European Lab project on preparatory work for the elaboration of possible European non-financial reporting standards (PTF-NFRS)

54 Proposals for a relevant and dynamic EU sustainability reporting standardsetting

Chaire Energie et Prospérité 30 Mars 2021



European Financial Reporting Advisory Group





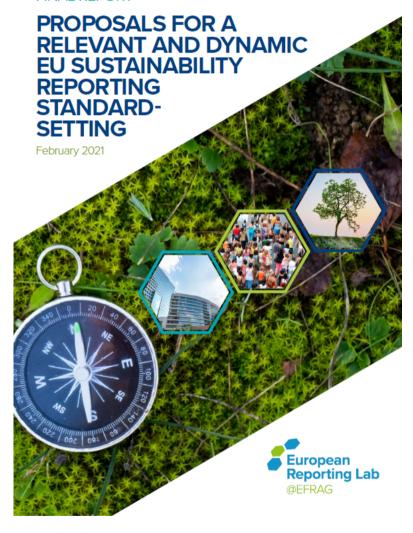


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#### **FINAL REPORT**



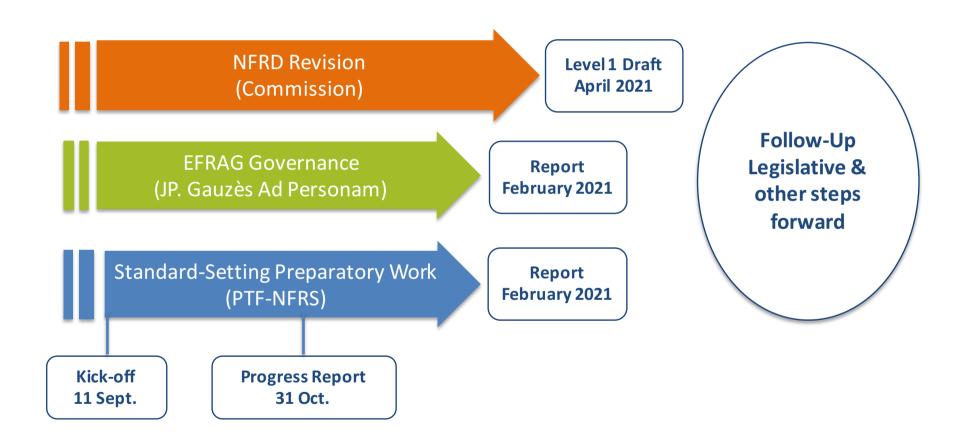
Link to the report:

https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FEFRAG%2520PTF-NFRS MAIN REPORT.pdf

### **Context**



# EU sustainability reporting progress to date: 3 processes in parallel



### **PTF Organisation**



### A multi-stakeholders' Project Task-Force

- 35 Members originating from 13 European countries
- 9 EU Public Authorities representatives
- 18 PMO support (3 central + 15 dedicated to the streams)

In total, a full time equivalent of 30 to 40 people from 11 September 2020 to 19 February 2021.

#### A 3-phase approach

Sept- Oct

#### Assessment

Gathering relevant material

Analysing current state of play (in the EU and globally)

Assessing current NFI situation in the EU

Nov-Dec

#### **Proposal**

Designing possible scenarios

Identifying pre-requisites

Elaborating coherent and detailed recommendations

Jan-Feb

#### **Outreach & Conclusion**

Interacting with key stakeholders

Finalising recommendations

Preparing final report

# Contextual elements to be confirmed at legislative level (Level 1)



- Mandatory standards to be adopted by the European Commission via Delegated Acts
- Scope: possible extension of the scope of application to all large companies
- Double materiality concept
- Location of sustainability statements in the management report
- Assurance level for sustainability information
- Digital tagging

# 54 Proposals for a relevant and dynamic EU sustainability reporting standard-setting

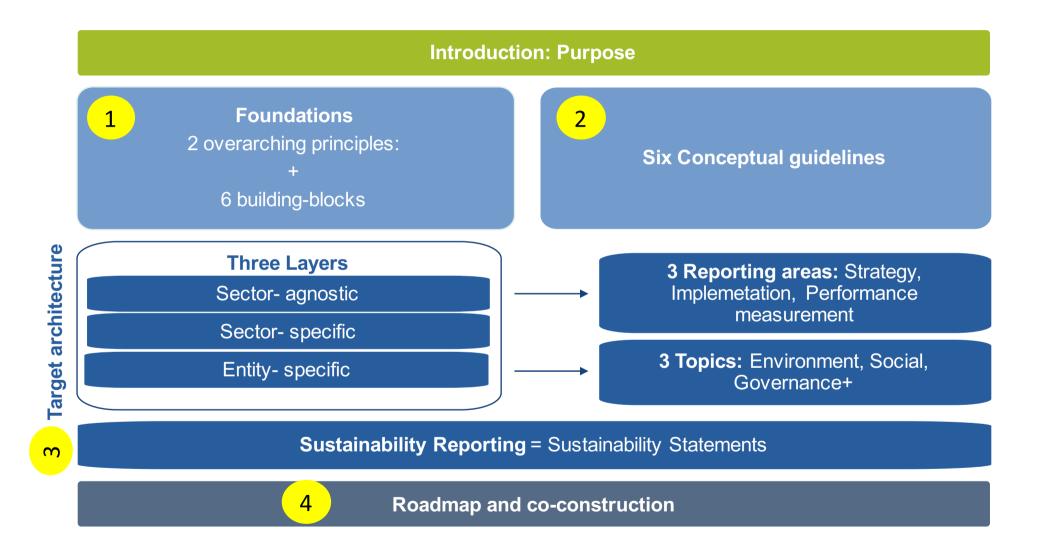


#### The report cover 4 sections:

- ➤ Building the next step of EU sustainability reporting from **robust and coherent standard-setting foundations:** 12 Proposals about Overarching principles and foundational building blocks.
- Anchoring key EU sustainability reporting concepts in robust **conceptual guidelines**: 16 Proposals about 6 Conceptual guidelines that should frame the standard-setting Conceptual Framework.
- Elaborating standards from a state-of-the-art target sustainability reporting architecture: 12 Proposals regarding topics, reporting areas and sustainability statements.
- ➤ Rolling out a phased-in standard-setting roadmap and addresses coconstruction: 14 Proposals around prioritisation to achieve a qualitative gamechanging standards over a limited number of years.

### The report organisation and standards structure





## Introduction: purpose of sustainability reporting



'The purpose of publicly available sustainability reporting is to **provide relevant**, **faithful**, **comparable and reliable information**:

- on (i) material sustainability impacts of the reporting entity on affected stakeholders (including the environment) and (ii) material sustainability risks and opportunities for its own value creation,
- Enabling users of information (i) to understand the reporting entity's sustainability objectives, position and performance and (ii) to inform their decisions relating to their engagement with the entity.'

Nota bene: Sustainability reporting is directly related to management reporting systems enabling reporting entities to better understand, manage sustainability matters and ultimately improve sustainability performance.

# Building the next step of EU sustainability reporting from robust and coherent standard-setting foundations



### 2 overarching principles

- 1. An **inclusive range of sustainability reporting stakeholders** to maximise value creation by businesses in a balanced manner between stakeholders
- 2. A principle-based sustainability reporting system well suited to the EU landscape.

### 6 building blocks

- Supporting the EU's sustainable development and sustainability reporting momentum, highlighting the importance of catering for EU specificities and aligning the ESS with existing EU requirements
- 2. Building on and contributing to sustainability reporting global convergence in a spirit of partnership and fruitful co-construction
- 3. Addressing the **specific challenges of financial institutions**, as both preparers, with specific sustainable finance requirements, and users of sustainability reporting.
- 4. Including SMEs in the EU sustainability reporting landscape in a proportionate manner as major players of the economy through a tailor-made proportionate approach.
- 5. Fostering sector-specific sustainability reporting relevance as a useful complement to cross-sector information to foster relevance and comparison with peers.
- 6. Acknowledging the importance of intangibles in sustainability reporting as a key lever for sustainable development and value creation of businesses..

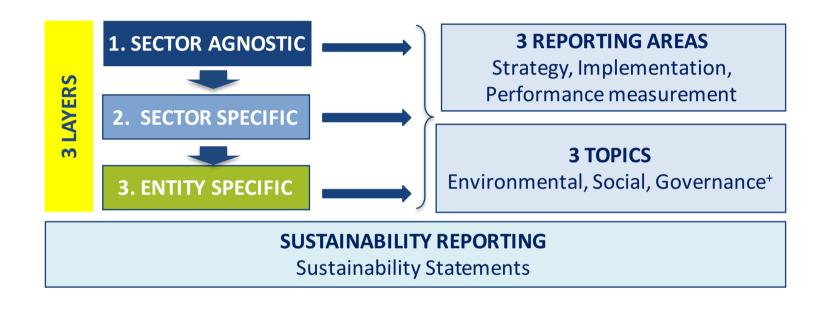
# Anchoring key EU sustainability reporting concepts in robust conceptual guidelines



- 1. Developing standard-setting methodologies to align standards with EU and global sustainability policy priorities such as the 2030 Agenda and the Paris agreement
- 2. Developing criteria supporting a standard-setting process aligned with the expected characteristics of information quality: relevance, faithful representation, comparability, understandability, reliability/verifiability which should allow sustainability information to be audited should it be required by the NFRD.
- Defining detailed retrospective and forward-looking sustainability information components
- 4. Developing standard-setting methodologies to **define levels of reporting based on clear boundaries** from own operations to value chain with possible more granular information depending on the sustainability matters
- 5. Developing standard-setting assessment guidelines to operationalise the double materiality concept through guidelines for standard-setting and for reporting entities and always considering both Impact materiality and Financial materiality in their own right.
- 6. Defining methodologies and processes enabling connectivity between sustainability reporting and financial reporting

# Elaborating standards from a state-of-the-art target sustainability reporting architecture 1/3





# Elaborating standards from a state-of-the-art target sustainability reporting architecture 2/3



#### **3 LAYERS**

# Promoting proportionality, comparability and relevance through a three-layer reporting approach:

- The sector-agnostic layer sets a minimum basis for all reporting entities across sectors to allow comparability.
- The sector-specific layer fosters relevance and peer comparison.
- The entity-specific layer caters for reporting entities specificities allowing for faithfulness representation.

#### **3 REPORTING AREAS**

Strategy, Implementation, Performance measurement

# Defining the relevant detailed sustainability reporting areas to ensure proper coverage:

- Strategy includes also Governance and materiality assessment of Risks, Opportunities and Impacts,
- Implementation includes Policies, Targets and Action plans and
- Performance measurement including to monitor the transition trajectories through past performance and forward-looking perspectives.

# Elaborating standards from a state-of-the-art target sustainability reporting architecture 3/3



#### **3 TOPICS**

Environmental, Social, Governance+

Adopting the detailed sustainability topics and sub-topics structure covering all aspects of the European sustainability goals and agenda and based on the ESG classification.

Comprehensive subtopics should be articulated around:

- Environment with subtopics aligned on the EU taxonomy
- Social with impacts on people organised around the categories of stakeholders (workforce, value chain workers, affected communities, consumers/end users) and
- Governance+ covering the full range of relevant matters relating to the reporting entity itself and its sustainable development

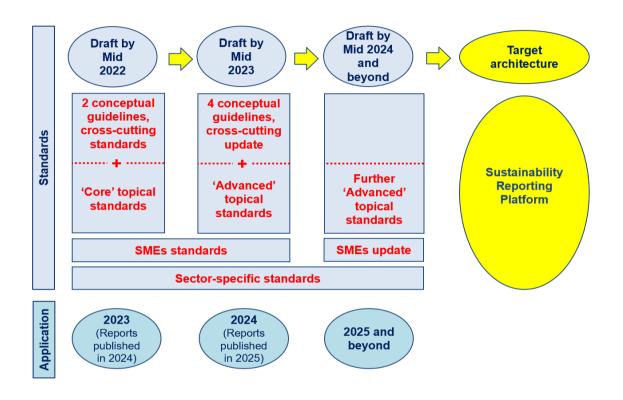
#### SUSTAINABILITY REPORTING

Sustainability Statements

- Promoting a unified sustainability reporting format and the related data taxonomy mechanism allowing easy digitization:
- Location and structure of sustainability statements, where though the PTF proposes to accommodate a dedicated section of the management report
- A digital taxonomy: on-boarding a tagging technique from the beginning

### Rolling out a phased-in standard setting roadmap





Given the level of urgency and EU ambition to move swiftly, the PTF recommends that **the ESS be implemented in phases, with an enhancement of content approach**, to eventually achieve the target architecture and a robust sustainability standards platform over time.

The PTF mentioned in particular the importance to **build on TCFD recommendations** for climate change from a financial materiality perspective, to **ensure consistency with the disclosures required under the SFDR** and to **address SMEs needs fully**, considering the increasing demand and pressure they face from their stakeholders for sustainability information, whether in the scope of the NFRD or not.

# Possible way forward to onboard international initiatives: a 2-step approach



The last part of the report focuses on how to build on international initiatives and contribute to international convergence while adapting and complementing information - if need be - to cater specific EU need.

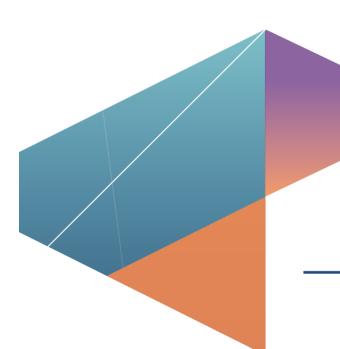
The PTF proposes possible criteria to assess the initiatives:

- Congruence with EU priorities: identifying initiatives that would best support the implementation of the EU Sustainability Agenda
- Understanding the due process and governance context
- Understanding the level of global acceptance of the initiatives

At selected disclosure level, congruence should also be assessed against ESS features: Building blocks, materiality approach, quality characteristics, roadmap

The PTF also highlights the need for the EU to be an active player of international cooperation and harmonisation including the integration of disclosures from international initiatives as an excellent opportunity to establish confident bilateral relationships and the mention of possible joint projects and co-construction at global level.





# Additional information: EFRAG governance possible evolution

#### Link to the report:

https://www.efraq.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishin g%2FSiteAssets%2FJean-Paul%20Gauz%C3%A8s%20-%20Ad%20Personam%20Mandate%20-%20Final%20Report%20-%2005-03-2021.pdf



# Jean-Paul Gauzes ad personam mandate Public consultation and outreach



First public consultation on mandate – October 2020

Publication of Progress Report – November 2020

Consultation with Member States represented in ARC on the role of Member States in the future governance and funding of the potential non-financial reporting pillar of EFRAG – December 2020

Second public consultation on preliminary proposals – December 2020

Feedback Statement - March 2021

Final Report- March 2021

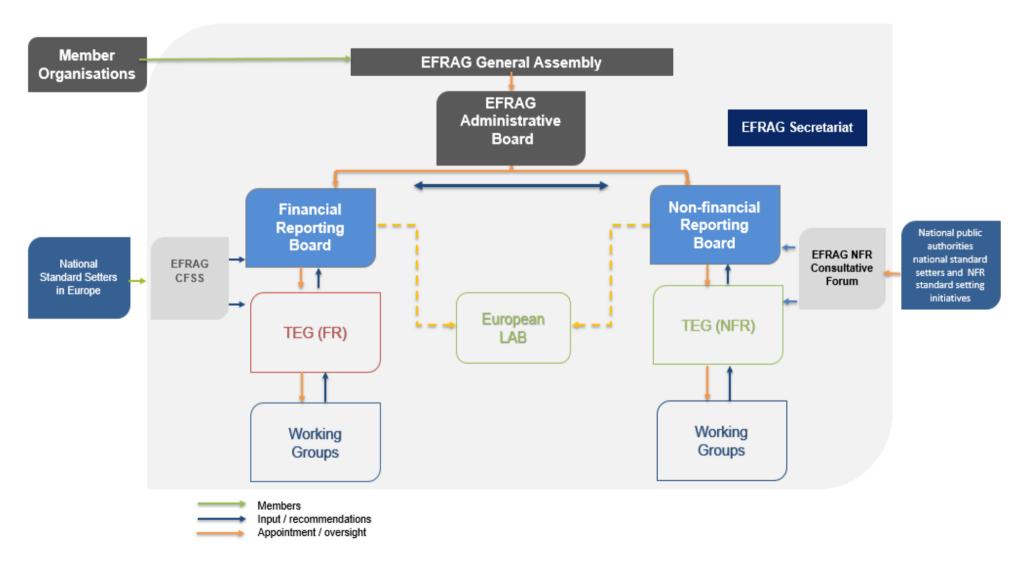






## **EFRAG's Proposed organisation chart**





### **Key comments on the chart**



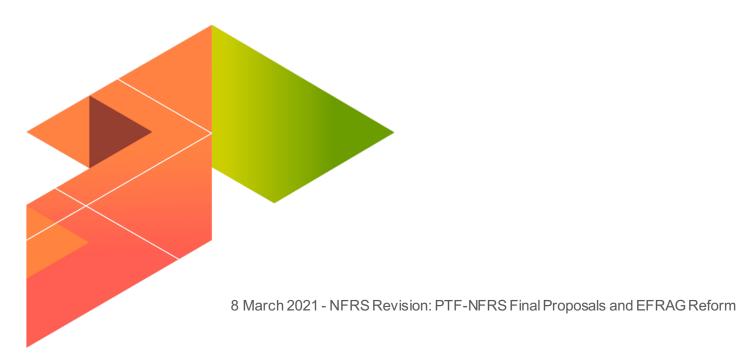
- Non-financial reporting pillar alongside EFRAG's existing financial reporting pillar, housed within EFRAG's legal entity based on a public-private partnership allowing for interconnectivity between pillars
- **EFRAG General Assembly** with four Chapters: 1) European Stakeholder Organisations; 2) National Organisations; 3) European institutions, authorities and agencies; and 4) civil society and providing discussion forum for member organisations on strategy and broader orientations
- Administrative Board: administrative, funding, due process and oversight (no technical tasks)
- Non-Financial Reporting Board responsible for defining the standard setting work plan and reviewing and approving of draft and final standards; any other non-binding guidance prepared and recommended by the Non-Financial Reporting TEG; ensuring interconnectivity with the Financial Reporting Board; and cooperating with the existing (global) non-financial reporting standard setters and initiatives
- Non-Financial Reporting TEG responsible for developing standards, with the input from working groups and advisory panels including a SME/SMP Working Group, for approval by the Non-Financial Reporting Board; Cooperating with existing (global) non-financial reporting standard setters and initiatives
- Consultative Forum of National Authorities and National Standards Setters of the Member States and other players for consultation on advice on the draft non-financial reporting standards.
- **European Lab** (project task forces) under Reporting Boards





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#### **THANK YOU**



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