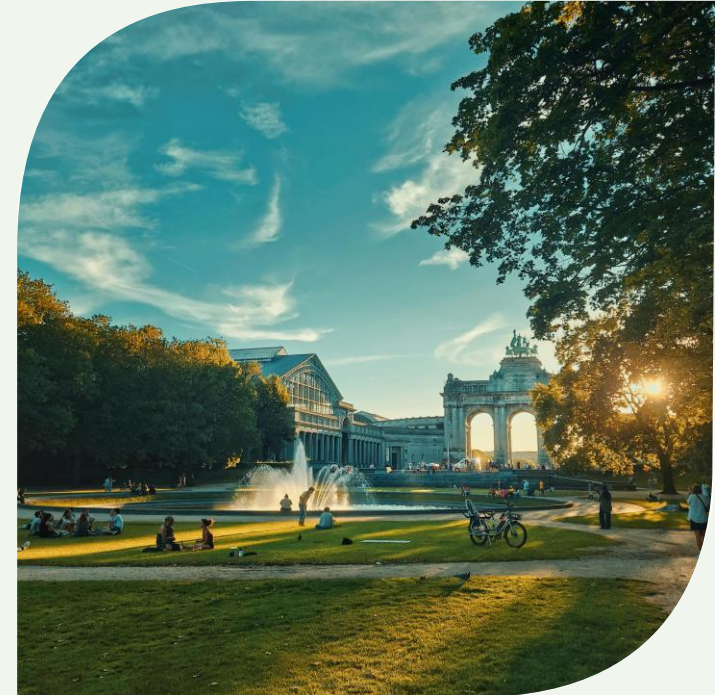


Does Corporate Culture Matter

EFRAG AND ESRS, AN INTRODUCTION

2024 ECGI Annual Conference

Saskia Slomp, CEO



DISCLAIMER

The views expressed in this presentation are those of the presenter, except where indicated otherwise. 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.



About EFRAG

WHAT IS EFRAG?

- Established **2001**, serving European public interest
- **Missions**: mandated to provide technical advice to the European Commission on
 - i. the development of ESRS (sustainability reporting pillar) and
 - ii. the endorsement of IFRS (financial reporting pillar)
- Involved in sustainability reporting since **2018**
- **Robust governance**: multi-stakeholder composition and involvement
- Overall: EFRAG positioned in a **leading role** in support of front-running European reporting regime and in support of global sustainability reporting momentum.



CSRD

Sustainability reporting in the EU

- A robust mandatory legal regime of sustainability reporting under double materiality for all “large” undertakings (EUR 50M turnover, EUR 25M total assets, over 250 employees), i.e., 50% of EU GDP
- Firstly, sector agnostic, then sector specific
- Application dates: 2024 & 2025 for two groups

CSRD = LEVEL 1

ESRS: LEVEL 2

- 
- Draft ESRS developed by EFRAG
 - Provided as technical advice to the EC
 - Adopted as delegated acts by the EC

The key features of the CSRD



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



Both human and machine-readable using European Single Electronic Format (ESEF) from 2025/2025 (timing to be confirmed) – EFRAG tasked to develop the draft XBRL taxonomy

CSRD inserts Article 29 b into Accounting Directive

2(c) specify the information that undertakings are to disclose about governance factors:

(i) the role of the undertaking's administrative, management and supervisory bodies with regard to sustainability matters, and their composition, as well as their expertise and skills in relation to fulfilling that role or the access such bodies have to such expertise and skills; **ESRS 2 GOV-1**

(ii) the main features of the undertaking's internal control and risk management systems, in relation to the sustainability reporting and decision-making process; **ESRS 2 GOV-5**

(iii) **the business ethics and corporate culture, including anti-corruption and anti-bribery, the protection of whistleblowers and animal welfare;**

(iv) activities and commitments of the undertaking related to exerting its political influence, including its lobbying activities

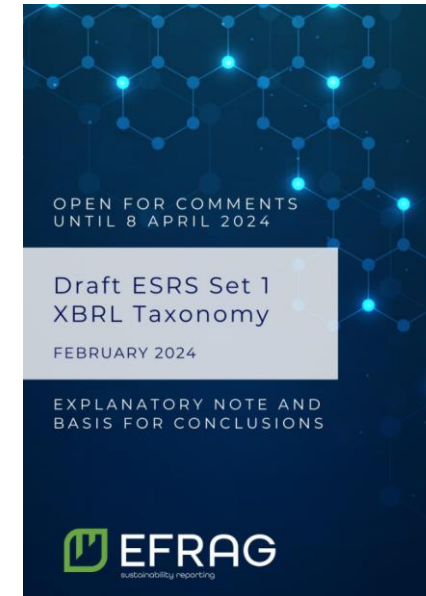
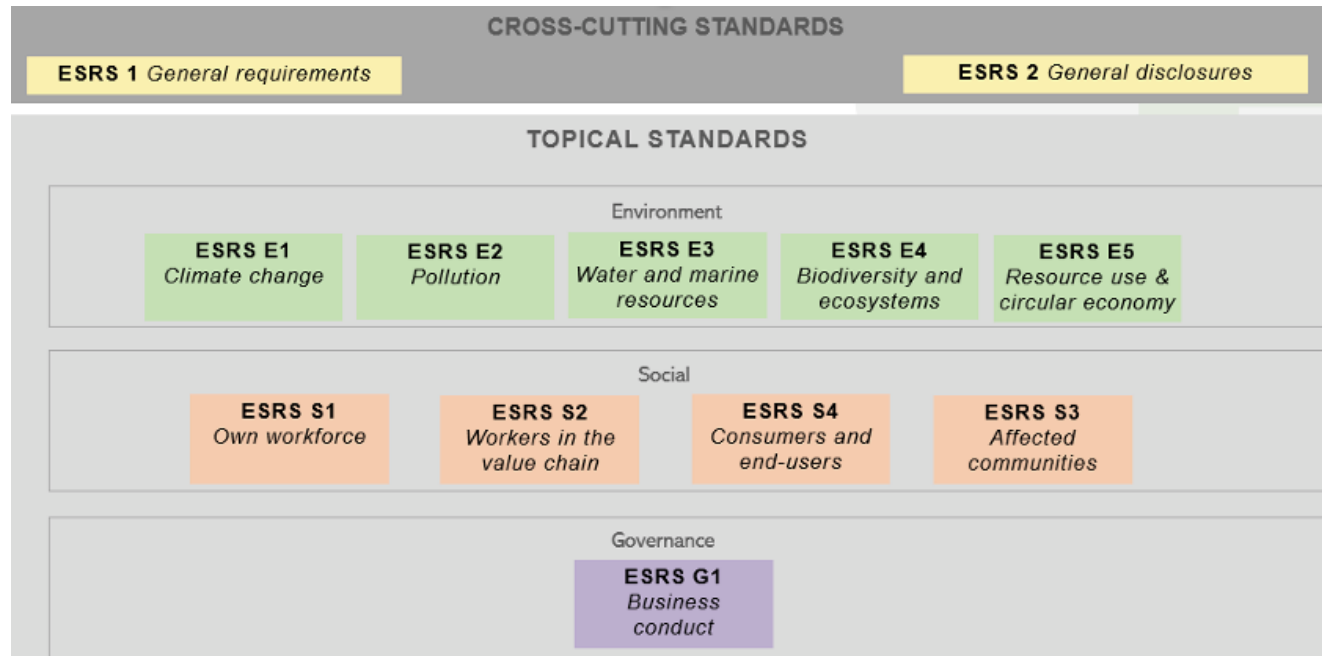
(v) the management and quality of relationships with **ESRS S4** customers, suppliers and communities affected by the **ESRS S3** activities of the undertaking, including payment practices, especially with regard to late payment to SMEs.

ESRS G1



ESRS

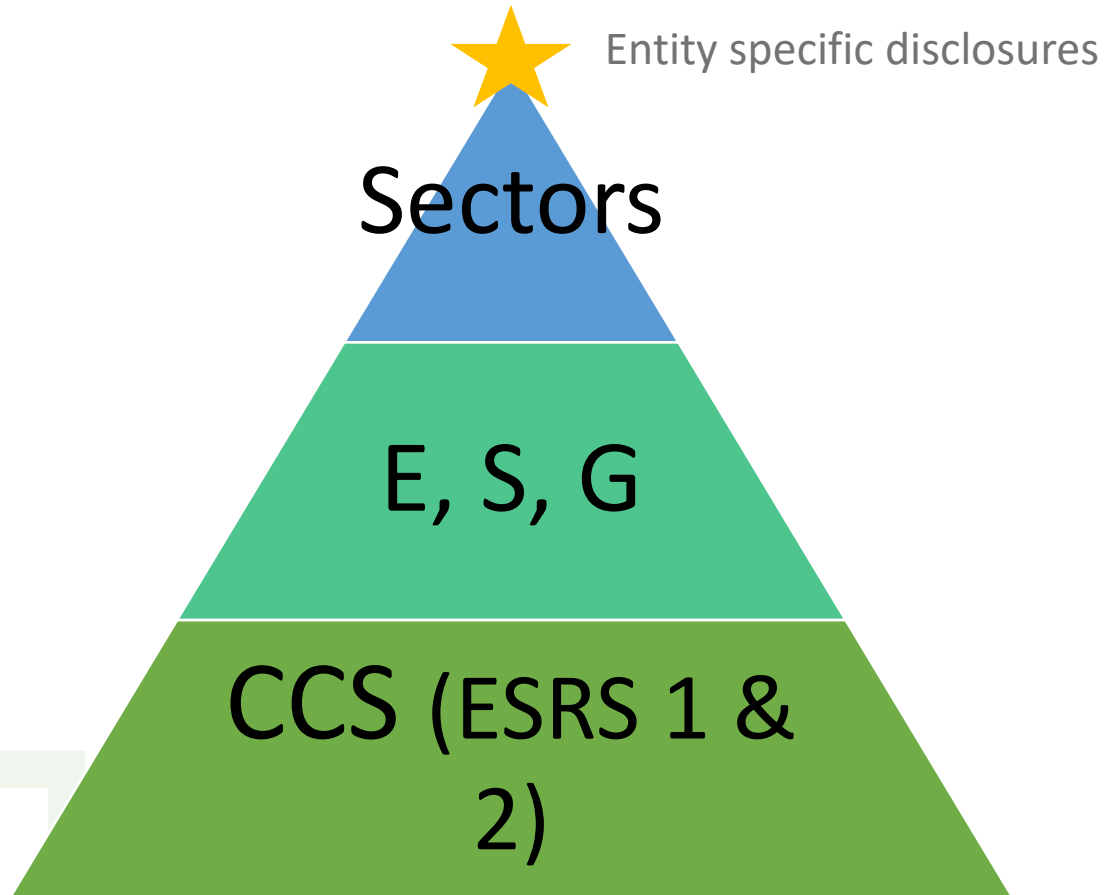
The first set of sector agnostic ESRS



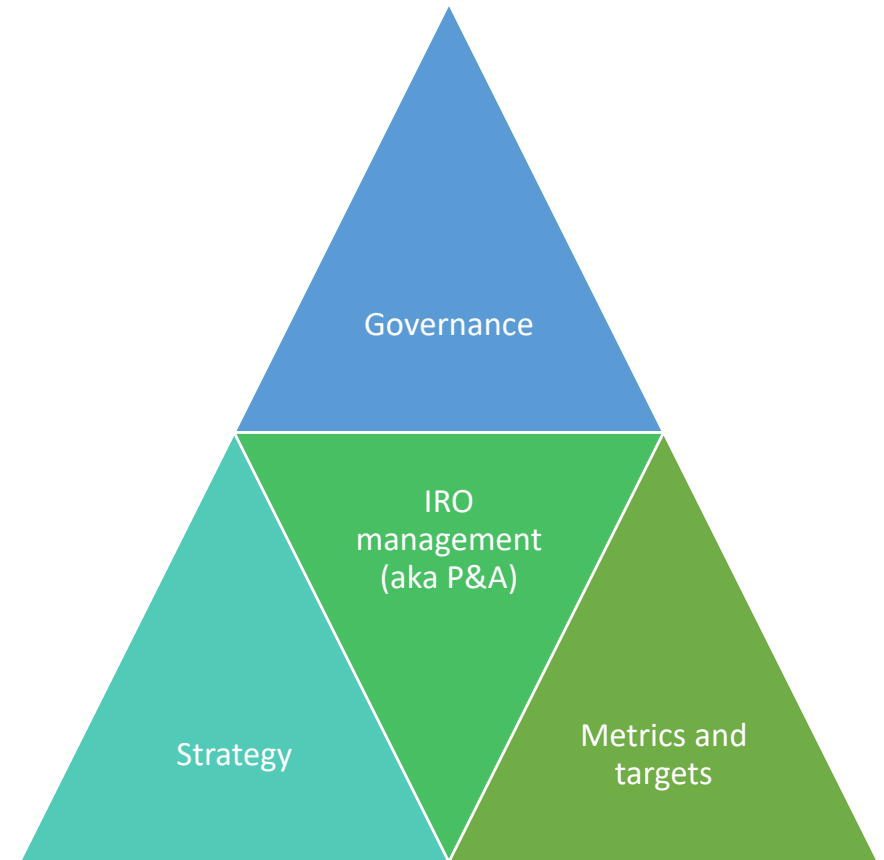
Proposed XBRL taxonomy for Set 1
Published on 30 August 2024

The first set of sector agnostic ESRS (continued)

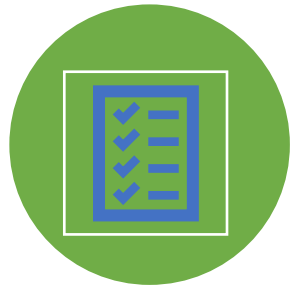
Categories of ESRS standards and disclosures



Reporting areas



The pivotal role of the materiality assessment



Sustainability statements shall reflect **all material** impacts, risks and opportunities (IROs): under an objective approach with thresholds. Thus, not all sector agnostic standards may be applicable to an undertaking.



Reporting entity to implement a **rigorous materiality assessment process** to determine material IROs (including the understanding of its value chain). This will be subject to audit.

Double materiality

- Impact materiality
- Financial materiality

Definition: Business Conduct/Business conduct matters

- Business ethics and corporate culture, including anti-corruption and bribery, protection of whistle-blowers and animal welfare
- The management and quality of relationships with customers, suppliers and communities affected by the activities of the undertaking, including payment practices, especially with regard to late payment to SMEs.
- Activities and commitments of the undertaking related to exerting its political influence including its lobbying activities



IRO Management
G1-1
G1-3

Targets and Metrics
G1-4



IRO Management
G1-2

Targets and Metrics
G1-6





Targets and Metrics
G1-5

Par 2

ESRS G1-1 Business conduct policies and **corporate culture**

The undertaking shall disclose its policies with respect to business conduct matters **and how it fosters its corporate culture**.

- Strategy, implementation and outcomes in respect of **corporate culture** 
- Business conduct policies:
 - Mechanisms to report unlawful behaviour
 - Lack of policies against corruption/ bribery consistent with UN Convention against Corruption
 - Lack of policies to protect whistleblowers 
 - Investigation of business conduct incidents
 - Animal welfare
 - Policy for training on business conduct

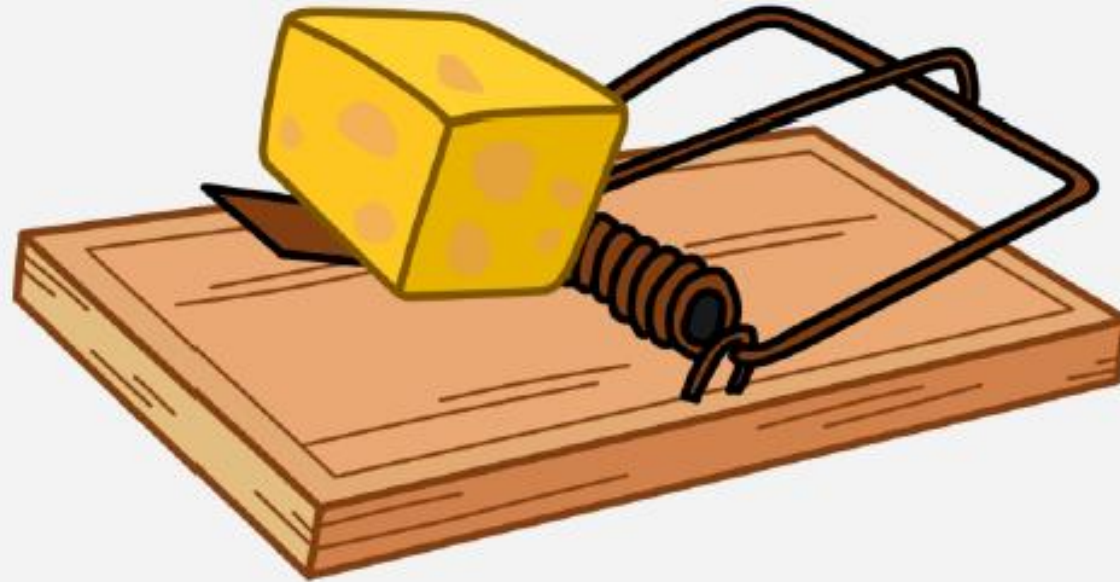
Corporate culture expresses goals through values and beliefs. It guides the undertaking's activities through shared assumptions and group norms such as values or mission statements or a code of conduct

Is your corporate culture sabotaging your strategy?

STRATEGY



CULTURE



ROBERTOFERRARO.ART

Exposure drafts for SMEs

- Exposure drafts for both LSME (for listed SMEs) and the voluntary reporting standard for unlisted SMEs (VSME)
- Both draft standards to be delivered as technical advice to the EC in **December 2024**
- **VSME**: to provide a simple reporting tool, that can credibly **replace a substantial part of the questionnaires used by business partners** in requesting ESG data from SMEs and that can support SMEs in monitoring their sustainability performance.
- **Value chain cap**: LSME, VSME AND trickle-down effect

EFRAG PUBLIC CONSULTATION

Exposure drafts on sustainability reporting standards for SMEs

Deadline: 21 May 2024

VSME ESRS
JANUARY 2024
OPEN FOR COMMENTS UNTIL 21 MAY 2024

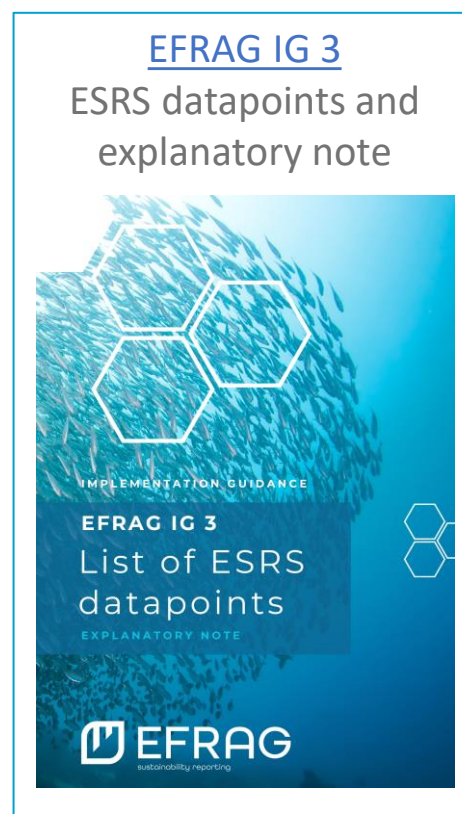
ESRS LSME
JANUARY 2024
OPEN FOR COMMENTS UNTIL 21 MAY 2024



Implementation support

Implementation Guidance documents

The first three ESRS IG's were published on 31 May 2024.



- IG is developed on EFRAG SRB initiative or in responses to question on Q&A platform.
- **Non-authoritative:** supports understanding of ESRS and illustrates the content with examples and FAQs but **cannot go beyond content** of issued ESRS nor include new provisions.
- Any approach or methodology illustrated is a **possible way to implement the standard.** Determination of implementation approaches stays in the responsibility of the preparer
- Location: <https://www.efrag.org/en/projects/esrs-implementation-guidance-documents>
- Working on IG's for transition plan

Implementation support: EFRAG ESRS Q&A platform

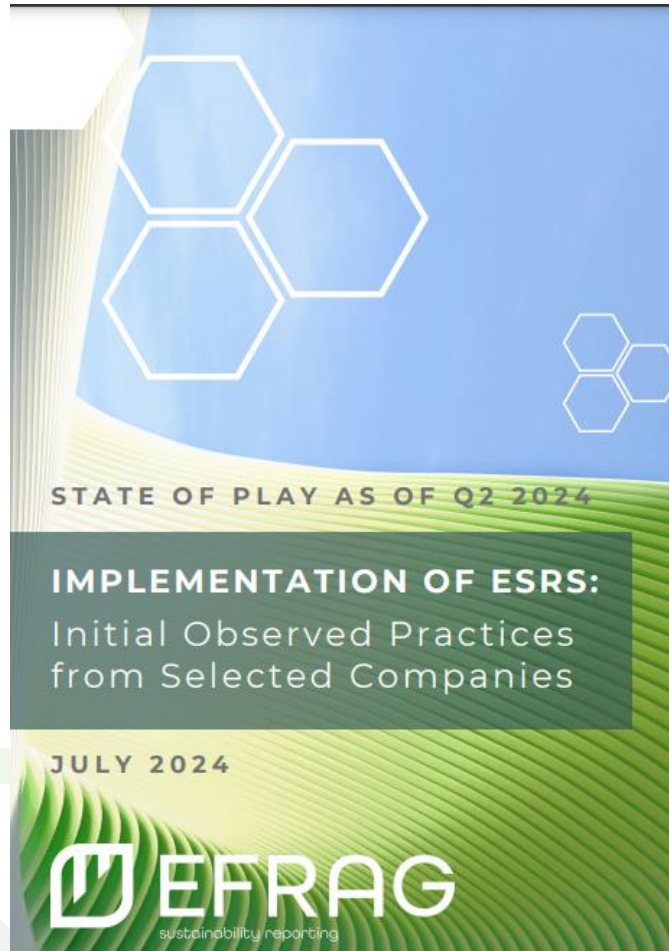
Nearly 700 questions received

Update Q&A Platform as of 4 October 2024:

Question related to:	Questions received since 24 October 2023:
Cross-cutting	233
Environment	211
Social	115
Governance	18
XBRL	29
VSME	2
LSME	0
Sectors	1
Other	62
Not yet allocated to the above	0
TOTAL	671



Initial observed practices from selected companies



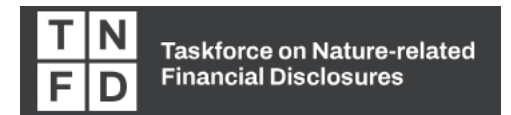
- Educational material (no public feedback)
- It illustrates preliminary practices of ESRS implementation
- Based on interviews of 28 large EU-headquartered undertakings across eight sectors split between financial and non-financial enterprises.
- The emerging practices were analysed against four focus areas particularly relevant to the implementation of ESRS: Materiality assessment, Value Chain, Gap analysis on datapoints, ESG reporting organisational approach.
- The study intentionally focuses on larger undertakings and thus is not representative of the diverse mix of companies that will apply the ESRS.

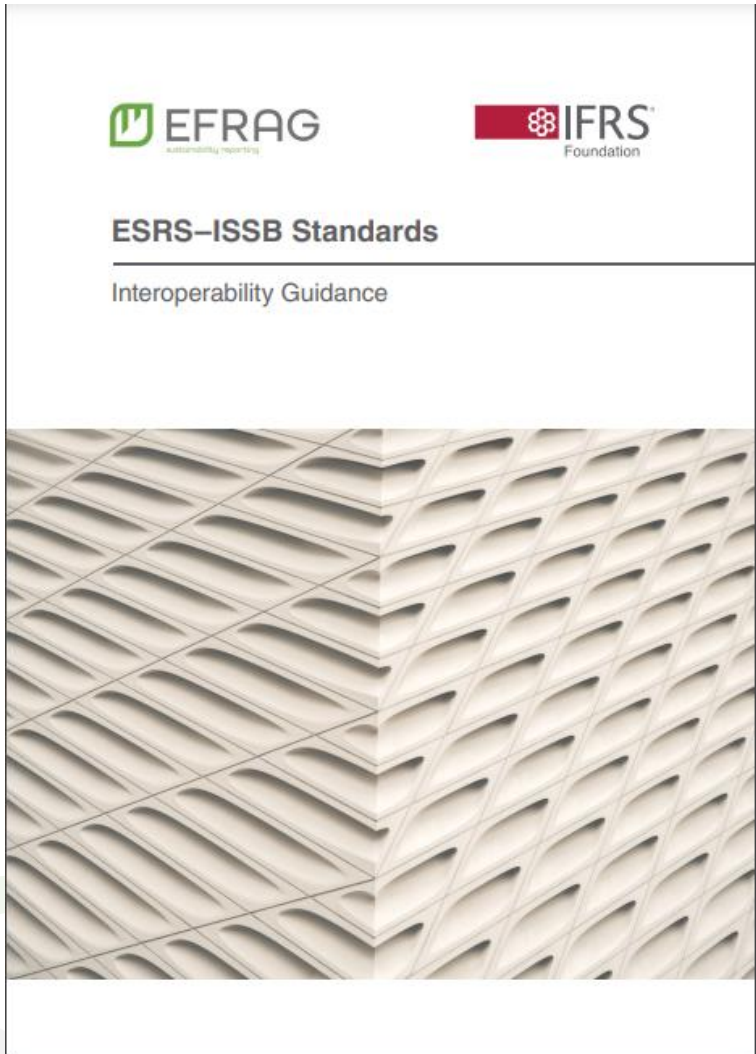


Interoperability

Interoperability maps

- To avoid double reporting (key EU objective: no duplication of requirements)
- Leveraging on the high-level of interoperability achieved in published ESRS
- Implementation support material issued jointly
- Illustration of the correspondence of detailed requirements in ESRS that correspond to the other standard, with clarification of differences in terminology and substance (if any)
- Paving the way to digital interoperability





International Sustainability Standards Board (ISSB)



- Comments received: great desire for interoperability
- Result of two years dialogue during standard setting and after
- Illustrates high level of alignment
- ESRS preparers can report on climate, also in compliance with ISSB Standards, only with a very limited number of points to consider, clearly identified in Section 3 of this document.
- This document explains that ESRS preparers can use ESRS to comply with ISSB Standards to report on matters beyond climate.
- Next steps:
 - (1) digital interoperability
 - (2) sector standards
 - (3) HC and Nature disclosure (future ISSB standards)

Key interoperability steps achieved in practice

Global Reporting Initiative (GRI)



- November 2023: Memorandum of Understanding: to continue working together to deliver technical support
- GRI-ESRS Interoperability Index made publicly available (draft): how the disclosure requirements and datapoints in each set of standards relate to each other, emphasizing the high degree of commonality already achieved and laying down solid foundations to build a reciprocal digital taxonomy.
- Interoperability prevents the need for double reporting.
- Entities reporting under ESRS will be deemed reporting 'with reference' to the GRI standards and existing GRI reporters will be able to leverage their current reporting efforts to prepare their ESRS "Sustainability statement"

EFRAG and GRI agreement:

A high level of interoperability has been achieved in respect to impact reporting

Entities complying with ESRS considered reporting with reference to GRI Standard (as defined by GRI 1)

EFRAG and GRI have issued on 4 September 2023 a joint statement of interoperability

Next step: Digital and Sector interoperability



Next steps

The journey has not ended...

Sector-specific ESRS

- To complement the set 1 ESRS requirements
- Set 1 has transitional provisions require to cover sector information with entity specific disclosures, which is judgmental and challenging to prepare
- Will reduce the burden associated with entity specific disclosure
- Built following EFRAG transparent and multi stakeholder due process
- Approval process transparent and drafts available quite early in the process
- Public consultation and field test as key step:(120 days) not yet approved
- Built following interoperability approach: SASB, GRI and other sectoral frameworks as a starting point, plus European specificities
- SEC 1 (standard setting approach for sectors and classification) and Oil & Gas ED's approved by SRB with Mining, quarrying and coal mining approval scheduled for 2 Oct.
- Sector EDs for Road transport as well as Textiles, accessories, jewellery and footwear depend on resources; Financial sector standards ED issuance in H2 2025

Other high impact sectors:

- Agriculture, fishing and farming
- Energy production and utilities
- Food and beverages
- Motor vehicles

The journey has not ended...

ESRS for non-EU groups

- Draft standard to be submitted to the EC by end of 2025
- Article 40a of CSRD requires non-EU groups with a branch or subsidiary in the EU and significant activity in the EU (more than EUR 150 million of turnover) to provide sustainability information from the 2028 financial year, with a report published in 2029.
- EFRAG to develop this standard
- Focus is on impact materiality
- Financial materiality-related aspects to understand/explain impacts
- Set 1 as basis.
- Consultation to start in January 2025 with field test during last 30 days of comment period. Watch EFRAG news items for further information
- Draft standard to be submitted to the EC by end of 2025

BECOME A FRIEND OF EFRAG

Entities can support EFRAG's mission and activities in the development of draft ESRS!

ADVANTAGES

- Visibility on website
- Private meetings with the EFRAG high-level representatives
- Mention in EFRAG's Annual report
- Reserved seats at physical events
- A possible EFRAG representation in the entities' events
- Use of “**Friend of EFRAG**” logo



How to apply?

Complete the online application form [here](#) indicating your legal information, a description of your entity's mission and activities and a motivation statement in support of EFRAG' mission in its financial reporting activities.

Access more info about the Friends of EFRAG [here](#). If you want to request a meeting, please write to caroline.martins@efrag.org.



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THANK YOU