

Project Task Force
Non-financial reporting standards

Outreach meeting
European standard-setting (ESS)



European Financial Reporting Advisory Group



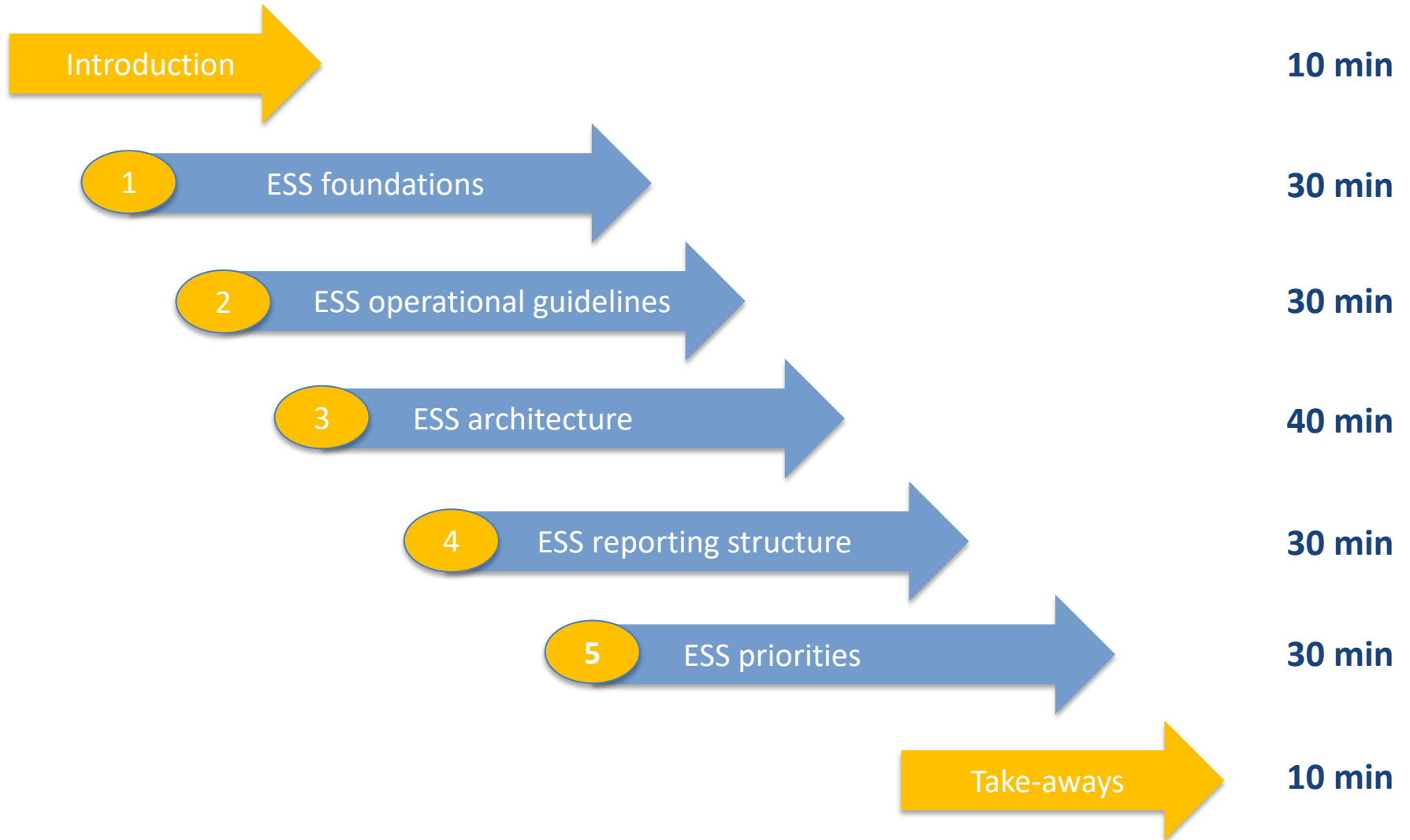
Disclaimer

This document is a tentative summarised presentation on ongoing work-in-progress from the Project Task force on non-financial reporting standards of the European Corporate Reporting Lab at EFRAG.

The views reflected in this presentation and the outreach document provide an indication of the approach followed and of the possible orientations that the Task Force may adopt, but it does not prejudge the final Proposals that will be made to the European Commission by the Task Force in its Final Report.

It is intended to gather views from European stakeholders on key preliminary views emerging from the Task Force current ongoing work.

Agenda

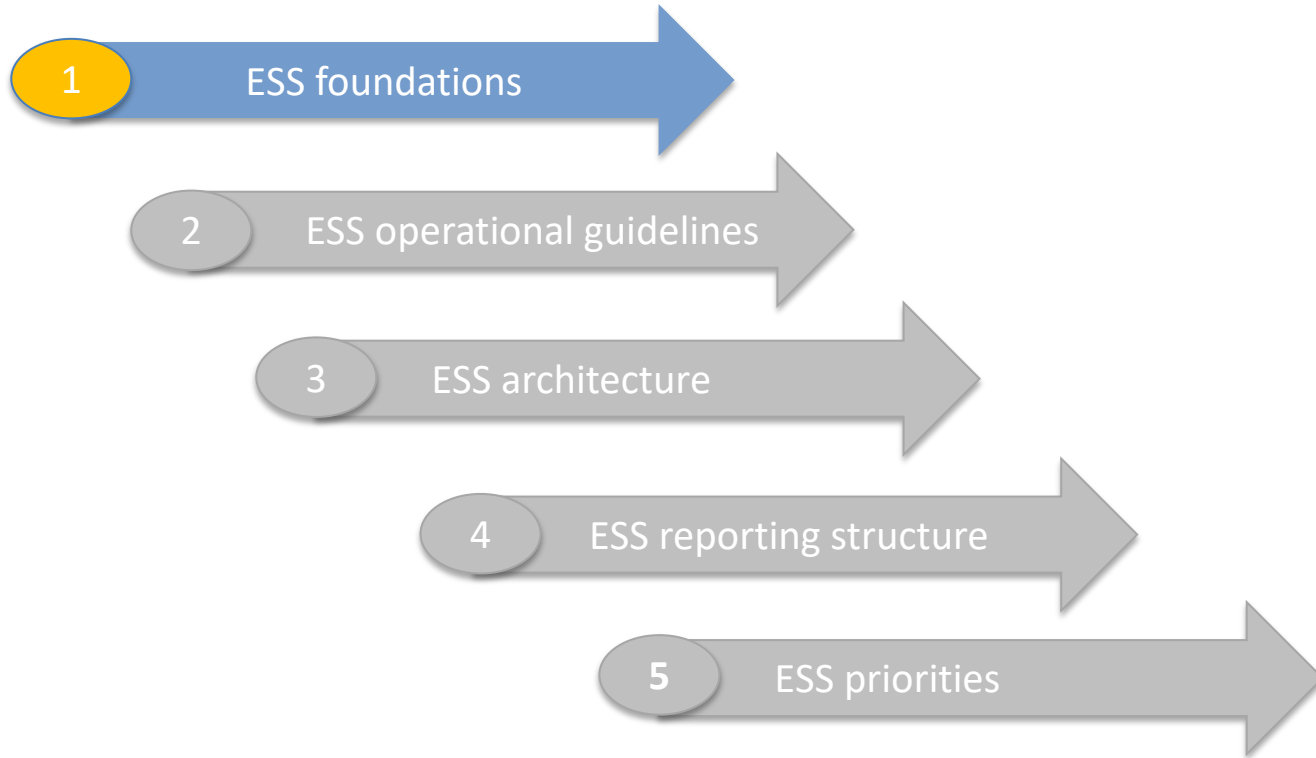


EU sustainability reporting: 3 processes in parallel



→ Therefore, interaction as a basis (under final coordination by Level 1)

Agenda



Overarching Principle #1

A principles-based sustainability reporting system.

Overarching Principle #2

An inclusive range of sustainability reporting stakeholders.

Building block #1

Supporting the EU sustainability reporting momentum.

Building block #2

Addressing the specific challenges of financial institutions.

Building block #3

Including SMEs in the EU sustainability reporting landscape in a proportionate manner.

Building block #4

Fostering sector-specific sustainability reporting relevance.

Building block #5

Acknowledging the importance of intangibles in sustainability reporting.

The **standard-setting foundations** frame the mission and role of the ESS within the EU sustainability reporting landscape. As such, they are then considered and cascaded down into the standards architecture.

Orientation vs financial institutions

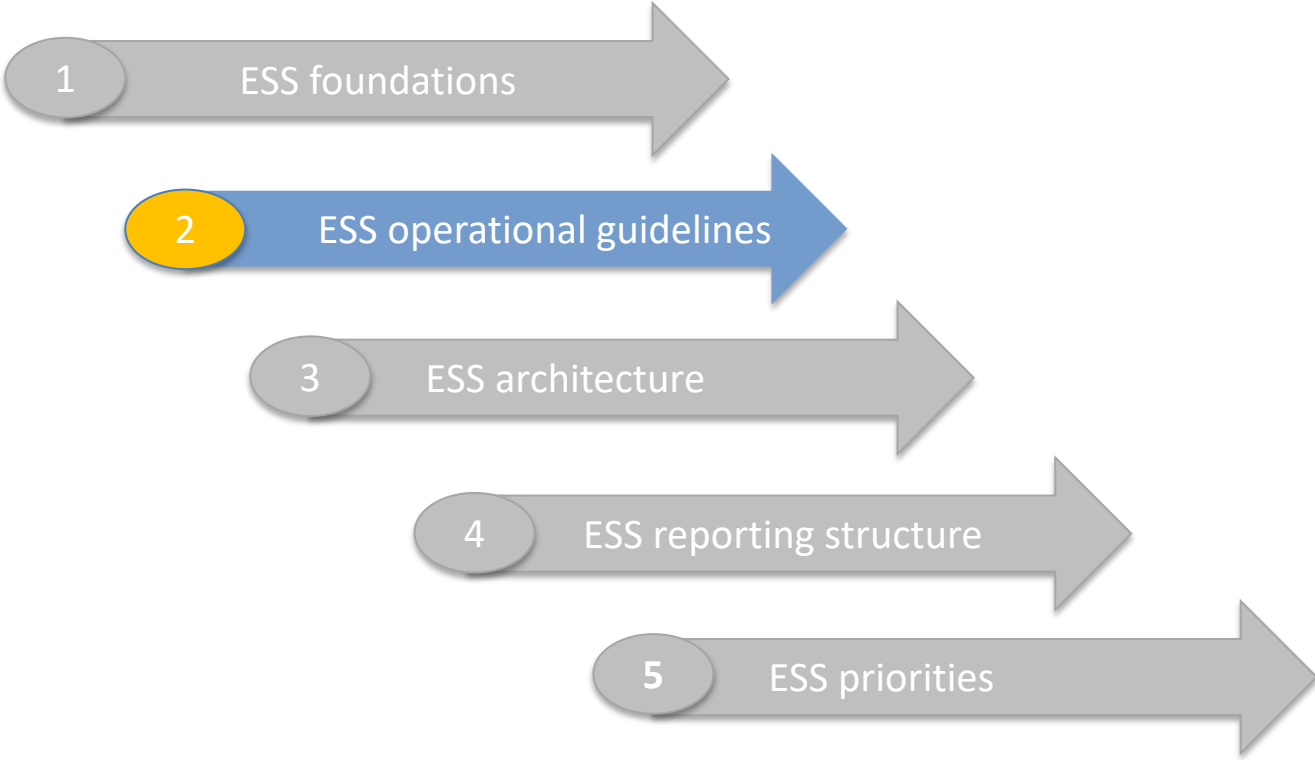
Addressing the specific challenges of financial institutions

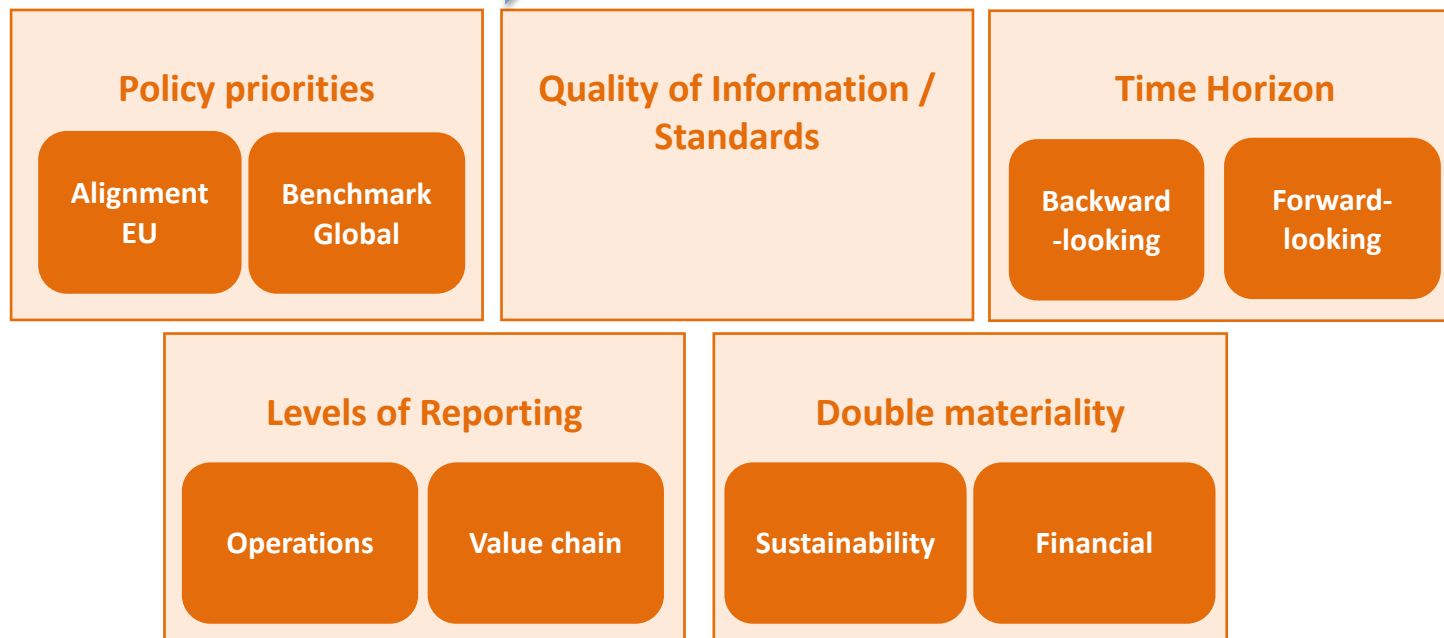
- The ESS should recognise financial institutions as specific preparers and users of sustainability reporting and ensure the availability and access of data necessary to meet their own disclosure requirements.

Acknowledging the importance of intangibles in sustainability reporting

- The ESS should introduce in its standard-setting processes the “intangible dimension” and develop a specific standard-setting approach on intangibles ensuring this dimension is properly reflected in disclosures.

Outreach sequencing





- The **standard-setting guidelines** are a set of **tools** to be developed by the ESS prior to any standard-setting in order to guide its work when setting the standards themselves. They cover 5 themes that need to be systematically considered in the standard-setting process. Some guidelines may have to be translated into standards when they have to be cascaded down to reporting entity level.
- As a general principle, all guidelines should **draw on existing European and international initiatives** for setting the appropriate processes and concepts.

Orientation vs financial institutions

Quality of Information / Standards

- Operating guidelines are needed to develop quality principles (characteristics) that could be set in Level 1, both at general sustainability reporting level and at disclosure level (for data points, targets,...).
- They should cover in particular how to embed faithful representation, relevance, comparability, understandability, reliability into the standard-setting process.
- They should also operationalise the intrinsic value of each relevant type of information: qualitative, quantitative non-monetary and quantitative monetary.
- In line with an overall support for stronger assurance, guidelines would need to focus on the criteria needed to facilitate auditability of sustainability information in relation with appropriate auditing standards.

Time Horizon

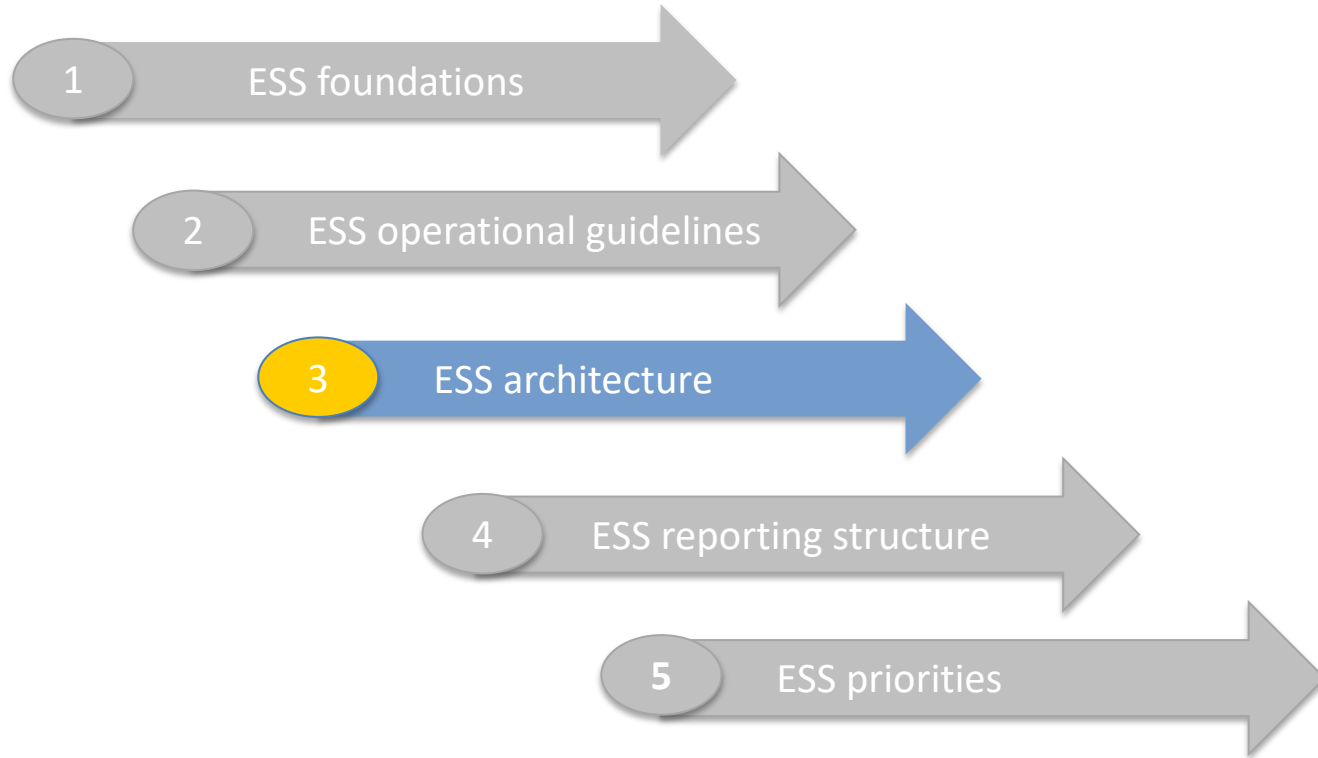
- Further guidelines are needed to support the elaboration of standards related to forward-looking sustainability information per category of information and per time horizon.

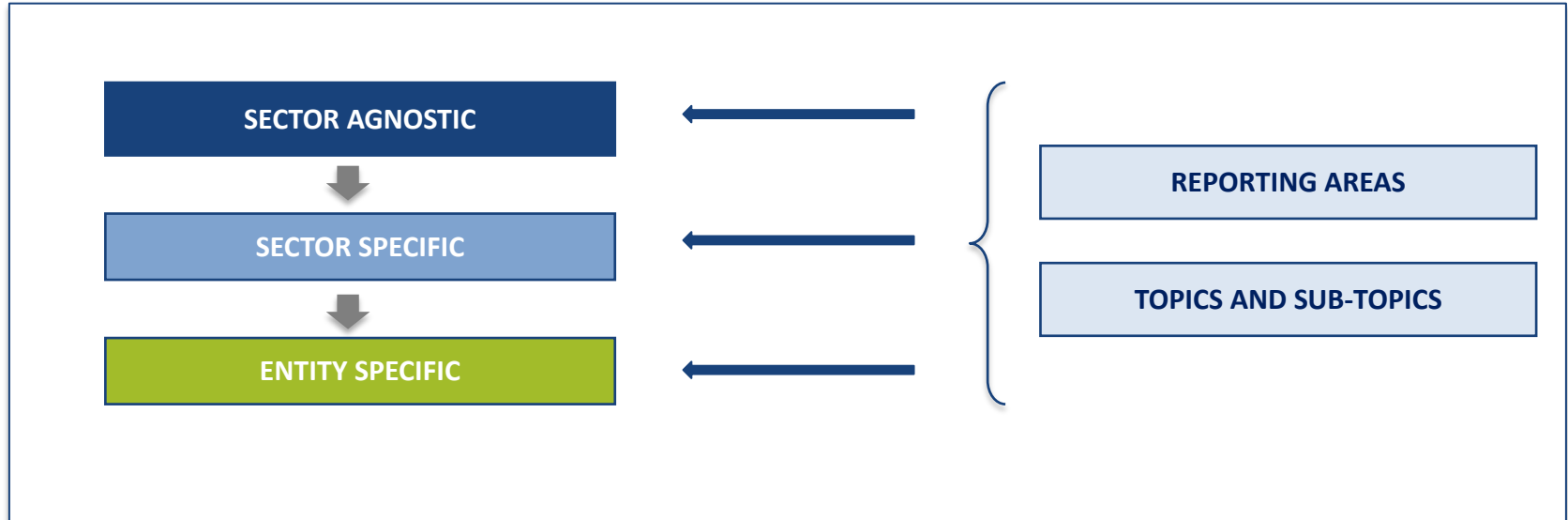
Orientation vs financial institutions (continued)

Double materiality

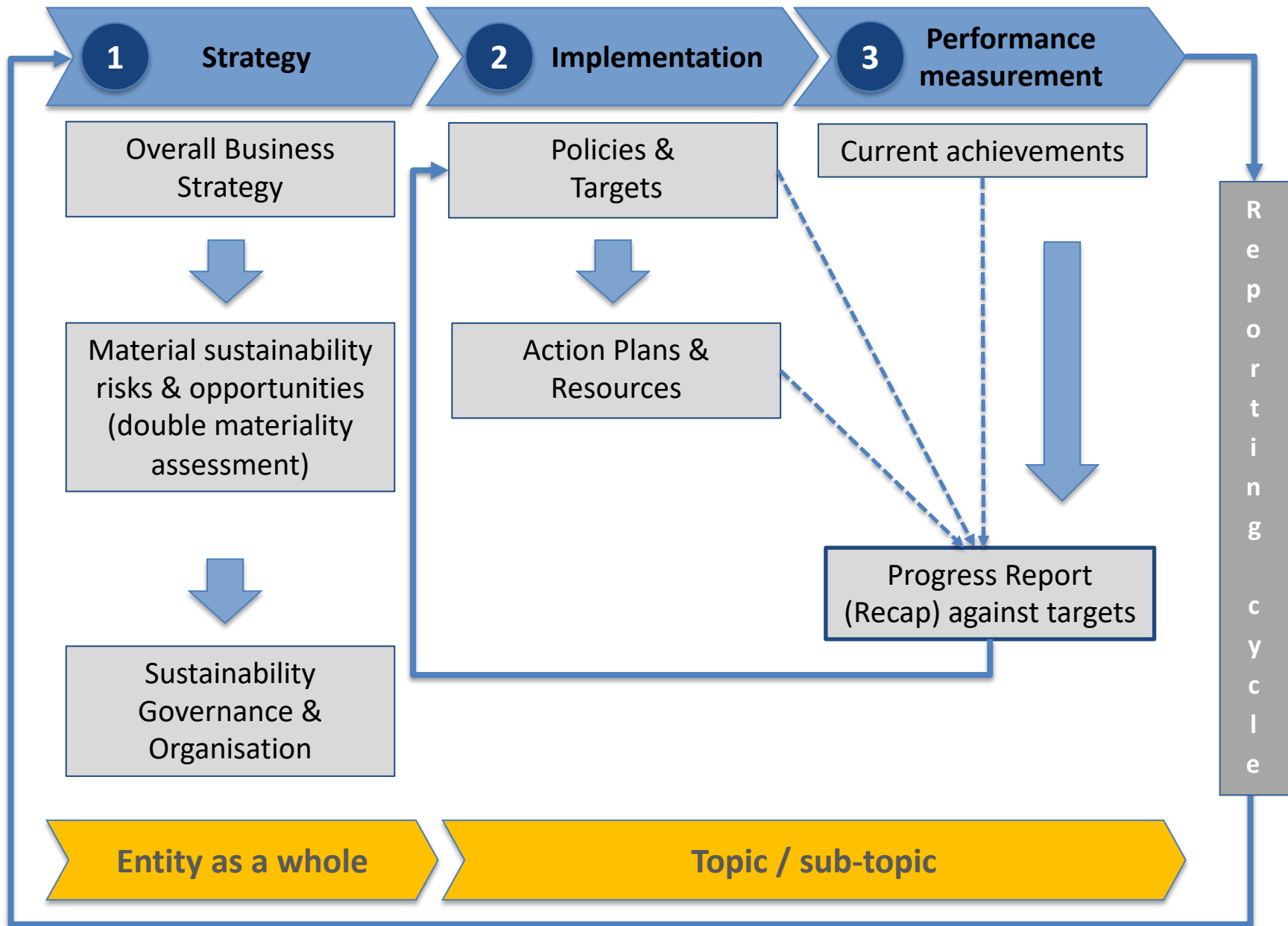
- EU legislative level establishes a double materiality approach for sustainability reporting: sustainability materiality and financial materiality. Each perspective must be considered in its own right. The ESS should operationalise the concept and clarify a 'sum of both' dimension (as opposed to an 'overlap' dimension).
- Materiality assessments should be made at each level of the sustainability reporting architecture: at sector-agnostic and sector-specific levels by the standard-setter and at entity-specific level by the governance/management (based on a standardised approach).
- The ESS should adopt a standard to disclose how reporting entities report on their own materiality assessment process. The standard should address the approach to be followed by the entity when a mandatory requirement may lead to an insignificant disclosure under its specific circumstances.

Outreach sequencing





The standard-setting (and reporting) **architecture** should combine **three layers** (sector-agnostic, sector-specific, entity-specific) and **two dimensions** (reporting areas and topics) in order to define the right level of sustainability information.



Option 1

Environmental

Climate

Water & Marine Resources

Biodiversity & Ecosystems

Circular economy

Pollutions

illustrative

Social

Workforce

Value Chain workers

Affected communities

Consumers / end users

[Public Authorities]?

illustrative

General (incl. Governance)

Governance

Business Ethics

Organisation

Brand/Communication

Innovation

illustrative

Possible compatibility with multi-capital approach

Natural Capital

Human Capital

Intellectual Capital

Social & Relationships
Capital

Option 2

Environment

Climate
Water & Marine Resources
Biodiversity & Ecosystems
Circular economy
Pollutions

illustrative

People

Labour relations
Health & Safety
Other Human Rights
Human Resources

illustrative

Organisation (incl. Governance)

Governance
Business Ethics
Organisation
Brand/Communication
Innovation

illustrative

Relationships

Supply chain
Customers
Public Authorities
Human Rights
Communities

illustrative

Possible compatibility with multi-capital approach

Natural Capital

Human Capital

Intellectual Capital

Social & Relationships
Capital

Orientation vs financial institutions

Sector-specific standards could include standards specific to each of the three main sub-segments of financial institutions as well as their main business lines

- The ESS should address the needs of each of the three categories of financial institutions (as users) and of their specific reporting obligations (as preparers).

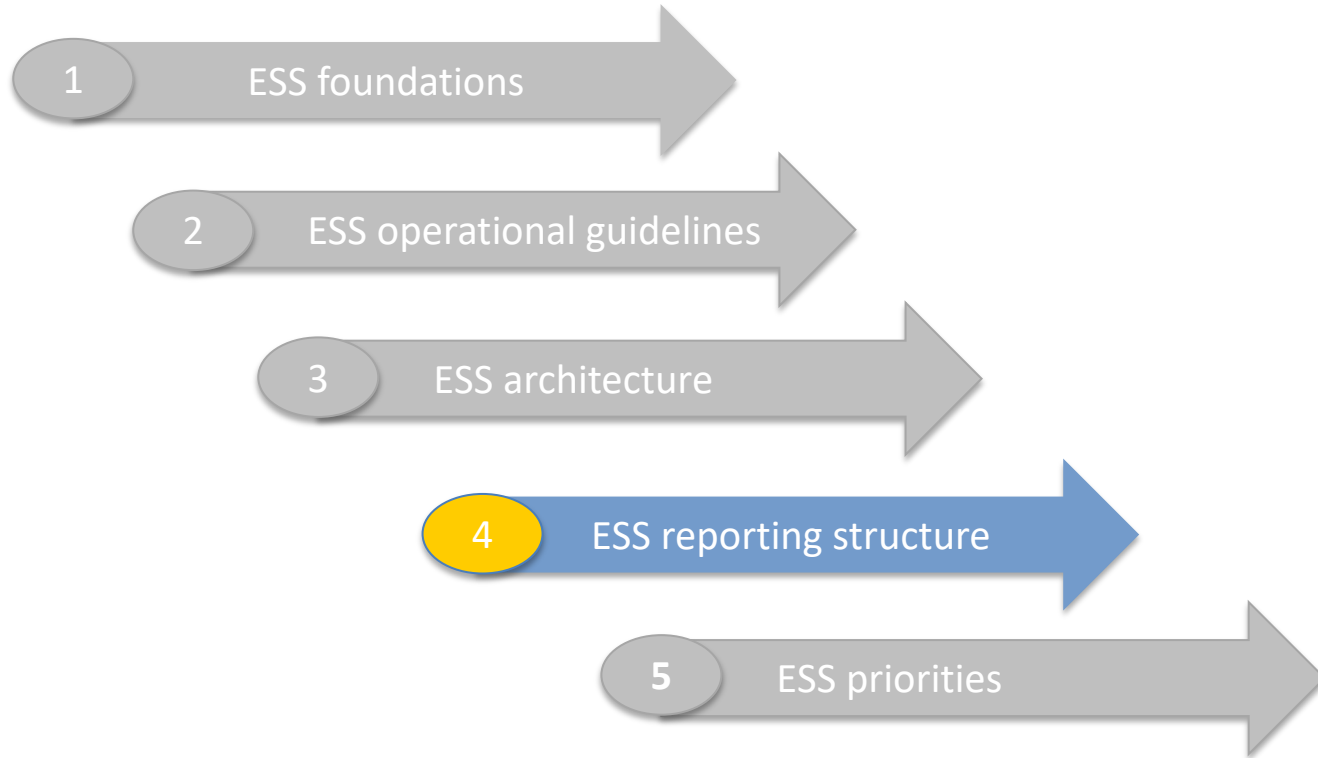
Simplifying and unifying sustainability requirements for financial institutions

- The ESS should consider the multiple sustainability reporting requirements deriving from EU Sustainability policies and aim at simplifying and unifying the set of sustainability information data needed to meet these requirements.

Scope of topics to be reported (including quantitative data)

- The ESS should equally cover all possible sustainability topics, not focus on climate-related only.

Outreach sequencing



Sustainability Reporting

MANAGEMENT REPORT
(SUSTAINABILITY STATEMENTS)

REPORTING TAXONOMY

Interconnection

Interconnection

Financial Reporting

FINANCIAL STATEMENTS

RELATED TAXONOMY

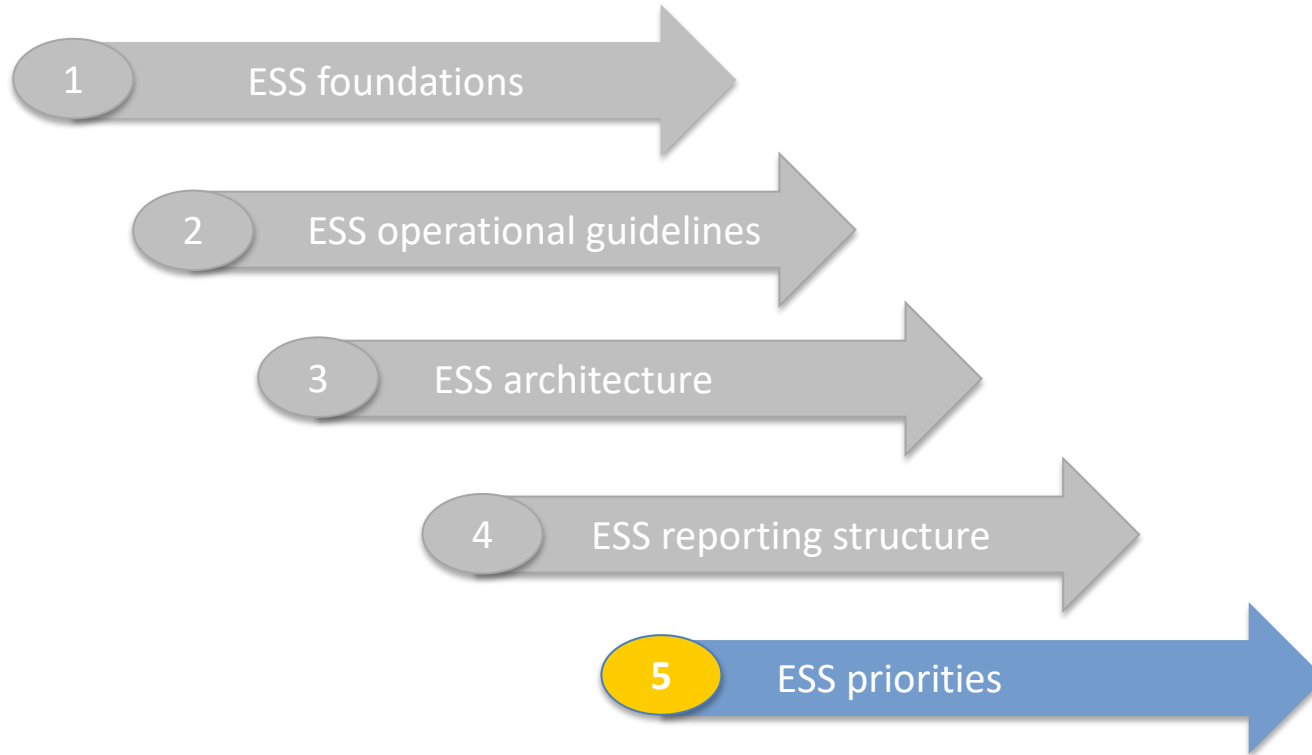
Beyond content, it is key to define a **standard reporting structure**. Such a structure should reflect the reporting (and standard-setting) architecture and should enable the adoption of a digital taxonomy from the beginning.

Orientation vs financial institutions

Dedicate a section of the management report to sustainability reporting, clarifying disclosure classification and establishing reporting structure including sector-agnostic, sector-specific and entity-specific layers

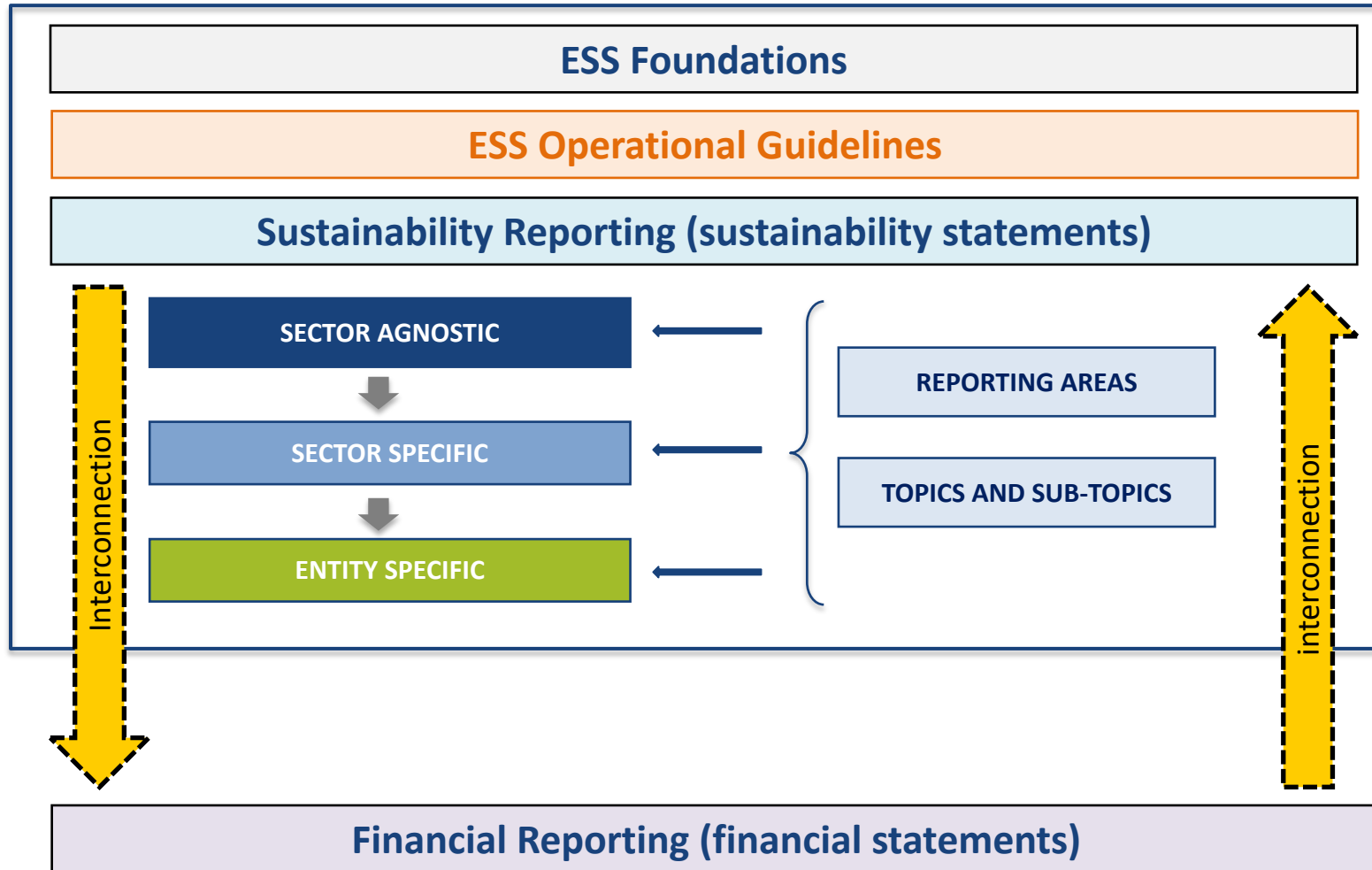
- The general flexibility of management reports could accommodate two sections: one dedicated to sustainability statements (qualitative and quantitative information) and the other to the overarching presentation (financial and sustainability) of the reporting entity's affairs (governance and management vision, interpretation, judgements, etc...). One option is therefore to dedicate a clearly identified section of the management report to sustainability reporting (the Sustainability Statements, including both qualitative and quantitative standardised information).
- The reporting structure needs to be specifically addressed by the standard-setter, in order to establish a comprehensive and stable reporting structure organising a rational classification of sustainability disclosures per topic and per layer (sector-agnostic, sector-specific, entity-specific).
- A reporting structure based upon a clear and stable classification of disclosures is a sound basis for establishing a digital taxonomy of sustainable data. Reflecting the decisions made at EU level in terms of single access point, the standard-setting processes should organise the granular segmentation of disclosures allowing for their inclusion into the digital taxonomy.
- The reporting structure should allow sustainability information data collection to be timely and easily accessible.

Outreach sequencing



Target general architecture

Summary of the above



- There is general agreement that the EU sustainability momentum calls for a major step in sustainability reporting. As a consequence, the Task Force considers that (i) priorities should be taken into account and (ii) the next step should aim at delivering urgently a coherent first set of disclosures.
- Along the EU momentum, there is a large number of initiatives in relation to sustainability standard-setting, with current notable convergence efforts. The Task Force welcomes these efforts and considers of prime importance to cooperate with the leading international initiatives to ensure coherence and reciprocal input between EU and other international initiatives, in order in particular to foster a global playing-field for international companies.

Orientation vs financial institutions

Define methodologies enabling connectivity between and providing input from sustainability reporting to financial reporting

- The ESS should provide the framework (methodologies, processes and anchor points) for proper interconnection.



EFRAG receives financial support of the European Union - DG Financial Stability, Financial Services and Capital Markets Union. The contents of this presentation is the sole responsibility of EFRAG and can under no circumstances be regarded as reflecting the position of the European Union.

THANK YOU



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