

EUROPEAN SUSTAINABILITY REPORTING STANDARDS: A COMMON LANGUAGE TO ENABLE A GREEN AND JUST TRANSITION

MARIA ALEXIOU

CHAIR CSR HELLAS; MEMBER OF THE BOD CSR EUROPE, MEMBER OF
EFRAG PTF FOR SMES



EUROPEAN SUSTAINABILITY REPORTING STANDARDS: ENABLING A GREEN + JUST TRANSITION

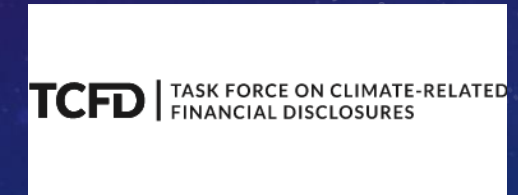
- No One size Fits all

BUT

- One and Common Language is required for ALL



EUROPEAN SUSTAINABILITY REPORTING STANDARDS: ENABLING A GREEN + JUST TRANSITION



12.6 Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle



EU AGENDA : TOWARDS A JUST (GREEN) TRANSITION



12.7 Promote Sustainable Public Procurement Practices

Ability to perform effective due diligence (CS3D) is enhanced by access to data on supply chain companies & sector (CSRD)



Annual reporting (CSRD) considered more accurate & reflecting real action due to obligation to conduct due diligence (CS3D)

EU AGENDA : TOWARDS A JUST (GREEN) TRANSITION

➤ The EU standards include all sustainability issues under a double materiality perspective

➤ They are Global and not only European (inter-operability with GRI and IFRS) and mandatory under the CSRD

➤ CSRD & ESRS will also apply to certain NON-EU companies

EUROPEAN SUSTAINABILITY REPORTING STANDARDS (ESRS)

The ESRS are part of the Corporate Sustainability Reporting Directive (CSRD). The CSRD will legally require companies to report in compliance with ESRS. ESRS is a multi-stakeholder framework, which requires disclosures against 11 ESG topical areas. Significantly for materiality, the standard requires reporting on the processes to identify material impacts, and the outcome of its materiality assessment. Digital data will be an important part to this requirement, with sustainability data categorised and tagged. The standard is cross sectoral, with a high volume of disclosures required.

Definition of materiality:
Materiality is about assessing significance. Materiality assessment should investigate whether disclosure on a sustainability topic adds 'decision-useful' value for the reader, considering the material impact on people and planet, and financial value, or both.

KEY FEATURES:

- REPORTING SCOPE: DOES THE STANDARD HAVE SCOPE & MATERIAL TOPICS?**
Pre-defined material topics.
- IMPLEMENTATION DATE:**
Expected FY 2024.
- TYPE OF MATERIALITY: DOES THE STANDARD DEFINE MATERIALITY AS SINGLE, DOUBLE OR BOTH?**
Double materiality.
- REPORTING OBLIGATION: WHO HAS TO REPORT?**
Mandatory for large companies operating in Europe.
- ASSURANCE REQUIRED:**
Limited assurance is mandatory.
- WHAT REPORTS OR ARE THERE ANY MANDATORY TOPIC AREAS?**
11 topic areas across ESG standards.

ALIGNMENT WITH OTHER STANDARDS:
TCFD, GRI, CSRD

EU AGENDA : TOWARDS A JUST (GREEN) TRANSITION

	WITH NFRD	WITH CSRD / ESRS
PURPOSE	First attempt to understand how companies introduce polices to take into account	Broader purpose <ul style="list-style-type: none"> ➤ Modernize & strengthen existing rules on social & environmental disclosures)
SCOPE	Focus on large public-interest companies with more than 500 employees (approx. 12.000)	Larger scope <ul style="list-style-type: none"> ➤ Extends the scope to ALL large companies and all companies listed on regulated markets, approx. 60.000)
MATERIALITY	Focus on the financial impacts of the companies in scope	Double materiality <ul style="list-style-type: none"> ➤ Focus on IROS related company operations, products and services and also its value chain
STAKEHOLDERS	Focus on making this information available for investors to make informed decisions	Broader stakeholder audience <ul style="list-style-type: none"> ➤ Investors, customers and consumers, employees policymakers, civil society organizations, and other stakeholders.
COMPARABILITY & GUIDANCE	Gave companies flexibility to disclose relevant information in the way that they consider most useful, or in a separate report	ESRS & Data tagging <ul style="list-style-type: none"> ➤ Formal role for standard setting body (EFRAG) and legal requirement or machine readability of reports
SUPERVISION / VALIDATION	No centralized data base of verification mechanism	Assurance <ul style="list-style-type: none"> ➤ Mandates all reports have assurance from third part external audit

EUROPEAN SUSTAINABILITY REPORTING STANDARDS: A COMMON LANGUAGE FOR ALL



- 1ST TIME **sustainability and financial reporting** are placed on an **equal footing** (*close link with financial materiality*)
- Movement beyond compliance: **forward-looking approach** to sustainability strategy definition, focus on internal processes and management oversight,

EUROPEAN SUSTAINABILITY REPORTING STANDARDS: A COMMON LANGUAGE FOR ALL



✓ **WBA analysis finds that ESRS, if fully implemented, are either aligned with or will raise the bar of current international standards used by WBA to assess corporate performance.**

✓ **We expect these ESRS to have a significantly positive impact on the level of corporate information available to investors, relevant stakeholders, companies, public authorities, governments and supervisors.**



EUROPEAN SUSTAINABILITY REPORTING STANDARDS: A COMMON LANGUAGE FOR ALL

01

Environmental



Conservation of the natural world:

- Carbon emissions
- Product carbon footprint
- Climate change vulnerability
- Water stress
- Biodiversity & land use
- Packaging material & waste
- Toxic emissions & waste
- Raw material sourcing
- Opportunities in clean tech

02

Social



Consideration of people and relationships across value chain:

- Labour management
- Human capital development
- Health & safety
- Supply chain labour standards
- Product safety & quality
- Chemical safety
- Consumer financial protection
- Community relations
- Privacy & data security

03

Governance



Standards and principles for running an organization:

- Governance
- Ownership & control
- Board
- Pay
- Accounting
- Business ethics
- Tax transparency

EUROPEAN SUSTAINABILITY REPORTING STANDARDS: A COMMON LANGUAGE FOR ALL

- **Regulatory:**

- Governments and corporations are increasingly paying attention to ESG, with ESG industry standards and regulations growing from about 100 in 2010 to more than 400 today

- **Physical:**

- Extreme weather events (draughts, floods, hail, wildfires etc.) are becoming ever more frequent and intense
- In 2019 we saw the first climate change related bankruptcy¹

- **Reputational:**

- Consumers are more aware of societal needs, turning to greener and more ethical products and companies

- **Financial:**

- With investors and customers alike focusing on ESG investments & products, lagging firms could get hit financially



Risks

Opportunities

- **Financial:**

- Over \$100 trillion of financing estimated to affect the transition to net zero over the coming three decades – more capital available
- More sustainable firms tend to have better financial returns – firms that improved on *material* sustainability issues significantly outperformed their competitors
- Sustainable products and services
- Reduced resource consumption = lower cost

- **Employee engagement:**

- It has been shown that employee engagement and sense of purpose increases with stronger performance

- **Customer loyalty:**

- Brand recognition, customer (and shareholder) satisfaction & loyalty are also linked to sustainability standards

- **Long-term plans and “more good”**

- Focusing on both short and long term impacts and taking measures to mitigate risks but also increase the ability to create and share value, differentiate and grow

ESRS SET 1

EC DA July 2023

ESRS LSME

All VSME modules + datapoints due to value chain cap
(and adjustments due to the consolidated view in VSME vs individual view in LSME)

**ESRS
Building
blocks**

ESRS VSME

**Basic
Metrics
module**

For all SMEs: Metrics module as the basis of VSME. All undertakings reporting have to complete the metrics module. Then the undertaking can additionally apply the two modules

**Business
Partners/
SF module**

Additional: For undertakings that want to report on EU Sustainable Finance datapoints to serve the lenders and investors (Materiality assessment needed)

**PAT
module**

Additional: For undertakings that have Policies, Actions, or Targets to report on (Materiality assessment needed)

EUROPEAN SUSTAINABILITY REPORTING STANDARDS: A COMMON LANGUAGE FOR ALL



- **Basic module:** entry level for non listed SMEs and has a highly simplified language. Ideally the company has to produce without any accountant. No materiality. This module is the target approach for micro-SMEs). **Materiality analysis is NOT required.**



- **Business Partners/SF Module:** Additional datapoints suggested to undertakings that receive data requests from banks [and corporates that are counterparties in the value chain]). **Materiality analysis is required.**



- **PAT module (Policies, Actions and Targets module):** General Disclosures in relation to Policies, Actions and Targets (PAT) if the undertaking has them in place. (This module is suggested to undertakings that have PAT). **Materiality analysis is required.**

EUROPEAN SUSTAINABILITY REPORTING STANDARDS: A COMMON LANGUAGE FOR ALL

«BASIC»

Entry level for non listed SMEs

Target for micro-undertakings

Highly simplified language

[8] metrics DRs

- Simplification: all required (no omissions)
BUT whenever it is appropriate the language is 'IF APPLICABLE'

«BUSINESS PARTERNS/SF»

When SME are required to face questionnaires by banks

Sustainable Finance datapoints

- Table 1 SFDR, Pillar 3, Benchmark regulation
- Same approach as in Set 1 ('not material for the undertaking')

«POLICY-ACTION-TARGET» (PAT)

Small and Medium undertakings that have already PAT in place and to report

Simplified language (including for materiality) List of material matters (out of AR 16) Narrative info on Policies and Actions in place and, if applicable, Targets

EUROPEAN SUSTAINABILITY REPORTING STANDARDS: A COMMON LANGUAGE TO ENABLE A JUST + GREEN TRANSITION FOR ALL



VSME is a stand alone Voluntary Standard for SMEs that aims to **support micro-, small- and medium-sized companies** in:

- Contributing to a **more sustainable and inclusive economy**;
- **Improving management** of the sustainability related risks and opportunities (i.e. pollution, workforce health and safety and by doing this support their competitive growth and enhance their resilience in the short- medium- and long-term;
- Satisfying the data demand from lenders/credit providers and investors, therefore helping in their **access to finance**;
- Responding to increasing demands for information by customers and/or suppliers

