

Corporate Reporting

WP/ CPA Prof. Dr. Sven Hayn

BCCG Sustainability Expert Group Meeting
October 25, 2023



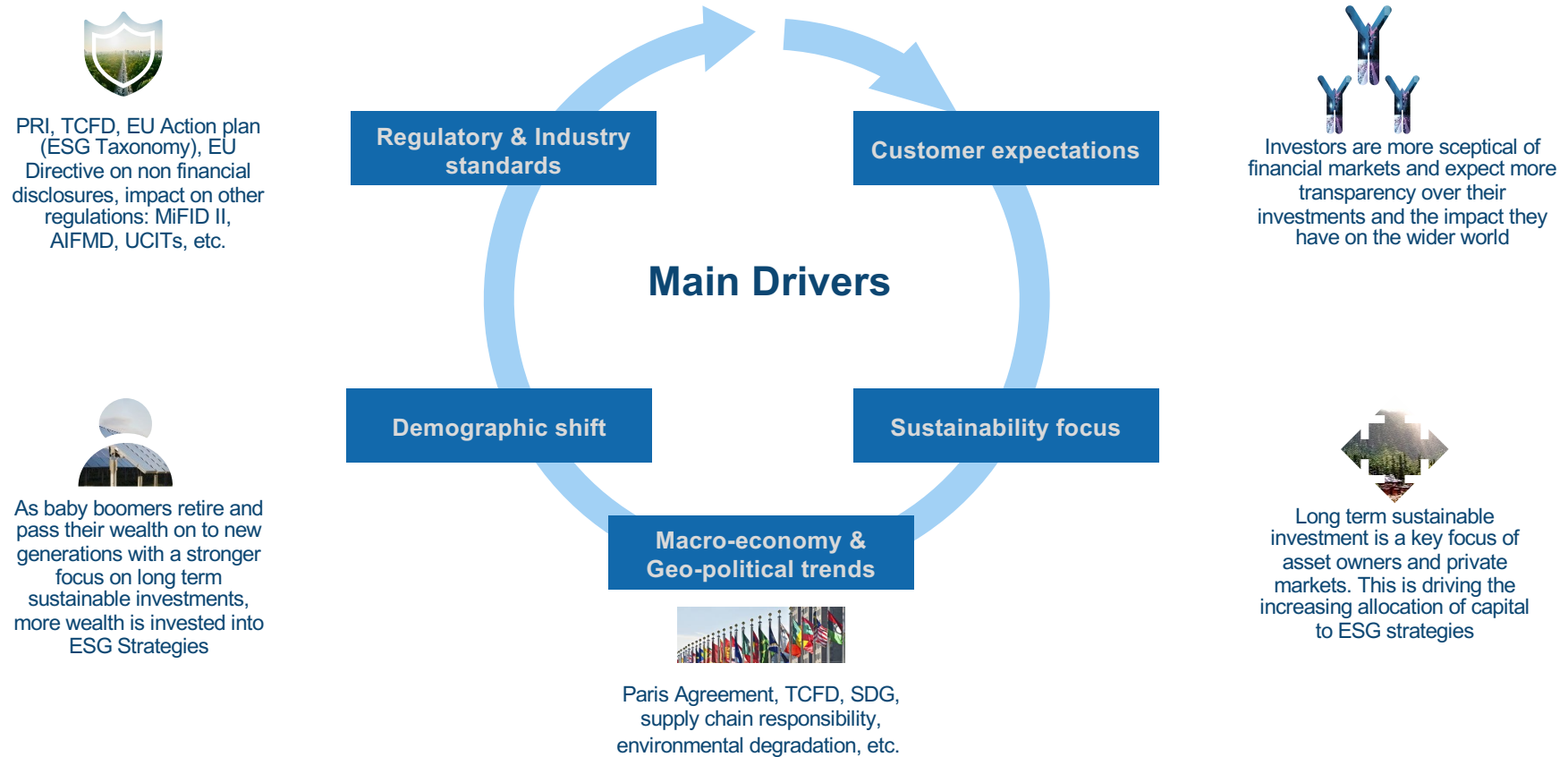
Universität Hamburg

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Topics to cover today

- From Financial to Corporate Reporting
- Sustainability (Reporting) Landscape – BIG 2+1
- Responsibilities

Beyond financial reporting ... Where are we coming from?



Corporate Reporting

Financial Reporting + ESG Reporting =
Corporate Reporting

“

Accounting is
the language of business



“

Corporate Reporting is
the license to operate



IFRS Foundation | Developments

Alliances and Consolidation

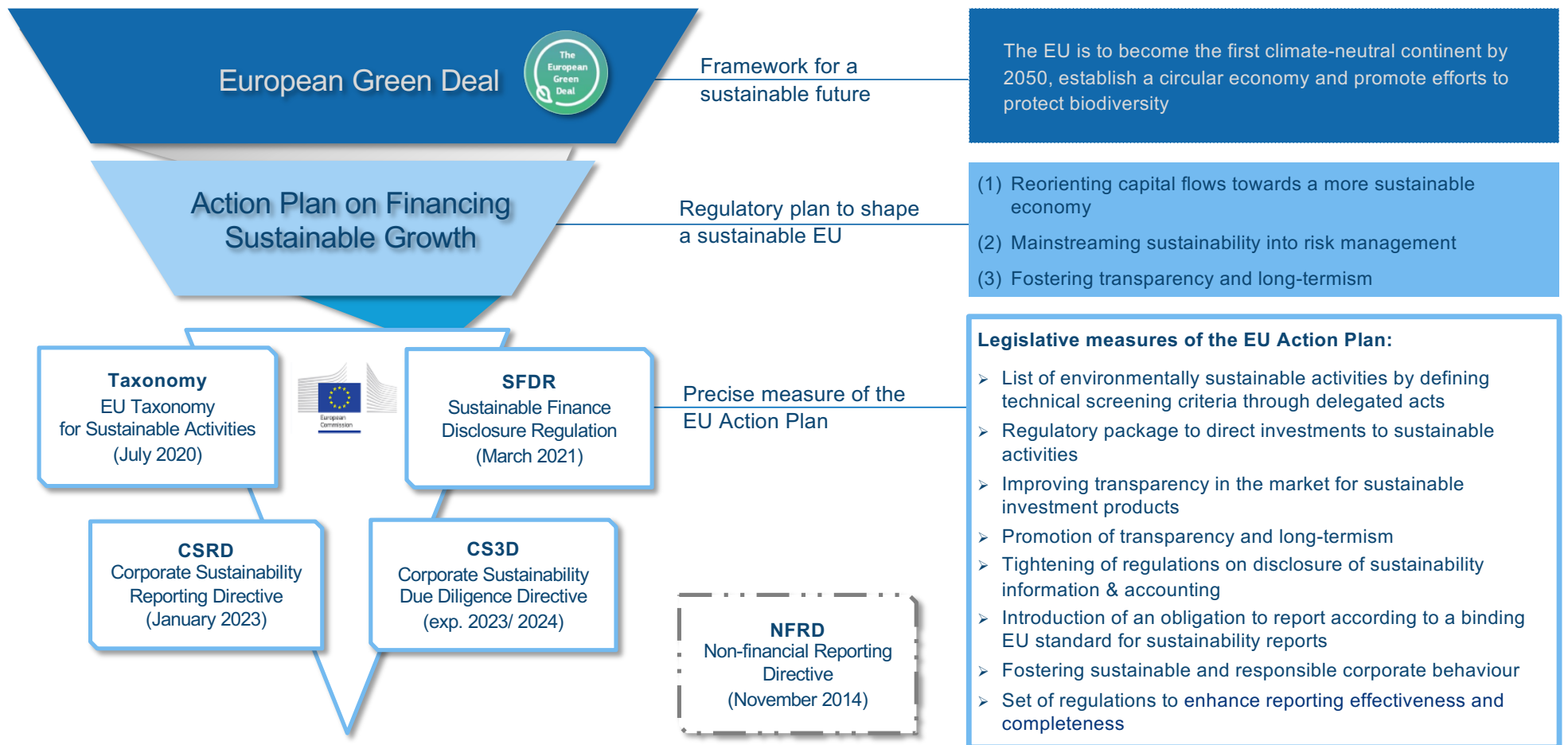
2023		2024	
	IFRS S1 and IFRS S2 available		IFRS S1 and IFRS S2 available*
	Apply to advance industry-based disclosure		Required to consider for IFRS S1 application, in absence of IFRS Sustainability Disclosure Standard
	Apply to structure disclosure and for cross-industry climate disclosure		Optional guidance, in absence of IFRS Sustainability Disclosure Standard
	Use to guide disclosure on biodiversity and water		Use to support connectivity between IFRS S1 and IFRS Accounting Standards or other GAAP
	Use to understand connection between sustainability and financial value creation	<i>*Incorporates TCFD</i>	

- IOSCO July 2023 endorsement of the ISSB Standards for sustainability-related disclosures
- Support of several key stakeholders including the G7, the G20, the Financial Stability Board, African Finance Ministers, as well as from the Finance Ministers and Central Bank Governors of more than over 40 jurisdictions
- International Auditing and Assurance Standards Board (IAASB): Proposed new standard for Sustainability Assurance (General Requirements for Sustainability Assurance Engagements – ISSA 5000)

Sources: IFRS Foundation | IAASB

EU Sustainability Reporting | Evolving regulations

Measures within the EU Green Deal



(1) EU Taxonomy for Sustainable Activities

Overarching conditions and environmental objectives

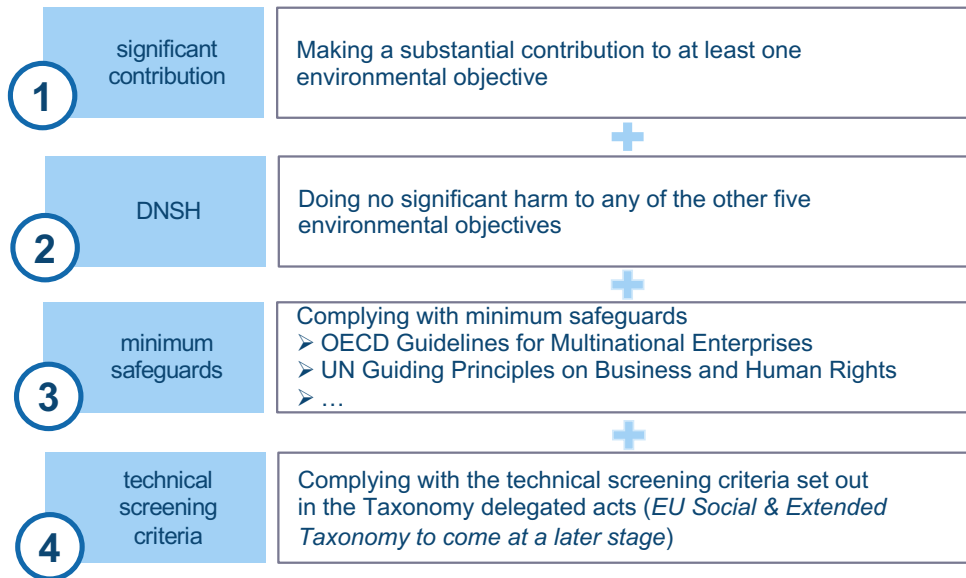


Background

The EU Taxonomy was developed by the EU Technical Expert Group (TEG) and defines sustainable economic activities and selection criteria (technical screening criteria)

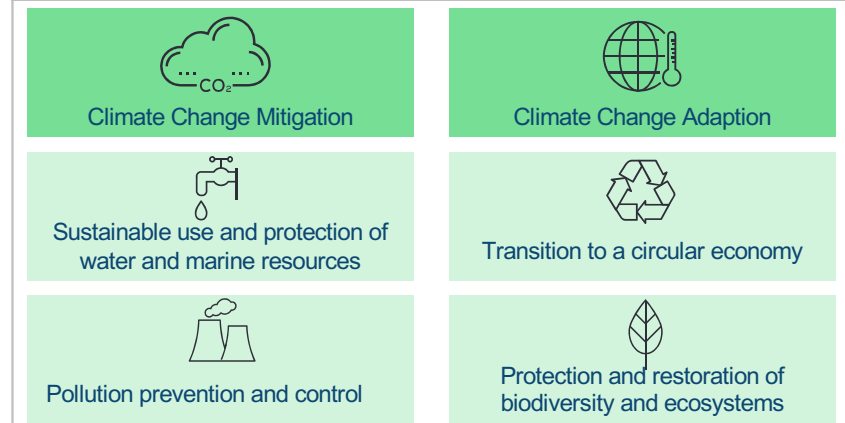
four overarching conditions

Classification as **sustainable and economic activity**:



Objective: Establishing a uniform EU-wide classification system, increasing transparency with regard to sustainability in companies and counteracting/preventing greenwashing

six environmental objectives



(Mandatory) Users



Financial market participants or issuers of financial products in the EU

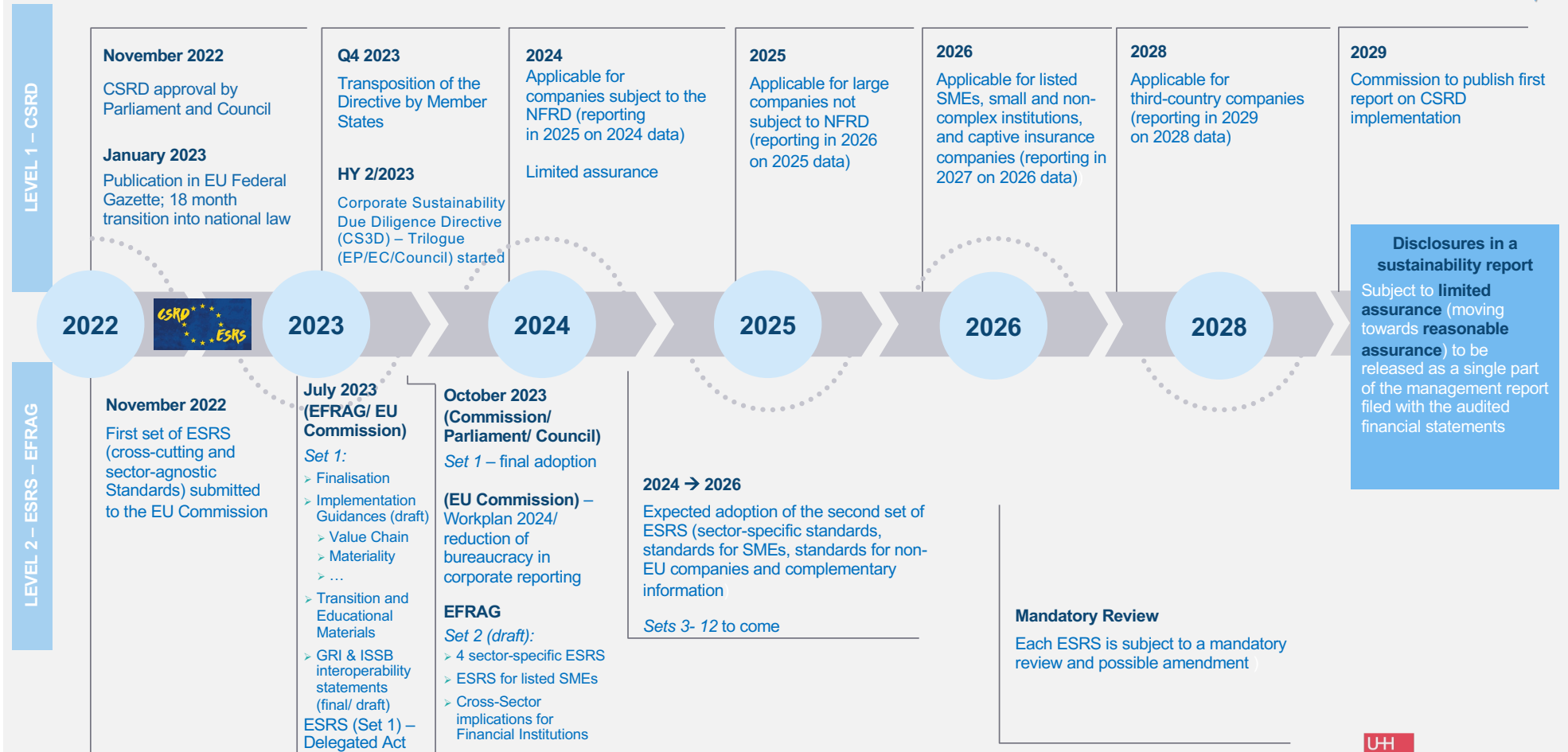


Large companies with more than 500 employees in scope of the EU Non-Financial Reporting Directive (NFRD)



EU and member states when adopting public measures or standards for green financial products or green bonds

EU Sustainability Reporting CSRD and ESRS | timeline



Reducing the administrative burden of reporting requirements



- 15 March URSULA VON DER LEYEN publicly advocates a 25% **reduction in reporting requirements**
- 21 March MAIREAD MCGUINNESS calls for the **prioritization of application guidance** for the first set of ESRS (this consequently goes along a postponement of the work and consultation on the sector-specific standards)
- 27 June The European Commission issues **the Delegated Legal Acts of the EU Taxonomy** (technical assessment criteria for the environmental goals 3-6, adapted reporting forms for the reporting obligations according to Art. 8, adaptation of the Climate Legal Act)
- 31 July European Commission **issues first set of ESRS for publication**; scrutiny period for EU Parliament and Council starts
- 17 October European Commission releases its **2024 Work Programme** “Delivering today and preparing for tomorrow” and launches **EU taxonomy stakeholder request mechanism**

Proposals to reduce bureaucracy in corporate reporting | October 17, 2023



The European Commission's work program for 2024 („Delivering today and preparing for tomorrow“) includes the objective of reducing the administrative burden of reporting requirements under EU legislation by 25% across the board, without compromising the policy objectives behind the respective EU legislation

Four measures are intended to support this objective:

- ❖ Accounting Directive (Directive 2013/34/EU): Adjustment of the size criteria for companies by approx. 25 %. For this purpose, a Delegated Act was adopted by the European Commission on October 17, 2023
- ❖ Accounting Directive: Announced postponement of the adoption of sector-specific ESRS
- ❖ Environmental Taxonomy Regulation (Regulation (EU) 2020/852): Announced clarification that taxonomy disclosures on immaterial economic activities do not have to be reported
- ❖ Consultation: Collecting of stakeholder proposals/ feedback which EU rules on corporate reporting should be simplified or removed

EU taxonomy stakeholder request mechanism:

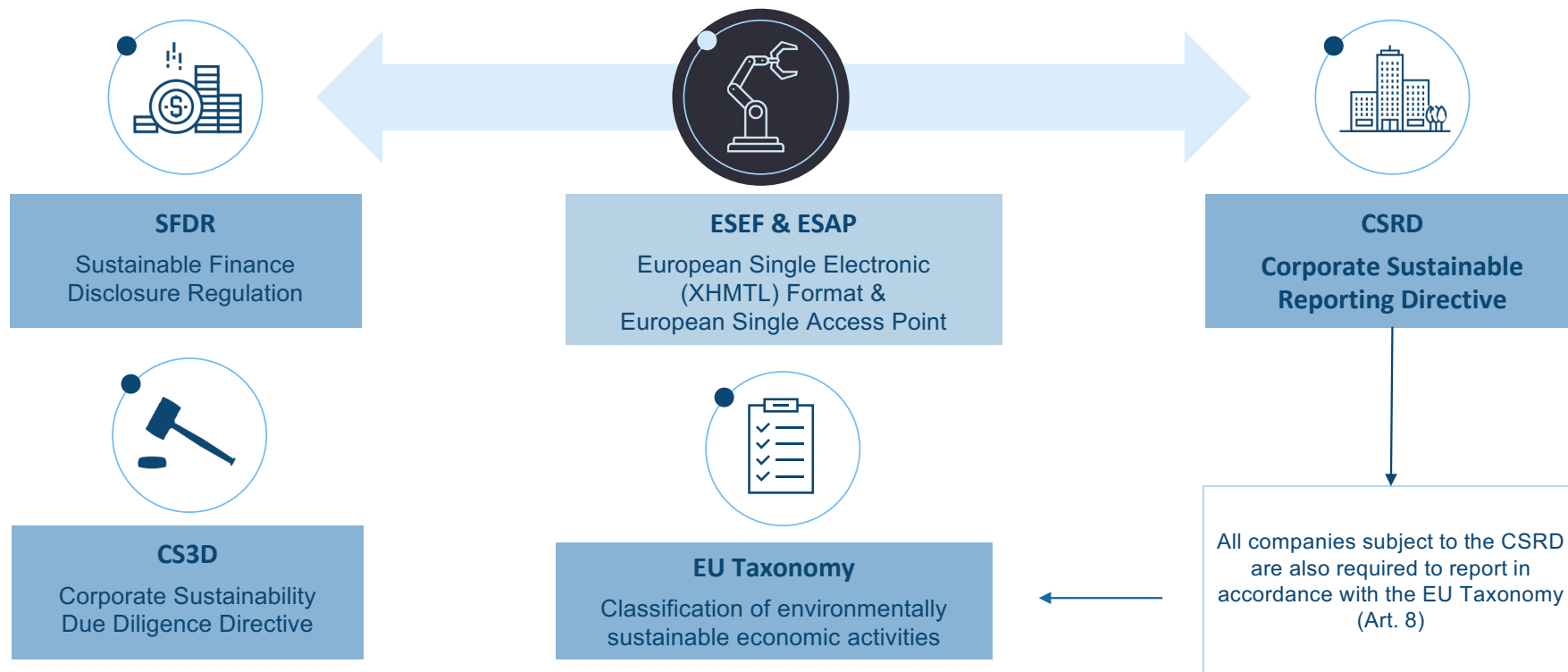
In order to address suggestions from stakeholders regarding activities in the EU taxonomy, the Platform on Sustainable Finance together with the Commission set up the stakeholder request mechanism

EU Sustainability Reporting

Reporting effectiveness and completeness



The CS3D shall be (1) complementary and closely related to other sustainability reporting proposals/ standards AND (2) will **enhance reporting effectiveness and completeness**



The „BIG 2+1“

Standardised Sustainability Disclosure Standards

	EU Commission/ EFRAG	IFRS Foundation	US-SEC
Focus	Multi-Stakeholder approach: (1) affected stakeholders, (2) users of sustainability reporting	Investor	Investor
Coverage	<ul style="list-style-type: none"> • Full ESG • Cross-cutting & industry-agnostic first; industry-specific & SME to follow 	<ul style="list-style-type: none"> • Climate – first • eventually enhanced ESG later; industry-specific via SASB 	<ul style="list-style-type: none"> • Climate – only • industry-agnostic
Scope	<ul style="list-style-type: none"> • Mandatory for entities in scope of CSRD (staggered approach) • NFRD entities first • Non-listed, SME and non-EU companies to follow 	<ul style="list-style-type: none"> • Need for jurisdictional adoption • Support by IOSCO, G7, G20, separate jurisdictions and organisations 	<ul style="list-style-type: none"> • Mandatory for SEC registrants (domestic and foreign) • Issuance of final rules delayed to October 2023 • Original proposal (currently not updated): staggered approach starting with 2023 reporting period for large accelerated filers with transitional relief for GHG scope 3 disclosures and certain exemptions for non-accelerated filers and small reporting companies
Timeline	<ul style="list-style-type: none"> • ESRS (set 1) published in July 2023 with numerous transitional reliefs („phase-in“) • Starting with 2024 reporting period for NFRD entities 	<ul style="list-style-type: none"> • IFRS S1 and S2 issued in June 2023 with transitional reliefs • Initial reporting period: 2024 (IFRS S2) 	
Reporting Standards	<ul style="list-style-type: none"> • 12 ESRS (delegated act) within the CSRD Framework • Authorisation of management report for issuance 	<ul style="list-style-type: none"> • 2 IFRS Sustainability Disclosure Standards (incorporating SASB for industry-specific disclosures) • Global baseline approach (compliance statement) 	<ul style="list-style-type: none"> • 1 disclosure proposal (w/o reference to specific reporting standards) • Authorisation for issuance

The „BIG 2+1“

Standardised Sustainability Disclosure Standards

	EU Commission/ EFRAG	IFRS Foundation	US-SEC
Qualitative characteristics	<ul style="list-style-type: none"> • Relevant • Faithfully represented • Comparable • Verifiable • Understandable 	<ul style="list-style-type: none"> • Relevant • Faithfully represented • Comparable • Verifiable • Timely • Understandable 	General requirements
Frameworks	ESRS and IFRS Sustainability Standards built on existing frameworks		
TCFD	Builds upon TCFD pillar structure ESRS reporting requirements enhance structure and processes of TCFD reporting by (not limited to): (a) double materiality, and (b) disclosures beyond climate-related matters	Disclosure requirements structured around TCFD pillars Compliance table published Some wording differences and IFRS S2 requests for more granular or additional information	n/a
GRI	Closely aligned Interoperability statement to be issued GRI's focus lies on impact materiality	Memorandum of Understanding Global baseline approach to support additional information	n/a
SASB	EFRAG to develop sector-specific standards EFRAG identified some 40 sectors for disclosures (with 4 sectors to start with)	ISSB aims to “internationalise” SASB standards	Currently no sector-specific standards proposed under SEC climate disclosure rules

The „BIG 2+1“

Standardised Sustainability Disclosure Standards

	EU Commission/ EFRAG	IFRS Foundation	US-SEC
Location of disclosures	<ul style="list-style-type: none"> • Separate section in Management Report • Mandatory order of sustainability statements: general, environmental, social and governance information • Limited options for cross-referencing under the condition of: <ul style="list-style-type: none"> • clearly identified as addressing the disclosure requirement from the ESRS • published at the same time • subject to at least the same level of assurance • available with the same technical digitalization requirements • same basis of preparation, scope of consolidation and treatment of value chain information <p>EU Taxonomy disclosures must also be included in the sustainability statements and identified as such</p> <p>Additional disclosures, coming from local legislations and other sustainability reporting frameworks (such as ISSB and GRI), may be included in the sustainability statements, next to ESRS requirements and should be clearly identified and referenced</p>	<ul style="list-style-type: none"> • Flexible, but as part of general-purpose financial reporting • Option to cross-reference under the condition of <ul style="list-style-type: none"> • authorisation by same body as for the information directly included • clear cross-reference to specific part of the location where the information can be found and how to access it • no duplication of information <p>When sustainability information is included in other publications, it needs to be clearly identifiable and not obscured by additional information</p>	<ul style="list-style-type: none"> • Non-financial statement disclosures (MD&A) <ul style="list-style-type: none"> • Separate section for GHG emission disclosures • Other disclosures on identify, assess, manage risks • Certain quantified climate-related risks in new Note to Financial Statement and in scope of ICFR • Incorporation by reference possible (e.g. risk factors)
Issuance	<ul style="list-style-type: none"> • Same time as financial statements • Subject to digital taxonomy 	<ul style="list-style-type: none"> • Generally same time as financial statements (transitional relief) • Digital taxonomy under consideration 	<ul style="list-style-type: none"> • Same time as financial statements • Subject to digital taxonomy

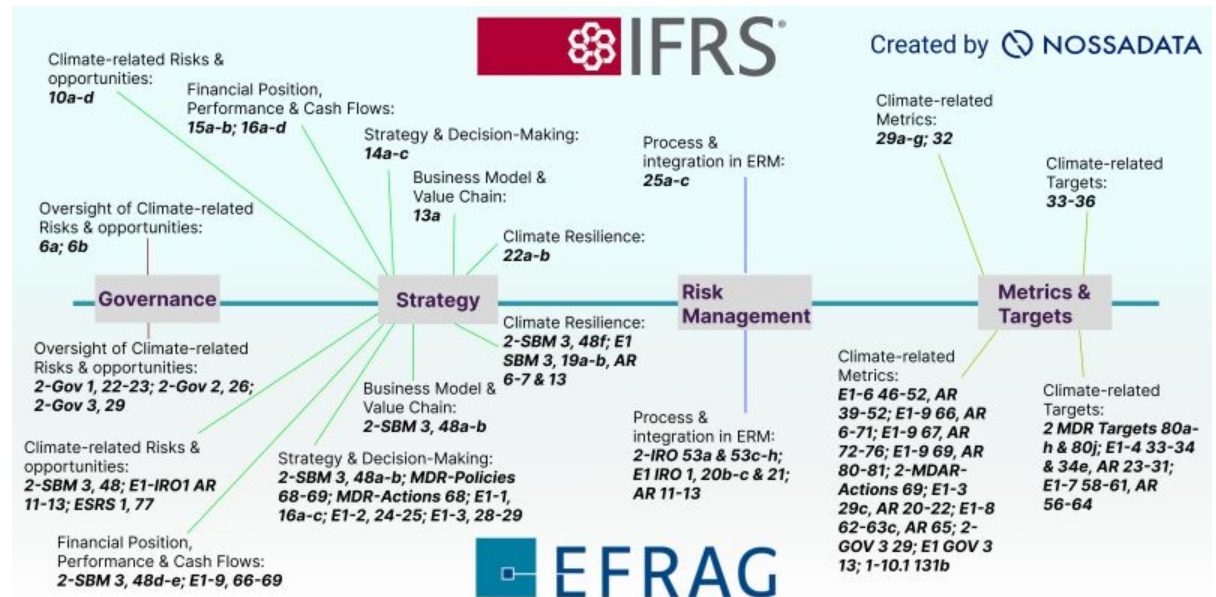
The „BIG 2+1“ Standardised Sustainability Disclosure Standards

	EU Commission/ EFRAG	IFRS Foundation	US-SEC
Report elements	<ul style="list-style-type: none"> • Risks & Opportunities • Metrics & Targets • Due Diligence • Strategy and Governance 	<ul style="list-style-type: none"> • Risks & Opportunities • Metrics & Targets • Strategy and Governance 	<p>The proposed SEC's new climate disclosure rules shall require companies to annually provide certain climate-related information, incl.</p> <ul style="list-style-type: none"> • their governance on climate-related risks, and • how climate risks are identified, assessed, managed, and disclosed
Materiality	<ul style="list-style-type: none"> • Double Materiality (financial and impact materiality) 	<ul style="list-style-type: none"> • Financial Materiality (financial reporting definition) 	<ul style="list-style-type: none"> • Financial Materiality (consistent with Supreme Court's definition)
Audit	<ul style="list-style-type: none"> • Limited assurance • Reasonable assurance (option to move-in) 	<ul style="list-style-type: none"> • n/a 	<ul style="list-style-type: none"> • Financial statement impact metrics and ICFR subject to audit (reasonable assurance) • GHG (Scope 1 & 2) emission disclosures (phased-in assurance)

EFRAG Interoperability

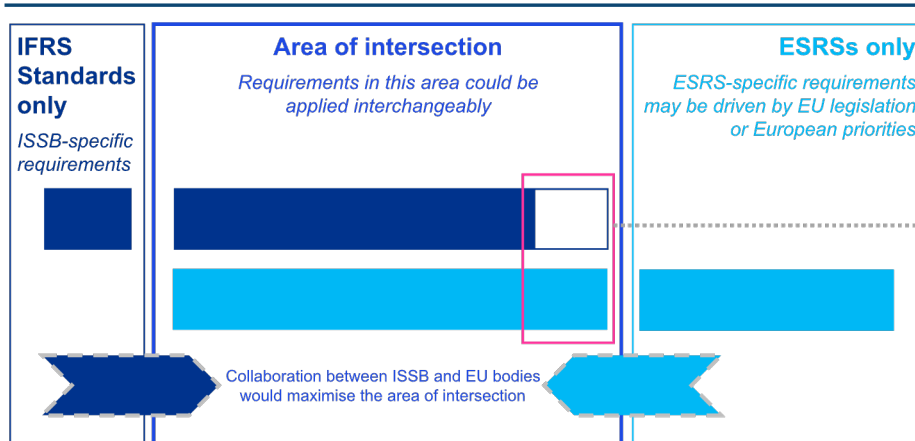
IFRS – ESRS Mapping table: Climate change

IFRS S2	ESRS
Governance: oversight of climate-related risks and opportunities	
\$6 (a) Governance body's identity, responsibilities, skills, oversight of strategy, transaction and targets, remuneration linked to climate performance	2-Gov 1 §22 to §23; 2-GOV 2 §26; 2-GOV 3 §29
\$6 (b) Management's role, controls and procedures	2-Gov 1 §22 (c)
Strategy: strategy for managing climate-related risks and opportunities	
Climate-related risks and opportunities	
\$10 (a) Description, (b) Physical or transition risks, (c)-(d) Time horizons	2-SBM 3 §48 [with exclusion of §48 (c)]; E1-IRO1 AR 11 to AR 13; ESRS 1 §77
Business model and value chain	
\$13 (a) Current and anticipated effects of risks and opportunities on business model and value chain, (b) Where they are concentrated	2-SBM 3 §48 (a) to (b)
Strategy and decision-making	
\$14 (a) Current and anticipated changes in strategy and decision-making (changes to business model, direct and indirect mitigation and adaptation efforts, climate-related transition plan, targets)	2-SBM 3 §48 (b); MDR-Policies §65; MDR-Actions §68; E1-1 §16 (a) to (c); E1-2 §24 to §25; E1-3 §28 to §29
\$14 (b) Current and planned resources of activities in accordance with \$14 (a)	2-MDR-Actions §69; E1-3 §29 (c)
\$14 (c) Progress of plans disclosed in previous reporting periods	2-MDR-Actions §68 (e); E1-1 §16 (i)
Financial position, financial performance and cash flows	
\$15 (a), \$16 (a) Effects of climate-related risks and opportunities on current financial position, performance and cash flows	2-SBM 3 §48 (d)
\$15 (b), \$16 (b)-(c)-(d) Anticipated financial effects on financial position, performance and cash flows over the short, medium and long-term	2-SBM 3 §48 (d) to (e); E1-9 §66 to §69
Climate resilience	
\$22 (a) Climate resilience assessment (implications for strategy & business model, uncertainties, capacity to adjust)	2-SBM 3 §48 (f); E1-SBM 3 §19 (c), AR 8
\$22 (b) How & when scenario analysis was carried out (inputs, scenarios used, time horizons, scope, key assumptions)	2-SBM 3 §48 (f); E1-SBM 3 §19 (a) to (b), AR 6, AR 7, AR 13
Risk management: process and integration in ERM	
\$25 (a)-(b) Processes to identify, assess, prioritise and monitor climate-related risks, opportunities (use of scenario analysis)	2-IRO 1 §53 (a) and (c) to (h); E1 IRO 1 §20 (b) to (c); §21; AR 11 to AR 13
\$25 (c) Integration in overall risk management process	2-GOV 5 §36 (d); 2-IRO 1 §53 (e) to (f)
Metrics and targets: performance in relation to climate-related risks and opportunities	
Climate-related metrics	
\$29 (a) Greenhouse gases Scope 1, 2 and 3	E1-6 §46 to §52, AR 39 to AR 52
\$29 (a) (vi) (2) Scope 3 (financed emissions)	-
\$29 (b) Climate-related transition risks	E1-9 §67, AR 72 to AR 76
\$29 (c) Climate-related physical risks	E1-9 §66, AR 69 to AR 71
\$29 (d) Climate-related opportunities	E1-9 §69, AR 80 to AR 81
\$29 (e) Capital deployment	2-MDR-Actions §69; E1-3 §29 (c), AR 20 to AR 22
\$29 (f) Internal carbon prices	E1-8 §62, §63(c), AR 65
\$29 (g) Remuneration	2-GOV 3 §29; E1 GOV 3 §13
\$32 Industry-based metrics	1-10.1 §131 (b); Forthcoming sector-specific standards
Climate-related targets	
\$33 Climate-related targets (metric, objective, scope, period, base period, milestones, absolute or intensity, link to latest international agreement)	2-MDR-Targets §80 (a) to (e), (g); E1-4 §33 to §34 (a) to (e)
\$34 Approach to set and review targets (third party validation)	2-MDR-Targets §80 (f), (h) to (j); E1-4 §34 (e)
\$35 Performance against targets and analysis of trends	2-MDR-Targets §80 (i)
\$36 GHG emissions targets (scope, gross or net, use of carbon credits)	E1-4 §33 to §34, AR 23 to AR 31; E1-7 §58 to §61, AR 56 to AR 64



Source: EFRAG | SRB Meeting (23 August 2023) | Illustration by Nossdata

Interoperability | perspectives

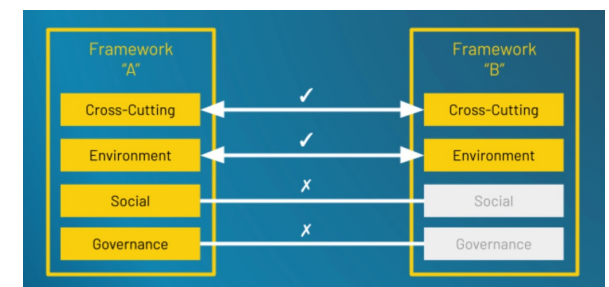


Content could be presented together providing that ISSB content is not obscured

EFRAG is also conscious of the challenges ahead and is fully committed to the overall success of sustainability reporting based on ESRS in the European Union and globally. EFRAG is currently making major efforts to develop standards for SMEs and to prepare guidance to foster implementation, interoperability of ESRS with overlapping ISSB standards as a contribution to joint work with the ISSB, and interoperability of ESRS with other relevant international standards.

EFRAG | 35 Square de Meeûs 1000 Brussels, Belgium | www.efrag.org
Transparency register number: 411098519407-76

Sources: KPMG | EFRAG Press Release (31 July 2023)| IFRS Foundation | NordESG



04/09/2023 - EFRAG-GRI JOINT STATEMENT OF INTEROPERABILITY

Following the requirement of the CSRD to adopt a double materiality approach and to take account of existing standards, ESRS and GRI definitions, concepts and disclosures regarding impacts are fully or, when full alignment was not possible due to the content of the CSRD mandate, closely aligned.

- Reporting in accordance w/ GRI (or different standard)
- Reporting w/ reference to GRI (or different standard)



International Applicability of the SASB Standards

CURRENT STAGE	ABOUT	PUBLISHED DOCUMENTS	SUPPORTING MATERIAL	CONSULTATION FEEDBACK	PROJECT HISTORY	PROJECT NEWS	MEETINGS
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Current stage

On 11 October, blackline documents were published detailing revisions to the SASB Standards. These revisions are informed by feedback received in response to the Exposure Draft *Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy Updates*. Comments are not requested on these blackline documents. The documents will be available online until 10 November for information purposes to allow stakeholders to familiarise themselves with the revisions. The revisions will not be final until ratified and issued by the ISSB, anticipated in December 2023.

The blackline documents can be found in full on the [SASB.org project page](#).

ISSB Update September 2023

The ISSB met on 14 September 2023 to discuss comment letters on and survey responses to the Exposure Draft *Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy Updates*.

The ISSB was not asked to make any decisions.

Sources: [ifrs.org](#); [sasb.org](#)

Next milestone

SASB Amendment

Next meeting

International Sustainability Standards Board
October 2023

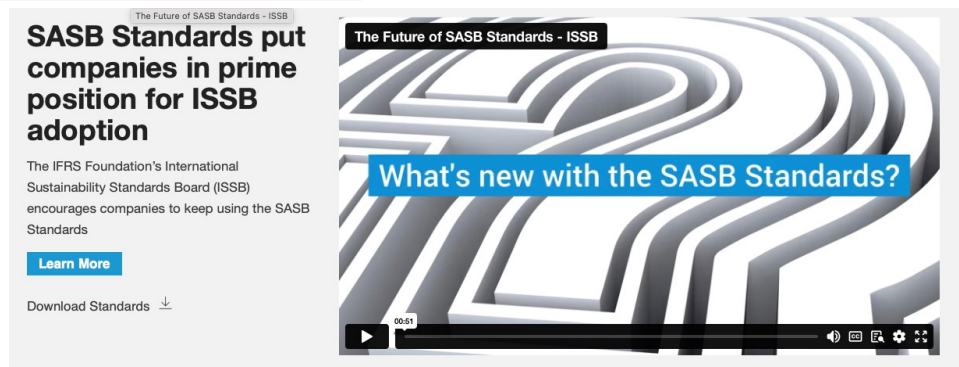
Previous meeting

World Standard-setters Conference 2023
September 2023

The SASB Standards play an important role in helping companies applying the ISSB's general requirements standard (IFRS S1) identify sustainability-related risks and opportunities, beyond climate-related aspects (which are addressed in IFRS S2), and provide disclosures aligned with investor needs

With over 3,000 companies in more than 70 jurisdictions, including 74% of the S&P Global 1200 Index, already applying the SASB Standards, this initiative aims to ensure their ongoing effectiveness in supporting industry-specific sustainability disclosures

(SASB Standards team at the IFRS Foundation)



Responsibilities Building Blocks



Key takeaways

- ❖ Sustainability goes beyond environment
- ❖ Sustainability requires a behavioral change
- ❖ Sustainability is not a reporting but a transformation process ... requiring adequate governance, management and supervision, incl.
 - (Double) materiality
 - Consideration of the entire value chain
 - Link between business model & strategy
 - Transparency on methodology, target, metrics & assurance
 - Expansion of data capacity and data quality

Thank you!

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