

IFRS Sustainability Reporting Standards and ESRS Exposure Drafts : BSR's Perspective and Implications

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Agenda

1. BSR presentation of the ISSB and ESRS standards and BSR's POV on the drafts
2. Moderated discussion with speakers
3. Q&A with audience

ISSB | IFRS Sustainability Reporting Standards

The IFRS Sustainability Reporting Standards will serve as a global baseline for investor-focused disclosure.

- In March 2022, the ISSB released two exposure draft standards (general reporting requirements and climate) that will be open for public comment until July 29th. The ISSB will determine at the end of the public comment period when these standards will likely come into effect.
- [IOSCO](#) has welcomed the development of the standards as well as jurisdictions like the UK
- The G7 issued a communiqué welcoming the ISSB's progress to
- The standards heavily leverage the 4 pillars of the TCFD (governance, strategy, risk management and metrics and targets)
- Additional standards will be developed, however, timeline for development is unclear.
- Standards remain voluntary at the moment, unless adopted by a local jurisdiction. A company's investors might also push for alignment to these standards.



BSR's POV on the ISSB General Requirements Exposure Draft (IFRS S1)

BSR commends the ISSB for developing standards that will provide a global baseline for assessing enterprise value. Our feedback on the General Requirements exposure draft is focused on 5 key areas of feedback outlined in the next slides.



Balance between prescriptiveness and flexibility

BSR believes that prescriptiveness may lead to more comparable reporting; however, every company's operating context is different and thus a degree of flexibility would allow disclosures to reflect those differences. We believe that the Standards would also benefit from providing more concrete guidance.

This is especially the case when we consider reporting on climate transition plans, where applicable guidance and requirements are rather vague today and would benefit from further guidance. This guidance might include the frameworks that can be used when assessing transition plans, and generic examples of reporting that would be considered in line with the ISSB.

Developing additional guidance on where sustainability information should be disclosed via examples would be appreciated by practitioners.

BSR's POV on the ISSB General Requirements Exposure Draft (IFRS S1)

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Alignment with jurisdictional definitions of financial materiality

BSR believes that the ISSB should continue to work closely with the SEC and EFRAG to determine a clear, concise, and common definition of financial materiality that meets investors' information needs.

Absent an explicit common definition of the financial materiality, BSR recommends that the ISSB work with jurisdictions to ensure that reporting against one regulator's materiality definition or requirements satisfies the requirements of another or is accepted by them. As such, BSR advocates for a definition which should be consistent, interoperable and substitutable.

BSR's POV on the ISSB General Requirements Exposure Draft (IFRS S1)

3

Interoperability with jurisdictional requirements that are under development

The current exposure draft specifies that in the absence of topic specific standards, companies should use SASB standards first and foremost, and that where gaps remain, companies should use other standards and disclosures fit for an investor audience. BSR believes that there should be greater clarity and alignment on the use of other jurisdictional disclosures.

It is not clear in this case if ESRS disclosures could be used as they are also suitable for the investor audience.

Close alignment to the SEC draft rule will be key to limiting the reporting burden on companies. BSR encourages that both the ISSB and SEC build on the TCFD recommendations and that the proposed rule and standards are interoperable.

If the ISSB includes disclosures that are not aligned to the TCFD, then BSR recommends that their disclosures be optional.

BSR's POV on the ISSB General Requirements Exposure Draft (IFRS S1)

4

Guidance for the voluntary use of the standards and for the adoption by jurisdictions

A global baseline standard implies that they will be built upon by individual jurisdictions. Moreover, companies operating in jurisdictions that do not adopt the standards, might seek guidance on how to report on a voluntary basis. As such, BSR calls on the ISSB to provide additional guidance on adoption.

To prevent divergence across jurisdictions, the ISSB should provide guidelines for adoption of the standards by jurisdictions, including how they may build on the standards to meet the information requirements of stakeholders.

Investors may continue to request ISSB-alignment disclosures or SASB disclosures, until they form the basis of the ISSB's industry-based standards. BSR believes that the ISSB should provide guidance on how companies can report on a voluntary basis to ensure that even voluntary disclosure is rigorous, comparable and decision useful.

BSR's POV on the ISSB General Requirements Exposure Draft (IFRS S1)

5

Flexibility with regards to reporting boundary

BSR believes the boundary for reporting sustainability information should mirror that of the financials, including a company's value chain, however, this becomes difficult in application, especially in the case of M&As.

The disclosure impact of small entities may be minimal and in some cases, there aren't sufficient systems in place to be collecting data. As such, BSR supports retaining the ability for companies to report at a consolidated level and adding thresholds to determine when an entity could be exempted from the boundary. Jurisdictions may also be prescriptive with regards to the reporting boundary.

BSR's POV on the ISSB Climate Exposure Draft (IFRS S2)

BSR commends the ISSB for developing a draft standard that will serve as the global baseline for climate-related financial disclosures. Our feedback on the Climate Exposure Draft is focused on 5 key points outlined in the next slides:

1

Critical cross-industry requirements

BSR supports the breadth of disclosure topics included in the Climate Exposure Draft, including the seven TCFD-aligned cross-industry metrics. BSR emphasizes that comprehensive climate-related financial disclosures must include:

- a. Information on **scope 1, 2, and 3 emissions** that is aligned with the methodologies of the GHG Protocol given that GHG may emission can lead to significant transition risks for an entity.
- b. The use of **climate scenario analysis** as a tool to identify and assess climate-related risks and opportunities, and to assess an entity's resilience to climate change.
- c. The entity's **transition plan**, to assess how it intends to limit the effect of transition risks. Given that guidance on effective transition plans is evolving, the ISSB should remain flexible on the key elements of a transition plan that entities should disclose.

BSR's POV on the ISSB Climate Exposure Draft (IFRS S2)

2

Alignment with TCFD recommendations and jurisdictional requirements

Some jurisdictions, including the United States and European Union, have used the TCFD recommendations as the foundation upon which to build their draft climate rules and standards.

By adopting a common framework, these jurisdictions are helpfully reinforcing reporting systems where best practice is already established and maintaining the close alignment.

Since divergence from the TCFD recommendations may reduce harmonization across jurisdictional requirements and increase the reporting burden on companies, BSR encourages the ISSB to:

- a. Maintain close alignment with the TCFD recommendations;
- b. Include additional topics of disclosure only when deemed necessary to fill significant gaps; and
- c. Clearly highlight the elements of the Standard that require detail that go beyond the TCFD recommendations

BSR's POV on the ISSB Climate Exposure Draft (IFRS S2)

3

Industry-based requirements

Given the breadth of the ISSB Standards, a framework that narrows the list of potentially material disclosures reduces the effort required by entities when assessing materiality, and industry-based requirements serve this purpose well.

BSR strongly supports the ISSB's proposal to include industry-based requirements (Appendix B) that are derived from the widely-utilized SASB Standards.

BSR also supports ISSB's proposal that entities refer to the disclosure topics defined in the industry-based requirements to identify the significant climate-related risk and opportunities.

While the ISSB and some jurisdictions have adopted a climate-first approach, we believe that standard setters should develop additional topic-specific standards over time. We believe that each topic standard should be accompanied by industry-based requirements.

BSR's POV on the ISSB Climate Exposure Draft (IFRS S2)

4

Verifiable climate-related financial information

BSR supports requirements for the verifiability of climate-related financial information.

While the absolute accuracy of data may not always be possible, BSR supports the ISSB's approach of asking entities to provide substantiating information, such methodologies and assumptions used to produce the disclosed information, thereby increasing its reliability and value to investors.

For some disclosures—particularly those that are critical for investors and other stakeholders and that feature more established collection methodologies—the ISSB should propose that entities seek third-party assurance.

BSR's POV on the ISSB Climate Exposure Draft (IFRS S2)

5

Follows a clear and structured compliance timeline

Given that the General Requirement and Climate Exposure Drafts were developed in parallel, have common topics of disclosure, and due to the current need for reliable and comparable information, BSR believes that the effective date for the two Standards should be the same.

BSR encourages the ISSB to provide greater clarity on standard development and compliance timelines, including when the Board plans to release final General Requirements and Climate Standards and their effective date.

Depending on their effective date, the ISSB should consider a phased-in approach to compliance for certain disclosures or topics (e.g., scope 3 emissions).

With the addition of additional issue-specific standards, BSR suggests that the Board adopts a standardized approach to and timeline for compliance (e.g., X years after the Standard in question is finalized), including guidance on how to build on the standards already in effect.

European Sustainability Reporting Standards (ESRS)

The EU has commissioned EFRAG to create baseline EU Sustainability Reporting Standards which will be mandatory for companies who fall in scope of the CSRD.

- In July 2021, EFRAG [signed an MoU with GRI](#) to co-construct the ESRS standards.
- EFRAG is also part of the IFRS's Jurisdictional Working Group.
- In April EFRAG released a set of [sector agnostic exposure drafts](#) which are currently up for public comment until August 8, 2022.
- There are two cross-cutting standards and 11 topic-specific standards with a total for 120 disclosures. The standards require companies to report using 3 reporting 'areas' for all ESG topics (strategy, implementation and performance measurement).
- The ESRS standards are rooted in the principles of double materiality.
- The EU Commission will adopt the sector-agnostic standards via delegated acts by June 30th, 2023.



BSR's POV on the ESRS Exposure Drafts

BSR commends EFRAG for its important leadership in developing the first set of standards as part of the full set of ESRS standards. In response to EFRAG's call for feedback, BSR is providing a written submission along with a survey response to the exposure draft. Our feedback is centered around the following 11 points.



Granularity of the disclosure requirements

BSR appreciates that the standards should be ambitious as well as specific and prescriptive to deliver comparable disclosures, however, we question whether all the elements of each disclosure are in fact decision-useful for stakeholders.

Some disclosures seem too academic in nature and would be difficult for companies to report on in a practical manner (e.g., S2-2:18, S2-3, S2-4).

Some disclosures seem too ambitious for implementation in the short-term considering there are very few companies reporting on certain topics/disclosures (e.g., E4-1 and E4-3).

We are concerned that the high level of depth and detail will result in companies prioritizing disclosure compliance over performance improvement.

Opportunity to streamline and further align to GRI's core requirements rather than GRI's recommended or optional disclosures.

BSR's POV on the ESRS Exposure Drafts

2

Alignment with other standards

There is opportunity to further align the disclosure requirements with established standards (such as GRI) and emerging reporting standards (such as the SEC's draft climate rule and the IFRS Standards).

We believe that harmonization is fundamentally important to creating a system that maximizes impact and achieves efficiency and comparability.

Even minor differences in language between reporting standards, presents the risk that companies will need to spend time and resources developing different disclosures concerning the same topics but for different jurisdictions.

We invite EFRAG to carefully consider [GRI's comment letter](#) for detailed alignment to the GRI Standards and continue to work closely with the SEC and IFRS to further align common disclosures.

We also agree with GRI that disclosures that are leveraged from the GRI standards need to be labelled.

BSR's POV on the ESRS Exposure Drafts

3

Double Materiality

BSR endorses the concept of double materiality, however, we believe that the proposed definition of impact materiality is too broad and lacks the concept of prioritization making it challenging for companies to identify and establish thresholds for potential significant impacts in the long term as the likelihood of impacts increases over time. Moreover, there needs to be jurisdictional alignment on financial materiality.

We believe that GRI's definition for impact materiality is clearer and more focused. Harmonizing the definition will lower the barrier to implementation, and achieve the priority goal of harmonization, which will be helpful given time constraints.

ISSB, SEC and ESRS should align on one definition of financial materiality. It should be consistent, interoperable and substitutable.

EFRAG should provide more guidance on conducting a double materiality assessment in one clear location, similar to what GRI does in GRI 3 Material Topics (p.7-15).

BSR's POV on the ESRS Exposure Drafts

4

Rebuttable Presumption

BSR does not support the rebuttable presumption. We believe it will be difficult and resource intensive for companies to prove a topic is not material based on 'reasonable and supportable evidence', adding unnecessary complexity.

Companies may be pressured to report on topics that are not relevant to them because they are unsure how to prove a topic does not meet the threshold for materiality, leading to less concise, less focused, and less decision-useful reporting.

We believe that the concept of materiality and thresholds are best applied at the level of a topic (defined as sub-sub-topics in the standards, e.g., forced labour, anti-corruption,...etc) rather than at the level of an individual disclosure requirement.

BSR's POV on the ESRS Exposure Drafts

5

Architecture and presentation of the standards

There is an opportunity to streamline the standards to avoid duplication and make them easier to understand and navigate for report preparers.

BSR is concerned that the overall presentation of the standards results in unnecessary duplication within the cross-cutting and topical standards. This is especially the case for general strategy, governance and materiality, policies, targets, action plans and resources. These are repeated throughout, and for clarity BSR agrees with GRI's feedback that they should be consolidated in the cross-cutting standards.

BSR's POV on the ESRS Exposure Drafts

6

Boundaries, restatements and value chain

BSR agrees that the boundary of the sustainability statement should mirror that of financial reporting, extended to the company's upstream and downstream value chain, however, the concept of boundary becomes complicated to apply in the case of M&As.

Companies go through M&As on a frequent basis and sometimes with multiple small entities. While the draft standards request estimates when full boundary cannot be measured, we believe overusing estimates could be misleading and unhelpful. It would be a cause for adding additional disclaimers and footnotes to explain how the estimates were developed, instead of simply explaining the reasons for not including them.

BSR suggest establishing thresholds for when an entity could be considered out of scope for disclosure.

The draft requires restatement of past data in the event the reporting boundary changes in a given year in order to align to the most recent boundary. BSR feels this could be misleading and not indicative of past performance. BSR supports the IFRS and GRI's handling of restating data, which requires restatement when changes to reporting period, methodology or definitions used.

BSR's POV on the ESRS Exposure Drafts

7

Estimates

BSR feels that the current exposure drafts rely too heavily on the use of estimates when data are not available or difficult to collect. We believe EFRAG should propose a 'comply or explain approach' via omissions, for disclosures beyond a core set, in line with the approach of the GRI Standards.

Relying on estimates can be misleading and, in some cases, could lead to claims of greenwashing.

Companies should be given the possibility to explain that although data are not available in the short-term, they will be made available over time and include the timebound steps the company is taking to close the gap. Shows accountability instead of relying on estimates which may or may not have a large margin of error.

In the case the use of estimates is required, companies should be able to use a limited-liability statement, but it is not clear from the current draft whether this is permitted.

BSR's POV on the ESRS Exposure Drafts

8

Targets

ESRS 1 details that if there are no targets in place, the company needs to provide reasons why a target is not applicable, whether there are plans to implement a target in the future, and why the company might not use a target. We believe this sets an unreasonable expectation that companies should be setting measurable outcome-based targets across all material risks, opportunities and impacts.

This risks companies establishing targets across several topics when targets may not be relevant, meaningful or useful.

BSR's POV on the ESRS Exposure Drafts

9

Format of statements

BSR believes that the standards should allow more flexibility with regards to referencing disclosures within the management report.

This would improve the overall usability and avoid duplication within the management report when information is found in other sections.

Companies should also be allowed to provide detailed information (e.g., detailed descriptions of policies, or workforce data breakdowns) in the annex with a view to improve the readability of the report.

BSR's POV on the ESRS Exposure Drafts

10

Feasibility and Phasing-in

BSR was pleased to see that the provisional agreement on the CSRD detailed a phased-in approach to value chain disclosures. However, we still believe that additional disclosure requirements should be further prioritized.

We recommend identifying within the standards or disclosure requirements as optional or consider phasing in certain topic-specific standards or disclosure requirements (e.g., biodiversity disclosures; especially those which relate to target setting and deviate from TFND recommendations).

In many cases, protocols for reporting on such topics are immature, which risks mandating disclosure of information that may be less than fully accurate.

BSR's POV on the ESRS Exposure Drafts

11

Use of entity-specific disclosures

It is unclear from ESRS 1 (153-154) whether or not EFRAG plans on completely phasing out entity specific disclosures with time. BSR feels that companies should be allowed to continue to disclose entity specific information as they deem relevant and appropriate.

In many cases, even sector specific disclosures do not accurately account for a company's full assessment of the impact on a particular topic.

This will likely continue to be relevant as companies continue to grow, expand, and pursue new business models and strategies.

Implications for Reporting Teams

The reporting landscape is evolving quickly. The best thing companies can do now is to stay informed, enhance existing internal processes, ensure sound governance and lastly enhance reporting efforts.

1

Stay Informed / Get Involved

- Stay informed on developments with standard setting bodies (global and regional) and regulation.
- Have your say. Get involved! Standard setting processes are open for public consultation.
 - ISSB consultation ends July 29
 - ESRS consultation ends August 8

2

Enhance Internal Processes

- Mandatory reporting standards are seeking to put sustainability reporting at the same level of rigor as financial reporting.
- Data collection and management needs to be thought of and treated with the same scrutiny as financials.
- Staff-up and build connections among teams internally (legal, finance, risk, corporate controlling...etc) that will be the most involved in reporting. Close the knowledge gap before regulation comes into effect.

3

Ensure Sound Governance

- The CSRD and CSDDD proposals outline responsibilities for management and supervisory bodies. Now is the time to onboard and engage management and boards on ESG issues.
- Companies should seek ways to clarify and strengthen ESG governance, including at Board level.

4

Enhance Reporting Efforts

- Continue reporting using current standards and continue to enhance disclosures.
- Conduct gap assessments to assess preparedness. Prioritize collecting and reporting disclosures which will become mandatory but were not previously on the radar.
- Being mapping your company's full value chain.
- Conduct a double materiality assessment (ESRS)
- Continue to report transparently on climate efforts (TCFD).

Today's Guests

We are joined by guest speakers from Eurosif and Unilever.



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Google

 **Microsoft**

BSR Upcoming Events



WEBINAR

Navigating the SCOTUS Rulings: Recommendations for Business Advancing Social Equity and Justice

July 27, 2022



BSR CONNECT-SINGAPORE

Impact-Based Materiality and Trends in Global Disclosure Requirements, an Interactive Discussion

July 28, 2022



LIVE STREAM

BSR at 30: Act, Enable, Influence

October 19, 2022

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