt as a Delegated Act), it is legally binding by the articles of CSRD, and it applies from 2026 with an additional 2 years opt-out. VSME is not legally binding, but it is meant to fulfil market needs through a flexible modular approach (3 modules with simplified language) with ESRS consistency. The main objective for VSME is to develop standardised data set to respond to ESG info requests (from banks/sustainable finance, large corporate/supply chain). Its success of highly depends on the commitment of market participants, i.e., larger corporations and banks. EFRAG will consult separately on LSME and VSME in 2024 to obtain the public's view on both standards.

Following the introduction, the discussion was moderated by **Sven Gentner**, Head of Unit Corporate reporting, Audit and Credit rating agencies, European Commission. The panellists were:



Sven Gentner

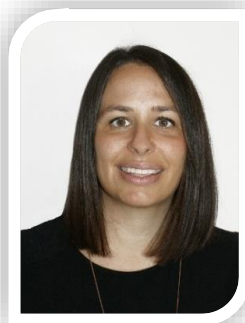
- **Véronique Willems**, SME United Secretary General
- **Salvador Marin**, EFRAG SRB member & EFAA President
- **Cristina Saporetti**, Head of sustainability reporting, Eni
- **Etienne Barel**, Deputy Chief Executive Officer of the French Banking Federation



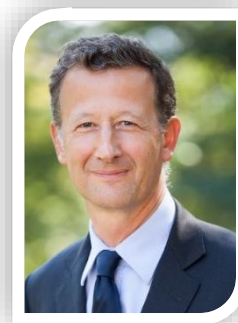
Véronique Willems



Salvador Marin



Cristina Saporetti



Etienne Barel

Sven Gentner highlighted that the Standards will help preparers to disclose their sustainability information and will support the users to obtain the information needed for their ESG risk management and to comply with SF regulation.

Question 1: Expectations - What do you expect from this Standard (VSME)?

Véronique Willems underlined the importance of having a Standard that supports SMEs in starting their sustainability reporting journey. The Standard should have simple language and simple requirements. Avoiding double reporting is crucial when an SME needs to reply to large corporations and/or banks questionnaires. Veronique confirmed the importance of market acceptance and the importance of supporting tools that can help SMEs to disclose their information according to the Standard.

Cristina Saporetti highlighted, from the perspective of large undertakings in SME reporting, the importance of involving the actors of large undertakings' value chains in order to achieve their own targets . Cristina also suggested that the standard should be proportionate to the size of SMEs, and it could be used as a tool to enhance the awareness on sustainability issues.

Etienne Barel, from the bank perspective, expressed the need of such a standard that would help banks shape their own sustainability pathways and will support compliance with sustainable finance regulation.

Salvador Marin highlighted that VSME could be a useful tool for SMEs while contributing to a more sustainable economy. VSME could also serve the information needs of different stakeholders, however, proper time should be given to those SMEs to apply the standard.

Question 2: Proportionality on VSME: EFRAG is proposing a modular approach. Do you agree with this approach? Is it the right way forward?

Véronique Willems suggested that VSME should be simple and proportionate, because approximately 93% of undertakings in Europe have less than 10 employees. It would be useful to incorporate a more sector-specific layer in the standard.

Salvador Marin referred to the “think small first” principle, and the modular approach that would serve this principle. VSME shall also be affordable to apply, with no additional external costs.

Etienne Barel stated that most SMEs lack sustainability information. Therefore, when requesting data from SMEs, counterparts of SMEs should avoid the “take it or leave it” approach. Complexity of sectors is indeed a fact, as also highlighted by Etienne.

Question 3: Proportionality on VSME: Do you think that an SME / entrepreneur will be able to apply this module (Basic Module) and prepare the sustainability report without the help of a consultant or a limited help to the first time of this report?

Salvador Marin agreed with the simplifications around the language and modularity. He stated that simple tools can support the development of disclosures without (or with limited help) from external consultants.

Véronique Willems stretched the importance of field-testing the Basic Module. SMEs should be able to comply without needing to contract external consulting services. For this reason, awareness and training are essential for VSME reporters, and the European Commission could help with capacity-building.

Question 4: Business Partner Module: Do you think that the same questionnaire can satisfy at the same time the information needs of both lenders and corporates? What do you think of this module?

Etienne Barel suggested that there is a need to train banks' relationship managers on how to engage with SMEs when requesting sustainability information, and a need to increase availability of implementation guidance and tools for this module to support SMEs.

Cristina Saporetti additionally suggested that there is a need for the same capacity building and tools for large undertakings, as there are many new and challenging aspects in the CSRD/ESRS also for long time reporters.

Salvador Marin suggested that VSME should be launched as soon as possible, to support SMEs but also large undertakings in this reporting transition.

Question 5: Business Partner Module: Are you willing/able to replace your questionnaires using this Standard? And if yes, to what extent (20%, 50%, 80%)? What is left remaining in this module? Sectors consideration? Or other reasons?

Cristina Saporetti highlighted the importance, but also the difficulty, of assessing impacts, risks and opportunities in the value chain, hence the VSME could support this need. She also noted that BP appears to have good alignment with other existing questionnaires, but sometimes requests are too detailed, for SMEs. It is important to do a field test, and to support in this sense a test has to be launched in the platform Open-es.

Etienne Barel stated that VSME could help limit the information gap between banks and SMEs, but from the other side, banks should rethink the level of granularity of their questionnaires and focus more on high-impact sectors.

Finally, **Véronique Willems** touched on the following points for VSME:

- There should be a market signal that SMEs should not be punished for their lack of sustainability information.
- Ensure the market acceptance of VSME – crucial for the success of the standard.
- Importance of tools and training, due to scarcity of resources.

Keynote speeches - State of play of financial reporting

The session “State of play of financial reporting” was an opportunity for leaders from EFRAG, the IASB, and ESMA to provide an update on European and international financial reporting developments.

Speeches were delivered by **Wolf Klinz**, EFRAG FRB Chair, **Linda Mezon-Hutter**, IASB Vice-Chair and **Verena Ross**, ESMA Chair.



Wolf Klinz



Linda Mezon-Hutter



Verena Ross

Wolf Klinz highlighted that in the backdrop of an ever-changing economic and business environment that is characterised by a wide range of risk factors including rising interest rates, surging inflation and climate-related risks, financial reporting has never been so important. He noted the important role of EFRAG in serving the European public interest in financial reporting by developing and promoting European views in the field of financial reporting and ensuring that the European views are properly considered in the IASB’s standard-setting process. This is achieved through EFRAG’s research work, reactive work and endorsement advice to the European Commission, which is done in a transparent way and under a robust due process. Wolf Klinz provided an overview of EFRAG’s work on a number of key projects such as:

- *Statement of Cash Flows and Intangible Assets* as part of EFRAG’s research work,
- *Primary Financial Statements and Subsidiaries Without Public Accountability* as part of EFRAG’s reactive work and
- *Supplier Finance Arrangements and Pillar II Model Rules* as part of EFRAG’s work on providing endorsement advice.

Linda Mezon opened her speech by reflecting on the past and presented the evolution of financial reporting over the years, where financial reporting was characterised as the foundation for transparency, accountability and efficiency in the global capital markets today. Linda Mezon also highlighted that “great disruptions”, such as climate challenges, financial crisis and the COVID-19 pandemic, continuously test the IFRS Accounting Standards and that principle-based nature of IFRS Accounting Standards helps future-proof Standards against disruptions. Linda also emphasised that the IASB had been continuously addressing these challenges by starting new projects such as “Climate and other uncertainties in the financial statements”, and by supporting connectivity between financial statements and sustainability-related financial disclosures.

Verena Ross highlighted that today's dual transition towards a more digital and sustainable economy is one of those instances requiring cooperative, cross-sectorial solutions and that ESMA has a long-standing tradition of creating and fostering such cross-sectorial synergies. In addition, she noted that there is no longer an assumed primacy of financial reporting over sustainability reporting, but rather two pillars of the same continuum which are there to tell a consistent story. Based on the annual financial report (one report), two communities of professionals – the sustainability and the financial experts – are now required to sit together not to simply combine their respective reports, but to prepare what are two components of the same report. These groups of professionals will work together to develop a common control environment for the entire annual financial report.

Verena Ross added that sustainability and financial reporting information should be connected and consistent. There are a number of practical aspects to promote connectivity that include the adoption of the same terminology and concepts, the reliance on cross-referencing to signpost connected information and the use of digital tools to help investors promptly retrieve the relevant connections. However, in order to be useful and not misleading, connected information presupposes a good degree of underlying consistency between sustainability and financial reporting. Given the importance of promoting consistency and, more generally, connectivity between financial and sustainability information, in October, ESMA published a report on the disclosures of climate-related matters in the financial statements. Finally, Verena Ross described ESMA's recent work to foster connectivity and plans for the future (i.e. described ESMA's Connectivity Journey) and she stressed the importance of the ongoing cooperation with EFRAG on the work of connectivity.

Panel Discussion - Connectivity: Building bridges

Introduction from Sébastien Harushimana



Sébastien Harushimana

EFRAG FR TEG Chair **Sébastien Harushimana** noted that many European stakeholders question how information reported under sustainability reporting is to be compared with information reported under financial reporting.

Sébastien highlighted EFRAG's proactive research project on connectivity to understand how and to what extent information reported under sustainability reporting has been reflected in financial reporting.

The project is split into two phases. The first phase focuses on the linkage between financial and sustainability reporting while phase two will explore changes in the reporting framework that will facilitate connectivity. The final deliverable of the project will be a discussion paper on connectivity to inspire the work of the IASB and other standard setters.

Following Sébastien's introduction, the panel discussion was moderated by **Jens Berger**, EFRAG Financial Reporting Technical Expert Group Vice-Chair and EFRAG Connectivity Advisory Panel (CAP) Chairman, who posed the seven questions outlined below. The panellists were:

- **Kirsten Margrethe Hovi**, EFRAG CAP member and ESG Advisor Norsk Hydro;
- **Sirkku Palmuaro**, EFRAG CAP member and senior advisor Nordic Offset;
- **Leo van der Tas**, EFRAG CAP member and EY advisor; and
- **Carsten Zielke**, EFRAG CAP member and EFRAG User Panel Vice-Chair.



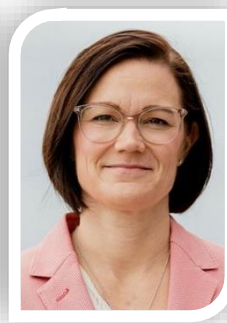
Jens Berger



Kirsten Margrethe Hovi



Carsten Zielke



Sirkku Palmuaro



Leo van der Tas

Question 1 - What does 'connectivity' mean to you?

Kirsten Margrethe Hovi stated that connectivity is about providing a complete picture of an entity, including its risks, strategy, impact on the external environment and the resulting financial consequences. **Carsten Zielke** observed that connectivity is about understanding the financial effects of sustainability-related matters. **Sirkku Palmuaro** indicated that connectivity is also translated into more transparency, consistency, and the mitigation of greenwashing. **Leo van der Tas** highlighted the value of navigating across the entire annual report and understanding the links between its components, the importance of the process and the need for joint efforts.

Question 2 - How can connectivity between financial and sustainability reporting contribute to more informed decision-making by stakeholders?"

Carsten Zielke considered that due to the new reporting requirements, investment analysts and sustainability analysts will gradually be integrated. **Kirsten Margrethe Hovi** explained that sustainability is related to risk management and she provided examples of how disasters in two mining companies affected not only the companies themselves but the entire industry. She highlighted the importance of transparency whilst reporting on disasters.

Jens Berger noted that in connecting financial and sustainability reporting, overlapping information was bound to emerge.

Question 3 - Should overlapping information be included in both reporting requirements or could cross-referencing be used to avoid repetitions?

Leo van der Tas stressed that by cross-referencing other parts of the annual report to the financial statements, the information becomes part of the financial statements with legal and assurance implications. Hence, many entities choose to summarise information included elsewhere in their financial statements.

Sirkku Palmuaro considered that the financial and sustainability statements should be sufficient as standalone documents, as they serve different purposes and have different requirements. In contrast, **Kirsten Margrethe Hovi** expressed a preference for cross-referencing between financial and sustainability information to avoid duplication. Similarly, **Carsten Zielke** considered that if all the information entities provided could be found in one document, cross-references would suffice.

Question 4 - After a couple of years of discussions, do you see an evolution of how sustainability matters are reflected in or impacting the financial reporting?

Leo van der Tas highlighted that preparers have improved their consideration of sustainability information in financial statements, especially on climate, as demonstrated by recent studies and research.

Sirkku Palmuaro agreed and referred to a recent ESMA publication¹ containing relevant examples.

Question 5 - Should it be explained when a matter discussed in sustainability reporting is not reflected in financial reporting? If so, when?

Kirsten Margrethe Hovi stated that while all material sustainability topics could potentially become financially material, their uncertainty meant it was not necessary to explain the financial consequences of every indicator.

Leo van der Tas considered this a matter of judgement and it depends on the differing thresholds of double materiality and financial materiality. He highlighted that qualitative materiality aspects should also be considered. **Carsten Zielke** agreed that for users it was essential that entities explain their double materiality assessment. He noted that financial reporting also incorporates forward looking elements.

Question 6 - What is the role of time horizons in relation to connectivity?

Sirkku Palmuaro stressed that as sustainability reporting incorporates longer time horizons, it can provide indications of longer-term financial impacts of various plans and estimates (e.g. transition plans) and enable the composition of an entity's complete picture.

Carsten Zielke highlighted that the lengthier time horizons introduced by sustainability reporting might change the behaviour of market participants with users factoring longer-term considerations in their analysis and financial reporting becoming more forward-looking overall.

¹ ESMA, October 2023, The Heat is On: Disclosures of Climate-Related Matters in the Financial Statements https://www.esma.europa.eu/sites/default/files/2023-10/ESMA32-1283113657-1041_Report_-_Disclosures_of_Climate_Related_Matters_in_the_Financial_Statements.pdf

Question 7 - Where do you expect that we will be on connectivity in the future?

Leo van der Tas expected the distinction between impact and financial materiality to decrease, and more disclosures to appear in the financial statements that go beyond traditional financial reporting matters but he did not expect a fundamental rethinking of financial reporting.

Sirkku Palmuaro considered that Europe should move in the direction of more connected reporting so that an entity and users of the reporting can better assess the risks and possibilities arising from sustainability matters.

Kirsten Margrethe Hovi considered that having an integrated report would enhance the readability for users.

Carsten Zielke reiterated that an entity's sustainability performance will increasingly matter for users.

Christine Lagarde, ECB President - EFRAG address by the ECB



Christine Lagarde

Christine Lagarde recalled that almost a decade ago the EU adopted its first directive aimed at broadening companies' non-financial disclosures. Today, we are giving sustainability reporting the same importance as financial reporting. For this achievement, Christine remembered the instrumental role that EFRAG had played in its success. EFRAG contributed to making sustainability reporting more tangible, reliable and comparable. These steps forward will transform the landscape for sustainable investing and help integrate Europe's Capital markets, especially for green investments. That will put investors in a better position to assess whether companies are living up to their sustainability commitments and

to make informed long-term investment decisions. In turn, this will allow supervisors to assess better how investors are managing their risks and a robust reporting framework will allow central banks to integrate climate-related financial risks into their risk management frameworks. However, the speaker noted that the work was not yet done. In pursuit of a harmonised and comprehensive reporting landscape, there is now the need to fully integrate sustainability reporting into regular financial reporting. Christine Lagarde closed her speech by stating that we should recognise and appreciate the invaluable role played by the EC and EFRAG in forging a path towards a sustainable and transparent corporate reporting landscape.

Closing Remarks

Hans Buysse provided closing remarks and highlighted some key messages:

- We must be proud of our achievements. However, we should continue our work on corporate reporting.
- Capital markets have a role to play and we should ensure the right information gets to investors.
- EFRAG and the ISSB (and GRI) have made a significant effort to be aligned in substance and are focused on interoperability.
- As mentioned by the European Commissioner, we must finish what we started; our companies earn it, let us focus on transition and use digitalisation efforts to ensure its success.

- if we want this journey to be successful, we should not focus only on implementation but also on training and answer questions that arise in practice.
- Connectivity has to be future-oriented and there is a need to continuously build bridges.

Hans Buysse closed by providing an overview over EFRAG Strategy and thanked the presenters and panellists.