I am delighted to have this opportunity as an introduction to this event to present the work EFRAG is carrying out at the request of the Commission to elaborate standards that could be adopted by way of delegated acts in due course and as a consequence would become mandatory in the Union.

(Slide 2) In the context of COP26, I would like to highlight three messages: one, robust reporting on climate is a key element of an EU comprehensive and mandatory sustainability reporting regime; two, the «climate standard prototype» working paper issued by EFRAG early September is an initial step towards high quality climate reporting; and, three, the EFRAG standard setting approach is designed to be fully compatible with international initiatives while of course onboarding the EU objectives and policies. Let me elaborate further on these three points.

First message, the EU is establishing a comprehensive sustainability and mandatory reporting landscape. What is the starting point? The success of sustainability public policies, of sustainable business strategies, of sustainable finance does require robust sustainability data. Green or ESG washing is a risk we cannot run. This is why the Commission tabled in April a revised directive, the Corporate Sustainability Reporting Directive (or CSRD), which is currently following the EU legislative process. The CSRD organises a game-changing step in sustainability reporting. (Slide 3) In a nutshell, what are the key features? Comprehensive coverage of sustainability topics (Environment including climate of course, Social and Governance), required from all large companies (50,000 entities) under a mandatory regime (I insist, because this is a major change), prepared on the basis of standards fostering proper quality of information (relevance, faithful representation, comparability, reliability), addressing the needs and expectations of all stakeholders under the concept of double materiality, located in the management report (possibly under the caption of «sustainability statements»), audited and able to be digitised. And also a first reporting expected in 2024 with reference to reporting year 2023. Time being of the essence!
Under this legislative umbrella, EFRAG is developing standards following a comprehensive architecture often described as the « rules of three ». (Slide 4) Three layers of reporting: sector-agnostic (for maximum comparability), sector-specific (for maximum relevance) and entity-specific (for additional flexibility, relevance and responsibility). Three reporting areas: strategy and governance, implementation and performance. By the way totally compatible with TCFD approach in terms of content. And, three topics: Environment, Social and Governance. All the above presented under an appropriate structure which we propose to call the sustainability statements. As we speak the Task Force is working hard under a thorough due process to deliver on time, together with the governing bodies of the sustainability reporting pillar of EFRAG that should be up and running at the end of March, a first set of standards reflecting this architecture.

Second message, (Slide 6) the « climate standard prototype » working paper is a step towards a robust climate reporting. Many businesses state that they intend to comply with the TCFD framework and are therefore moving ahead in relation to climate mitigation and climate adaptation reporting. What does this mean in terms of reporting in an EU context? The working paper tries to answer this question. Please bear in mind that this working paper will evolve to reach the stage of a pre-exposure draft in December at which point it will be subject to public consultation.

The goal has been and is to comply with the EU agenda and the TCFD framework while meeting fully the criteria for high quality information, in particular relevance, faithfulness and comparability. Allocation of disclosure requirements over the successive sets of standards remains to be finalised. At this stage of our standard setting process, our team has tried:

✓ to address all relevant aspects of a robust climate reporting: governance, strategy, risk management, metrics and targets;
✓ and to cover the relevant sub-topics via detailed and therefore comparable performance metrics: energy, GHG emissions (in absolute and intensity terms) under scopes 1, 2 and 3, targets and transition plans in alignment with the Paris Agreement, EU taxonomy disclosures, financial risks and opportunities.

All in all, subject to the enhancement, consensus building and fine tuning under way, our team believes it is a viable and relevant way forward to demonstrate the level of commitment of reporting entities in relation to both the TCFD framework and the EU policies.
Third message, the EU commitment and contribution to international compatibility. (Slide 7) This a clear goal for EFRAG since the beginning. It is an EU tradition and commitment not to work in isolation. It was mentioned from the start, in January 2020, by Executive Vice-President Dombrovskis; it is well developed in our Preparatory Work report of March 2021, where we suggest the ways and means to foster a co-construction spirit by building on and contributing to international initiatives; it was discussed with major international initiatives as early as December 2020; the Task Force has now effective statements of cooperation or extensive discussions with them; it is a cornerstone of our «climate standard prototype» working paper, as I will explain in a minute.

Where do we stand as of today in that respect? (Slide 8) As illustrated in the slide, we assess the following at this stage:

- The working paper is in complete alignment with the draft CSRD, the EU policies and the underlying criteria of quality; the working paper is also fully compatible with the TCFD framework. These are the two key references we are working from;
- Through our fruitful cooperation with GRI we are making sure we are onboarding most if not all climate related GRI disclosures, which are TCFD compatible too;
- Following regular discussions with the IFRS Foundation’s Technical Readiness Working Group, we believe that we are compatible with their principle-based prototype to the elaboration of which the TCFD team contributed;
- Finally we have had a careful look at the sector-specific approach developed by SASB and its onboarding into the TRWG prototype. We believe that two thirds of these metrics are captured in our sector-agnostic prototype (many of them because we make certain disclosures mandatory for all sectors, for instance GHG emissions) and the other third will be introduced via our sector-specific standards.

When finalising the working paper to move to pre-exposure draft stage, we will make adjustments when needed in a compatibility perspective bearing in mind that, in the EU, details of disclosures are key to ensure comparability.