

RJ/EFRAG Outreach event Sustainability Reporting (ESRS ED)

15 June 2022
Amsterdam

DASB/EFRAG Outreach
Event on Draft ESRS



Welcome

- Hybrid outreach event on European Sustainability Reporting co-hosted by the Raad voor de Jaarverslaggeving (DASB) and EFRAG
- Today's objectives:
 - Provide you with further knowledge about the ED ESRS
 - Obtain your feedback as part of the consultation process
- All presenters based on their personal views!

Programme

- Opening
- Introduction to CSRD/ESRS
- Plenary Session ESRS 1-2
 - Break and transition to break-out sessions
- Break-out session
 - Environment
 - Social
 - Governance
 - Break and transition to plenary session
- Plenary session
 - Feedback from the break-out rooms
- Closing session
- Drinks

40 years of Reporting in NL



- 1981: NL - set-up of DASB
- 1982: NL - Guidelines for Financial Reporting
- 2003: NL - Guide to Sustainability Reporting (Handreiking Maatschappelijke verslaggeving)
- 2005: EU - Implementation of IFRS
- 2009: NL - Update of Guide to SR
- 2017: EU - Implementation of NFRD
- 2021: EU - proposal CSRD
- 2022: EFRAG Exposure Draft ESRS

Video message from Sven Gentner

- Head of unit of corporate reporting in the EC



Some of his key messages:

- CSRD-objectives:
 - To reduce **systemic risk** to financial system from climate-change and other sustainability issues
 - To make **capital flow** to companies that address and do not aggravate the sustainability crisis more easy
 - To make companies **more accountable** for their impacts on people and the environment

- Consultation:
 - All relevant stakeholders to provide input and to see whether draft ESRS are “fit for purpose”
 - Make your views heard through the public consultation

100 days of public consultation on EDs

Online survey accessible at www.efrag.org

- Challenging project, but should not forget:

- Important part of **Europe’s answer** to a pressing real-world problem
- Without the **force of financial markets** we will not be able to meet our climate and sustainability goals.



Scope CSRD - sustainability reporting

- **What:**
 - Sustainability report as part of directors' report
 - In conformity with CSRD/ESRS
 - Limited assurance by external assurance provider/auditor
 - Double materiality (impact on the company and impact by the company)
- **Whom:**
 - Listed entities
 - Large corporates (NV/BV):
 - Who meet two consecutive years at least two of the following three criteria:
 - (1) balance sheet total > € 20 million, (2) net revenue > € 40 million and (3) ≥ 250 employees
 - Comparable to size criteria financial statements / group exemptions
- **When:**
 - Financial year 2024: Listed entities
 - Financial year 2025: other large entities

Who sets the Standards for Sustainability Reporting?



- **European Commission:**
 - Publishes Corporate Sustainability Reporting Directive (CSRD)
 - Approves European Sustainability Reporting Standards (ESRS)

- **EFRAG**
 - Public private partnership:
 - European Stakeholder organisations (a.o. Business Europe, Accountancy Europe, EFFASS, etc)
 - National Standard Setters
 - NGO's, trade unions, academics (specifically for sustainability reporting)
 - Observes (EC, ESMA, ECB etc)
 - Advises EC: prepares European Sustainability Reporting Standards

- **NL-participation in EFRAG**
 - DASB – member organisation EFRAG
 - Dutch board members (Simon Braaksma – RJ, Wim Bartels – Accountancy Europe, David Vermijs – Shift/NGO)
 - Dutch SR TEG member: Alexandra van Selm
 - Many other Dutch participants at EFRAG/PTF

Draft CSRD - main provisions*

Reporting areas (on the 3 ESG topics)

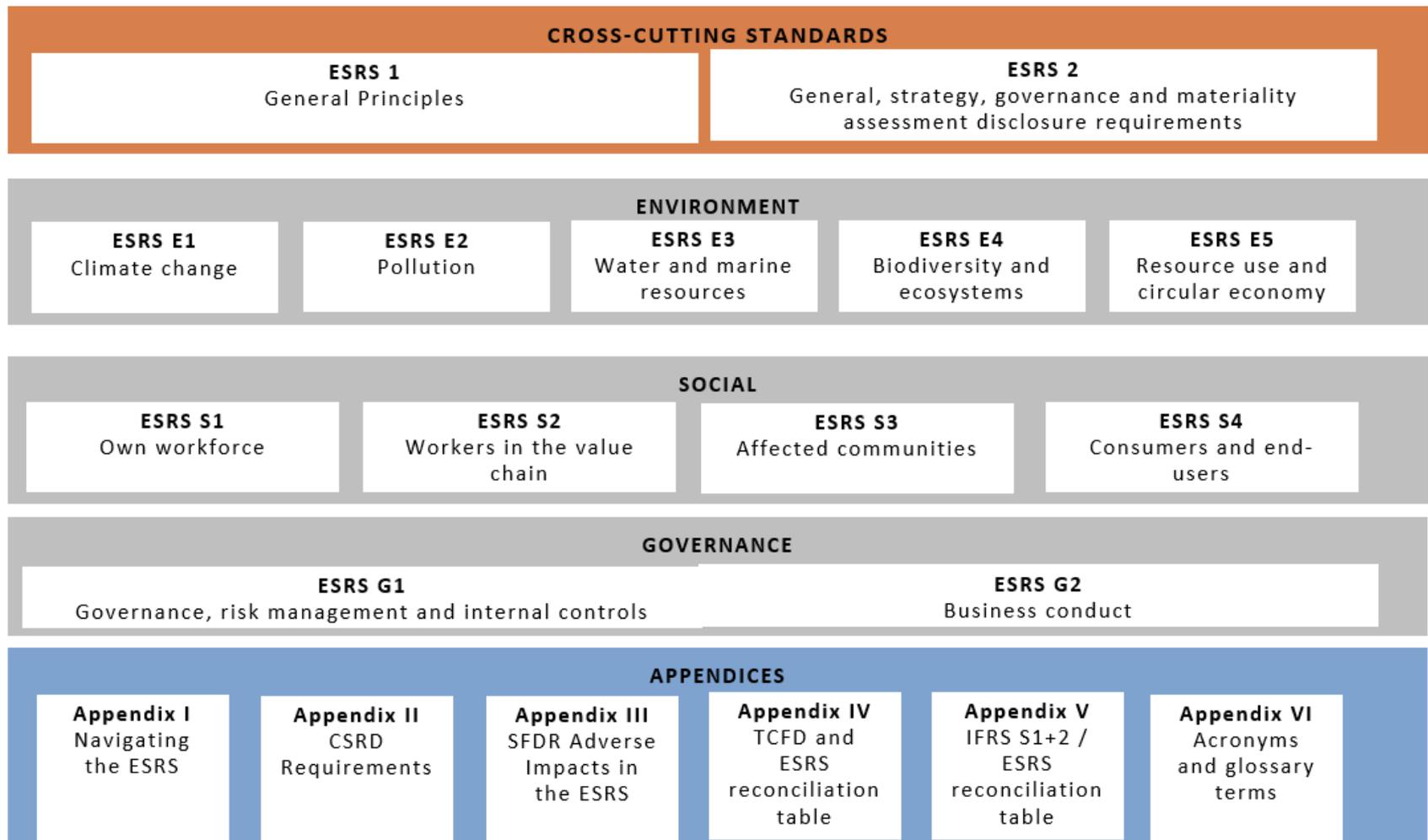
- **Business model and strategy**, including plans to ensure compatibility with the transition to a sustainable economy and limiting global warming to 1.5°C and considering stakeholders' interests
- Sustainability **objectives** and **progress** towards the objectives
- Role of **governance bodies** on sustainability
- Sustainability **policies**
- **Description** of (i) due diligence, (ii) adverse value chain impacts and (iii) remedial actions
- Sustainability **risks** and management thereof
- **Indicators** related to the above
- **Intangibles** (intellectual, human, social and relational capital [$\langle IR \rangle$ / WICI])*
- **Assessing materiality** - process for identifying information to be reported
- **Time horizon**: short, medium and long term
- **Value chain including**: own operations, products and services, business relationships and supply chain

Topics

- **Environment**: (alignment with the 6 environmental objectives of the Taxonomy)
- **Social**: (i) equal opportunities (ii) working conditions and (iii) human rights
- **Governance**: (i) Composition and role of governance bodies, (ii) business ethics & culture, (iii) political engagement, (iv) management and quality of relationships with business partners and (v) internal control and risk management systems

*Ongoing discussions - Changes expected in the final CSRD text

Overview of Exposure Draft ESRS



EFRAG / DASB - feedback focus

EFRAG requests feedback from constituents on three key aspects of the EDs

1. The relevance of (i) the proposed architecture, (ii) the implementation of the CSRD principles and (iii) the overall content of each ED
2. The possible options for prioritising / phasing-in the implementation of the ESRS, and
3. The adequacy of each disclosure requirement mandated by each ED.

DASB especially focuses on the following aspects:

1. Improving holistic approach of draft ESRS
2. Alignment with international standards
3. Materiality approach
4. Trickle-down effect SME
5. Reduce complexity to enable workability of the ESRS

Patrick de Cambourg

- Chair of the Project Task Force – NFRS/ESRS
- Member of the EFRAG SR-board



European Sustainability Reporting Standards

OUTREACH NETHERLANDS

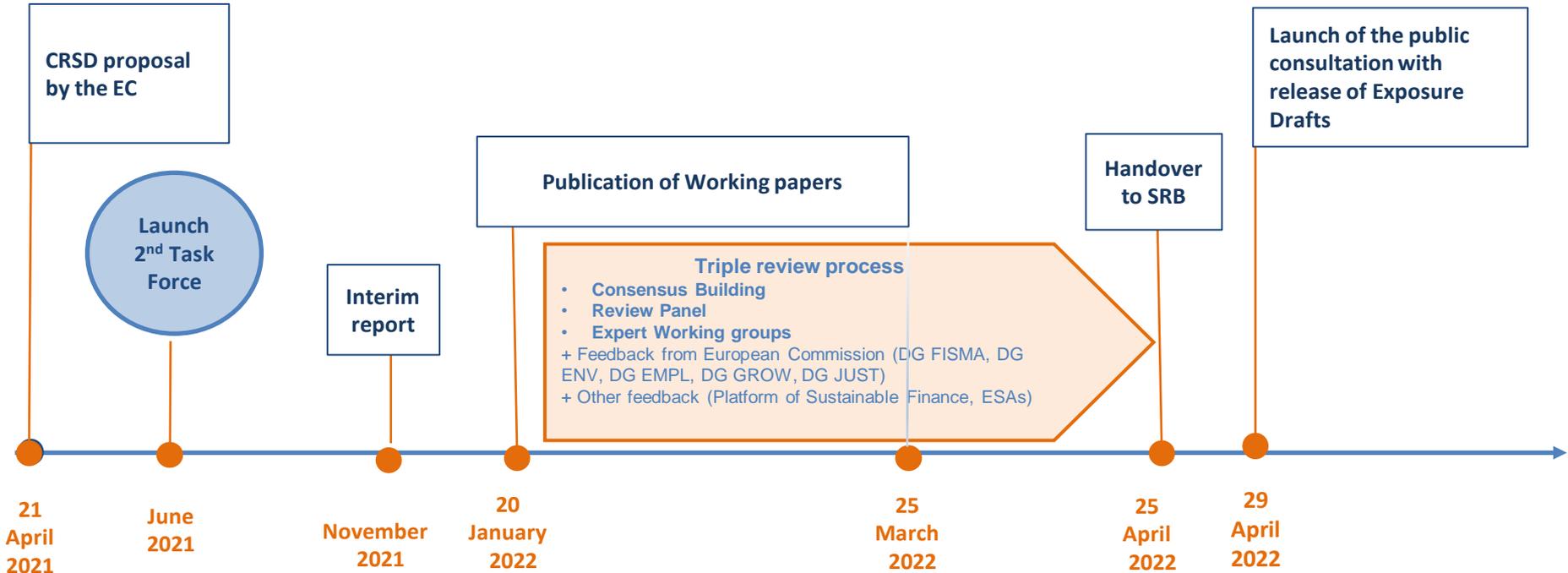
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DISCLAIMER

The Exposure Drafts have been prepared solely by the EFRAG PTF-ESRS and submitted to public consultation by EFRAG SRB to inform the upcoming standard-setting steps. They, therefore, do not reflect the EFRAG SRB's position at this stage, nor the position of the European Union or European Commission DG Financial Stability, Financial Services and Capital Markets Union (DG FISMA), nor the position of organisations with which the EFRAG PTF-ESRS has cooperated.

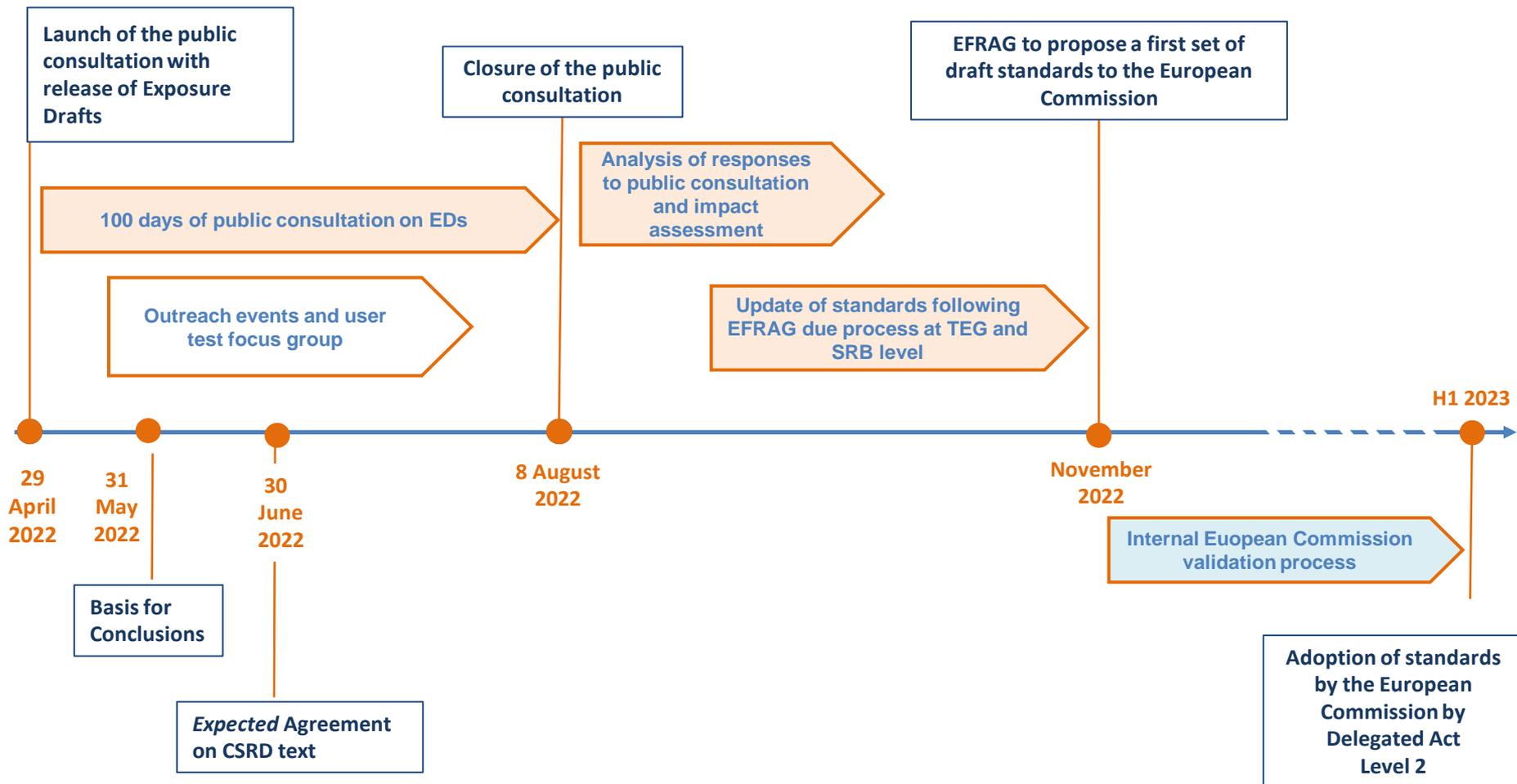
Drafting exposure drafts for a first set of ESRs: 11 months in “project mode”



2nd Task-Force re-launched in June 2021 following mission letter from Commissioner McGuinness received on 12 May 2021 in order to start elaborating standards in project mode (PTF):

- 35 members from 13 different Member States
- Supported by Secretariat members (30 full-time equivalent)
- Input from Expert Working Groups (appointed in November 2021)
- Co-construction with GRI, Shift, WICI + dialogue with the IFRS Foundation (TRWG/ISSB) and
- meeting with the SEC

From EDs to draft standards: 7 months in “institutional mode”



The seven key features of the EDs

1. They may need to be adjusted to meet the requirements of the final CSRD
2. They take account of existing European law and initiatives
 - SFDR, Taxonomy Art. 8
 - A list of European texts (e.g. GHG allowance Directive, the EMAS regulation and European Commission recommendation on the life cycle environmental performance of products and services, see Basis for Conclusions)
 - Recent European initiatives (e.g. a Corporate Sustainability Due Diligence Directive (CSDDD))
3. They take account of European and international sustainability reporting initiatives
4. The overall architecture of Exposure Drafts is designed to ensure that sustainability information is reported in a carefully articulated manner (see next slide)
5. They address sustainability matters as per Article 19b of the CSRD proposal
6. They are a first step in a journey towards a faithful representation of sustainability performance (SME standard(s) and sector-specific standards in the 2nd set)
7. The public consultation will help to finetune relevance and comparability as well as explore ESRS implementation prioritisation / phasing-in options

A coherent architecture to implement the CSRD provisions

Cross-cutting

T
O
P
I
C
A
L

Overall umbrella

Cross-cutting disclosures

Environment

Social

Governance



Main success factors of the ESRS

- 1. Information quality (in particular: relevance and sector-agnostic comparability)**
- 2. Coherence with EU policy objectives (content and timing)**
- 3. Compatibility with international initiatives**
- 4. Exercise of judgement to foster proportionate implementation**
- 5. Balanced combination of narrative, semi-quantitative and quantitative information**
- 6. Connectivity to ensure seamless standardised corporate reporting**
- 7. Flexibility in presentation (sustainability statements and incorporation by reference)**

Main challenges of the ESRS

- 1. A real challenge for first time reporters**
- 2. Overall depth of required information (to be fine tuned and/or phased-in)**
- 3. Assessment of material IROs and rebuttable presumption**
- 4. Boundary issues**
- 5. Meeting expectations of all stakeholders**
- 6. Avoiding multiple reportings**

Public consultation as a key element of the standard setting due process

- **Feedback from constituents on three key aspects of the EDs and the survey has followed the same structure :**
 1. The relevance of (i) the proposed architecture, (ii) the implementation of the CSRD principles and (iii) the overall content of each ED
 2. The possible options for prioritising / phasing-in the implementation of the ESRS, and
 3. the adequacy of each disclosure requirement mandated by each ED.
- **Section 3 of the survey on disclosure requirements split as follows:**
 - 3A. Cross Cutting standards
 - 3B. Environmental standards
 - 3C. Social standards
 - 3D. Governance standards
- **Respondents are strongly encouraged to respond to section 1 and 2.**
- **Due to comprehensive nature of section 3, constituents may select the questions and standards to which they provide feedback (no need for complete responses).**

Public consultation as a key element of the standard setting due process

- **Other information included in the public consultation:**
 - Cover note
 - Appendix I: Navigating the ESRS
 - Appendix II: CSRD requirements mapping
 - Appendix III: SFDR PAI mapping
 - Appendix IV: TCFD recommendations and ESRS reconciliation table
 - Appendix V: IFRS Sustainability standards and ESRS reconciliation table
 - Appendix VI: Acronyms and glossary of terms
- **EC survey tool**
- **Not consulting on second set of draft ESRS (SMEs and and sector specific)**
- **Outreaches during consultation period**

Polling questions - Introduction of the audience

Join at
slido.com
#ESRSTheNetherlands



www.slido.com
Presentation link

Plenary session on ESRS 1 - 2

- **Presenters:**
 - Wim Bartels (SRB/Accountancy Europe)
 - Simon Braaksma (SRB/RJ WG/Philips)
- **Moderator:**
 - Olga Smirnova (RJ WG/Heineken)
- **Panelists:**
 - Rutger Goethart (EFRAG)
 - Ron Gruijters (RJ WG/PTF/Eumedion)

Break out sessions

Topic	Environment	Social	Governance
Room	Amsterdam 3	Westerpark 1	Westerpark 2
Online	via Zoom	via Zoom	via Zoom
Presenter	Wim Bartels (SRB/Accountancy Europe) Simon Braaksma (SRB/RJ WG/Philips)	Rutger Goethart (EFRAG)	Marco Frikkee (RJ WG/KPMG)
Moderator	Olga Smirnova (RJ WG/Heineken)	Rutger Goethart (EFRAG)	Eva Eijkelenboom (RJ WG/VNO-NCW)
Panelists	Usha Ganga (RJ WG/NBA) Stephan Werkman (RJ WG/Tesla)	Alexandra van Selm (SR-TEG EFRAG/SER) Kavita Nandram (RJ WG/Ahold- Delhaize)	Fleur Meerman (RJ WG/SER) Sarah Esmeijer (RJ WG/ABN AMRO)

ESRS 1 General principles and

**ESRS 2 General strategy, governance and
materiality assessment**

EFRAG & DASB (RJ) Outreach Event

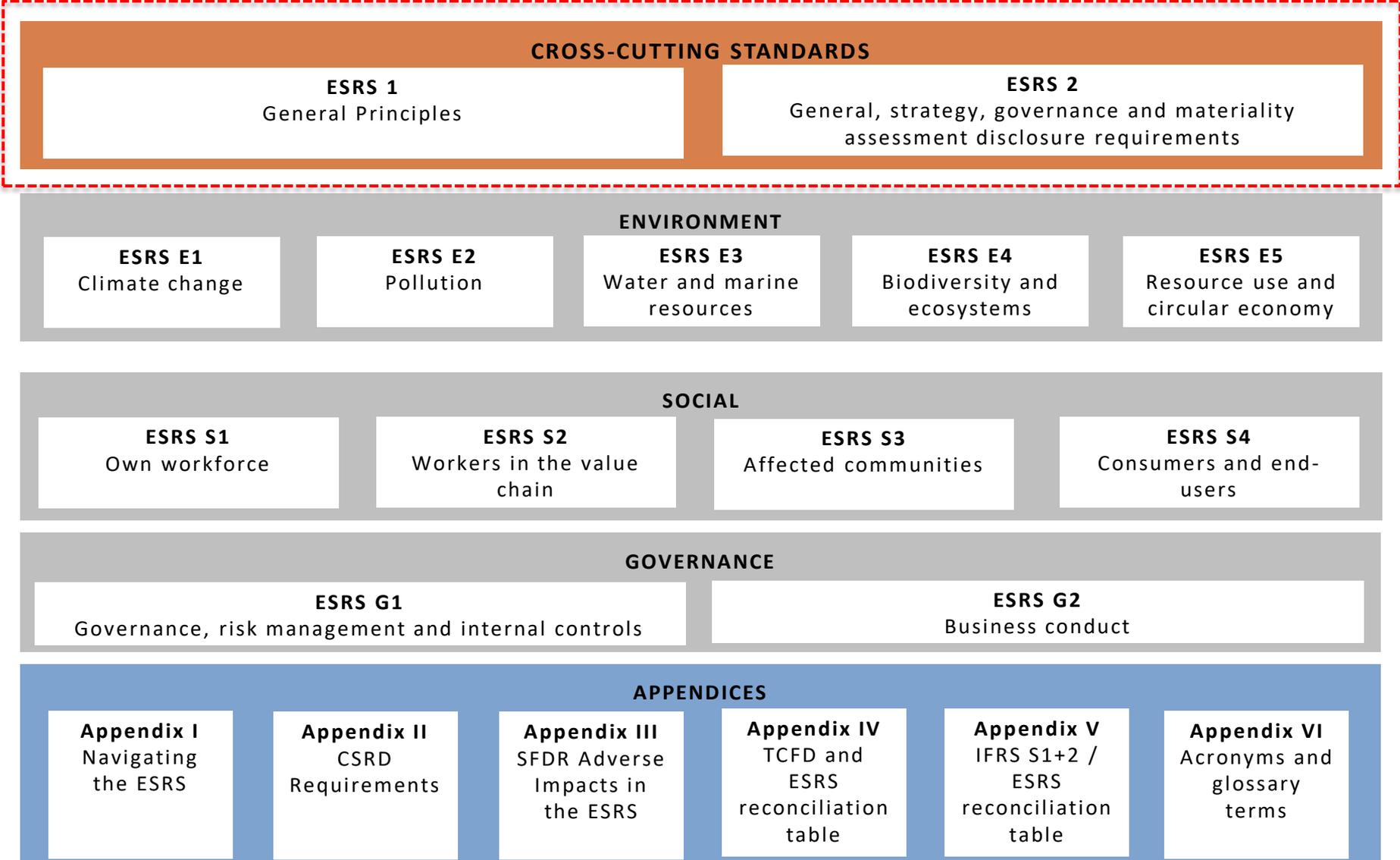
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European Financial Reporting Advisory Group



ESRS 1 in the overall ESRS structure





Cross-cutting: ESRS 1 General principles

Chapter 1 Reporting under ESRS: implementation of the “rules of three”

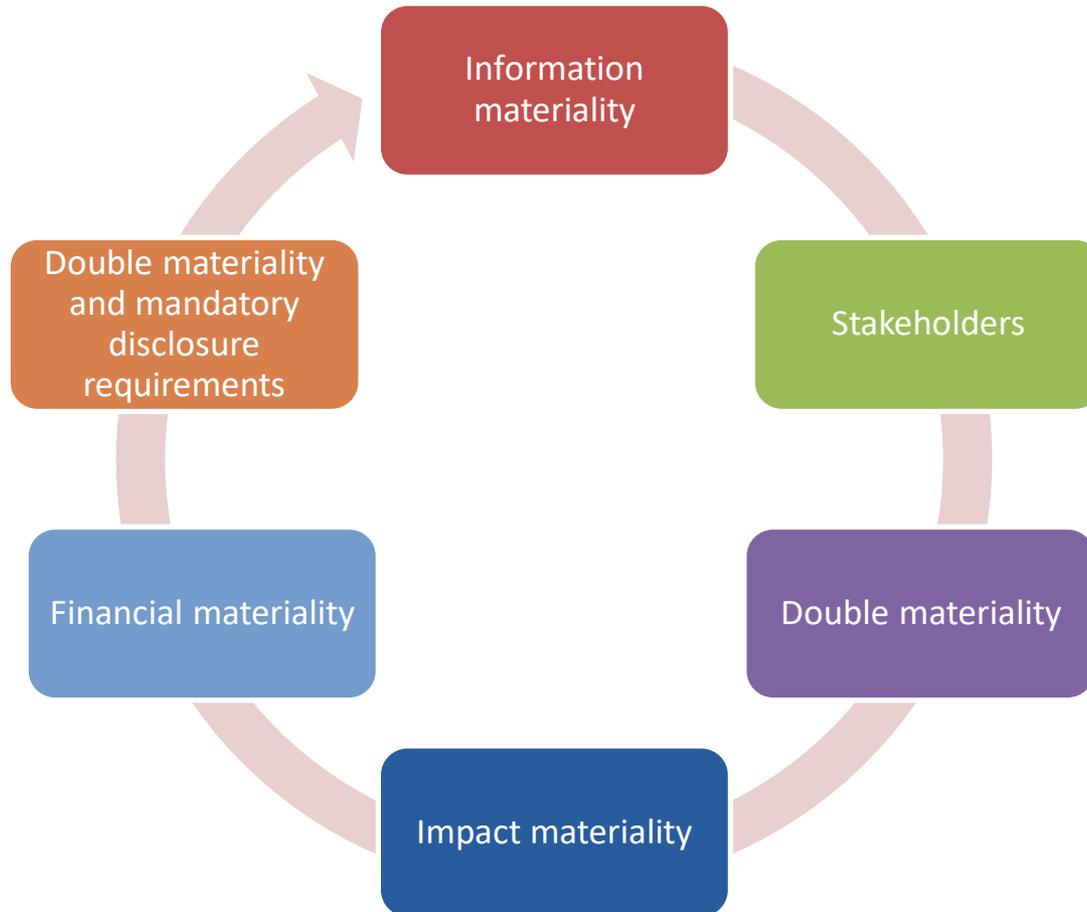
(*CSRD information quality*) **High degree of comparability** across undertakings: standardized **sector-agnostic (and sector specific) disclosure requirements are mandated** for all undertakings

1	Reporting under European Sustainability Reporting Standards (ESRS)	1.1	Complying with ESRS
		1.2	Standardised and entity-specific disclosures
		1.3	Sector-agnostic and sector-specific standards
		1.4	Relationship between cross-cutting standards and topical standards
		1.5	Developing entity-specific disclosures

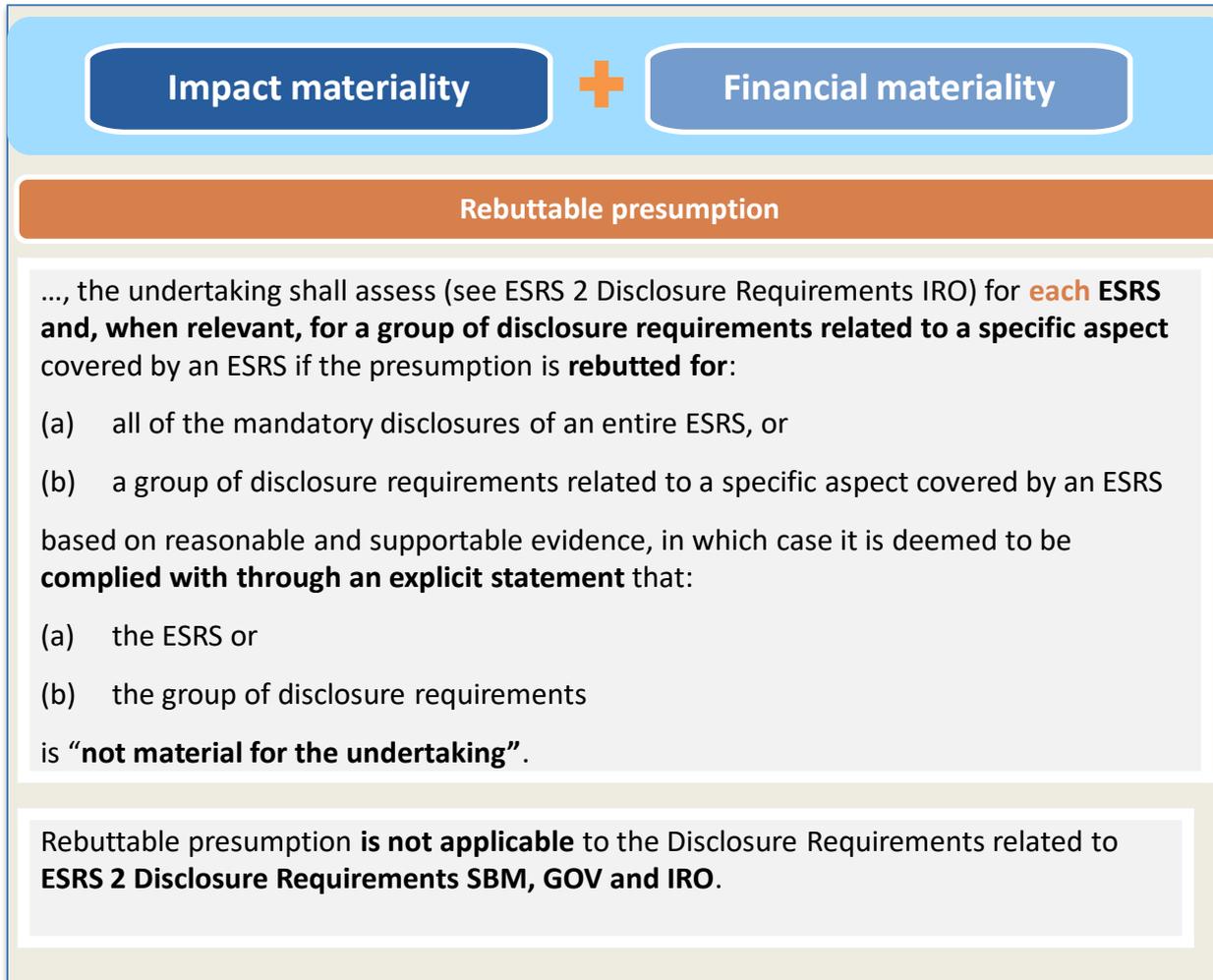
Chapter 2 Applying CSRD concepts: CSRD concepts as « Bedrock » of ESRS

2	Applying CSRD concepts	2.1	Characteristics of information quality
		2.2	Double materiality as the basis for sustainability disclosures
		2.3	Boundaries and value chain
		2.4	Time horizon
		2.5	Due diligence under CSRD

Chapter 2 Applying CSRD concepts: Double materiality as the basis for sustainability disclosures



ESRS 1 – Key concepts: Double materiality and the possibility of rebutting the presumption of materiality



- No additional costs expected compared to assessing materiality without a list of requirements - in both cases judgement and evidence are required
- Having a predefined list supports comparability
- Having to rebut the presumption mitigates the risk of loss of relevant information

Chapter 2 Applying CSRD concepts: 2.2 Double materiality: From mandated DR to information material for the undertaking

Universe of sector-agnostic and sector-specific **mandated** disclosure requirements

-

Rebuttable presumption (at level of ESRS or group of DR)

-

Individual **disclosure requirement**/datapoint that **is below materiality criteria/thresholds** and that is not part of an ESRS (or a group) for which the presumption has been rebutted **may be omitted** and therefore considered implicitly disclosed as “not material”

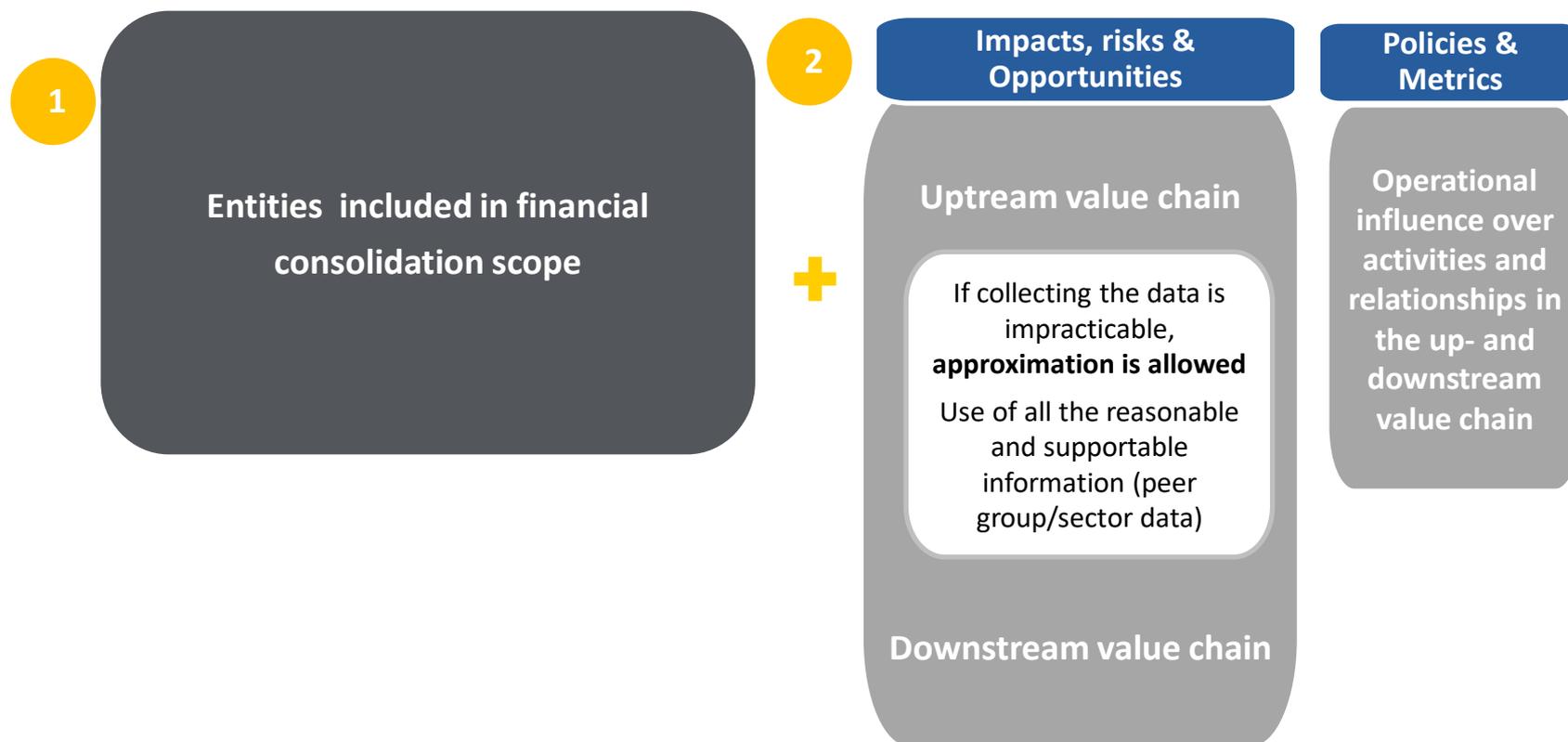
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Entity specific disclosures

=

Material disclosure requirements for the undertaking

ESRS 1 – Key concepts: Boundaries and value chain: Consolidation scope plus up- and down-stream

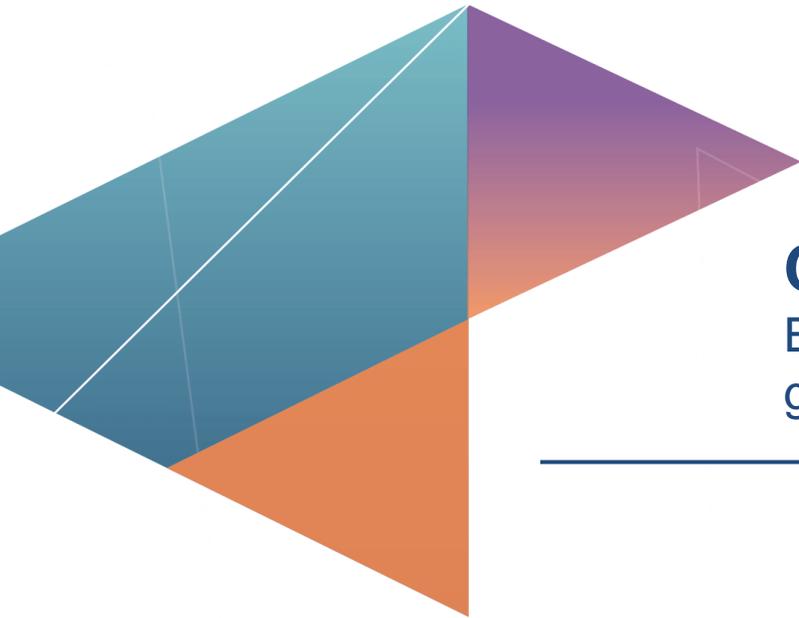


Not all the data need to include value chain information: “Risk-based” approach and link to materiality. The boundary has to be expanded when the integration is necessary to allow a proper understanding of material impacts, risks and opportunities and to produce a set of complete information that meets the qualitative characteristics of information quality.

Chapter 6 - Structure of sustainability statements: Three presentation options give flexibility. Incorporation by reference to other sections of MR

<p style="font-size: 2em; margin: 0;">6</p> <p style="margin: 0;">Structure of the sustainability statements</p>	<p>Content of the sustainability statements</p>
	<p>6.1</p> <p>Undertaking <u>shall</u> report all the applicable disclosures required by ESRS within identifiable parts of the management report constituting the ‘Sustainability Statements’.</p> <p>Undertaking <u>may</u> include in its sustainability statements additional disclosures clearly identified and referenced to local legislation or general accepted framework.</p>
	<p>Structure of the sustainability statements</p>
	<p>6.2</p> <p>Options:</p> <ul style="list-style-type: none"> a) <u>Single separately identifiable section</u> of the management report b) <u>Aggregating the disclosures into four separately identifiable parts</u> of the management report: i) general information; ii) environmental information; iii) social information; and iv) governance information c) <u>Aggregating the disclosures required by each ESRS</u> and reporting them as non-separable blocks in identifiable parts of the management report “on a standard-by-standard basis”

Par. 135/146 and AG 33 of ESRS 1: information mandated by ESRS may be incorporated by reference to another section of the MR (if separate, clearly identified as addressing the relevant ESRS disclosure requirement). A list of incorporation by references is required. Incorporation by reference to the financial statements is also allowed.



Cross-cutting:
ESRS 2 General, strategy,
governance and materiality assessment

Overview of ESRS 2

22 Disclosure requirements

Provides DRs for principles laid out in ESRS 1

Not subject to "rebuttable presumption" =
fully mandatory

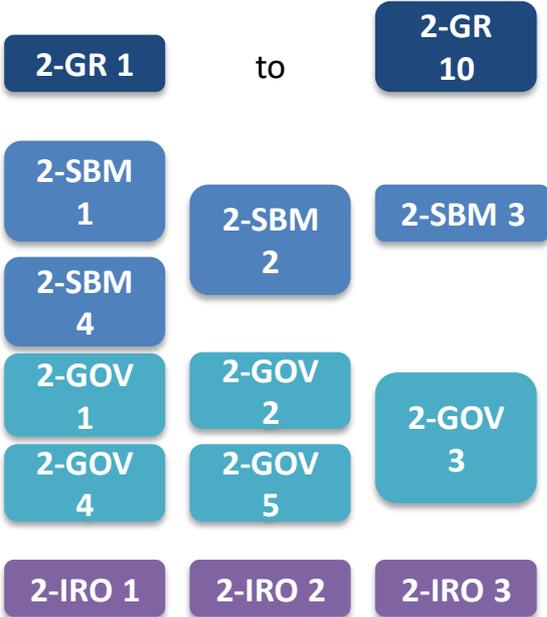
Cross-cutting
= provides context for all topical DRs

1st step in sustainability reporting in line with ESRS:
MATERIALITY ASSESSMENT

Objective and Overview: Objective of ESRS 2

To set out the disclosure requirements of the undertaking’s sustainability reporting that are of a cross-cutting nature. They are those:

- A. of a general nature
- B. on the strategy and business model of the undertaking
- C. on its governance in relation to sustainability
- D. on its materiality assessment of sustainability impacts, risks and opportunities



Objective and Overview: Disclosure Requirements of ESRS 2 (I/II)

GENERAL CHARACTERISTICS

DR 2-GR1: **General characteristics** of the sustainability reporting of the undertaking

DR 2-GR2: **Sector(s) of activity**

ISSB

SFDR

DR 2-GR3: **Key features** of the value chain

ISSB

TCFD

DR 2-GR4: **Key drivers** of the value creation

ISSB

DR 2-GR5: **Using approximations** on the disclosure in relation to boundary and value chain

DR 2-GR6: Disclosing on significant **estimation uncertainty**

ISSB

DR 2-GR7: **Changes** in preparation and presentation

ISSB

DR 2-GR8: Prior period **errors**

ISSB

DR 2-GR9: On other sustainability reporting **pronouncements**

ISSB

DR 2-GR10: General **statement of compliance**

ISSB

STRATEGY & BUSINESS MODEL

DR 2-SBM1: **Overview** of strategy and business model

ISSB

CSRD

DR 2-SBM2: Views, interests and expectations of **stakeholders**

ISSB

CSRD

DR 2-SBM3: **Interaction of impacts and the undertaking's Strategy** and business model

ISSB

CSRD

DR 2-SBM4: **Interaction of risks and opportunities and the undertaking's strategy** and business model

TCFD

CSRD

ISSB

Objective and Overview: Disclosure Requirements of ESRS 2 (II/II)

GOVERNANCE

DR 2-GOV1: Roles and responsibilities of the administrative, management and supervisory bodies	TCFD	ISSB	CSRD
DR 2-GOV2: Information of administrative, management and supervisory bodies about sustainability matters	TCFD	ISSB	
DR 2-GOV3: Sustainability matters addressed by the undertaking's administrative, management and supervisory bodies		ISSB	
DR 2-GOV4: Integration of sustainability strategies and Performance in incentive schemes	TCFD	ISSB	
DR 2-GOV5: Statement on due diligence		ISSB	SFDR

IMPACTS, RISKS & OPPORTUNITIES

DR 2-IRO1: Description of the processes to identify material sustainability impacts, risks and opportunities	ISSB	CSRD	TCFD
DR 2-IRO2: Outcome of the undertaking's assessment of material sustainability impacts, risks and opportunities as identified by reference to and in compliance with sector-agnostic and sector-specific level ESRS	SFDR	ISSB	CSRD
DR 2-IRO3: Outcome of the undertaking's assessment of material sustainability impacts, risks and opportunities that are not covered by an ESRS (entity-specific level)	SFDR	ISSB	CSRD
			TCFD

Focus on DR – GOV 5: Statement on due diligence

DR related to Governance in ESRS 2



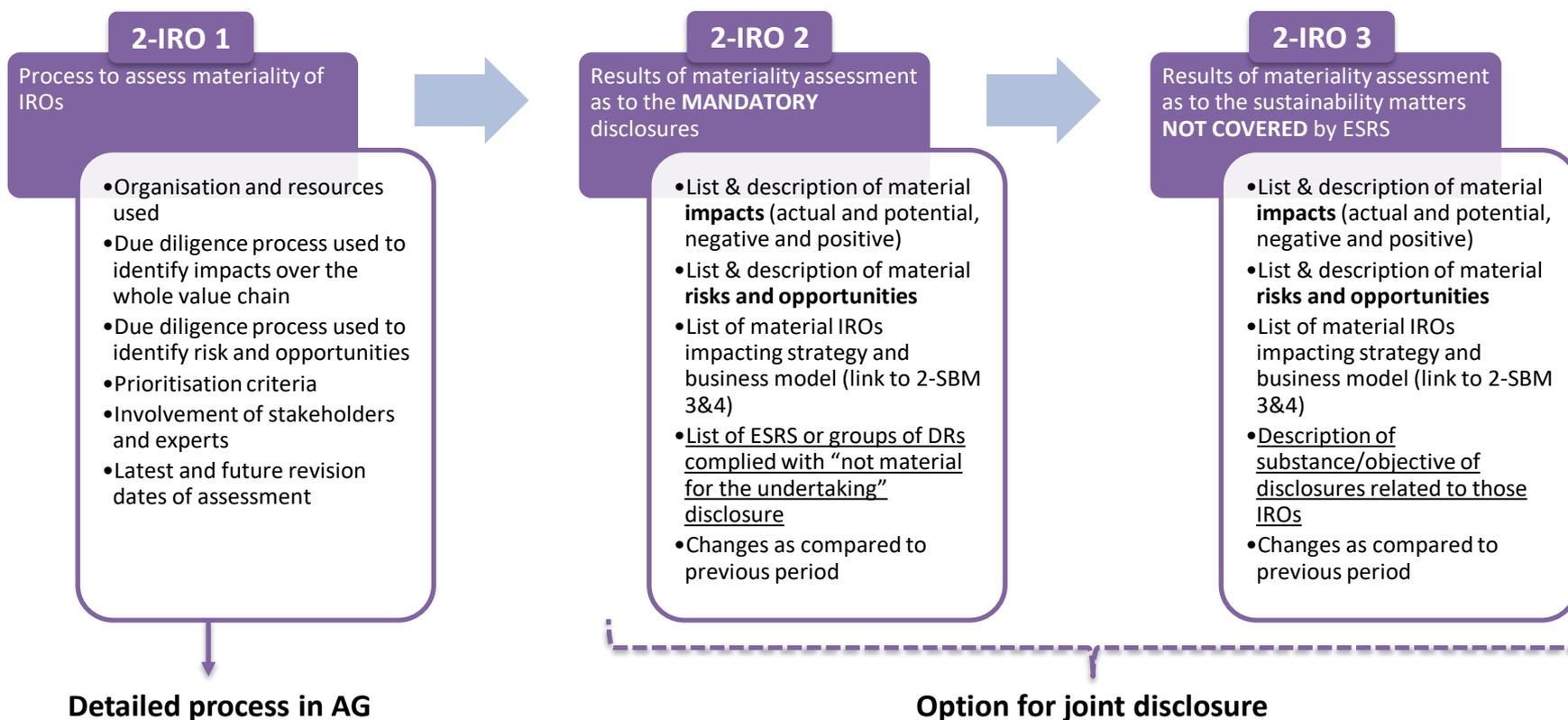
DR 2- GOV 5: Statement on due diligence

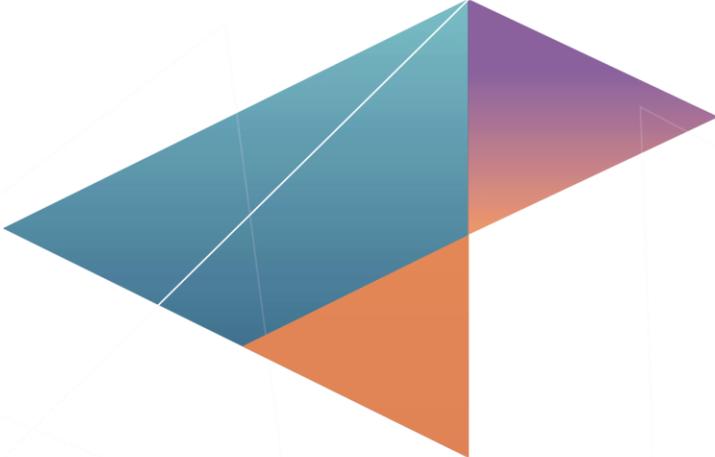
The undertaking shall provide a mapping that reconciles the main aspects of sustainability due diligence to the relevant disclosures in its sustainability statements

Main aspect of sustainability due diligence	Relevant disclosures
• Embedding due diligence in governance and organizations	
• Engaging with stakeholders	
• Identifying and assessing adverse impacts	
• Taking action	
• Tracking effectiveness and communicating	

Focus on DR – IRO1, 2 and 3

DRs related to Materiality assessment impacts, risks and opportunities in ESRS 2





Polling questions to the audience

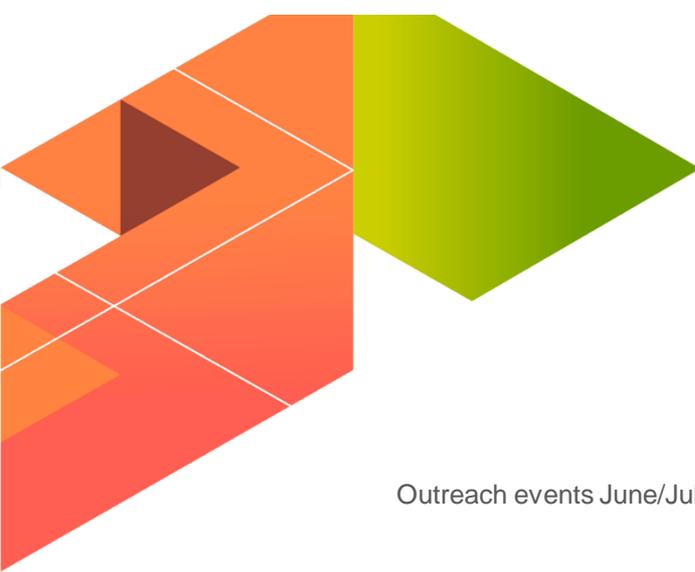
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Plenary feedback from break-out sessions

- Environment: Olga Smirnova (RJ WG/Heineken)
- Social: Rutger Goedhart (EFRAG)
- Governance: Eva Eijkelenboom (RJ WG/VNO-NCW)

Key take aways

- Simon Braaksma (SRB/RJ WG/Philips)
- Rutger Goedhart (EFRAG)
- Eva Eijkelenboom (RJ WG/VNO-NCW)

Thank you for your participation

