

FINAL REPORT

PROPOSALS FOR A RELEVANT AND DYNAMIC EU SUSTAINABILITY REPORTING STANDARD- SETTING

February 2021



DISCLAIMER

This report and its appendices, [published as a series of seven documents](#), were prepared by the European Lab Project Task Force on preparatory work for the elaboration of possible EU non-financial reporting standards (PTF-NFRS), for submission to the European Commission in response to a mandate including a [request for technical advice](#) dated 25 June 2020.

The contents of the PTF-NFRS report and its appendices are the sole responsibility of the PTF-NFRS. The European Lab Steering Group Chair has assessed that appropriate quality control and due process had been observed to the extent possible within the context of the relevant mandate and the timeframe allowed, and has approved the publication of the PTF-NFRS report and its appendices. The PTF-NFRS report and its appendices do not represent the official views of EFRAG and are not subject to approval by the EFRAG governance bodies: EFRAG General Assembly and the EFRAG Board; or the European Lab Steering Group.

As regards the views expressed in the PTF-NFRS report and its appendices the following observations and clarifications should be noted:

- the PTF-NFRS report taken as a whole reflects a very large consensus;
- it is understood that members of the PTF-NFRS are not expected to endorse each and every one of the 54 detailed proposals in the PTF-NFRS report and may have different views on some of them;
- in addition the views expressed may not reflect the views of the organisations or entities to which individual PTF-NFRS members may belong;
- the assessment work for the different project focus areas, presented in Appendices 4.1 to 4.6 to the PTF-NFRS report, was the result of separate sub-groups of the PTF-NFRS, for which only peer review within the PTF-NFRS was performed.

Links are included in the PTF-NFRS report and its appendices to facilitate readers accessing the reference or source material mentioned. All such links were active and functioning at the time of publication.

Questions about the European Lab and its projects can be submitted to EuropeanLab@efrag.org.

Commissioner McGuinness

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Brussels, 19 February 2021

Dear Commissioner McGuinness,

We are writing to you in our respective capacities as EFRAG Board President and Chairman of its European Lab Steering Group and as Chair of the Project Task Force on preparatory work for the elaboration of EU non-financial reporting standards (the 'Task Force'). Please note that the Chair of the Task Force is acting on behalf of all Task Force members.

In accordance with the mandate sent on 25 June 2020 by Executive Vice-President Dombrovskis, we attach the Report prepared to reflect the work accomplished by the Task Force over 5 months. This Report is the outcome of the collective and intensive work of the Task Force which has required constant dedication and commitment from its 35 members and 9 representatives as well as from its seconded support staff (representing in total the contribution of 30 to 40 highly qualified individuals full time over the period).

The Report taken as a whole reflects a very large consensus even if it is understood that members of the Task Force are not expected to endorse each and every of the 54 detailed proposals and may have different views on some of them. Consensus building was challenging under the circumstances since it was not possible to hold physical meetings. However, it followed a careful process including successive online voting procedures on Proposals, discussions in Plenary meetings (13 in total), submission of drafts for comments, preparation of an amended final draft submitted to final approval in the last two days.

To prepare the Report the Task Force also carefully considered the feed-back received from the 7 Outreach events EFRAG organised mid-January across the EU (on the basis of an Outreach document release early January). More than 100 panelists and 3000 participants from all EU horizons had indeed the possibility to express their views on the key questions in the scope of the Task Force work.

In summary we wish to highlight the Task Force key conclusions:

- The EU has a unique sustainable development and sustainability reporting landscape which constitutes strong foundations for standard-setting.
- Standard-setting should be built on robust EU conceptual guidelines, addressing public good alignment, expected qualitative characteristics of information, relevant time-horizons, clear boundaries, double materiality and connectivity between financial and sustainability reportings.
- The overall target architecture of standards should be coherent and comprehensive and reflect appropriate layers of reporting (sector-agnostic, sector-specific and entity-specific), relevant reporting areas and a coverage of sustainability topics classified under an ESG+ categorisation. Presentation should preferably be organised under 'sustainability statements' and digitisation should be considered from the start.
- The standard-setting roadmap towards the target architecture should be implemented in realistic phases. However, the first-time application of the revised Directive should benefit from a robust first set of 'core' standards.
- Finally, there is significant merit in promoting a mutually reinforcing cooperation between EU standard-setting efforts and international initiatives or fora.

The Task Force wishes to further highlights that meeting the technical challenges of EU sustainability reporting standard-setting has implications in terms of governance and resources which are not in the Task Force remit, but which are critical success-factors.

We remain at your disposal and at the disposal of DG FISMA to answer any questions and receive comments that you may have. We would welcome the opportunity to present the Report to you in more detail.

Yours sincerely,

Jean-Paul Gauzès

EFRAG Board President and
Chairman of the European Lab Steering Group

Patrick de Cambourg

Chair of the Task Force and
Chair of Autorité des normes comptables

EXECUTIVE SUMMARY

February 2021

This Executive Summary highlights the main recommendations (54 proposals) of EFRAG's Project Task Force on preparatory work for the elaboration of possible EU non-financial reporting standards (PTF). The detailed report taken as a whole reflects a large consensus. However, it is important to note that PTF members are not expected to endorse every recommendation or view entailed in this Report and each has the right to take a different view on some of the views expressed. These recommendations are made in a context where the content of the revised Non-Financial Directive (NFRD) is not finalised. These recommendations do not constitute a first attempt at standard-setting. Their objective is to describe the scope and structure of future sustainability reporting standards that contribute to the achievement of the EU's policy objectives, not to set-out specific disclosure requirements, indicators or metrics. The latter is a task for the EU's future standards-setter.

- 1 The revision of the NFRD is essential to meet the needs of users for relevant, comparable and accessible information. Sustainability reporting must therefore rapidly improve to progress alongside the equally rapidly developing EU policies in the context of the EU Green Deal, including sustainable finance. Most of these policies require more robust data about the risks that companies face in relation to sustainability matters and about their impacts on society and the environment.
- 2 The EU has taken a leadership position in relation to sustainable development and sustainable finance policies. International fora such as the G-20, the Financial Stability Board and the International Platform on Sustainable Finance as well as important jurisdictions such as the United States, are taking an increasing interest in this policy area, including sustainability disclosures/reporting. However, the PTF considers that international initiatives cannot in the short term match the speed and scope of EU's level of ambition. The EU's next steps should be implemented in a spirit of cooperation and partnership with international initiatives and partners in order to converge efforts but should not slow down the momentum achieved in the EU. Nor should it undermine the level of ambition (in terms of both speed and scope) that the EU has demonstrated, for example in the European Green Deal and the EU's climate strategy.
- 3 The purpose of publicly available sustainability reporting is to provide relevant, faithful, comparable and reliable information:
 - a) about (i) material sustainability impacts of the reporting entity on affected stakeholders (including the environment) and (ii) material sustainability risks and opportunities for its own value creation;
 - b) enabling users of information (i) to understand the reporting entity's sustainability objectives, position and performance and (ii) to inform their decisions relating to their engagement with the entity.
- 4 Sustainability reporting should be directly connected to management reporting systems enabling reporting entities to better understand, manage sustainability matters and ultimately improve sustainability performance.

1. SUSTAINABILITY REPORTING IN THE EU RESTS ON STRONG FOUNDATIONS

- 5 The EU has a somewhat unique sustainable development and sustainability reporting landscape and has set an ambitious course of action in that crucial domain. Understanding and building on this landscape will be critical for future standard-setting work.
- 6 The recommendations set out in this report build on overarching principles and building blocks that constitute strong foundations for the EU possible standard-setting.

7 First, two distinctive EU ‘overarching principles’:

- a) *An inclusive range of stakeholders.* The EU generally supports an underlying vision of businesses as pivotal contributors of value creation under two dimensions. First, economic and financial value creation (or destruction) affecting primarily the providers of capital. Second, environmental and social value creation (or destruction) at societal level affecting a broad(er) range of stakeholders. The PTF sees the objective of the EU’s policy as maximising value creation by businesses in a balanced manner for both dimensions. This distinctive vision implies that the EU’s sustainability reporting framework must meet the needs of an inclusive range of stakeholders.
- b) *A principle-based legal and regulatory environment.* The EU is generally considered as having a preference for a principle-based environment combined with a prevailing civil law framework. However, when necessary, detailed and practical regulatory rules are developed to translate principles into practice. In this context sustainability reporting standards must strike the right balance between a general principle-based approach consistent with the EU legal environment and the need for more detailed and prescriptive disclosure requirements to ensure the relevance and comparability reported information.

8 Second, an EU specific combination of ‘building-blocks’:

- a) *Supporting the EU’s sustainable development and sustainability reporting momentum.* Standard-setting for sustainability reporting must reflect the needs embedded in the EU’s evolving sustainable development and sustainable finance policies and already enacted legislation. It must also establish a robust and much needed basis for convergence and increased harmonisation within the EU sustainability reporting landscape.
- b) *Building on and contributing to the global convergence of sustainability reporting.* Beyond its own political agenda, the EU is by tradition and by construction among the jurisdictions that are most open to international cooperation and convergence. The EU should therefore build upon and contribute to public and private international initiatives that have similar goals. This cooperation should be carried out in a spirit of partnership and ‘co-construction’.
- c) *Addressing the specific challenges of financial institutions.* There is a strong EU emphasis upon sustainable finance as a key lever to foster sustainable development. Investment and financing activities must support the transition to a sustainable economy in a decisive manner. Financial institutions must therefore be considered in future standard-setting work as both preparers and users of sustainability reporting. The nature of financial services implies that financial institutions face specific challenges in reporting their sustainability impacts, the bulk of which are indirect (arising via financial products and services). Standard-setting should therefore foster the coherence and relevance of data flows corresponding to the needs of each of the three categories of financial institutions (asset management, banking, insurance).
- d) *Including SMEs in the EU sustainability reporting landscape in a proportionate manner.* The EU is addressing the transition towards sustainable development from a comprehensive economic and social perspective. SMEs must be involved in an inclusive manner since they are a major part of the economy and since they are also confronted with sustainability-related risks and opportunities, and because they impact society and the environment. The standard-setter should adopt a proportionate approach tailored to EU SMEs by balancing (i) the specific governance, organisation and resources of SMEs and (ii) the need for sustainability information produced by SMEs to be relevant for their stakeholders (value chain and financial institutions in particular).
- e) *Fostering sector-specific sustainability reporting.* Sector-agnostic sustainability reporting requirements (i.e. reporting requirements that apply to all companies regardless of the sector in which they operate) are pivotal to allow comparability across sectors. However, sector-agnostic disclosures are not sufficient to address the specific information needs related to the many challenges a reporting entity is confronted with. At the same time, entity-specific disclosures (i.e. disclosures that are made because they are relevant to the particular circumstances of the reporting entity) are not sufficient to complement mandatory sector-agnostic disclosures. The standard-setter should therefore recognise sector-specific sustainability reporting as a natural and necessary complement to sector-agnostic and entity-specific disclosures in order to promote an appropriate layer of sectoral relevance and comparability.

f) *Acknowledging the importance of intangibles in sustainability reporting.* Intangibles are not reflected through financial reporting and are key to the development of businesses and to their processes of sustainable value creation. Mainstream ESG disclosures and intangible disclosures are complementary. The standard-setter should consider intangibles as a key dimension of sustainable business development and therefore of sustainability reporting.

2. STANDARD-SETTING IN THE EU SHOULD BE BUILT ON ROBUST CONCEPTUAL GUIDELINES

9 Standard-setting is generally carried out on the basis of a conceptual framework. Six concepts are particularly relevant to sustainability reporting in the EU and would need to be operationalised through ‘conceptual guidelines’.

10 **Public good.** In the EU, standard-setting activities are expected to be conducted in the public interest since the regulatory level (the level of standards) is by construction subordinated to higher levels of legislation. This is generally captured under the concept of ‘public good’ alignment. As a consequence, the standard-setter should adopt conceptual guidelines to ensure the alignment and consistency of EU sustainability reporting standards with public policy agreements, goals, frameworks and regulations:

a) at global level (notably the 2030 Agenda, the Paris Agreement, the Convention on Biological Diversity, the ILO Conventions and Declaration of Fundamental Principles and Rights at Work, the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises); and

b) at EU level (notably the EU Green Deal, Sustainable Finance Strategy and other related legislation and policies, including the proposed Sustainable Corporate Governance Initiatives).

11 **Quality of information.** The insufficient quality of sustainability reporting is a key challenge in the EU and globally. Addressing this challenge is a priority and the standard-setter should adopt conceptual guidelines to define the necessary characteristics of reported sustainability information, namely: (i) relevance, (ii) faithful representation, (iii) comparability, (iv) understandability and (v) reliability/verifiability. Sustainability reporting that meets these quality criteria would be on an equal footing with financial reporting. In addition, when considering what information standards should require for disclosure, the standards-setter should pay attention to the risks of unintended consequences of asking companies to report a certain piece of information, as well as the indicative capability, measurability and contextualisation of disclosures.

12 **Retrospective and forward-looking information.** There is a significant and increasing expectation that transition trajectories be assessed and reported from a retrospective perspective and also from a forward-looking perspective. The standard-setter should therefore adopt conceptual guidelines on policies, targets, action plans, goal alignment and related impacts. Target-setting will help ensure the value of disclosures to users if targets are linked to outcomes, set against a baseline year and time-bound, associated with relevant KPIs, where feasible science-based, and tested against stakeholders’ expectations.

13 **Levels and boundaries of reporting.** There is general agreement that sustainability reporting goes beyond the level (often referred to as ‘scope’) of operations under the control of the reporting entity itself (which is the traditional boundary defined in the case of financial reporting). The value chain should also be covered since major impacts of the activities carried out by a reporting entity may occur in the value chain or through products and services. The standard-setter should adopt conceptual guidelines establishing that double materiality, as defined in the following paragraph, applies to different levels of reporting:

a) The financial materiality of a sustainability matter is not constrained to matters that are within the control of the reporting entity.

b) The materiality of an entity’s impacts on a sustainability matter is similarly not limited to what is under a reporting entity’s direct control or influence. It also depends on evidence of a direct link between the impact and the entity’s own operations, products or services (including through the value chain), and on an assessment of the relative severity of the impact, with the most severe impacts being judged material.

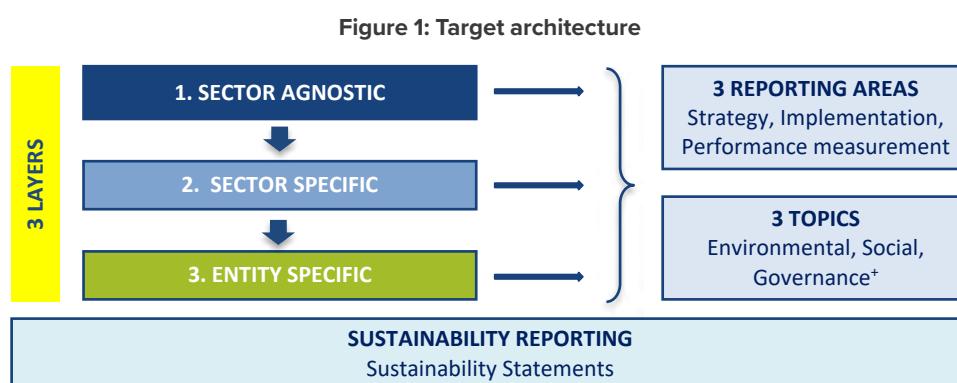
- 14 **Double materiality.** The operationalisation of the concept of double materiality is key to sustainability reporting standard-setting in the EU. The standard-setter should therefore adopt conceptual guidelines addressing the definition and implementation of the concept of materiality in each of its two dimensions. Double materiality requires that both impact materiality and financial materiality perspectives be applied in their own right without ignoring their interactions:
- a) Impact materiality: Identifying sustainability matters that are material in terms of the impacts of the reporting entity's own operations and its values chain (impact materiality), based on:
 - (i) the severity (scale, scope and remediability) and, when appropriate, likelihood of actual and potential *negative* impacts on people and the environment;
 - (ii) the scale, scope and likelihood of *actual positive* impacts on people and the environment connected with companies' operations and value chains;
 - (iii) the urgency derived from social or environmental public policy goals and planetary boundaries.
 - b) Financial materiality: Identifying sustainability matters that are financially material for the reporting entity based on evidence that such matters are reasonably likely to affect its value beyond what is already recognised in financial reporting. The determination of financially material effects on the reporting entity can rely on non-monetary quantitative, monetary-quantitative, or qualitative data, while recognising the dynamic relationship between the two. Many impacts on people and the environment may be considered 'pre-financial' in the sense that they may become material for financial reporting purposes over time (so-called 'dynamic materiality'). Financial materiality for sustainability reporting cannot be extrapolated from financial materiality for financial reporting.
- 15 Double materiality assessments are key to proper sustainability reporting. They should be performed by the standard-setter (for sector-agnostic and sector-specific disclosures), and by the reporting entity itself under a process defined by an appropriate standard (entity-specific disclosures and 'comply or justify' principle). The 'comply or justify' principle enables a reporting entity to determine and duly justify when a mandatory disclosure is not relevant and not applicable in its specific circumstances. It should not be perceived as a way to avoid mandatory disclosures.
- 16 **Connectivity.** All dimensions of corporate reporting need to be interconnected under an integrated approach. Sustainability reporting and financial reporting are currently not formally connected, leaving potential gaps, overlaps and a lack of coherence. If sustainability reporting and financial reporting are to be placed on an equal footing under an identical timing requirement, connectivity becomes essential. The standards-setter should adopt guidelines to ensure continuity both ways:
- a) sustainability reporting standards should define anchor points to create connectivity to financial reporting together with the necessary reconciliations or cross-references. Anchor points may be direct when a monetary sustainability disclosure is derived from accounting data, and they may be indirect when sustainability disclosures simply need to be coherent with financial disclosures;
 - b) conversely, financial reporting standards should consider anchor points from sustainability reporting, for instance when financial accounting standards require forward-looking estimates or risk disclosures.
- 17 Financial reporting standard-setters and sustainability reporting standard-setters should cooperate to ensure the continuity and coherence of corporate reporting.

3. THE OVERALL TARGET ARCHITECTURE OF STANDARDS MUST BE COHERENT AND COMPREHENSIVE

- 18 The overall target architecture of the EU's ultimate sustainability reporting platform should build on the foundations and the conceptual guidelines to deliver standards that:
- a) cover a comprehensive scope, elaborate a clear format and ensure that information is accessible; and

b) ensure a faithful representation of (a) the reporting entity's sustainability footprint and performance and (b) the entity's strategy and procedures to align with EU public policy objectives, as well as with stakeholder and user expectations.

- 19 The standard-setter should elaborate standards from a target architecture based upon **three layers of reporting, three reporting areas** and **three topics**. The resulting standards must also provide a basis to develop a data taxonomy¹ that facilitates the digitisation of **sustainability statements**:



- 20 **Three layers of reporting.** The target architecture should foster comparability and relevance in a proportionate manner. This entails a cascading approach to standard-setting based on three successive layers: (i) sector-agnostic disclosures; (ii) sector-specific disclosures; and (iii) entity-specific disclosures.

a) Overall comparability is only possible when standards prescribe common mandatory requirements for all reporting entities. However, pushed too far, this may translate into too heavy a burden for reporting entities and may result in a loss of relevance, as not all entities have the same sustainability risk and impact profile. Therefore, this **primary sector-agnostic layer** of standards should define disclosures that are necessary to allow **comparability across sectors**.

b) Not all sustainability topics are equally relevant across sectors. **Relevance** is reinforced when standards introduce additional disclosures tailored for a given sector, based on its specific sustainability footprint and challenges. Addressing risks and impacts that are not (sufficiently) covered by sector-agnostic sustainability information, the second **sector-specific layer** of disclosures should complement this first layer and foster **comparability within a given sector**.

c) Each reporting entity is a unique combination of value creation factors, with specific risks and opportunities as well as impacts. Mandatory sector-agnostic and sector-specific disclosures may therefore not be fully adapted to **faithfully** reflect an entity's unique sustainability footprint and journey. It is therefore key for each reporting entity to 'own' its double materiality assessment process beyond the standardised mandatory part and to provide, when necessary, additional **entity-specific information that best depicts its unique situation**.

- 21 **Three reporting areas.** Sustainability reporting standards should reflect a reporting entity's decision-making and reporting cycle and associated processes in a structured manner. One possible way forward is to articulate reporting areas under three key management dimensions which describe the entity's governance and management in a structured and logical manner:

a) *Strategy.* The disclosures under this category should adequately cover at reporting entity level the sustainability aspects of its strategy and of its business model(s), and the entity's materiality assessment process, as well as the specific governance, management responsibilities, processes and reporting procedures put in place to address and monitor sustainability matters.

¹ To be understood as a data classification, not to be confused with the EU Taxonomy.

b) *Implementation*. For each topic, the disclosures should cover how the reporting entity translates its strategy into action through policies, targets, action plans and dedicated resources.

c) *Performance measurement*. Finally, the disclosures should explain how the reporting entity delivers against its policies and targets and what is its transition trajectory, including its past performance (retrospective information) and forward-looking perspectives.

22 **Three sustainability topics with comprehensive sub-topics.** The purpose of organising a clear and logical classification of sustainability topics (and sub-topics under each topic) is twofold:

a) ensuring a comprehensive coverage of all sustainability topics and an easier identification of relevant information in sustainability reports; and

b) defining the list of topical standards that the standard-setter will have to produce to ensure such comprehensive coverage of all sustainability topics.

23 The ESG classification is probably the most practical and easily accessible approach for users and preparers alike as it offers a logical and clear distinction between the three key drivers (and actors) of sustainability: the Planet (i.e. all natural resources and life forms other than human); the People (i.e. human life in all its dimensions, from individuals to communities); and the Business (i.e. the reporting entity itself).

24 Accordingly, the standard-setter could adopt a three-category approach to promote a comprehensive coverage:

a) the Environment category (**E**) would include standards defining how to report on impacts to and from all environmental factors: climate change, water & marine resources, biodiversity & ecosystems, circular economy, pollutions;

b) the Social category (**S**) would include standards defining how to report impacts to and from all people factors, over the whole scope of the entity's ecosystem: workforce, value chain workers, affected communities, consumers/end users;

c) the Governance+ category (**G+**) would be broader than traditionally considered under the concept of 'governance.' This category would include a full spectrum of relevant matters in order to report on sustainability aspects relating to the reporting entity itself: governance, business & ethics, management of the quality of relationships with stakeholders, organisation and innovation, and reputation and brand management.

25 **Sustainability statements and digitisation of reporting.** Standards must improve the quality of sustainability reporting in terms of reporting structure and presentation. They must also ensure that sustainability information is more accessible and facilitate its digitisation. Beyond the legislative level, EU standards should provide from day one for a clear sustainability reporting structure as well as a digital taxonomy allowing for agile access and analysis.

26 Standardised sustainability information should preferably be reported in a separate and clearly identifiable section of the management report which would be presented as '**sustainability statements**'. Such a presentation would significantly enhance comparability, easy access and avoid fragmentation. More importantly it would distinguish the standardised part of the management report from other, unstandardised narrative reporting sections which express the views of governance and management on the evolution of the business from a general perspective and highlight the interconnections between the various dimensions of corporate information.

27 To facilitate digitisation, the standard-setter should translate the architecture's classification and segmentation of sustainability disclosures into a digital taxonomy from the outset. This digital taxonomy should be issued in parallel with the standards. This will permit sustainability information to be tagged based upon a granular analysis of data points.

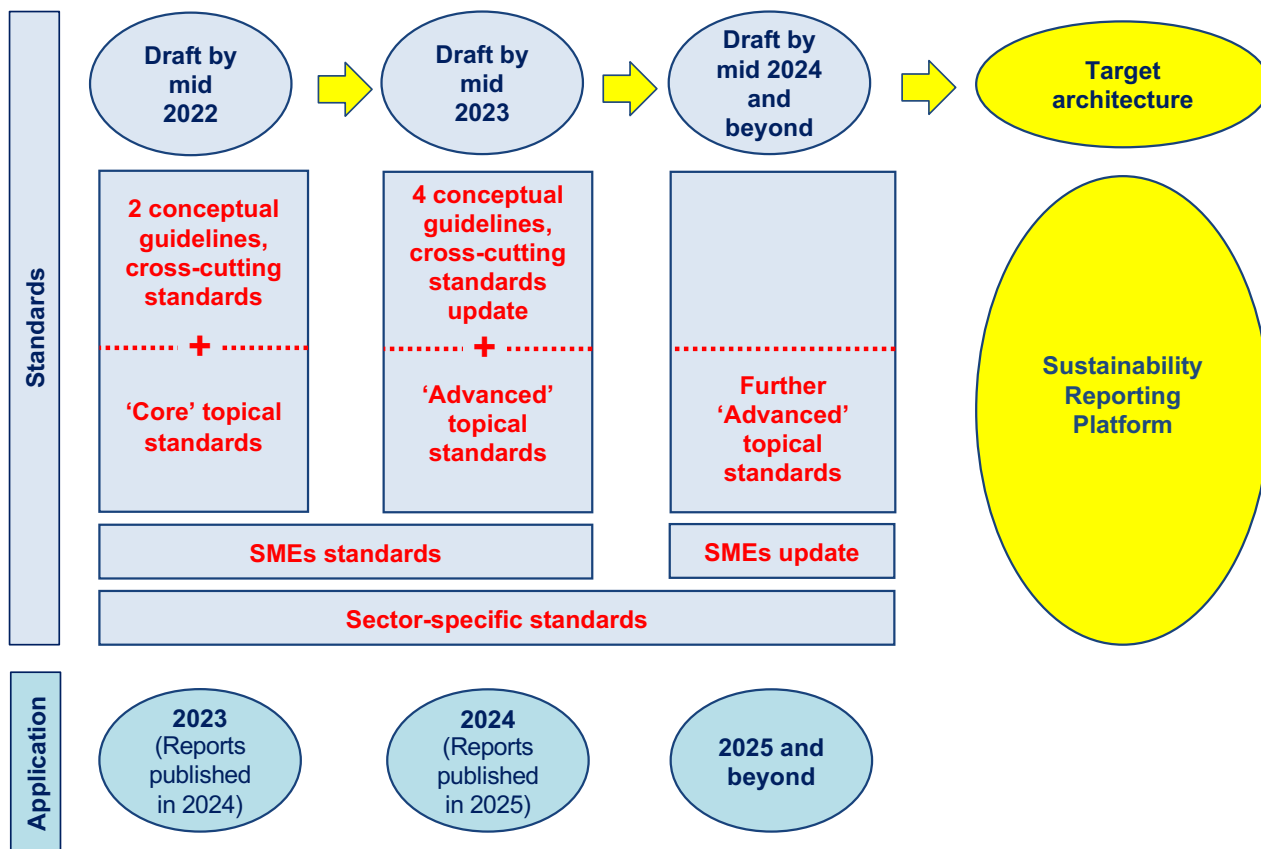
4. THE STANDARD-SETTING ROADMAP SHOULD BE IMPLEMENTED IN PHASES

28 Financial standard-setting has taken decades to reach maturity and is still evolving. By contrast, sustainability reporting must achieve a qualitative step-change over a limited number of years. This change of paradigm in standard-setting requires **careful prioritisation**. It implies a step-by-step project towards a comprehensive and stable reporting platform allowing companies to report in line with the provisions of the revised NFRD.

- 29 Standard-setting in the EU should be organised to meet the deadlines assigned for the first-time application of the revised NFRD. This implies to establish a pragmatic roadmap combining (i) the need for game-changing initial sets of standards based on priorities and (ii) an ongoing longer term ‘enhancement of content’ process. In practical terms this also implies a clear and robust due process, a swift start and adequate resources, all of this being placed as soon as possible under the umbrella of the appropriate EU standard-setting governance.
- 30 The development of the initial sets of standards (reporting years 2023 and 2024) should be guided by four priorities:
- a) An appropriate ‘core’ of disclosures consolidating and complementing best achievements based on existing standards and frameworks where these sufficiently meet the quality of information and standards guidelines. Each standard forming part of this first set would later follow an ‘enhancement of content’ progression moving from ‘core’ to ‘advanced’ levels.
 - b) Some topics are more mature and can therefore be developed as part of this first set of standards. This is particularly the case for climate-related disclosures, for which the TCFD recommendations are widely supported by policy-makers, users and preparers.
 - c) The first set of standards must meet the needs of recently adopted EU legislation in the field of sustainable finance, in particular the SFDR. Failing to do so would create major inconsistencies at the heart of the EU’s sustainable finance policy.
 - d) Finally, due consideration should be given to helping preparers, in particular SMEs and small and medium-sized accountancy practices (SMPs) that typically advise on and prepare financial and non-financial reports for SMEs, to respond to the increasing demand for sustainability information. Preparers are confronted with an increasing pressure from stakeholders and a key priority for them is to move towards a coherent system that avoids multiple requests for information in different formats.
- 31 **Elaborating game-changing first two sets of standards.** The first set of standards should allow companies to report pursuant to the revised NFRD for reporting year 2023 (reports published in 2024). This first set of standards should therefore tentatively include:
- a) two priority conceptual guidelines: double materiality and quality of information;
 - b) cross-cutting ‘core’ standards covering reporting areas, reporting structure and entity-specific materiality assessment;
 - c) ‘core’ standards for most sub-topics (reasonably mature) and ‘advanced’ standards for some priority sub-topics such as climate change.
- 32 The second set of standards for reporting year 2024 (reports published in 2025) should start enhancing content and tentatively cover:
- a) the remaining four conceptual guidelines;
 - b) ‘advanced’ cross-cutting standards (if need be);
 - c) ‘advanced’ standards for other priority sub-topics.
- 33 Alongside the first two sets of sector-agnostic standards, sector-specific disclosures should be considered either (i) prioritising most-impactful/most impacted sectors and covering all sectors over time or (ii) under an all-sector coverage based upon an initial ‘core’ (more limited in terms of depth) approach.
- 34 Sustainability reporting for SMEs should be addressed as part of the first two sets and SME specific standards should be elaborated focusing on business model, summarised sustainability challenges and retrospective KPIs and corresponding to the expectations of the SME management team, the value chain counterparts and financial institutions.
- 35 **Establishing standard-setting as an ongoing process.** Following the first two sets of standards sustainability reporting will not have fully reached the reporting platform defined by the target architecture. Progressive ‘enhancement of

content' (in terms of sub-topics covered and number of disclosures per sub-topic) will be essential. The main objective of the subsequent standard-setting work should be to add depth through successive versions of topical standards. This should be organised on the basis of a review of achievements accomplished with the first two sets.

Figure 2: Standard-setting roadmap



36 **Governance and resources.** Quality standard-setting implies appropriate governance and adequate resources. While these aspects are not directly in the remit of the PTF, they are a prerequisite for the success of the standardisation programme. So is the need to start standard-setting as soon as possible in order to meet ambitious deadlines, possibly in preparatory work mode with an appropriate hand-over to the governing bodies as soon as established.

5. A MUTUALLY REINFORCING COOPERATION BETWEEN THE EU AND INTERNATIONAL INITIATIVES OR FORA

37 **Building on international initiatives.** The EU is a strong supporter of international convergence. It is therefore logical that it should cooperate with international stakeholders and partners to develop a comprehensive sustainability reporting platform. Many initiatives can be considered for input to the EU sustainability reporting standard-setting. The standard-setter should therefore consider a two-step approach:

a) Assessing initiatives and disclosures for:

- (i) congruence with EU priorities,
- (ii) due process and governance context, and
- (iii) compliance with the European standard-setting objectives, guidelines and roadmap,

and if need be adapting and complementing the selected disclosures to fit EU needs.

b) Translating the selected disclosures into an EU regulatory compliant wording, ensuring overall coherence of EU standards.

38 **Contributing to international convergence.** The EU's standard-setter should also contribute to sustainability reporting progress at global level by:

a) making the outcome of its standard-setting activities available to international partners and initiatives;

b) establishing bilateral relationships that could include joint projects;

c) promoting and participating in global convergence efforts on a 'co-construction' basis; and

d) participating in fora dedicated to fostering coherence and integration of corporate reporting as a whole (including connectivity between financial and sustainability reporting).

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PURPOSE AND PROPOSALS

PURPOSE OF SUSTAINABILITY REPORTING

The purpose of publicly available sustainability reporting is to provide relevant, faithful, comparable and reliable information:

- *on (i) material sustainability impacts of the reporting entity on affected stakeholders (including the environment) and (ii) material sustainability risks and opportunities for its own value creation;*
- *enabling users of information (i) to understand the reporting entity's sustainability objectives, position and performance and (ii) to inform their decisions relating to their engagement with the entity.*

Sustainability reporting is directly related to management reporting systems enabling reporting entities to better understand, manage sustainability matters and ultimately improve sustainability performance.

Part 1 – Building the next step of EU sustainability reporting from robust and coherent standard-setting foundations

1.1 OVERARCHING PRINCIPLE 1: AN INCLUSIVE RANGE OF SUSTAINABILITY REPORTING STAKEHOLDERS

Proposal #01

The EU standard-setter should ensure that the relevance of, and distinctions between, affected stakeholders and users of sustainability reporting are clearly reflected in the standards it develops. This should be particularly reflected in the determination of the impact materiality of topics and related disclosures, bearing in mind that:

- a) impact materiality is determined by the relative severity of potential and actual impacts on people and environment connected with the business through its activities and value chain;
- b) an assessment of the relative severity of potential and actual impacts on people and environment is central to the reporting entity's on-going human rights and environmental due diligence processes, in line with international standards, and should be informed by the perspectives of all affected stakeholders and/or their legitimate representatives;
- c) with regard to impact materiality, information that reflects the reporting entity's most severe potential and actual impacts on people and environment will be decision-useful for users of sustainability reporting;
- d) the process of reporting on material impacts is informed by and supports sustained and meaningful engagement with affected stakeholders, and their legitimate representatives (including worker representative, environmental and other civil society organisations).

1.2 OVERARCHING PRINCIPLE 2: A PRINCIPLE-BASED SUSTAINABILITY REPORTING SYSTEM

Proposal #02

The ESS should (i) adopt a general principle-based approach to sustainability standard-setting consistent with the EU legal environment in conjunction with (ii) detailed prescriptions for sustainability disclosures aiming at sector-agnostic and sector-specific comparability.

1.3 BUILDING BLOCK 1: SUPPORTING THE EU SUSTAINABLE DEVELOPMENT AND SUSTAINABILITY REPORTING MOMENTUM

Proposal #03

In order to support and amplify the EU sustainability reporting momentum the ESS should consider defining an initial level playing field by developing standards drawing on existing recognised best practices.

Proposal #04

The ESS should, as a priority, consider elaborating standards facilitating the flows of relevant and reliable sustainability data between preparers and users in order to foster coherence in sustainability reporting.

Proposal #05

In its standard-setting process, the ESS should systematically consider the potential consequences of, and interaction with, reporting obligations stemming from ESG/sustainability policy initiatives in order to foster consistency and synergies.

1.4 BUILDING BLOCK 2: BUILDING FROM AND CONTRIBUTING TO SUSTAINABILITY REPORTING GLOBAL COHERENCE AND CONVERGENCE

Proposal #06

While managing the EU political, regulatory, cultural, technical and timing constraints, the ESS should strive for a co-constructive approach with relevant other international initiatives, based on a two-way exchange of experience, expertise, tools and content, feeding one another with the ultimate goal of fostering coherence and consistency between EU and global sustainability reporting.

1.5 BUILDING BLOCK 3: ADDRESSING THE SPECIFIC CHALLENGES OF FINANCIAL INSTITUTIONS

Proposal #07

The ESS should recognise financial institutions' dual role and specific challenges in reporting their indirect sustainability impacts and design standards addressing these challenges for each of the three categories of financial institutions. In doing so and to the extent possible at its level, the ESS should aim at defining as simplified and unified as possible a set of sustainability information fit to meet the multiple sustainability reporting requirements imposed on financial institutions.

Proposal #08

When determining a first set of mandatory sustainability information for all reporting entities (and then when further developing sustainability information requirements), the ESS should consider financial institutions' specific needs as users of sustainability information, in order for them to appropriately direct investment flows to relevant projects and meet their own specific sustainability reporting obligations regarding indirect impacts. In particular, the ESS should consider the following:

- a) it should cover all sustainability topics, not just climate-related;
- b) to be investment decision-useful, sustainability information needs to include in particular quantitative forward-looking information; and
- c) sustainability information data needs to be collected in a timely manner and easily accessible.

The possible development of indicators based on monetised impacts remains a growing need in order to foster performance and goal alignment measurement and should be considered at a later stage.

1.6 BUILDING BLOCK 4: INCLUDING SMEs IN THE EU SUSTAINABILITY REPORTING LANDSCAPE IN A PROPORTIONATE MANNER

Proposal #09

The ESS should consider adopting a proportionate standard-setting approach tailored for EU SMEs. This would take the form of SME-specific standards aiming at balancing (i) the specific governance, organisational and resources availability aspects of SMEs and (ii) the need for sustainability information produced by SMEs to be relevant for their stakeholders, i.e. coherent with their own reporting requirements.

1.7 BUILDING BLOCK 5: FOSTERING SECTOR-SPECIFIC SUSTAINABILITY REPORTING RELEVANCE

Proposal #10

The ESS should consider adopting a standard-setting approach to sector-specific sustainability reporting as a complement to sector-agnostic reporting. The sector-specific standards should be built upon:

- a) existing sector legal requirements;
- b) widely accepted indicators meeting EU quality of information criteria;
- c) recognised sector-specific sustainability goals; and
- d) the risks and impacts relevant to a specific sector that would not be covered, or not covered enough, by sector-agnostic sustainability reporting.

Proposal #11

The ESS should consider defining an EU compatible classification of sectors (e.g. NACE), and design a balanced sector-specific sustainability set of disclosures that covers all sectors.

1.8 BUILDING BLOCK 6: ACKNOWLEDGING THE IMPORTANCE OF INTANGIBLES IN SUSTAINABILITY REPORTING

Proposal #12

The ESS should consider introducing in its standard-setting processes intangibles as a key dimension of sustainable company development and therefore sustainability reporting.

Part 2 – Anchoring key EU sustainability reporting concepts in robust conceptual guidelines

2.1 DEVELOPING STANDARD-SETTING METHODOLOGIES TO ALIGN STANDARDS WITH EU AND GLOBAL SUSTAINABILITY POLICY PRIORITIES

Proposal #13

The ESS should consider adopting a guideline aiming at ensuring the alignment and consistency of EU sustainability reporting standards with agreements, policies, goals and standards:

- a) at global level (notably the 2030 Agenda, the Paris Agreement, Convention on Biological Diversity, the ILO Conventions and Declaration of Fundamental Principles and Rights at Work, the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises); and
- b) at EU level (notably the EU Green Deal, Sustainable Governance Initiative and Sustainable Finance Strategy and related legislation, strategies, action plans and benchmarks).

In order to avoid 'green-washing' or 'blue-washing' in companies' management reports, the ESS should seek to ensure that reporting on companies' contributions towards global policy goals such as the Paris Agreement and 2030 Agenda:

- a) minimises risks of 'green-washing' or 'blue-washing',
- b) facilitates the tracking of progress at an aggregated level, and
- c) is based on disclosures that meet a set of clear quality criteria.

2.2 DEVELOPING CRITERIA SUPPORTING A STANDARD-SETTING PROCESS ALIGNED WITH THE EXPECTED CHARACTERISTICS OF INFORMATION QUALITY

Proposal #14

The standard-setter should develop guidance on principles governing the quality of information set out in the revised Non-Financial Reporting Directive, to be applied in its own standard-setting processes and by reporting entities.

Proposal #15

The standard-setter should assess all disclosures at both sector-agnostic and sector-specific levels – whether new disclosures or drawn from existing reporting standards – against criteria that test the validity of the insight the resulting information can provide to users and the potential for unintended consequences from their application.

2.3 DEFINING DETAILED RETROSPECTIVE AND FORWARD-LOOKING SUSTAINABILITY INFORMATION COMPONENTS

Proposal #16

The ESS should develop guidelines supporting the development of standards that reflect both retrospective and forward-looking information and provide guidance to report preparers on how to apply meaningful time horizons, building on existing frameworks and standards where possible.

Proposal #17

When developing the standard on business model, the ESS should consider the need for reporting entities' disclosures to include information regarding:

- a) the degree of alignment of an entity's business model and strategy with the Paris Agreement (using climate scenario analysis) and its plans to increase alignment where necessary, starting with carbon intensive sectors;
- b) the degree of alignment of an entity's business model and strategy with other EU or international environmental goals, and its plans to increase alignment where necessary;
- c) the extent to which material risks to or impacts on people are linked to aspects of an entity's business model and strategy and, where this is the case, how they are being addressed through adaptation of the model or strategy, or mitigation measures.

Proposal #18

Through its standards and guidance, the ESS should encourage the disclosure by reporting entities of targets and progress towards their achievement in relation to all material sustainability matters. In line with the reporting principles of relevance, verifiability and (wherever possible) comparability, the ESS should adopt guidelines for ensuring the value of target-based disclosures to users of reporting. Such guidelines may reflect that information regarding targets is typically of most value where they are:

- a) articulated in terms of their relevance to outcomes for affected stakeholders and/or the environment;
- b) specific, measurable, achievable and time-bound;
- c) set against a base year from which progress can be measured;
- d) developed with input from internal or external subject-matter experts and, wherever possible, from affected stakeholders and/or their legitimate representatives;
- e) science-based wherever feasible (in particular for climate and environmental issues) or, where this is not possible, linked to key EU or global policy objectives;
- f) reported in combination with a set of key performance indicators that are used to monitor and assess progress against targets and which factor in feedback from affected stakeholders and/or their legitimate representatives.

2.4 DEVELOPING STANDARD-SETTING METHODOLOGIES TO DEFINE LEVELS OF REPORTING BASED ON CLEAR BOUNDARIES

Proposal #19

The ESS should develop clear guidelines regarding the levels of reporting to guide its own standard-setting processes as well as the data gathering and reporting processes of reporting entities. These guidelines should recognise that:

- a) The financial materiality of a sustainability matter is not constrained to matters that are within the control of the reporting entity; it should also include risks, opportunities and outcomes 'attributable to or associated with other entities/stakeholders beyond the financial reporting entity that have a significant effect on the ability of the financial reporting entity to create value'.
- b) The impact materiality of a sustainability matter is similarly based not on the level of a reporting entity's control or influence with regard to the impact, but on:
 - (i) evidence of a direct link between the impact and the entity's own activities, products or services (including through the value chain); and
 - (ii) an assessment of the relative severity of the impact, with the most severe impacts being judged material.
- c) The determination of the level (within a company and its value chain) where a material sustainability matter arises should be informed by the reporting entity's materiality assessment.
- d) Despite the narrower scope of financial reporting, points of connectivity between financial and sustainability reporting may extend beyond the control-based scope and reflect sustainability matters in the value chain.

Proposal #20

Given that:

- a) a material topic may manifest at different levels in different entities' scope of operations and/or value chain, and
- b) the dynamics that generate and mitigate risks and impacts can involve more than one of those levels and may be linked to the entity's own business model,

the ESS should seek to ensure through appropriate guidelines that both its own standard-setting processes and the reporting processes of entities:

- a) ensure that disclosures reflect information that is sufficiently specific to the level at which the material matter arises;
- b) support holistic and coherent reporting that recognises that the appropriate level(s) of information may vary by entity and context (while also recognising topics where certain risks and impacts are clearly linked with certain sectors and levels);
- c) ensure that where data from different levels, or multiple locations within a level, is aggregated, this is done in a way that avoids obscuring the specificity and context necessary to interpret the information;
- d) recognise the dynamics and causal connections between levels and avoid presuming that material information is constrained to one particular level;
- e) ensure that disclosures enable relevant insight into those dynamics and connections and are not limited to generic and tick-the-box reporting (for example on value chain codes of conduct and value chain audits);
- f) provide for disclosures to reflect connections to the reporting entity's business model and its role in generating positive or negative impacts on people and the environment and creating or destroying value for the enterprise as a result.

Proposal #21

The sequence in which the ESS first develops and subsequently refines reporting standards should reflect:

- a) the urgent need to improve reporting on the most severe impacts and significant dependencies connected to a reporting entity's operations and value chains, regardless of its level of control or influence over them;
- b) while being cognisant of the fact that it is typically easier for reporting entities to gather robust information within the scope of their controlled operations and most challenging to do so at remote points in the value chain (especially when bargaining power vis-à-vis business partners is low), and that it takes time to develop sustainability reporting systems that cover this.

2.5 DEVELOPING STANDARD-SETTING ASSESSMENT GUIDELINES TO OPERATIONALISE THE DOUBLE MATERIALITY CONCEPT

Proposal #22

The ESS should adopt guidelines in order to be clear and unambiguous in its application of the double materiality concept (as set out in the revised NFRD): double materiality requires that both the impact materiality and financial materiality perspectives be applied in their own right, while recognising the dynamic relationship between the two.

Proposal #23

The ESS should adopt double materiality guidelines that will guide its own determination of material sector-agnostic and sector-specific matters and disclosure requirements as well as the double materiality process to be conducted by reporting entities. These principles should align with international standards of conduct such as the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises as well as the Taskforce on Climate-related Financial Disclosures.

Proposal #24

The guidelines should articulate:

- a) sector-agnostic sustainability matters and disclosures that are mandatory for all reporting entities, based on: public policy goals, information that in aggregate reflects changes in systemic or structural risk; or their materiality for most or all reporting entities;
- b) sector-specific sustainability matters and disclosures that are mandatory for all reporting entities within specific sectors based on: public policy goals, information that in aggregate reflects changes in systemic or structural risk; or the likelihood of their materiality for entities in those sectors;
- c) guidance to reporting entities on the double materiality process to be implemented in determining any additional sustainability matters and disclosures that are material for the entity's reporting; and
- d) guidance for reporting entities in the event that they determine a mandatory sustainability matter or disclosure is either not material, or only in a limited or specific way in their particular case, enabling them to accompany that matter or disclosure with adequate justification.

Proposal #25

The PTF recommends that ESS should distinguish between, on the one hand, the determination of sustainability matters as material based on principles underpinning the two perspectives within double materiality, and, on the other hand, the viability of mandating specific disclosures in relation to those material matters. The mandating of specific disclosures should be based on a rigorous assessment of both existing and newly developed disclosures against both general and specific characteristics of information quality.

Proposal #26

The ESS should provide clear guidance for reporting entities on the process to follow in applying the double materiality concept in order to establish information to disclose. The ESS should ensure that these processes align with existing EU and international initiatives and standards for the identification and prioritisation of impacts on people and the environment (in the case of impact materiality) and established processes for determining financially material sustainability matters (in the case of financial materiality).

2.6 DEFINING METHODOLOGIES AND PROCESSES ENABLING CONNECTIVITY BETWEEN SUSTAINABILITY REPORTING AND FINANCIAL REPORTING

Proposal #27

The ESS should define through appropriate guidelines methodologies and processes enabling connectivity (direct and indirect) and reconciliations between financial reporting, under IFRS or local GAAP, and sustainability reporting.

Proposal #28

The ESS needs to promote, in cooperation with the financial standard-setters, the coherence of the respective standards and ultimately of corporate information.

Part 3 – Elaborating standards from a state-of-the-art target sustainability reporting architecture

3.1 PROMOTING PROPORTIONALITY, COMPARABILITY AND RELEVANCE THROUGH A THREE-LAYER REPORTING APPROACH: SECTOR-AGNOSTIC, SECTOR-SPECIFIC AND ENTITY-SPECIFIC DISCLOSURES

Proposal #29

The ESS standards architecture should be supported by three layers of sustainability information:

- a) a sector-agnostic layer applicable to all reporting entities,
- b) a sector-specific layer applicable to reporting entities within each sector,
- c) an entity-specific layer.

3.2 DESIGNING A COMPREHENSIVE SCOPE FOR EU STANDARD-SETTING

3.2.1 Defining the relevant detailed sustainability reporting areas to ensure proper coverage

Proposal #30

The ESS should consider structuring sustainability reporting standards around three reporting areas: Strategy, Implementation and Performance measurement, in order to ensure full coverage of all sustainability dimensions across a reporting entity's business cycle.

Proposal #31

The ESS should consider prescribing Strategy disclosures to be reported on the reporting entity as a whole while Implementation disclosures (under common definitions to be designed by cross-cutting standards) and Performance measurement disclosures would be reported on a topic-by-topic basis.

Proposal #32

The PTF therefore recommends that the ESS consider structuring the Strategy disclosures under three sub-areas:

- a) overall business strategy (including business model);
- b) material sustainability risks, opportunities and impacts (as resulting from the double materiality assessment); and
- c) sustainability governance and organisation.

Proposal #33

The ESS should consider structuring the Implementation disclosures under two key components:

- a) policies and targets, and
- b) action plans and resources.

Proposal #34

The ESS should consider structuring the performance measurement disclosures around two key perspectives:

- a) retrospective view of current achievements at reporting date, and
- b) forward-looking progress report on trajectory.

3.2.2 Adopting the detailed sustainability topics and sub-topics structure covering all aspects of the European sustainability goals and agenda

Proposal #35

The ESS should consider structuring its standard-setting work around the following three sustainability topics: **Environment, Social and Governance+**. The ESS should also consider building a clear list of all sub-topics included in each of these three categories, while allowing for future flexibility so as to capture new reporting lenses and innovative approaches. In doing so, the ESS should consider EU policy priorities and legislation, as well as a combination of existing frameworks, standards, scientific and experts' consensus and international sustainability trends.

Proposal #36

When defining the **Environment** sub-topics structure, the ESS should ensure it covers all environmental issues legally defined and required in the EU. If possible within that context, the ESS should consider making it consistent with the EU Taxonomy, as follows:

- a) climate change mitigation
- b) climate change adaptation
- c) water and marine resources
- d) circular economy
- e) pollution
- f) biodiversity and ecosystems.

Proposal #37

When defining the **Social** sub-topics structure, the ESS should ensure it covers all social issues legally defined and required in the EU. If possible within that context, the ESS should consider following a stakeholder-centred approach and further ensuring that the list of social sub-sub-topics to be covered for each relevant stakeholder group:

- a) is aligned with international and EU reference frameworks and standards, including the UNGP on Business and Human Rights, the OECD Guidelines – and the other international declarations and principles such texts refer to – as well as with the Charter of Fundamental Rights of the EU;
- b) covers all social matters listed in such EU and international references as a minimum, organised in a way that combines the management perspective with the Human Rights, regulatory compliance and intangibles perspectives;
- c) organises and adjusts such social matters to best represent their specific impact on each category of stakeholders;
- d) is consistent with EU social objectives and priorities;
- e) makes the distinction between the entity's workforce and other affected stakeholders.

Proposal #38

When defining a **Governance+** sub-topics structure, the ESS should ensure it covers all issues legally defined and required in the EU. If possible within that context, the ESS should consider developing a Governance+ sub-topics structure that would cover the drivers of sustainability for reporting entity itself, including:

- a) governance,
- b) business ethics,
- c) management of the quality of relationships,
- d) organisation, and
- e) innovation, products and services, reputation and brand.

3.3 PROMOTING A UNIFIED SUSTAINABILITY REPORTING FORMAT AND THE RELATED DATA TAXONOMY MECHANISM ALLOWING EASY DIGITISATION

3.3.1 Sustainability statements: location and structure

Proposal #39

The PTF view is that standardised sustainability information, both of qualitative and quantitative nature, should be preferably reported in a separate section of the management report clearly identified as 'sustainability statements'.

3.3.2 A digital taxonomy: on-boarding a tagging technique from the beginning

Proposal #40

The ESS should consider translating the classification and the segmentation of sustainability disclosures into a digital taxonomy from the outset and as soon as required from preparers (i.e. in parallel to the issuance of the standard itself) fostering different levels of reading as well as the use of extensions when necessary.

Part 4 – Rolling out a phased-in standard setting roadmap

4.1 ESTABLISHING CRITERIA FOR PRIORITISATION

Proposal #41

As part of the first set of standards, the ESS should consider developing the three cross-cutting standards on reporting areas relating to strategy and the two cross-cutting reference standards on reporting areas related to Implementation.

Proposal #42

The ESS should consider developing a standard, in the first set, on the detailed reporting structure, following a logical rationalisation of the defined perimeter of sustainability reporting in accordance with the overall architecture and allowing for easy digitisation.

Proposal #43

The ESS should consider developing successive versions of standards allowing for progressive ‘enhancement of content’.

Proposal #44

The ESS should aim as a first step at (i) a set of ‘core’ disclosures offering a coherent coverage of sub-topics and (ii) more extensive disclosures for certain priority sub-topics.

4.2 DEFINING THE FIRST TWO SETS AND A ROADMAP FOR STANDARD-SETTING

4.2.1 Getting started with a first set of sector-agnostic ‘core’ standards

Proposal #45

Should there be a need to prioritise, in the first set of guidelines and standards, the ESS should consider developing two conceptual guidelines – double materiality and quality of information – as well as cross-cutting standards covering reporting areas, reporting structure and entity-specific materiality assessment.

Proposal #46

In the first set of standards, the ESS should consider developing ‘core’ standards for most sub-topics and ‘advanced’ standards for some priority sub-topics such as, for example, climate change.

4.2.2 Enhancing coverage and depth of topical standards in the second and following steps

Proposal #47

Taking into account any political or legislative decision, the ESS should determine during the elaboration of the first set of standards the priorities to be covered in the second and following sets under the ‘enhancement of content’ strategy.

4.2.3 Considering possible options for sector-specific standards coverage in the first sets

Proposal #48

The ESS should consider starting from a clear definition of sectors (i) derived from the EU NACE classification and (ii) presenting a reasonable level of convergence and coherence with other classifications from international initiatives.

Proposal #49

The ESS should start from EU priorities and consider including in the first set of standards some sector-specific disclosures for most impacted/most impactful sectors that are particularly relevant in the EU landscape and specificities and completing the sector coverage over time.

Proposal #50

The ESS should consider defining sector-specific standards with a particular attention to streamlining existing international and EU requirements to ensure coherence and simplification.

4.2.4 Developing an enabling SME approach

Proposal #51

The ESS should consider focusing on two levels of sustainability reporting for SMEs, based on a combination of the risk profile and size: (i) sector-agnostic 'core' sustainability reporting disclosures to ensure coherence and efficiency in value chains for small and medium-sized enterprises and (ii) additional sector-specific sustainability reporting disclosures based on a risk-based approach differentiating highly critical sectors from less critical sectors.

Proposal #52

The ESS should consider developing proportionate SME standards (i) focusing on the business model, a summary of major sustainability challenges and retrospective KPIs and (ii) corresponding to the expectations of the SME leadership team, the value chain counterparts, and financial institutions.

4.3 POSSIBLE WAY FORWARD TO ON-BOARD INTERNATIONAL INITIATIVES: A 2-STEP APPROACH

Proposal #53

When building on international initiatives, the ESS should consider a 2-step approach:

- a) Assessing initiatives, and disclosures' (i) congruence with EU priorities; (ii) due process and governance context; and (iii) compliance with the European standard-setting objectives, guidelines and roadmap and if need be adapting and complementing the selected disclosures to fit EU needs.
- b) Translating the selected disclosures into an EU regulatory compliant wording, ensuring overall coherence of EU standards.

Proposal #54

The ESS should contribute to sustainability reporting progress globally by:

- a) Making available internationally the outcome of its standard-setting activities,
- b) Establishing confident and fruitful bilateral relationships and stimulating joint projects,
- c) Promoting and participating to convergence efforts on a co-construction basis, and
- d) Participating in fora dedicated to dedicated to foster coherence and integration of corporate reporting as a whole (in particular connectivity between financial and sustainability reporting).

INTRODUCTION

THE CONTEXT OF THIS REPORT

Sustainability reporting in the EU: the 2014 initial step

- 39 As announced by Executive Vice-President Valdis Dombrovskis in January 2020, the European Commission is expected to make a legislative proposal to revise the Non-Financial Reporting Directive (NFRD) in spring 2021.
- 40 The NFRD was adopted in 2014 in the context of a global economy that was still recovering from the 2008 financial crisis and of the outcome document from the 2012 UN Rio +20 Conference, 'The Future We Want', stating the need to 'ensure the promotion of an economically, socially and environmentally sustainable future for our planet and for present and future generations'.
- 41 This was translated from two EU policy priorities of relevance:
- a) the Single Markets Act from 2011, intended to boost growth and strengthen confidence in the European economy; and
 - b) the renewed EU strategy 2011-14 to promote Corporate Social Responsibility (CSR), defined as 'the responsibility of enterprises for their impacts on society' to promote accountable, transparent, and responsible business behaviour and sustainable growth.
- 42 The strategy spells out that to fully meet their corporate social responsibility, enterprises should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders, with the aim of:
- a) maximising the creation of shared value for their owners/shareholders and for their other stakeholders and society at large;
 - b) identifying, preventing and mitigating their possible adverse impacts.
- 43 As a consequence, the 2014 NFRD has become an instrument through which enterprises are requested, following transpositions in Member States' laws, to report on their achievement of this dual purpose: (i) value creation for the enterprise and other stakeholders/society and (ii) effective management of adverse impacts of their actions.
- 44 The guiding principle behind the NFRD succeeded in introducing a minimal, principle-based legal requirement applicable only to enterprises of a certain type and size. It built on those reporting standards and frameworks that existed at the time, as well as internationally applicable principles and standards for responsible business conduct and stakeholder inclusion.
- 45 The 2014 NFRD² requires that enterprises include in the Management Report of their Annual Report, or in a separate report, if the Member State allows it, the following information:
- a) a brief description of the undertaking's business model;
 - b) a description of the policies pursued by the undertaking in relation to those matters, including due diligence processes implemented;
 - c) the outcome of those policies;

2 Directive 2014/95/EU Article 1.

- d) the principal risks related to those matters linked to the undertaking's operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts in those areas, and how the undertaking manages those risks;
- e) non-financial key performance indicators relevant to the particular business.
- 46 Since then, many additional private initiatives have emerged and matured globally, illustrating the growing interest for sustainability information and the need to take it to another level.
- 47 This buoyant trend was no stranger to the EU: the European Green Deal and Sustainable Finance Action Plan have been developed, and in their wake, cornerstone regulations such as the EU Taxonomy and the Sustainable Finance Disclosure Regulation (SFDR), introducing new sustainability reporting requirements. This prompted the European Commission to kick off a review of the NFRD to assess the extent to which its implementation is effective in meeting the above objectives.
- 48 Findings from external assessments are consistent with the feedback from stakeholders in the NFRD review consultation launched by the European Commission in Spring 2020 and have been reflected in the mandate given to the PTF³. One of the principal findings of the European Commission's analysis of the implementation of the NFRD is that public disclosures made by companies pursuant to the NFRD are inadequate to allow users of company reports to understand how non-financial matters impact the value and performance of companies, nor how companies themselves impact society and the environment. Specific issues include:
- a) reported non-financial information is not sufficiently comparable or reliable;
- b) reported non-financial information is not sufficiently relevant, i.e. companies do not report all non-financial information that stakeholders think is necessary, and many companies report information that stakeholders do not think is relevant;
- c) some companies, from which investors and other stakeholders want non-financial information, do not report such information;
- d) users have difficulty in finding and exploiting the reported information, in part because the information is not sufficiently digitalised.
- 49 It is recognised that the 2014 NFRD was a symbolic and important initial step. It has ensured that companies have begun their journey and invested time and resources. But the sustainability landscape has matured. Expectations have risen and will continue to rise to hold companies accountable to all their stakeholders for their value creation and contribution to sustainable development. The universe of sustainability matters keeps expanding to include new aspects of sustainable development. To sustain its bold and innovative debut and live-up to the expectations it has set, the NFRD has to keep pace with the powerful trend it contributed to launch.

Paving the way for the next step in sustainability reporting in the EU

- 50 The 2014 NFRD preceded the UN Sustainable Development Agenda (with the Sustainable Development Goals (SDGs)) and the Paris Agreement. It also preceded the EU sustainable finance strategy intended to promote financial stability, following which financial institutions are required to account for how they direct financial resources through investments, lending or credits, and in particular how they mitigate climate-related financial risks. Following these requirements, the dual role of financial institutions as both users and preparers of sustainability reporting calls for particular consideration of their information needs.
- 51 Recent EU policies⁴ have been developed that constitute a new backdrop for sustainability reporting:
- a) the European Green Deal and its goal for Europe to be a climate neutral continent by 2050;

³ See Appendix 1 for the PTF mandate.

⁴ See Appendix 4.1 for the analysis of the EU initiatives.

b) the NextGenerationEU objective to: 'deliver and build a better way of living for the world of tomorrow' – guided by the 2030 Development Agenda, the SDGs and the Paris Agreement;

c) the ambitious Recovery plan for Europe pulled off by the EU in the wake of the COVID-19 crisis, which aims to foster resilience of the EU economy through sustainable development priorities.

52 Such developments in the EU are in unison with a number of international and national initiatives that are currently developing. If not channelled, this could present a risk of proliferation and possible additional confusion. On the other hand, the current momentum is an opportunity for cooperation and convergence without slowing the pace.

THE EFRAG PROJECT TASK FORCE

A demanding mandate⁵

53 This Project Task Force (PTF) was appointed by the Steering Group of the European Corporate Reporting Lab @EFRAG to operate the project on preparatory work for the elaboration of possible EU non-financial reporting standards mandated to EFRAG by the European Commission.

54 The PTF is to deliver technical advice for the possible development of EU sustainability standards. Executive Vice-President Valdis Dombrovskis clearly indicated in January 2020 that, in order to succeed in the contemplated next step in sustainability reporting the revision of the NFRD would not be sufficient and that a robust set of mandatory sustainability standards had to be considered at regulatory level.

55 The PTF's tasks are defined as follows:

a) Assessing the extent to which existing non-financial reporting standard-setting initiatives meet the needs of investors and other stakeholders taking account the NFRD's double materiality perspective and covering at least the four non-financial matters covered by the NFRD (environment; social and employee matters; human rights; anti-corruption and bribery).

b) Considering how best to structure the standard or set of standards.

c) Assessing whether it would be appropriate to develop sectoral non-financial reporting standards for financial institutions taking into account the specific role they play as both preparers and investors.

In doing so, the PTF was asked to perform its analysis and form its recommendations taking a number of elements into consideration⁶. The hereafter approach was based on such directions.

The PTF approach

56 The kick-off meeting took place on 11 September 2020. The initial deadline of 31 January 2021 was subsequently extended to 19 February to allow for an appropriate treatment of the significant feed-back received from stakeholders during the seven outreach events held across the EU between 13 January and 22 January.

57 Under the prevailing pandemic-related circumstances all meetings (including 13 plenary sessions) were held through video-conferencing.

58 The approach⁷ adopted by the PTF to fulfil its mandate was structured around three phases:

a) **Assessment phase** (from 11 September to early November). During this first phase, the goal was to analyse the state of play under six different focuses placed under the responsibility of six streams. A progress report⁸ was sent early

5 See Appendix 1 for the PTF mandate.

6 See the PTF mandate in Appendix 1.

7 Appendix 2 to this report describes in more detail the approach retained by the PTF and the dedication of its 35 members, of the representatives of nine public authorities, of its seconded PMO participants and many other contributors.

8 See Appendix 3.

November 2020 to the European Commission and was subsequently published on the EFRAG website. Appendices to this report present in detail the findings and observations of the PTF under each of the six focuses⁹.

- b) **Proposal and consensus building phase** (from early November 2020 to mid-January 2021 with an overlap until the end of the month). During this second phase, the six streams elaborated proposals building on the assessment phase findings and their evaluation of the possible ways forward. Proposals were shared with all members for consensus building in three successive batches covering ultimately the full scope of this report. Consensus building was organised first through online questionnaires supported by appropriate presentations and secondly through plenary debates and break-out sessions.
- c) **Drafting and Outreach phase** (from mid-January 2021 until the project deadline). During this third phase, this report was drafted and agreed upon. Seven outreach events were organised through video-conferencing across the EU and moderated by PTF members with the support of the EFRAG Secretariat (Brussels – one generic event and one dedicated to financial institutions -, France, Germany, Italy, the Nordic countries and Spain). They attracted more than 4000 registrants with a turn-out rate of around 70% and involved almost 100 panellists from all stakeholder groups. Discussions were held on the basis of an outreach document published on the EFRAG website reflecting the PTF's orientations as of the beginning of January 2021¹⁰.

59 In accordance with EFRAG's processes and tradition, this report is based on consensus. Consensus is not a given in a PTF the members of which have been selected to express the sensitivities and commitments of representative stakeholder groups in the EU. It was challenged even further by intense time constraints, the inability to hold in-person meetings and the exclusive use of less consensus-inducive video-conferencing for debates. Nonetheless, all initial proposals were approved by a very large majority. Further discussions allowed the PTF to clarify misinterpretations and adjust proposals accordingly. In this context, the report taken as a whole reflects a large consensus and was finally approved on a no objection basis. However, it is important to note that PTF members are not expected to endorse every recommendation or view entailed in this Report and each has the right to take a different view on some of the views expressed. The following proposals thus aim to reflect a 'dynamic compromise' reached in a constructive spirit.

60 The PTF also had to operate under two caveats:

- a) The PTF's work was performed before the proposal for the revision of the NFRD was available and the associated legislative process finalised, and it must be borne in mind that the legislative level has precedence over any contemplated regulatory level. In fact, both projects were progressing in parallel. In this context the PTF had a regular dialogue with the European Commission but had to make assumptions about some of the legislative level orientations. Some of the proposals made by the PTF might therefore need to be revisited on the basis of the outcome of the legislative process. In this regard, three aspects of the PTF's discussions and work need to be highlighted:
- (i) *Mandatory vs voluntary standards*: the underlying assumption made by the PTF on this aspect is that, in order to effectively contribute to a more coherent and robust sustainability reporting in the EU, sustainability reporting standards would have to be of mandatory nature for use by reporting entities within the scope of the revised NFRD. This is also a widely shared conviction within the PTF. Acknowledging the fact that the decision to make standards partly or entirely mandatory would not be in the standard-setter's remit, the PTF did not debate such options. Nevertheless, the hereafter proposed foundations, conceptual guidelines, architecture and roadmap for the standards would not be significantly altered should the EU co-legislators decide otherwise in the revised NFRD.
- (ii) *Inclusion or not of the SMEs in the scope of the revised NFRD*: regardless of whether they will be in scope of the revised NFRD, the PTF noted that SMEs are and will remain an important part not only of the EU economy, but also of the sustainability reporting chain. SMEs are not immune to sustainability reporting requirements. Being part of the value chain of reporting entities within the scope of the current and revised NFRD, they are and will continue to be – possibly even more so if standards were to be a mandatory reference – required to

9 See Appendix 4 gathering the six Assessment reports.

10 See Appendix 5.

provide their share of sustainability information in order to satisfy the needs of their stakeholders, including financial institutions. The PTF assumed that some of the reporting obligations derived from the NFRD – and the use of future standards – would inevitably permeate to SMEs. While considering the possible need for SME-specific standards, the PTF looked for ways to foster a smoother inclusion of SMEs in the sustainability reporting landscape, based on an approach proportionate to their reporting capabilities and challenges.

(iii) *Location of sustainability information:* one of the important findings of the analysis work done by the PTF is that the difficulty to easily locate and access sustainability information is one of the key challenges faced by users. If location of the information is a clear area for improvement, its user-friendly and easily-processed format is another much needed one. Though the PTF acknowledges that the decision regarding location of sustainability information will be made in the revised NFRD, it explored the best ways to structure sustainability information and considered the possibility of sustainability statements, which is the PTF's preferred option. Given the growing importance of facilitating access and processing of sustainability information, it also considered how to best include early digitisation in the standard-setting process.

b) The PTF was requested to perform preparatory work on standard-setting and not to carry out standard-setting *per se* in order not to pre-empt the conclusions to be reached under the EU institutional processes. Many PTF members may have views on standards that could or should be adopted but refrained from expressing their views because it would have been premature to do so.

61 The report should be read under those two caveats.

THE EU SUSTAINABILITY REPORTING MOMENTUM UNDER A DISTINCTIVE PURPOSE

62 The analyses made and discussions held by the PTF led to the following general observations:

Overall support for a major step forward in sustainability reporting including robust standards

63 One of the most important take-away from the PTF debates, that was also echoed throughout the outreach events, is that there is strong need and support for a significant step forward in sustainability reporting in the EU, including the adoption of robust standards. There may be different views on the precise destination, on the pace of the intended evolution or on some of the ways and means to be retained but the goal is widely agreed upon: following the first important step taken in 2014 towards robust sustainability reporting, there is a pressing need to foster greater relevance, comparability and reliability of sustainability reporting through a combination of legislative and regulatory provisions.

Real momentum in favour of a mandatory sustainability reporting regime

64 The PTF observes that there is also a positive conjunction of factors creating a real momentum in favour of a mandatory sustainability reporting regime¹¹, i.e. an environment where clear guidance would be given as to what standards to refer to when producing sustainability information, by opposition to the current situation where preparers are left to decide what standards and framework to use in the multitude that exists. A significant number of EU policies have implications in terms of sustainability reporting. Expectations are also high both at preparer and stakeholder/user' levels. As a consequence, there is general agreement on the urgent need to foster coherence. At the moment an increasing proliferation of reporting initiatives and related requests is creating detrimental uncertainty and may ultimately increase the risk of green or social « washing » which would weaken the capacity of companies, financial institutions, regulators and policy makers to meet sustainable development policy objectives. The PTF has therefore explored how EU sustainability reporting standards could best address such concerns.

Distinctive purpose for EU sustainability reporting

65 The third observation is related to the purpose of sustainability reporting. Through the NFRD, the EU established a twofold objective for non-financial reporting which should provide: 'an understanding of the undertaking's development,

11 See Appendix 4.1 §311.

performance, position and impact of its activity, relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters'. This objective has led to the development of the double materiality approach intended to address the so-called 'outside-in' perspective (risks and opportunities for the entity, hereafter referred to as financial materiality) as well as the so-called 'inside-out' perspective (positive and negative impacts of the entity, hereafter referred to as impact materiality). As a consequence, both perspectives imply a broad range of stakeholders and users.

66 The PTF therefore worked on the basis of the following understanding of the purpose of sustainability reporting:

The purpose of publicly available sustainability reporting is to provide relevant, faithful, comparable and reliable information:

- *on (i) material sustainability impacts of the reporting entity on affected stakeholders (including the environment) and (ii) material sustainability risks and opportunities for its own value creation;*
- *enabling users of information (i) to understand the reporting entity's sustainability objectives, position and performance and (ii) to inform their decisions relating to their engagement with the entity.*

Sustainability reporting is directly related to management reporting systems enabling reporting entities to better understand, manage sustainability matters and ultimately improve sustainability performance.

Combining ambitious targeted sustainability reporting and pragmatism in implementation

67 Following its extensive work, the PTF reached the general conclusion that in the interest of meeting the quality criteria expected from sustainability information the targeted standards architecture has to be coherent and comprehensive, yet its implementation would require a realistic roadmap based upon priorities and progressive enhancement of content. Resulting from a robust due process supported by realistic resources, the next step for sustainability reporting should result in meaningful first sets of standards designed to foster clear progress in sustainability reporting while remaining a reasonable adjustment effort for preparers.

Building on and contributing to international sustainability reporting dynamism

68 Beyond the EU momentum the PTF is fully aware of the number of initiatives and dynamics in sustainability reporting developments at international level generally based upon voluntary adoption of frameworks and standards by preparers. The PTF agreed on the importance of cooperation between institutions and organisations that are committed to advancing sustainability reporting on the basis of their respective statuses and remits. Therefore standard-setting in the EU should build on and contribute to relevant international initiatives in order to foster global convergence over time.

Positive terminology

69 Finally, the PTF considered terminology issues and concluded that a positive terminology would be preferable. Defining the scope by what it does not cover (non-financial information) is commonly used but does not do justice to the underlying ambition of the contemplated reporting. The PTF concluded that a reference to sustainability information would better capture, (i) the interactions between the reporting entities and their stakeholders (the ways they may affect each other's interests) and (ii) their mechanisms of value creation that are not covered by financial reporting. Sustainable business is based upon those two complementary dimensions.

THE STRUCTURE OF THIS REPORT

70 This report is organised in four sections:

- a) Part 1 on **Foundations** is dedicated to the very specific context of potential standard-setting in the EU and explains the key elements of the context which can be considered as foundational;
- b) Part 2 on **Conceptual guidelines** focuses on the translation into implementation tools and guidelines and standard-setting of the key concepts that are pivotal for elaborating sustainability reporting standards in the EU;
- c) Part 3 on **Target standards architecture** is dedicated to the key components of comprehensive EU sustainability reporting standards covering three layers of reporting (sector-agnostic, sector-specific and entity-specific) combining comparability and relevance, three pillars of reporting areas and three topics ensuring comprehensiveness;
- d) Part 4 on **Roadmap** focuses on priorities, phasing-in of the European Standard Setter (ESS) roadmap and the practical ways to build on and contribute to international co-construction.

PART 1: BUILDING THE NEXT STEP OF EU SUSTAINABILITY REPORTING FROM ROBUST AND COHERENT STANDARD-SETTING FOUNDATIONS

71 Foundations as presented in this section refer to the key overarching principles and relevant policy orientations or features that define the sustainable development and sustainability reporting landscape in the EU as well as its current level of ambition in that crucial domain. These foundations shape up the context which should be taken into account by the standard-setter when elaborating the standards. The PTF has identified two overarching principles and six major features or ‘building-blocks’ which in combination establish a somewhat unique platform which the standard-setter will have to work from.

1.1 OVERARCHING PRINCIPLE 1: AN INCLUSIVE RANGE OF SUSTAINABILITY REPORTING STAKEHOLDERS

72 *The EU generally supports a vision of businesses as pivotal contributors of value creation under two dimensions: economic and financial value creation (or destruction) at entity level affecting principally the providers of financial capital and environmental and social value creation (or destruction) at society level affecting a broad range of stakeholders. The objective is to maximise value creation by businesses across both dimensions, recognising the distinctions, inter-relationships and inter-dependencies between them. In line with this vision, sustainability reporting in the EU needs to recognise and respond to the interests of an inclusive range of stakeholders.*

Understanding stakeholders in the context of sustainability reporting

73 At the most general level, the PTF defines stakeholders as those who can affect or be affected by a company’s decisions and actions¹². Such a definition is aligned with the definitions prevailing in the EU¹³.

74 Providers of financial capital have traditionally been considered the primary intended audience for corporate reporting, with an initial emphasis on financial reporting: they are at one and the same time stakeholders of the company and users of its reporting. For this audience, the initial emphasis on financial reporting is evolving to include sustainability reporting: primarily from the perspective of financial value creation, but also from a social and environmental perspective and with a view to sustainable development of businesses in light of broader interests in sustainable development.

75 A much wider variety of stakeholders is relevant with regard to a company’s sustainability reporting. This encompasses both (i) stakeholders who may be positively or negatively impacted by the company’s activities and through its value chain (‘affected stakeholders,’ which throughout this report includes the environment¹⁴), and (ii) stakeholders with an interest in the company’s sustainability reporting (‘users’), which includes (besides shareholders and other providers of capital) those charged with the enforcement of sustainability related standards, the company’s employees, worker representatives (trade unions, works councils, board level employee representatives), civil society organisations, local governments, the company’s customers and business partners.

76 Both categories of affected stakeholders and users of reporting may overlap since affected stakeholders may also be users of sustainability reporting – as can particularly be the case for workers, trade unions and some consumers. However, outside those examples, affected stakeholders are less likely to be direct users of reporting, given for example the often remote nature of the value chain workers and communities who are frequently particularly impacted. This could be due to lack of awareness of a company’s reporting, lack of access to it, inability to read it (in the language in which it is written or at all), and lack of motivation to read it given the lack of opportunity they have to influence the

12 This is largely aligned with the definition from GRI in its revised universal standard, which states that, stakeholders are an ‘individual or group that has an interest that is, or could be, affected by the organisation’s activities and decisions’ (GRI revised universal standard). The PTF considers the environment as a stakeholder.

13 See Appendix 4.4 §19,29,40,41.

14 ‘Affected stakeholders’ (UNGPs), ‘stakeholders ... affected’ (OECD Due Diligence Guidance), or ‘stakeholders who could be affected by an organisation’ (NFRD, IIRC) are the common terms used in international standards, including for reporting, to describe ‘persons or groups who have interests that are or could be impacted by an enterprise’s activities.’ (OECD Due Diligence Guidance).

inclusion of information and/or do anything with it. On the contrary, individuals and organisations with an interest in the welfare of affected stakeholders are more likely to be the users of sustainability reporting.

- 77 In order to avoid misrepresentations or biases sustainability reporting should be based upon disclosures that relate to material impacts for affected stakeholders, as well as disclosures that relate to value creation for the enterprise. The two should carry equal status and attention within sustainability reporting. Given the much greater familiarity of many reporting entities with reporting on sustainability matters that are relevant to enterprise value creation (i.e., ‘financial materiality’), this section and certain other sections in this report explain the particular implications of what the PTF terms ‘impact materiality’ – that is, reporting on the entity’s material impacts on affected stakeholders – at somewhat greater length, in order to provide the necessary clarity. However, the PTF is committed to the equal importance of both dimensions of sustainability reporting.

Stakeholders and standard-setting

- 78 The distinction between affected stakeholders and the users of sustainability reporting is of central importance to get the impact materiality assessment process right in practice¹⁵.
- 79 Materiality for the purpose of financial reporting is determined by what providers of capital would reasonably deem useful for their decisions. To date, this criterion of ‘decision-usefulness’ has been taken to mean that: the *impact* materiality of sustainability matters, and hence their disclosure, should also be determined based on what the users of this information have indicated to be, in their view and own best estimates, material impacts.
- 80 The interests of the stakeholders that are users of sustainability reporting are not necessarily proxies for the potential and actual impacts of the company on people and the environment. In practice, if reporting entities determine impact materiality based on what all users of sustainability reporting find decision useful, then it is quite likely that everything comes out as ‘material.’ However, when impact materiality is determined based on what a subset of these users of sustainability reporting finds decision-useful then materiality depends on who the company asks. The latter approach has dominated most companies’ practices with regard to impact materiality, inviting certain experts, NGOs and others to express their interests in what the company should report through ‘materiality’ meetings or on-line questionnaires. This has not led to sufficiently relevant information being disclosed from a double materiality perspective.
- 81 International standards for human rights and environmental due diligence make clear that the significance of a company’s impacts on people and the environment should be assessed based on their relative severity, the identification of which should be informed by the perspectives of the affected stakeholders¹⁶. This determines which impacts should be prioritised in terms of the allocation of resources aimed at preventing and mitigating these impacts. The same process and conclusions are the basis for determining which sustainability matters are material from the impact materiality perspective for the purposes of reporting.
- 82 In order to foster objectivity, relevance and proportionality, the ESS should determine the impact materiality of information on the basis of the relative severity of negative impacts on all affected stakeholders (and for positive impacts their scale and scope, without any offsets to negative impacts¹⁷).

15 See Appendix 4.4 as from §37.

16 See section 2.5 on double materiality.

17 See section 2.5.

Proposal #01

The EU standard-setter should ensure that the relevance of, and distinctions between, affected stakeholders and users of sustainability reporting are clearly reflected in the standards it develops. This should be particularly reflected in the determination of the impact materiality of topics and related disclosures, bearing in mind that:

- a) impact materiality is determined by the relative severity of potential and actual impacts on people and environment connected with the business through its activities and value chain;*
- b) an assessment of the relative severity of potential and actual impacts on people and environment is central to the reporting entity's on-going human rights and environmental due diligence processes, in line with international standards, and should be informed by the perspectives of all affected stakeholders and/or their legitimate representatives;*
- c) with regard to impact materiality, information that reflects the reporting entity's most severe potential and actual impacts on people and environment will be decision-useful for users of sustainability reporting;*
- d) the process of reporting on material impacts is informed by and supports sustained and meaningful engagement with affected stakeholders, and their legitimate representatives (including worker representative, environmental and other civil society organisations).*

1.2 OVERARCHING PRINCIPLE 2: A PRINCIPLE-BASED SUSTAINABILITY REPORTING SYSTEM

83 From a general standpoint, jurisdictions may have different legal and judicial frameworks which can be inspired by civil law or common law cultures and traditions. In addition, within a specific legal and judicial framework, jurisdictions may want to introduce different levels of prescription at regulatory level, leaning towards principles or rules, depending upon their appreciation of the most suitable regime for different matters. Sustainability reporting in the EU needs to find the right balance in that respect.

Principle-based versus rule-based

84 There is a long standing academic and operational debate about the respective merits of rule-based versus principle-based regulatory systems. The former would prescribe in detail how the subject of the regulation must behave while the latter would be based on broader guidance or guidelines and be less prescriptive, with implementation requiring the exercise of judgement from the subject of the regulation. The former may imply that whatever is not specifically prescribed or prohibited by a rule is authorised while the latter may imply that there is always a principle to be referred to. The level of possible interpretations will be different between the two regulatory systems with more flexibility offered under a principle-based approach.

85 The distinction between rules and principles must also be put in perspective with the overall legal and judicial environment prevailing in a jurisdiction with a further distinction between common law and civil law frameworks. Common law frameworks are generally inspired by practice and guided by precedents ('bottom-up' approach) and they tend to promote pragmatic solutions. Civil law frameworks (often referred to as 'roman law' frameworks) are organised under several layers of legal instruments cascading down ('top-down' approach) from the most general (treaties, constitutions, laws) to the most detailed (regulations, recommendations). They tend to promote public accountability as a priority. In order to promote consistency, some common law environments may nevertheless decide for certain matters that are considered specific to introduce rules. By contrast some civil law environments may want to mitigate the potential lack of flexibility at the highest level by a principle-based approach at regulatory level in order to foster pragmatic implementation.

86 This may create environment that appears complex and contrasted from a jurisdictional and international perspective, but in reality, most regulatory regimes are a mix of both since principles and rules are extremes on a continuum. The

distinction between the two is important but then becomes a question of degree and reflects a positioning within a spectrum of possibilities leaning more towards one or the other.

- 87 As an illustration in the field of financial reporting, it is generally considered that the US GAAP system is leaning towards a rule-based approach (in a common law environment) while the IFRS system is based upon a principle-based approach with a relatively high degree of prescription (in different environments: common law or civil law). From a general standpoint it can be observed in this regard that rules may be implemented more easily under the legal and judicial frameworks of a single jurisdiction and that principles may be better suited to a multi-jurisdictional approach (such as the EU) where the legal and judicial frameworks may vary (for the EU, depending on the Member States): a latitude of judgement is left to the subjects of the regulation but also to the jurisdiction itself.
- 88 Each jurisdiction expresses in this respect its own public preferences as well as its legal culture and traditions. In addition, within a jurisdiction preferences, culture and traditions may be translated slightly differently for good reasons depending on the matter that is addressed. Therefore, clarity on positioning within the spectrum is needed in the interest of jurisdictional coherence for each contemplated piece of regulation.
- 89 The above distinctions are source of complexity, and potential misunderstandings, in the context of international discussions and dialogue. From experience, the legal background is of critical importance and its role is often underestimated.
- 90 For international and intra-jurisdictional reasons, it is therefore important to clarify the intended positioning of an upcoming regulatory system in terms of balance between principles and rules.

Principle-based sustainability reporting in the EU

- 91 The EU is generally considered as having a stated preference for a principle-based environment combined with a prevailing civil law legal and judicial framework. Such a situation is aligned with the legal frameworks of many member states and also with the multi-jurisdictional nature of the Union combined, when appropriate, with the principle of subsidiarity.
- 92 The NFRD Consultation¹⁸ summary report highlighted that the current situation of sustainability reporting in the EU is characterised by a lack of relevance, comparability and reliability of disclosed information. Such a situation will first be addressed at legislative level with the upcoming revised directive which is expected to establish the basis for the next step in sustainability reporting and may define issues such as: scope (which companies are subject to reporting requirements), concepts, reporting areas, standard-setting, mandatory disclosures, and audit. The legislative level will most probably adopt high-level principles on substance, which will have to be implemented through standards under a process defined at legislative level.
- 93 In this expected legislative context, the ESS should develop its standard-setting activities on a basis combining the strength of robust principles deriving from the NFRD and the need, for this specific matter, for detailed prescriptions on mandatory disclosures that are likely to create better comparability, higher reliability and hence a level playing field (at sector-agnostic and sector-specific levels). This implies a central and balanced positioning within the spectrum of possibilities between principles and rules: leaning towards principles for certain disclosures and leaning towards rules for others.
- 94 As a consequence, the following guidance could be considered:
- a) The high-level legislative principles may require operationalisation both for standard-setting and for reporting entity implementation. This would imply the adoption of conceptual guideline for the ESS¹⁹.

18 <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12129-Revision-of-Non-Fina/public-consultation>

19 See Part 2.

- b) Each standard should make a clear reference to the relevant principle(s) on substance. As a consequence, a reporting entity should in all circumstances have a principle to comply with, even when detailed prescriptions are not included in the standard.
- c) When granular comparability at sector-agnostic or sector-specific levels is needed the emphasis should be on the outcome: the standard should therefore be prescriptive enough to avoid discrepancies in implementation, in particular for most quantitative disclosures. For comparison purposes the level of precision to be considered in sustainability standard-setting should probably be higher than for financial standard-setting in some areas because there are many possible units of accounts and because current standards and suggested disclosures offer too many different practical options or interpretations.
- d) Given the emphasis on relevance, priority should be given to the principles and processes: the standard should therefore focus on purpose and objectives of sustainability reporting, intended users, procedures and systems. This could be particularly important for narrative and potential entity-specific disclosures. The reference to principles is paramount to foster entity-specific assessments and general ownership.

Proposal #02

The ESS should (i) adopt a general principle-based approach to sustainability standard-setting consistent with the EU legal environment in conjunction with (ii) detailed prescriptions for sustainability disclosures aiming at sector-agnostic and sector-specific comparability.

1.3 BUILDING BLOCK 1: SUPPORTING THE EU SUSTAINABLE DEVELOPMENT AND SUSTAINABILITY REPORTING MOMENTUM

- 95 *There is a specific situation in the EU which is particularly conducive to sustainability reporting and covers three dimensions:*
- a) *a strong sustainability reporting momentum with the implementation of the non-financial reporting directive (NFRD) released in 2014 and its expected revision;*
 - b) *significant flows of sustainability reporting expected to take place between willing preparers and demanding users inside and outside the EU; and*
 - c) *a number of EU sustainable development policy initiatives requiring or likely to require supporting sustainability reporting data.*
- 96 *The ESS should:*
- a) *take advantage of this fruitful momentum to elaborate standards that will meet the needs of EU sustainable development policies; and*
 - b) *establish a robust basis of convergence and increased harmonisation within the EU sustainability reporting landscape; and*
 - c) *build on and contribute to international convergence and harmonisation.*

1.3.1 Establishing a coherent set of standards

An international context translated into ambitious EU sustainable development policies

- 97 The ratification of the Paris Agreement and the adoption of the 2030 Sustainable Development Agenda – both dated 2015 – have provided new context for sustainability reporting in the EU and in particular for the EU Non-financial Reporting Directive, a pioneering piece of legislation.

- 98 In parallel, legally binding European policies have translated the global environmental goals into targets and action plans at EU and Member State levels.
- 99 The EU Green Deal, with the supporting EU Climate Law and EU 2030 Biodiversity strategy among others, has redefined the EU long-term sustainable growth goals, while addressing just transition issues and introducing a ‘Do no harm oath’ as a design principle.
- 100 The European Green Deal Investment Plan (EGDIP) is the investment pillar of the Green Deal which aims to mobilise at least €1 trillion in sustainable investments over the next decade.
- 101 As for the European Pillar of Social Rights, it sets principles and ambitions for the EU social agenda.
- 102 The 2018 EU Action Plan on Sustainable Finance and the Renewed Sustainable Finance Strategy to be unveiled in 2021 aim to mobilise private finance to fund the Green Deal and other EU sustainable policy targets. Major sustainable finance regulations as part of the Action Plan include the EU Taxonomy, the Sustainable Finance Disclosure Regulation (SFDR), the EU Climate Benchmarks and Sustainability disclosures for benchmarks, the Climate-related disclosure guidelines and the integration of sustainability in investment advice (Suitability test under MiFID II and IDD)²⁰.
- 103 Other important measures are under development: the Sustainable Corporate Governance Initiative, the EU Ecolabel for financial products, the EU Green Bond Standard, Pillar 3 sustainability disclosures under Solvency II and CRR2, only to name a few.

The 2014 NFRD: a major step forward for sustainability reporting within the EU, but with significant shortcomings

- 104 **The current NFRD has brought significant conceptual and practical progress** to sustainability (non-financial) reporting across the EU:
- a) The **double materiality** approach with the introduction of requirements to report on ‘information [...] necessary for an understanding of the undertaking’s development, performance, position and impact of its activity’.
 - b) **An alignment of the disclosed topics** enables a shared vision of sustainability topics between European countries and opens the way for a non-financial standard at European level.
 - c) **Reporting on the value chain** called for by the current Directive (‘The risks of adverse impact may stem from the undertaking’s own activities or may be linked to its operations, and, where relevant and proportionate, its products, services and business relationships, including its supply and subcontracting chains’) aims to ensure that the outsourcing of production does not imply the outsourcing of responsibility, in line with the UN Guiding Principles on Business and Human Rights²¹.
 - d) **A ‘report or explain’ approach** that can be used when an undertaking has no policy on sustainability matters and therefore needs to explain why. This is similar to the financial ‘comply or explain’ approach and has proven relevant to address undertakings specificities.
 - e) **The exemption for subsidiaries** has contributed to the limitation of the reporting burden and hence to the acceptance of the NFRD: ‘an undertaking which is a subsidiary undertaking shall be exempted from the obligation if that undertaking and its subsidiary undertakings are included in the consolidated management report or the separate report of another undertaking’.
 - f) **The verification of sustainability information by an independent assurance services provider** has been tested by three countries (France, Italy and Spain) and has demonstrated that it was feasible.
- 105 **On the other hand, there is still significant divergence in practice** across the EU due to the flexibility given to the Member States when transposing the NFRD requirements into national law.

²⁰ See Appendix 4.1 tables in §12 and §237.

²¹ GRI, ‘Linking the GRI Standards and the European Directive on non-financial and diversity disclosure’, 2017.

- 106 The EU Consultation on the review of the NFRD showed room for improvement, to enhance the comparability, relevance and reliability of sustainability (non-financial) information²². Research on the content and quality of a sample of non-financial statements under the NFRD shows the limits of the current implementation of the NFRD. For example, the ACT 2019 Research Report²³ showed that out of 1000 companies, while 82% have climate-related policies, only 35% have adopted targets and even fewer – 28% – report on their outcome. Reporting on other environmental topics is less mature. On the social side, 57% of companies report on human rights risks, but measurement of actions to manage those risks are only provided by less than 4% of companies. And to provide a governance example, only 14% of companies report their Boards discussing specific issues in their non-financial report, and only 15% report a link between sustainability objectives and executive remuneration.
- 107 Sustainability Information in the EU is the result of the different transpositions of the NFRD in each Member State²⁴ and, at the same time, of coexisting different standards, regulations and initiatives that have emerged around the world²⁵. Hence, there is a strong need for consolidated common and precise standards of reporting that **meet agreed-upon high quality criteria**.
- 108 The current Directive, in its recitals, states that undertakings should ‘provide adequate information in relation to matters that stand out as being most likely to bring about the materialisation of principal risks of severe impacts, along with those that have already materialised’. The two-ways perspective of materiality is introduced in Article 3: ‘information to the extent necessary for an understanding of the undertaking’s development, performance, position and impact of its activity, relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters’. However further illustration and guidelines were developed in the Non-Binding Guidelines (2017) with accompanying technical guidance. Even if the materiality assessment processes performed by companies may be inspired by best practices, more guidance and operationalisation tools are needed.
- 109 The NFRD also states that the non-financial statement shall be disclosed in the management report. However, member states were allowed to exempt undertakings from this obligation provided that the information is published in a separate report made publicly available and disclosed at the same time as the management report. In practice, many Member States allowed companies to disclose non-financial information in a separate report even in countries with mandatory verification like Italy or Spain. The location of the disclosure can have implications for the statutory auditor’s work²⁶.
- 110 Regarding independent verification, the current NFRD stated that ‘Member States may require that the information in the non-financial statement be verified by an independent assurance services provider’²⁷. This option resulted in the following practices: out of 26 European countries covered, 12 countries apply the minimum requirements for the statutory auditor to check whether NFI has been provided, 11 countries have an additional requirement to check the consistency of NFI with the financial statements and three countries opted for mandatory assurance over the NFI²⁸; Reliability, with regards to verification, may therefore differ from one country to another.
- 111 The revision of the NFRD is expected to play a key role to ensure the reliability, relevance and comparability of sustainability information through robust reporting standards establishing mandatory disclosures for reporting entities subject to reporting requirements (entities within the scope of the NFRD as defined by Level 1).
- 112 The NFRD does not currently make reference to specific standards which companies should apply when preparing their non-financial information. This is a major source of inconsistencies in reporting and therefore of the lack of proper comparability²⁸. In the context of the revised NFRD, it is expected that the purpose of the ESS will be to introduce robust standards to ensure harmonisation of sustainability reporting across Member States and thus create a ‘level playing field’ in which reliable and relevant data can be compared.

22 <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12129-Revision-of-Non-Fina/public-consultation>

23 Alliance for Corporate Transparency, ‘2019 Research Report: Analysis of the sustainability reports of 1000 companies pursuant to the EU Non-Financial Reporting Directive’.

24 See Appendix 4.1 §14.

25 See Appendix 4.2 §2 to §27.

26 Accountancy Europe, ‘Towards reliable non-financial information across Europe’, February 2020.

27 See Appendix 4.1 §22.

28 See Appendix 4.1 §20.

- 113 The ESS should consider building standards inspired from sustainability reporting best practices where relevant, as for example identified by the work carried out by other EFRAG Project Task Forces, such as the Project Task Force on Climate-related Reporting (PTF-CRR)²⁹ and the Project Task Force on reporting of non-financial risks and opportunities and linkage to the business model (PTF-RNFRO) appointed in June 2020. This is indeed of prime importance to acknowledge the tremendous work and progress achieved to date, even though not perfect in all respects, and to start with a consolidation phase drawing on existing practices instead of a blank page that would be a waste of time given the urgency of action. However, these existing practices will of course have to be scrutinised through the prism of standard-setting foundations, guidelines and proposed architecture described in the next parts of this report.
- 114 In the construction of the standards, the ESS should also build upon international reporting standards and frameworks, which have developed strong expertise on specific topics – both sector-agnostic and sector-specific – and the standards of which are in some cases already widely adopted by data preparers. Some of them are already specifically mentioned in the text of the NFRD³⁰. Finally, in order to achieve the objective of making useful information available for the management and monitoring of transitions, the ESS should place its standard-setting work and process in perspective of the European Green Deal objectives.

Proposal #03

In order to support and amplify the EU sustainability reporting momentum the ESS should consider defining an initial level playing field by developing standards drawing on existing recognised best practices.

1.3.2 Facilitating data flows between data preparers

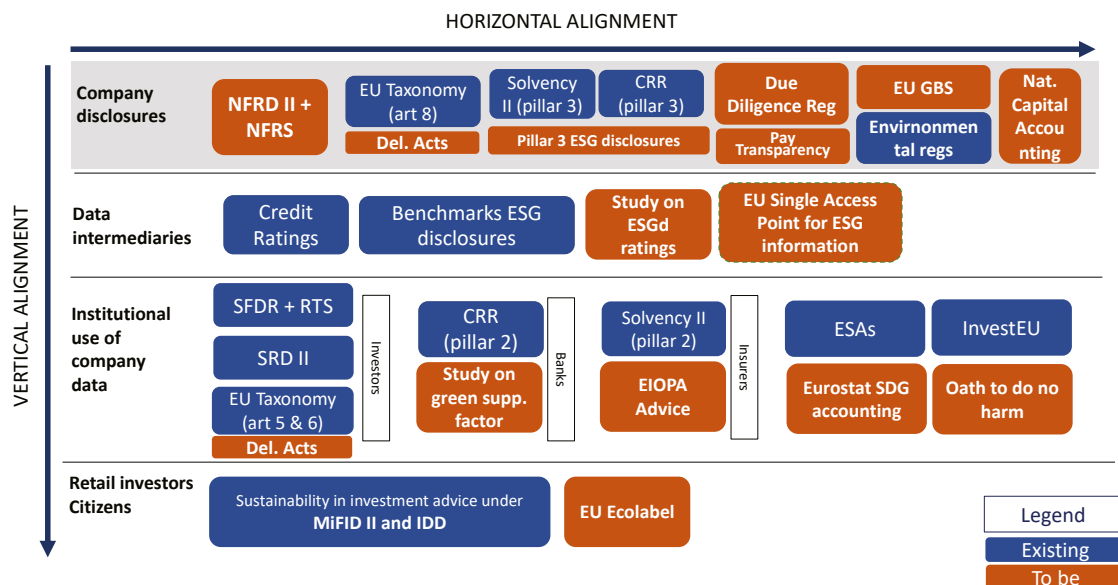
- 115 The Green Deal and its related regulations (updated and new ones) create a significant momentum in the EU for sustainability reporting³¹. As a consequence, a 'full cycle' of sustainability information flows emerges from corporate reporting sustainability information for use by many stakeholders. Among these stakeholders, many also have to prepare sustainability information and therefore need to rely upon the data received from the former preparers.
- 116 The PTF analysed and identified, taking into account the full cycle of sustainability information flows, 29 different European legislative initiatives that were grouped and mapped through a horizontal alignment axis (initiatives required for companies in the scope of the NFRD) and a vertical alignment axis (categorisation of the information required). Such developments have progressively led to a **comprehensive but also complex environment**, with emerging inconsistencies in terms of:
- a) horizontal alignment (inconsistent requirements for a given data preparer);
 - b) vertical alignment (data outputs from data preparers are not aligned with reporting obligations of data users); and
 - c) many initiatives still to come.
- 117 It is important to note though, that some of the initiatives mentioned and described in the below table are not legislative text *per se*, but rather studies or guidelines (for instance Natural Capital Accounting or ESG Ratings).

29 See report published in February 2020 'How to improve climate-related reporting: A summary of good practices from Europe and beyond' available at www.efrag.org.

30 For an analysis of existing international reporting standards, see Appendix 4.2 and more information on how to build upon existing initiatives in Part 4 of this Report.

31 See Appendix 4.1.

Figure 3: Need for coherence in terms of horizontal and vertical alignment



- 118 Based on the mapping exercise of existing and forthcoming European legislative initiatives requiring sustainability information disclosures (Figure 3), the PTF concluded that consistency and coherence along both axes is fundamental and should be the basis for the ESS to start designing the different standards³².
- 119 There is a need for the ESS to align sustainability reporting requirements under the NFRD with the existing standards at EU level through both horizontal and vertical axes to the greatest possible extent. It will not be in the remit of the ESS to take action on other sustainability initiatives but the ESS should acknowledge that it has a key role to play in highlighting inconsistencies and ensuring alignment between (i) other pieces of legislation and (ii) sustainability reporting in its remit whenever it is possible.
- 120 In order to permanently ensure coherence of sustainability information reported under the NFRD with other pieces of legislation to the greatest possible extent, the PTF recommends that the ESS leads the fundamental task of analysing the EU sustainability reporting landscape and keep monitoring this landscape on a regular basis. The ESS should design its standards in a way that makes sustainability reporting requirements for data preparers converge. The ESS should also aim to better align the interests of companies, their shareholders, governing bodies, owner-managers, managers, stakeholders and society. It would help owner-managers and companies better integrate and manage sustainability-related matters in their own operations and value chains as regards social and human rights, climate change, other environmental matters, and so on (most particularly the due diligence duty).
- 121 Specifically linked to the PTF’s proposed horizontal axis is the position of Financial Institutions on this issue (see the dedicated developments below). A critical concern derived from many internal discussions in the PTF and beyond, is how to best ensure Financial Institutions can comply with their own sustainability reporting requirements given the role that they play in the sustainability information space, being at the same time users and preparers. The ESS should be able to take this into account when developing the different sustainability standards. As a consequence, the ESS should clarify for each disclosure under the new standards how they address and meet sustainability reporting requirements of Financial Institutions and other users, wherever possible, make NFRD disclosures as robust and consistent input data as possible.
- 122 The PTF has identified examples as potential areas for clarification and convergence for the ESS’ attention. They include the definition of due diligence under the SFRD and the NFRD; the notion of ‘do no significant harm’ under the EU Taxonomy and the SFRD vis-à-vis the notion of ‘adverse impacts’ in the NFRD.

32 See Appendix 4.1 as from §235.

Proposal #04

The ESS should, as a priority, consider elaborating standards facilitating the flows of relevant and reliable sustainability data between preparers and users in order to foster coherence in sustainability reporting.

1.3.3 Addressing potential consequences of, and interaction with, reporting obligations stemming from other ESG/sustainability policy initiatives

- 123 There is a multitude of regulatory sustainability information (indicators or disclosures) required by existing and/or forthcoming EU regulations in the sustainable finance field and beyond (i.e. Late Payment Directive, Equal Pay Directive, ETS Regulation, various environmental sectoral regulations, forthcoming regulatory technical standard under Article 4 of SFDR; recently published Benchmarks delegated acts; EU Taxonomy)³³.
- 124 Indicators or disclosures requested under the above-mentioned regulations are sometimes not defined precisely enough – with exceptions such as GHG emissions and broader climate-related issues – and some overlaps have been identified with different indicators required for a same topic or with various definitions applied for similar data points³⁴. The heterogeneity of businesses involved in such ‘regulatory’ reporting has led also to the issuance of sector-specific indicators, on top of some generic requirements. In addition, the recipients of such information may be different, depending on the considered regulation.
- 125 Many sustainability information initiatives are still in progress and new ones should emerge in the coming months / years in relation with EU Green deal objectives. Such initiatives may arise with various additional indicators on similar topics³⁵.
- 126 The ESS should closely consider in the process of standard-setting the risk of inconsistency that is emerging in the EU, threatening to jeopardise the objective of sustainability information.
- 127 In order for the ESS to systematically consider the potential consequences of, and interaction with, reporting obligations stemming from ESG/sustainability policy initiatives, the ESS should be led by pivotal principles in the process and in the substance of standard-setting as outlined before.

Proposal #05

In its standard-setting process, the ESS should systematically consider the potential consequences of, and interaction with, reporting obligations stemming from ESG/sustainability policy initiatives in order to foster consistency and synergies.

1.4 BUILDING BLOCK 2: BUILDING FROM AND CONTRIBUTING TO SUSTAINABILITY REPORTING GLOBAL COHERENCE AND CONVERGENCE

- 128 *Supporting the buoyant sustainable development and sustainability reporting momentum in the EU is a paramount objective for a future ESS. Another equally important objective for the ESS should also be to acknowledge and embrace the global dimension of sustainable development, and engage with international initiatives to the benefit of global progress of sustainable development and global coherence and convergence of sustainability reporting.*

Combining two fundamental objectives: EU priorities and global progress

- 129 The PTF observes that ensuring a fast-paced sustainability reporting standard-setting process designed to address the specificities of the EU approach to sustainability and support the timely implementation of its sustainability agenda is a

³³ See Appendix 4.1.

³⁴ See Appendix 4.1 Part B.

³⁵ See Appendix 4.1 Part C.

priority for the EU. Among these EU specificities are not just the very ambitious timeline to achieve the EU Sustainability agenda, but also the double materiality approach and the way it would be legally translated into the standardised disclosures.

- 130 The PTF also considers that sustaining a close connection with and contribution to the international sustainability reporting standard-setting momentum is equally important. Indeed, many of the entities that report on their sustainability goals and journey in the EU are global entities themselves and/or interact with global stakeholders. From truly global businesses to SMEs, all enterprises today are more or less closely part of a global value chain. Therefore, the contribution of sustainability reporting towards global sustainable development will only be successful when it becomes a common language shared globally. This might take time but pursuing a global convergence overtime can start with the mutual sharing of experience, expertise, tools and content.

Partnering and co-construction spirit: a win-win relationship

- 131 Aimed at serving these two fundamental objectives, the possible future ESS, while keeping control over the pace, scope and substance of standard-setting in EU through appropriate governance, should seek to work hand in hand with relevant international sustainability reporting initiatives.
- 132 Such a partnering and co-constructing approach would not only foster the mutualisation and further building of collective knowledge for all participants, but it would also and ultimately ensure at the same time flexibility and maximum coherence and consistency in sustainability reporting standard-setting globally, for the benefit of preparers and users alike.
- 133 This spirit of a win-win relationship based on a two-way exchange of intellectual capital for the benefit of all participants (international initiatives and the ESS) is precisely what drove the current interaction between EFRAG and some of these international initiatives (including Memoranda of Cooperation signed for the duration of the PTF³⁶).
- 134 It must live on and grow beyond the mandate of the PTF.

Acknowledging the challenges of richness and diversity of initiatives

- 135 The inventory and analysis of more than 90 international initiatives³⁷ has evidenced the richness and diversity of ongoing efforts, reflecting the multiple dimensions of sustainability reporting as well as the numerous ways of considering it, depending on who the main users are.
- 136 Indeed, whether they are generic (covering multiple aspects of sustainability), topical (covering one sustainability aspect in particular) or sectoral (covering multiple sustainability aspects but under a sector-by-sector approach), all initiatives pursue their own legitimate objectives and agendas, and in doing so, use underlying principles, lenses, assumptions and sometimes regulatory references that are specifically serving such objectives and agendas.

Co-constructing from diversity to coherence and consistency

- 137 Due to (i) the richness and diversity of initiatives and (ii) the ultimate need for coherence, key contributors to standard-setting under private and public (jurisdictional) initiatives need to cross-fertilise each other's work.
- 138 Indeed, as robust and widely used and recognised as an initiative can be, because of its specific approach to sustainability, it may not satisfy all the aspects (e.g. goals and policy priority alignment, sector-specificity, coverage of sustainability matters, financial and/or impact materiality, ease and cost effectiveness of implementation...) of a reporting entity, a user, a supervisory body or a jurisdiction's own approach to sustainability. The solution may reside in a combination of relevant elements from various initiatives and in the addition of new elements that need to be developed.
- 139 The PTF believes that a commitment by the EU to foster coherence and consistency between EU and global sustainability reporting is of significant importance for the achievement of both the EU and global sustainability ambitions. Such

36 See Appendix 2.

37 Including the international initiatives specifically referenced in the PTF's mandate; see Appendix 4.2 for details.

coherence and consistency could be achieved by organising a productive yet flexible co-construction of international sustainability reporting standards. Based on an open attitude towards dialogue and mutual sharing of existing frameworks and standards, knowledge and expertise, research and feedback from experience, co-construction can be a way to collectively consider how different approaches could borrow from and complement each other; how this could result in enhanced, more comprehensive and coherent standards relevant to a wider population of reporting entities; and resolve, over time, competing objectives and the consecutive difficulties they might create for achieving global convergence. Co-construction should not mean ignoring one's own political, regulatory, technical, cultural and timing constraints. Supported by a proper governance, the co-construction of international standards by the EU and other international partners should allow for such flexibility and independence and at the same time, encourage each contributing party to work hand in hand to adjust the existing material when needed and relevant, to develop the missing pieces and organise the convergence of international sustainability reporting standards.

- 140 In this spirit, the ESS should look to on-board, as a starting point, all relevant elements (be they data points or larger parts) of existing initiatives as long as (i) they are congruent with the EU sustainability priorities and regulatory framework and (ii) the considered data points and disclosures meet the criteria set by the ESS in its own conceptual guidelines.
- 141 In this spirit also, the ESS should either participate in joint projects or make its own standard-setting work available to other initiatives without restriction, or both.
- 142 The governance aspects of the ESS being outside the remit of the PTF, the ways and means towards setting the ground for sustainability reporting standard-setting partnering and co-construction with relevant international initiatives is not to be addressed in this report.

Proposal #06

While managing the EU political, regulatory, cultural, technical and timing constraints, the ESS should strive for a co-constructive approach with relevant other international initiatives, based on a two-way exchange of experience, expertise, tools and content, feeding one another with the ultimate goal of fostering coherence and consistency between EU and global sustainability reporting.

1.5 BUILDING BLOCK 3: ADDRESSING THE SPECIFIC CHALLENGES OF FINANCIAL INSTITUTIONS

- 143 *In the EU there is a strong emphasis upon sustainable finance as a key lever to foster sustainable development. Sustainable development will only take place if investment and financing activities support the transitions in a decisive manner. In such a context, financial institutions are placed in a pivotal position as direct players and intermediaries with a fundamental role in the allocation of capital flows. This role has many specific implications in terms of overall availability of quality sustainability data.*

1.5.1 Considering the specific role and needs of financial institutions both as users and preparers

Specific needs of key players in capital and financing allocation towards EU sustainability goals

- 144 Financial institutions are called upon to play a central role in the execution of the European Green Deal and more generally of the EU sustainability agenda. As key intermediaries financing the economy, they reallocate capital flows towards chosen activities and therefore have a unique power to influence how economic actors contribute to global and EU priorities. This has been recognised by the European Commission which intends to mobilise the financing power of financial institutions via its 2018 'Action Plan: Financing Sustainable Growth'.
- 145 Also related to the unique role of financial institutions in enabling the EU sustainability ambitions are the EU Taxonomy for sustainable activities and the SFDR. The former will apply to all EU entities in scope of the NFRD and is precisely designed to enable financial institutions to direct investment flows towards sustainable activities (as defined by the EU Taxonomy). The latter applies exclusively to financial institutions and imposes specific sustainability reporting

obligations on them with the same objective of ensuring transparency on and accountability of financial institutions for their sustainability impacts.

- 146 Part of the complexity faced by financial institutions³⁸ in reporting on their sustainability impacts comes from the role they play in supporting the sustainability journey of other economic players. Indeed, the vast majority of a financial institution's sustainability impacts is indirect deriving from its investment and financing activities (i.e. how it enables the economic activity of its clients) and how these contribute to EU sustainability goals. In comparison, the direct impacts of any financial institution's own activity (i.e. its real estate, infrastructure and staff mainly) are indeed limited, easily identified and their reporting is no different than that of any other reporting entity.
- 147 The challenge for financial institutions therefore lies with their indirect sustainability impacts: that is what a financial institution will most and foremost be held accountable for and not so much for its (somehow insignificant in comparison) direct impacts. Like any user of sustainability information, a financial institution is dependent on the quality and relevance of information provided by its value chain counterparts. What differentiates a financial institution from any other user of sustainability information is twofold: it is (i) the legally imposed framework on transparency regarding these indirect impacts and (ii) the comparatively high weight of its indirect impacts and therefore its equally high dependency on receiving appropriate data to identify, measure and monitor its overall indirect sustainability impacts.
- 148 Therefore, to be able to manage and report on indirect impacts (i.e. activities financed or invested in) – and ultimately to direct investment flows towards sustainable activities – financial institutions need high-quality, relevant, consistent, transparent and easily accessible information on the clients and projects they finance. A lot of clients being SMEs, such high-quality information would have to be defined in a way that would not imply heavy and costly burden for them to produce.

Specific needs of a very diverse set of investment and financing activities in a heavily regulated sector

- 149 The financial institutions sector has specific characteristics and reporting obligations that should be kept in mind when developing sustainability reporting standards.
- 150 First, financial institutions are not a homogeneous group. The terminology 'financial institutions' or 'financial market participants' covers at least three main segments: banking, asset management and insurance. Each of these sub-segments operates under specific business models, each managing risks and creating value in different ways using different levers that cannot be accounted for in one single and same way.
- 151 Second, the financial sector is heavily regulated to strengthen financial stability and protect clients. For the above-mentioned reasons, each segment reports to a dedicated supervisory line which imposes strict prudential norms and related reporting requirements, including sustainability reporting requirements. As illustrated in the appended assessment report³⁹, matrices by sub-segments summarise the regulations applicable to the activities of banks, asset managers and insurers. There is a lot of them for each segment and they all entail specific sustainability reporting obligations. These apply exclusively to financial institutions, significantly making their sustainability reporting obligations more complex, and consequently their sustainability information needs. It should be noted that such segment-specific supervisory sustainability reporting requirements are regularly evolving and add, as to be expected, some level of complexity.
- 152 Third, this leads to another challenge very specific to financial institutions: the lack of coordination and harmonisation among EU regulations applicable to financial institutions (from prudential to sustainability reporting obligations) results in a complex framework with overlapping requirements and different underlying concepts and objectives, ultimately and often insufficiently adapted to fully address the above mentioned needs and obligations of financial institutions' various business models and activities.

38 See Appendix 4.5 as from §25.

39 See Appendix 4.5 as from §68.

- 153 In this regard, financial institutions' specific needs in terms of sustainability reporting standards are twofold:
- a) as preparers operating different types of business models, they need guidance as to how best to report their indirect impacts deriving from each one of the three main activities. This should be addressed by financial sector-specific standards;
 - b) as users, they need to be able to collect sustainability information that will enable them to not only make informed financial decisions supporting EU sustainability ambitions but also to meet their own sustainability reporting obligations.
- 154 A fourth challenge is also worth mentioning: financial institutions are often global players, financing and investing in clients that may have global footprints themselves, therefore subject to varying level of reporting requirements. The diversity of information they are able to collect from their global clients – produced based on different standards and frameworks – is another complexity factor for them. In this regard, the objective of co-construction and convergence of future reporting standards with other international initiatives used as reference by global reporting entities is of critical importance.
- 155 The ESS should recognise financial institutions' dual role and as a consequence, it should (i) identify their specific information needs as users and factor them in when addressing all users' needs throughout the standards and (ii) it should also develop sector-specific standards to cater for the reporting challenges specific to the three categories of financial institutions. The definition and design of these sector-specific standards for financial institutions' indirect impacts should build on a pragmatic approach that will foster convergence and harmonisation with other EU regulations applying to financial institutions products and services such as the SFDR and the EU Taxonomy in particular. Of particular importance would be guidance on how the scope of disclosure should be adapted to products and services specificities; standards should systematically specify whether disclosures should be done at entity level, product level or for each underlying asset / counterpart.

Proposal #07

The ESS should recognise financial institutions' dual role and specific challenges in reporting their indirect sustainability impacts and design standards addressing these challenges for each of the three categories of financial institutions. In doing so and to the extent possible at its level, the ESS should aim at defining as simplified and unified as possible a set of sustainability information fit to meet the multiple sustainability reporting requirements imposed on financial institutions.

1.5.2 Defining the key features of sustainability information fit for financial institutions' needs

- 156 As previously mentioned, sustainability information ready to use by financial institutions is a key success factor in reaching the EU Sustainable Finance ambitions, as it is the ground on which investment decisions are made for massive amounts. Poor data quality will lead to potentially misguided investment decisions and consequently, to poor results in achieving EU ambitions. Incidentally, but no less importantly, poor data quality throughout the value chain will also result in poor quality sustainability reporting by financial institutions on their indirect (and most significant) sustainability impacts. A situation that cannot be allowed to last long.

Generic data quality considerations

- 157 Data quality is therefore a very significant issue for financial institutions⁴⁰: it is currently difficult for financial institutions to compare different companies and to make reliably informed investment, financing or underwriting decisions:
- a) Data is accessible through publications in heterogeneous formats. There is a clear lack of consistency and comparability.

⁴⁰ See Appendix 4.5 – Salient points.

- b) KPIs mentioned in different guidelines, frameworks and standards are numerous, not granular enough and often fail to provide key information to financial institutions.
 - c) Data methodologies are not standardised and not transparent, information is not frequently subject to assurance, therefore not comparable.
 - d) Climate disclosure requirements, despite remaining companies' coverage and methodologies standardisation issues (e.g. scope 3 GHG emissions and measure of the CO₂ emission intensity per production unit), are however generally more advanced than some other environmental and social and governance topics.
- 158 For financial institutions like for all other reporting entities relying on collected sustainability information to make decisions and produce their own sustainability reporting, quality information is a pressing need. For this reason, the future standards should consider defining a limited set of integrated, well-designed, mandatory, comparable and reliable KPIs.
- 159 Such sustainability information should:
- a) meet the generic quality criteria (including relevance, calculability and verifiability) of sustainability information, as described in Part 2 of the report;
 - b) include the key attributes of relevant sustainability information (including the double materiality dimension and materiality thresholds, category of information – qualitative/narrative and quantitative, monetary or not – dynamic retrospective and forward-looking view, ...) as described in Part 2 of the report;
 - c) include both sector-agnostic and sector-specific information;
 - d) cover all sustainability topics and sub-topics, as identified by the PTF;
 - e) converge with financial institutions indirect impact reporting obligations (including SFRD and EU Taxonomy related obligations, as well the integration of ESG risk factors into Pillar 3 disclosure) while seeking alignment with other sustainability information users' needs.

Specific data quality features of particular importance for financial institutions

- 160 In addition to these generic features of any quality sustainability information, the specific role and place of financial institutions in the investment and financing decision chain call for the consideration of additional data quality features.
- 161 Financial institutions must respond to new demands from savers: in a changing world, they ask for financial products which create both financial and sustainability performance. That is what impact investing aims to do. The integration of ESG factors was a first step and remains very useful in identifying the risks and opportunities of certain key issues in the analysis of a company. But this approach does not make it possible to measure the corresponding monetary value (in terms of costs / benefits) of the impact. That is what monetisation is about: translating impacts – currently measured in physical (e.g. tonnes, M3, etc.) or relative ratio format (carbon / environmental intensities) – into estimates of monetary value creation or destruction. Such estimates, which are not actual costs or revenue, do not meet the criteria to be accounted for in the financial statements. Monetisation is a way to tag a net positive or negative value to the sum of the financial risks taken by the investors and of the positive and negative externalities of the activities invested in, better enabling investors to select companies meeting their investment criteria. As impact investing continues to develop – it is still at an early stage – so will needs for monetisation.
- 162 This has led some actors to develop proprietary monetisation methods aimed at converting sustainability impacts into monetary terms. Such methods are not systematically and consistently shared and currently contribute to make comparability more difficult. In addition, there are inherent methodological challenges in assigning a monetary value to impacts. Nevertheless, in some specific instances, monetisation may be a useful complement. The PTF therefore recommends that the ESS keeps this issue under review and considers the possible development of a reasonable set of monetised indicators, starting with climate-related matters, which tend to be more mature.

- 163 The specificity of sustainable development is its long-term horizon perspective that goes beyond the classical management horizon of financial institutions. This is a new challenge both from a risk /opportunity monitoring and disclosure perspective. Forward-looking disclosure is usually based on qualitative information or on quantitative information using deep historical data. No such models can be built at this stage as sustainability topics (especially environmental ones) were not always observed or deemed material in the past. There is a need for convergence and minimum standardisation of this forward-looking information to enable comparability, structure long term risk management, identify transition funding needs and avoid green washing.
- 164 When addressing the forward-looking aspects of sustainability information, the ESS should consider the following⁴¹:
- a) identifying priority issues from a forward-looking perspective taking into account the maturity of topics involved: climate change notably;
 - b) clarifying expectations for quantitative targets disclosure and clarifying how targets should be disclosed⁴², leveraging current and upcoming related legislation;
 - c) listing elementary information needed to evaluate forward-looking pathways towards EU alignment commitments. In the case of climate change, certain banks are notably using sector-specific climate-scenarios, with each scenario having a sector-specific metric that should get closer and closer over time (e.g. a level of CO₂ intensity per production unit) to the sector-specific target;
 - d) identifying existing initiatives and finding the common minimum criteria to be integrated as requirements of the future disclosure standard.
- 165 Financial institutions rely on data from their clients to manage and report on their indirect impacts. The timing of such data collection is a very challenging issue. The ESS should consider the fact that financial institutions need time to access, process and disclose information on indirect impacts. The ESS should consider several options to align sustainability reporting calendar from data provider to data preparer:
- a) A practical solution would be to allow a time lag of 12 months max for financial institutions to integrate ESG data coming from their borrowing/investee corporate clients into their reporting for the first-time application at least. This would allow financial institutions to verify the data quality.
 - b) A public digital sustainability information database in the EU comprising corporate raw data (as reported by corporates) as well as basic analytical screening functions (screening for EU Taxonomy alignment and industry-specific material sustainability issues) would make sustainability data in the EU both accessible and affordable to all stakeholders. Moreover, this would reduce the inequality between large and small financial institutions (as well as other stakeholders), which currently can afford to a highly varying extent to buy sustainability data from external providers and which have varying capabilities of screening for their portfolios' indirect sustainability impacts.

41 For further details on the definition of forward-looking components of sustainability information, see section 2.3.

42 See sections 2.3 and 3.2.2.

Proposal #08

When determining a first set of mandatory sustainability information for all reporting entities (and then when further developing sustainability information requirements), the ESS should consider financial institutions' specific needs as users of sustainability information, in order for them to appropriately direct investment flows to relevant projects and meet their own specific sustainability reporting obligations regarding indirect impacts. In particular, the ESS should consider the following:

- a) it should cover all sustainability topics, not just climate-related;*
- b) to be investment decision-useful, sustainability information needs to include in particular quantitative forward-looking information; and*
- c) sustainability information data needs to be collected in a timely manner and easily accessible.*

The possible development of indicators based on monetised impacts remains a growing need in order to foster performance and goal alignment measurement and should be considered at a later stage.

1.6 BUILDING BLOCK 4: INCLUDING SMEs IN THE EU SUSTAINABILITY REPORTING LANDSCAPE IN A PROPORTIONATE MANNER

166 *SMEs are a major part of the economic landscape, confronted with risks and opportunities, e.g., transitional or physical climate risks, and impacting society and the environment. According to Eurostat⁴³, SMEs represent 99.8% of all businesses in the EU non-financial business sector. More importantly, they collectively contribute to and account for the majority of private sector GDP and employment and probably to the majority of private sector sustainability impacts worldwide as well⁴⁴. The EU is considering the necessary transitions towards sustainable development from an overall economic and social perspective, SMEs must be involved in an inclusive manner and be offered a means of being proactive and transparent in that respect. The current process of strengthening sustainability reporting in the EU should promote a balanced solution for SMEs so they can play their part in the sustainable transition of the EU economy.*

SMEs and sustainability reporting: role in transitions and in the value chain

167 As a preliminary remark, the PTF is making the assumption that the European Commission is unlikely to propose that SMEs are subject to reporting requirements under the revised NFRD, with the possible exception of listed SMEs. However, independently of the ultimate decision of the legislator regarding the scope of the reporting requirements and due to the trickle-down effect from the value chain and the EU Taxonomy and Disclosure Regulations, SMEs of all sizes and status⁴⁵ will increasingly be exposed to sustainability information requests from their stakeholders. It is also the PTF's understanding that the Commission might propose in the revised NFRD to encourage the voluntary use of sustainability reporting standards by SMEs, in order to foster improved relevance and coherence of sustainability reporting in the EU. In any case, it is *not* in the PTF's remit to suggest whether the use of sustainability reporting standards by SMEs should be mandatory and voluntary.

168 Therefore, the following developments and proposals only aim to support the EU's objective to foster relevance and coherence of sustainability reporting by considering how to include SMEs in the EU sustainability reporting landscape in a proportionate manner, regardless of whether this inclusion were to be through mandatory or voluntary use of sustainability reporting standards.

43 SME Performance Review | Internal Market, Industry, Entrepreneurship and SMEs (europa.eu), page 17.

44 [https://www.worldbank.org/en/topic/sme/finance#:~:text=SMEs%20account%20for%20the%20majority,\(GDP\)%20in%20emerging%20economies](https://www.worldbank.org/en/topic/sme/finance#:~:text=SMEs%20account%20for%20the%20majority,(GDP)%20in%20emerging%20economies) and <https://www.ifac.org/knowledge-gateway/contributing-global-economy/discussion/foundation-economies-worldwide-small-business-0>

45 Possibly including self-employed, partnerships and unincorporated enterprises, depending on the needs of their immediate stakeholders in terms of sustainability reporting.

- 169 Although there is yet no legal obligation deriving from the NFRD for SMEs⁴⁶ to disclose sustainability information, because of their predominant role in the EU economy, SMEs are *de facto* as important a part of the sustainability reporting chain as they are of the economic chain. As such, many of them are coming under increasing pressure to provide sustainability information from key stakeholders, such as corporate customers or suppliers that are cascading sustainability and transparency requirements throughout their value chain, not necessarily only by way of separate sustainability report expectations but also through contractual requirements.
- 170 As a consequence, SMEs' sustainability reporting practices should be compatible with the expectations and obligations of their stakeholders in order to avoid disruptions in the elaboration and collection of sustainability data throughout the value chain. Failure to do so, whatever the reasons (e.g. insufficient human and financial resources), would challenge and possibly compromise SMEs market access and expansion.
- 171 Similarly, SMEs are key stakeholders of financial institutions, as they may rely upon external financing in the form of bank loans and / or equity from investment companies at some point of their development (e.g. growth, succession, initial public offering). Financial institutions being themselves subject to increasingly demanding sustainability reporting requirements, they will inevitably cascade these requirements down to SME – borrowers or investees, who will then have to provide this sustainability information in order to maintain access to financing and investment. It must be stressed that this will affect, to a varying extent, all SMEs, including the self-employed, partnerships and unincorporated.
- 172 In addition, it is important to raise and consolidate awareness of sustainable development challenges and opportunities for SME decision-makers. SMEs are expected to play a significant role in realising the sustainability transitions of the EU economy and their decisions-makers need to benefit from appropriate tools to make the right decisions at the right time and monitor their implementation.
- 173 Therefore, there is a need for the future ESS to consider the particular situation of SMEs to:
- a) address the fact that SMEs represent the vast majority of the EU enterprises;
 - b) facilitate the SMEs' disclosure of sustainability information towards their stakeholders in an efficient manner, contrary to today's rather unregulated, and thus heterogeneous information requirements from SMEs' stakeholders or counterparts; and
 - c) contribute to better management of the sustainable transitions by SME leadership.

SMEs and reporting proportionality

- 174 Sustainability reporting is indeed a key factor for establishing and maintaining trusted relationships with key stakeholders. Even under a voluntary system there will be an expectation from these stakeholders that SMEs prepare and share the necessary standardised information. The PTF notes that information relevant (i) for an understanding of the reporting entity itself, (ii) for its value chain counterparts and (iii) for the concerned financial institutions should be largely converging. Therefore, it is desirable to design 'core SME' disclosures limited in number and fit for purpose.
- 175 In the EU, SMEs are formally classified into micro, small and medium-sized enterprises based on a combination of headcount, turnover and balance sheet metrics⁴⁷. But size (be it in terms of headcount or financial metrics) is not necessarily what best distinguishes SMEs from other enterprises. Rather, it is more important to bear in mind the following aspects when considering how to define a proportionate set of sustainability disclosure for SMEs:
- a) The instrumental role of the entrepreneur(s), the owner-manager(s), with their unique combination of capacity, knowledge and values, is central in shaping the firm's strategy, organisation and practices.
 - b) Governance and organisational structures of SMEs are simpler than that of larger reporting entities. Due to a more direct and close involvement of SME owners or managers (often being one and the same person) of SMEs to their

46 See Appendix 4.6 section 4 as from §257.

47 <https://ec.europa.eu/growth/tools-databases/kets-tools/glossary/sme>

markets and environment, there tends to be clearer consciousness of the challenges, simpler decision-making processes as well as better responsiveness and timeliness.

c) Formal processes of larger companies, related to budget, strategic planning, management reporting and some governance tasks (e.g. related to accounting, social and legal matters) are less complex in SMEs and sometimes outsourced. More formal and systematised practices require investments of time and resources that most of SMEs cannot afford.

- 176 For the above-mentioned reasons, SME sustainability reporting requirements should not simply be a dumbed down or simplified version of the sustainability reporting requirements for large reporting entities. These would likely not be fit for purpose and prove difficult and costly to produce. Instead, so far as is reasonably practicable, SME-specific sustainability reporting standards should be designed for SMEs on a stand-alone basis ('think small first') while ensuring that sustainability information provided by SMEs using such standards remains relevant for the owner-manager, users in general, and particularly for larger stakeholders that are themselves subject to sustainability reporting requirements. This would facilitate the SMEs interaction with their stakeholders based on standardised, yet decision-useful sustainability information.
- 177 Accordingly, to facilitate (i) the adoption of sustainability practices based on voluntary decision-useful reporting, and (ii) the possibility for larger organisations to report on their value chain impacts based on information and data from SMEs, the PTF suggests the elaboration of common, practical and dedicated SME sustainability reporting standards in the EU.

Proposal #09

The ESS should consider adopting a proportionate standard-setting approach tailored for EU SMEs. This would take the form of SME-specific standards aiming at balancing (i) the specific governance, organisational and resources availability aspects of SMEs and (ii) the need for sustainability information produced by SMEs to be relevant for their stakeholders, i.e. coherent with their own reporting requirements.

1.7 BUILDING BLOCK 5: FOSTERING SECTOR-SPECIFIC SUSTAINABILITY REPORTING RELEVANCE

- 178 *The current NFRD is based upon high-level principles combined with largely entity-specific implementation under guidance derived from Non-Binding Guidelines developed by the Commission. When transposed into Member State's law some sector-agnostic disclosures may have been defined and required, but implementation remains highly entity-specific. While sector-agnostic information is a necessary basis for comparability across sectors, it fails to fully represent the specific risks and opportunities a company faces, and the impacts it has, because it operates in a particular sector, thus also failing to allow for comparability within sectors. Future EU standard-setting will have to strike the right balance between the various possible layers of relevance and related comparability.*

Recognising the relevance of sector-specific sustainability reporting

- 179 The PTF is of the opinion that under the revised NFRD, as under the current NFRD, sector-agnostic sustainability reporting requirements will remain pivotal. Indeed, some sustainability matters are relevant for users and stakeholders across all sectors and reporting on these matters should continue to be required from all reporting entities. Sector-agnostic standards foster comparability across sectors – where such comparability is possible and meaningful – management and monitoring of evolutions and transitions for the economy as a whole, as well as alignment with policy objectives and international agreements that apply to reporting entities in all sectors.
- 180 However, the PTF also recognises that sector-agnostic sustainability information is not always sufficient to describe the specific challenges a reporting entity is confronted with. It therefore considers that sector-specific standards should complement sector-agnostic standards. One reason is indeed that specific types of risks and opportunities may only be relevant for one sector. Another reason is that certain sustainability matters may be relevant for many but not all sectors. For these reasons, such information would by definition not be covered by sector-agnostic information but would still be

useful to meet the needs and expectations of the users and stakeholders of reporting entities operating in some specific sectors, as it would provide relevant information allowing intra-sector comparability.

- 181 In this context the PTF welcomes the current trend promoting sector-specific sustainability reporting and recognises its relevance. It is considered however that sector-specific sustainability reporting should not be promoted solely as an improvement over the lack of comparability of entity-specific information but rather as a natural and necessary complement to both sector-agnostic and entity-specific information. This is the reason why the PTF supports a ‘three-layer’ approach described below in more detail: sector-agnostic, sector-specific and entity-specific⁴⁸.
- 182 Indeed, sector-specific standardised disclosures should be an integral part of sustainability reporting in the EU in their own right. Granular standardised information on sector-specific challenges, that would be commonly agreed upon amongst organisations and validated under a thorough standard-setting due process, fosters peer comparison, encourages more relevant and faster sector evolution as well as bolstering better transparency. Therefore, sustainability reporting should represent distinctly both sector-agnostic and sector-specific dimensions.
- 183 The PTF identified existing sector-specific sustainability initiatives that should be considered – subject to testing positively⁴⁹ against EU policy priorities and quality of information criteria – as an input and foundation for the work of the ESS when considering sector-specific standards⁵⁰. In defining sector-specific sustainability information requirements, the ESS should aim to strike the right balance between relevance and a possible over-burdening of reporting entities.

Proposal #10

The ESS should consider adopting a standard-setting approach to sector-specific sustainability reporting as a complement to sector-agnostic reporting. The sector-specific standards should be built upon:

- a) existing sector legal requirements;***
- b) widely accepted indicators meeting EU quality of information criteria;***
- c) recognised sector-specific sustainability goals; and***
- d) the risks and impacts relevant to a specific sector that would not be covered, or not covered enough, by sector-agnostic sustainability reporting.***

Adopting an EU compatible classification of sectors

- 184 The PTF considers that an appropriate classification of all sectors is a pre-requisite to sector-specific standard setting. From its assessment, the PTF observes that current sector-specific standard-setting initiatives at this stage have not been in a position to operate from a common classification.
- 185 The PTF recommends that the ESS should start from a well-known and widely accepted European classification of sectors in order to ensure coherence of reporting with other legislative or regulatory, reporting, statistical or organisational EU features. An important reference is the EU taxonomy which uses the existing statistical classification of economic activities in the European Community (NACE). Therefore, the PTF recommends linking the sector classification of the future ESS to this same NACE classification.
- 186 The ESS should ensure that the proposed list of sector classification:
- a) encompasses all sectors of activity in a balanced way;
 - b) reflects the right level of granularity to foster relevance and comparability of information;

48 See part 3.3.

49 For further detail on the practical approach to the possible onboarding of international initiatives, see section 4.3.

50 See Appendix 4.2.

c) is coherent with global frameworks and international standard-setting initiatives;

d) remains relevant over time, as new risks and opportunities in sustainability reporting will emerge. A process for re-evaluation of the sector list should be defined on a regular basis (e.g. every 3 to 5 years).

- 187 The ESS should also consider that many companies are diversified and that it may thus be difficult to assign these companies to one sector as they may have activities in a number of NACE sectors⁵¹. This challenge may in many cases be mitigated by the fact that these activities are frequently in 'related' sectors and that therefore the same sector-specific standards may apply to all of these 'related' sectors. However, as this may not always be the case, the ESS may wish to consider a threshold for requiring reporting on a sector-specific standard if a reporting entity has less than a specified proportion of activity in this sector. At the same time, this consideration may need to be qualified in cases where there may be significant impacts or risks from this activity, even if it is a small proportion of the reporting entity's total activity.

Proposal #11

The ESS should consider defining an EU compatible classification of sectors (e.g. NACE), and design a balanced sector-specific sustainability set of disclosures that covers all sectors.

1.8 BUILDING BLOCK 6: ACKNOWLEDGING THE IMPORTANCE OF INTANGIBLES IN SUSTAINABILITY REPORTING

- 188 *The PTF observes that the role of intangibles which are not reflected through financial reporting and which are key to the development of businesses and to their processes of sustainable value creation should be emphasised in sustainability reporting.*

Intangibles, financial reporting and value creation

- 189 Financial reporting is based upon clear and well-established concepts as expressed by explicit or implicit conceptual frameworks. One of these key concepts is the concept of control underpinning the recognition of an asset for financial accounting purposes, which can be illustrated as follows: an asset is 'a present economic resource controlled by the entity as a result of past events, an economic resource is a right that has the potential to produce economic benefits'⁵².
- 190 Under this approach assets that are not controlled and related to a right to receive economic benefits are not reflected in financial reporting. This encompasses many, if not most, internally generated intangibles. One notable exception is the recognition of acquired goodwill which represents the difference between the purchase price of a company and its identifiable assets, as defined above, less its identifiable liabilities. It is worth mentioning that a debate is currently ongoing on how to best address, for financial reporting purposes, goodwill, i.e. this initial outflow of cash corresponding to intangibles that cannot be recognised as assets per se.
- 191 It is generally considered unwise to seek to modify the above financial accounting concepts since they correspond to a robust and understandable approach which offers a secure and agreed upon information platform. There is merit in not disturbing a stabilised financial reporting platform established from robust concepts over decades. As a consequence, intangibles appear as non-financial in nature in the sense that financial reporting does not, and most probably will not, include them in its scope.
- 192 However, it is important to note that to understand value creation at company level additional information is essential. This is illustrated by the increasing disconnect between financial reporting 'book values' and market values of companies,

⁵¹ See Appendix 4.1 §221,222.

⁵² IASB 2018 Conceptual Framework.

as expressed by financial markets through transactions (on minority stakes or on controlling interests)⁵³. This situation explains why in the EU a majority of financial stakeholders support the idea of developing disclosures that foster a better understanding of intangibles⁵⁴. This is a crucial element of valuation.

Intangibles and sustainable development

- 193 Intangible resources can be considered as everything that is in the ‘employee’s head’ (know-how, leadership, values...), everything that remains in the company beyond its recognised assets (processes, governance...), everything that connects the organisation to its environment (brand, reputation, relationships with business partners and stakeholders...)⁵⁵.
- 194 A company’s intangible resources can be reflected through monetary or non-monetary, retrospective or prospective quantifiable indicators as well as through narrative disclosures, that translate their decisive impact in the production of goods and services, such as skills, knowledge accumulated by the company, capacity for innovation, trust in the brand, quality of relations with customers and partners, respect for societal and environmental commitments, etc.
- 195 The generation and monitoring of intangible resources over time and the improvement of their quality can be a major source of sustainable value. They play a decisive role in the company’s ability to build its uniqueness/singularity, improve its competitiveness and ensure its long-term sustainability and development.
- 196 Many proposals have been put forward to define the notion of intangible capital without reaching a consensus. The complexity of establishing a definition of this notion lies in the fact that intangible capital is the subject of a multidisciplinary approach. Intangible assets are numerous. Some are legally or fiscally defined and recognised for financial reporting purposes, such as patents, acquired goodwill and trademarks. Other derive from observation or best practices, such as customer relationships or governance. It would therefore be necessary for the ESS to start working on a definition of intangibles.
- 197 Intangible capital is generally recognised as composed of ‘social & relationship capital’, ‘human capital’ and ‘organisational and intellectual capital’⁵⁶ which fit well in the Social and Governance+ topics identified by the PTF⁵⁷. Main leading frameworks also include other capitals: ‘natural capital’, which are rarely considered in the debate about intangibles to date, and ‘financial capital’ and ‘manufactured capital’ which are covered by financial information.
- 198 Human capital corresponds to the individual and collective contribution to performance. It is made up of the accumulation of knowledge and skills by individuals within a company. It includes talent, experience, charisma, leadership, humanity, empathy, resilience, interpersonal relationships, etc.
- 199 Organisational and intellectual capital reflects the organisation’s philosophy and the systems to leverage the organisation’s capabilities. This includes techniques, procedures, intellectual property (commercial rights, copyrights, trademarks, patents), management, information systems, innovation, etc.
- 200 Relational and social capital corresponds to the different interactions between the company and its eco-system. It is based on relations with shareholders, partners, customers, suppliers, prescribers, distribution networks, etc.
- 201 Monitoring the generation of intangible resources enables better governance and management as well as risk assessment (e.g. mismatch of human resources for future jobs, reduced commitment, risk of a new technology not yet under control). It can also contribute to revealing the future opportunities of the company and its related investment strategies (e.g. renting premises, expansion, company mergers, purchase of new industrial machinery). It allows for better visibility over time. Intangible assets make it possible to clarify a company’s vision and mission, allowing to manage it better and to

53 A January 2021 EFRAG study indicates that Book Equity less recorded goodwill represents around 44% of Market Capitalisation on a specific sample of companies listed in the EU having a recorded goodwill (the selected sample consists of 1,477 companies listed on exchanges in the European Union. The sample was determined by extracting (from Eikon Refinitiv) those listed entities with total assets exceeding EUR 1 at its 2019 financial year-end, having reported a goodwill balance in any of the seven years under review: 1477 entities). Please note that market Capitalisation does not reflect a possible control premium which is generally observed in case of take-overs for instance.

54 As expressed by financial participants during the PTF Outreach events, see Appendix 5.

55 See Appendix 4.2 focus on intangibles as from §128.

56 https://www.wici-global.com/wp-content/uploads/2016/09/WICI-Intangibles-Reporting-Framework_ver-1.0.pdf

57 See Section 3.2.2.

create added value through differentiation. Integrating intangibles into sustainability reporting, through the materiality lens, allows for a more complete and accurate depiction of the company with a 360° view and therefore a better reading of sustainable development information.

Intangibles and double materiality

- 202 Intangibles are primarily considered as key factors of the long-term sustainable development of companies. In that sense they should be considered as internal sustainability components with a primary internal impact ('inside-in' perspective on the generation of 'internalities').
- 203 Double materiality may be applied to intangibles from an impact materiality perspective in order to identify and address the risks linked to the company's activity, the possible contribution to the sustainable development of territories, the benefits of partnerships to co-produce value through cooperative ecosystems, ensure social cohesion, foster recognition and a sense of work. Double materiality may also be applied to a financial materiality perspective, for instance with the assessment of the geographies where the company is located, the assessment of the risk of shortage of raw materials, the risk of water scarcity. Most of this is normally to be reported under traditional ESG disclosures.
- 204 Intangible resources are part of a dynamic process, which means that these intangible resources create internalities that can be negative or positive. These resources can deteriorate or develop depending on how they are used and developed. In addition, these internalities have an impact that very often leads to positive (or negative) externalities and the creation (or destruction) of shared value for customers, communities, territories, environment and society in general. It can also lead to negative externalities.
- 205 The generation of intangible values has a direct and indirect connection with future financial results. For example, resources dedicated to financing training foster the acquisition of the desired level of competence and reporting on human capital will allow to establish the link between training costs and value creation. By providing organisational and management conditions that promote employees' personal commitment, the company encourages their commitment and loyalty, therefore likely reducing absenteeism and employee turnover.

Introducing intangibles in sustainability reporting as a key dimension

- 206 Mainstream ESG disclosures and intangible disclosures are complementary and indissociable. They correspond to different lenses. As an example, when governance is generally focused on anti-corruption, ethics and compliance, adding the intangible dimension would lead to include internal controls, quality of management procedures, quality of the organisation, quality of stakeholders' relationships... The 'human capital' dimension is also key to complement mainstream disclosures corresponding to the 'S' of ESG, by adding disclosures related to skills and knowledge, career and personal development.
- 207 Intangible indicators complement the classic ESG indicators by being much more exhaustive in the criteria that must be taken into account to evaluate a company from a risk, visibility and relevance perspective. A more comprehensive approach, that would combine ESG disclosures with appropriate disclosures on intangibles, will make accounting for sustainability in a more systematic manner.
- 208 In practice, companies have already started developing numerous intangible indicators that are not included in the mainstream ESG indicator initiatives. This is why it is worth considering completing the ESG indicators with intangible disclosures on relational and social capital, on human capital, as well as on organisational and intellectual capital. Though intangibles disclosures may present the right level of maturity from inception, the ESS should consider introducing them as a key dimension of sustainability reporting over time.
- 209 The PTF has indeed considered that including intangibles resources could be a valuable addition to sustainability reporting. It would promote a more coherent and systematic approach to sustainability. Such an approach is compatible with initiatives fostering multi-capital and integrated reporting practices under the general caveat that the term capital must be understood from a broader perspective and not only from a financial perspective.

- 210 The intangible dimension of sustainability reporting could be classified into the 3 main categories: Human Capital, Organisational and intellectual capital and Relational and social capital. Each of these categories would be allocated to sub-topics that aim to identify the different dimensions and facets through which each category of intangible is expressed.
- 211 The ESS will be able to build on the work of the PTF on the 1186 indicators for 'intangible resources' identified, including sector indicators, which will be a starting point in an agnostic and then sectoral perspective. Some categories are more mature than others.

Proposal #12

The ESS should consider introducing in its standard-setting processes intangibles as a key dimension of sustainable company development and therefore sustainability reporting.

PART 2: ANCHORING KEY EU SUSTAINABILITY REPORTING CONCEPTS IN ROBUST CONCEPTUAL GUIDELINES

212 The revised NFRD is expected to establish at legislative level a number of key sustainability reporting features or concepts which constitute the basis for an EU conceptual framework. The PTF has identified six concepts that are specific to sustainability reporting in the EU and that in its view require operationalisation in the context of the elaboration of possible EU sustainability reporting standards: alignment with public good, quality characteristics of sustainability information, forward-looking information, levels of reporting, double materiality and connectivity. The PTF proposes that the ESS elaborate conceptual guidelines ensuring proper translation of concepts into standards.

2.1 DEVELOPING STANDARD-SETTING METHODOLOGIES TO ALIGN STANDARDS WITH EU AND GLOBAL SUSTAINABILITY POLICY PRIORITIES

213 *In the EU, standard-setting activities are generally required or expected to be conducted in the public interest since the regulatory level is by construction subordinated to higher levels of legislation. This is generally captured under the concept of 'public good' alignment⁵⁸.*

214 *Standard-setting for sustainability reporting in the EU will take place within two important contexts:*

a) a set of overarching international environmental, human and labour rights agreements as well as global sustainability policies, goals, standards and developments that are actively supported and promoted by the EU; and

b) specific EU policies and regulations that relate to one or more aspects of sustainability or types of business enterprise.

Aligning with international policies

215 It will be important for the ESS to understand these international agreements, policies, goals, standards and developments and ensure that its own standard-setting work is aligned with them to the greatest extent possible, in particular when the EU is in support and/or has taken or is considering taking steps to translate them into the EU legal framework. This will support coherence within sustainability reporting, and between the conduct and reporting required of companies, in support of a sustainable future.

216 In this context, the PTF considers among global priorities the following of particular relevance:

a) the 2030 Agenda for Sustainable Development (UN, 2015) and the associated Sustainable Development Goals (SDGs);

b) the Paris Agreement on Climate Change and the forthcoming new goals of the Convention on Biological Diversity;

c) the International Labour Organisation's (ILO) Conventions and the Declaration on Fundamental Principles and Rights at Work;

d) the UN Guiding Principles on Business and Human Rights;

e) the OECD Guidelines for Multinational Enterprises.

217 The ESS should monitor other possible global policies and standards to consider the potential for alignment on an ongoing basis.

218 The 2030 Agenda and SDGs are underpinned by a range of targets that can be supported to varying degrees and in varying ways through sustainability strategies, responsible business conduct, private investments and innovations. Significant business contributions are widely recognised as indispensable for the achievement of the SDGs by 2030. In

58 As an example, refer to the 2002 IAS Regulation with regard to IFRS endorsement in the EU.

this context, the PTF notes that the UN has produced guidance for companies on reporting on their contribution to the SDGs. This makes clear that, when it comes to prioritising negative impacts connected to the business for the purposes of disclosure, the assessment should be based on their relative severity first, after which connections between the prioritised risks may be connected to relevant SDGs, whereas for beneficial products and services the company may start with specific SDGs and prioritise both their actions and reporting based on where they feel they can contribute most⁵⁹. This guidance is itself founded on and fully aligned with the standards of conduct set out in the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises. The PTF considers the guidance critical for avoiding the risk of ‘SDG-washing’ (see below).

- 219 According to the Paris Agreement climate change shall be limited to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels. The Paris Agreement supports the Sustainable Development Goal (SDG) on climate action and the broader 2030 Agenda and is a main driver for the EU ambitions to become climate neutral by 2050. The PTF believes that European Sustainability Reporting Standards should contribute to the achievement of these public policy goals. In particular, the TCFD recommendations have been driving awareness about the financial materiality of climate-related risks and promoted the disclosure of information in mainstream narrative reporting in recent years. Some jurisdictions have started to require corporate climate disclosures consistent with the TCFD framework. This creates an unprecedented opportunity to develop a unified global framework for climate-related financial reporting that is consistent with the goals of the Paris Agreement.
- 220 The PTF observes that continuing progress in the adoption of the TCFD recommendations is still urgently needed and believes that the EU standards are a means to achieve widespread adoption in the EU. However, considering the double materiality perspective, the PTF emphasises that the disclosure of financially material climate-related risks and impacts needs to be complemented by reporting on the corporate carbon footprint as well as Paris-compliant GHG-emission reduction targets.
- 221 The UN Guiding Principles on Business and Human Rights (UNGPs) were unanimously endorsed by the UN Human Rights Council in 2011 and set the authoritative global standard of conduct for business with regard to their responsibilities for addressing risks to and impacts on people connected with their operations and value chains. The corporate responsibility to respect human rights set out in the UNGPs is not a purely voluntary standard as it reflects a global expectation of business; nor do companies need to ‘sign up’ to it as they would need to do for a standard based on membership in an initiative. The UNGPs are regarded as soft law, in that while the document itself is not legally binding, it contains a normative expectation of all companies, regardless of size, sector or location, with regard to preventing and addressing impacts on people⁶⁰.
- 222 The responsibility to respect human rights is carried through in the human rights chapter of the OECD Guidelines for Multinational Enterprises, which are today adhered to by approximately 50 states. The OECD Guidelines extend the concept of ‘human rights due diligence’ as articulated in the UNGPs to the areas of employment and industrial relations (to the extent not already covered by the UNGPs), environment and anti-corruption. While the Guidelines are not directly binding on companies, states that adhere to them must follow them, which includes establishing a National Contact Point to promote the guidelines and handle inquiries as well as complaints regarding alleged breaches by companies that are from or operating within the state’s jurisdiction.
- 223 Both the UNGPs and the OECD Guidelines explicitly refer to the ILO Declaration of Fundamental Principles and Rights at Work as well as the Universal Declaration of Human Rights and the International Covenants on Civil and Political Rights (including the two Optional Protocols) and on Economic, Social and Cultural Rights as constituting the minimum standards of reference when it comes to companies’ responsibility to respect human rights.

59 Integrating the Sustainable Development Goals into Corporate Reporting: A Practical Guide. <https://www.unglobalcompact.org/library/5628>.

60 The UNGPs have been the reference in key EU policy documents since 2011 including the Strategy on Corporate Social Responsibility (2011-2014) and the Action Plan on Human Rights and Democracy (2015-2019), as well as the NFRD and its Non-binding Guidelines.

Aligning with EU policy

- 224 In the standard-setting process, the ESS should consider following the operational principles outlined below:
- a) The ESS framework should integrate and be compatible with all relevant existing EU regulations and their resulting 'regulatory sustainability information'.
 - b) The ESS should take into consideration existing reporting obligations for companies in the scope of the NFRD (and the associated indicators) deriving from other regulations and address inconsistencies (horizontal alignment⁶¹), providing precise guidelines. For example, the ESS should provide guidance on how companies in the scope of the NFRD should consider how to take account of the technical screening criteria of the EU Taxonomy to seek as much consistency as possible with the information that companies will have to collect and disclose when disclosing their obligations under article 8 of the EU Taxonomy.
 - c) The ESS should take into account reporting obligations for which NFRD disclosures are an input and ensure that the disclosures included in its standards are the source of relevant, reliable, comparable information that can feed into other EU sustainability reporting obligations. For example, the ESS should take into account, among others, the data needs arising from the SFDR, so that financial markets participants have access to reliable information to meet their obligations regarding the reporting of their adverse impacts (with due consideration of the ESS' own criteria for quality information⁶²).
 - d) In summary, the ESS should clarify for each disclosure under the NFRD standards how they address all relevant sustainability reporting obligations and, wherever possible, make NFRD disclosures as robust and consistent as possible⁶³.
- 225 The above operating principles should be supported by systematic research on the EU sustainability information environment. In particular, the ESS should carry out research on relevant regulations and information directives (for example the Second Shareholders Directive) and how Directives have been transposed in the different Member States. Such work should be initiated by the ESS in order to ensure coherence in standard-setting.
- 226 The ESS could also play an advisory role to EU policy makers and regulatory bodies that aim to introduce new sustainability related legal requirements or initiatives.
- 227 On the substance of standard-setting, and with a view to aligning sustainability information, the ESS should aim to propose standardised indicators based on the overlaps between different regulations. Such a set of common indicators could be identified based on the PTF work⁶⁴. At all times, the ESS should assess proposed disclosures against its own quality of information principles and criteria⁶⁵.
- 228 In doing so, the ESS should consider the following aspects:
- a) The ESS should categorise disclosure obligations based on their nature (e.g., public disclosure, regulatory use, internal use or voluntary reporting) and address the implications of the coexistence of different types of disclosures for a given data preparer and the impacts on data users.
 - b) The ESS should provide guidance to address the different treatment of materiality of information that stems from different EU sustainability reporting requirements, trying to provide insight into how they relate to and complement each other. Though most of them are based on a single materiality principle (either financial or impact), topics can indeed be contemplated against a double materiality perspective depending on the regulation that is considered.

61 See paragraph 1.3.1.

62 See section 2.2.

63 See section 1.3, Figure 3.

64 See Appendix 4.1.

65 See section 2.2.

- c) The ESS should map and aim to align emerging disclosure areas into its standard-setting.
- d) The ESS should consider the proportionality principle that is provided for in some of the above-mentioned regulations.

229 At EU level, a number of key objectives, policies and regulations are relevant to the work of the ESS and of particular importance to ensuring coherence between and within standards of conduct and reporting. These are:

- a) The EU Green Deal, which has redefined the EU long-term sustainable growth goals. It includes the EU Climate Law, the EU 2030 Biodiversity strategy, the Farm to Fork Strategy, the new Circular Economy Action Plan and the Zero Pollution Action Plan, while addressing just transition issues through the Just Transition Mechanism and introducing a 'Do no harm oath' as a design principle. The Sustainable Europe Deal Investment Plan is the investment pillar of the Green Deal which aims to mobilise at least €1 trillion in sustainable investments over the next decade.
- b) A legislative proposal, due in Q2 of 2021, under the EU's Sustainable Governance Initiative, is expected to introduce mandatory human rights and environmental due diligence for companies, in line with the standards set out in the UNGPs and OECD Guidelines. The PTF understands that the scope of application of the proposed legislation is yet to be determined but that it is expected to apply to a wide range of companies operating in the single market rather than being limited to only a few of the very largest. The Committee on Legal Affairs of the European Parliament has published a draft Directive to inform the Commission's process, which will likely be voted on by Parliament in plenary in March. While the Parliament's initiative is not binding (as the power to propose changes to EU Company law rests with the Commission) it is an important indicator of likely political support for the Commission's own proposals due later in the year.
- c) The 2018 EU Action Plan on Sustainable Finance, currently under review to become the Renewed Sustainable Finance Strategy to be unveiled in Q2 of 2021, aims to mobilise private finance to support the Green Deal and other EU sustainable policy targets. Major sustainable finance regulations as part of the Action Plan include the EU Taxonomy, the Sustainable Finance Disclosure Regulation (SFDR), the EU Climate Benchmark Regulation and sustainability disclosures for benchmarks, the NFRD climate-related disclosure guidelines and the integration of sustainability in investment advice (Suitability test under MiFID II and IDD revised Delegated Acts). In parallel, the EU is moving forward with an Ecolabel for financial products for the retail market, and an EU Green Bond Standard (due Q2 of 2021).

The critical importance of minimising the risk of green-washing

230 A future ESS will need to ensure alignment to the greatest possible extent between these global and EU agreements, policies, goals and standards and companies' sustainability reporting. In this context, it will need to pay due attention to the risk of green-washing and blue-washing (or 'SDG washing'). This refers to the risk of the intentional or unintentional exploitation of global and EU policy priorities for communication purposes by reporting companies, without aligning the company's strategy and policies with the goals and expectations underpinning these initiatives. Reporting should reflect that companies cannot typically realise global and EU policy goals on their own, but rather form part of a larger ecosystem that is necessary to achieve them. Reporting on contributions to these goals should therefore be supported by either (i) a translation of global objectives to more specific (corporate) levels, or (ii) the aggregation and interpretation of individual company performance results at national, EU and global levels. Where a translation of objectives to corporate levels is not feasible or beyond the remit of the ESS, standards should at least facilitate the tracking of progress on an aggregated level.

Proposal #13

The ESS should consider adopting a guideline aiming at ensuring the alignment and consistency of EU sustainability reporting standards with agreements, policies, goals and standards:

a) at global level (notably the 2030 Agenda, the Paris Agreement, Convention on Biological Diversity, the ILO Conventions and Declaration of Fundamental Principles and Rights at Work, the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises); and

b) at EU level (notably the EU Green Deal, Sustainable Governance Initiative and Sustainable Finance Strategy and related legislation, strategies, action plans and benchmarks).

In order to avoid 'green-washing' or 'blue-washing' in companies' management reports, the ESS should seek to ensure that reporting on companies' contributions towards global policy goals such as the Paris Agreement and 2030 Agenda:

a) minimises risks of 'green-washing' or 'blue-washing',

b) facilitates the tracking of progress at an aggregated level, and

c) is based on disclosures that meet a set of clear quality criteria⁶⁶.

2.2 DEVELOPING CRITERIA SUPPORTING A STANDARD-SETTING PROCESS ALIGNED WITH THE EXPECTED CHARACTERISTICS OF INFORMATION QUALITY

231 *Insufficient quality of sustainability reporting is currently considered as the key challenge in the EU and globally. Addressing this challenge is a priority and the ESS should adopt conceptual guidelines to embody the appropriate qualitative characteristics of information into its sustainability standard-setting process in order to bolster the quality of sustainability reporting.*

Qualitative characteristics of sustainability information

232 The PTF assumes that the revised Non-Financial Reporting Directive will state the general characteristics of quality expected from information included in sustainability reporting. A future standard-setter will need to develop guidance on the specific implications and implementation of these characteristics. This should guide:

- a) the development by the standard-setter of sector-agnostic disclosure and sector-specific disclosure that the reporting entities will be required to include in their reporting;
- b) reporting entities preparing entity-specific sustainability information for inclusion in their reporting beyond the disclosures determined by the standard-setter;
- c) the users of reporting as to their reasonable expectations with regard to the quality of the information they receive through sustainability reporting.

233 A number of general characteristics of information quality are well-established, in particular in conceptual frameworks related to financial information, and may be referred to as 'quality reporting principles'. These include two fundamental qualitative characteristics – relevance and faithful representation – and three enhancing qualitative characteristics – comparability, understandability and reliability/verifiability – as described below.

234 These qualitative characteristics are inseparable and should position sustainability reporting on an equal footing with financial reporting and eliminate the current quality gap between the two.

66 See section 2.2.

Relevance: *sustainability information is relevant when it has substantive influence on the assessments and decisions of users of reporting under a double materiality approach*

- 235 The standard-setter will need to consider the extent to which a disclosure standard is capable of providing insight that is decision-useful for stakeholders that are users of sustainability reporting, whether from the perspective of material impacts on people and the environment, or from the perspective of the financial materiality of such impacts, or both.
- 236 This assessment should reflect that the materiality of sustainability matters from the perspective of impacts on people and the environment derives from an assessment of the relative severity of those impacts (and scale and scope for positive impacts). Recognising that the users of sustainability reporting represent diverse interests across the full range of sustainability matters, it is the focus on these most severe impacts that helps ensure the relevance of information to users' assessments and decisions, under the impact materiality perspective⁶⁷.

Faithful representation: *sustainability information should convey a faithful representation of the reality it depicts*

- 237 Both the standard-setter (in determining required disclosures at the sector-agnostic and sector-specific levels) and reporting entities (in determining other entity-specific material disclosures) will need to:
- a) Define the scope and objective of the disclosure, i.e. the reality it intends to cover so that the information to be reported corresponds to its stated purpose. Given the diversity of sustainability topics, the definition of the scope of the disclosure will frequently be more complex than for financial information (where the purpose is always to depict monetary flows and positions).
 - b) Make sure that, within the defined scope, disclosures meet the three characteristics of: (i) completeness; (ii) neutrality; and, (iii) absence of error.

Comparability: *sustainability information is comparable when it is presented on a basis that is consistent over time and, to the greatest extent possible, in a way that enables comparisons between reporting entities*

- 238 **Consistency over time** will require that the standard-setter consider:
- a) the potential *stability* of the disclosure standard over a certain period of time and therefore the bases of the information required;
 - b) the number of *options* and the scope for *interpretation* offered by the disclosure standard;
 - c) the treatment of *changes in estimates* and *changes in reporting policies*.
- 239 **Comparability between reporting entities** assumes that entities confronted with the same fact pattern will prepare information and report in a similar way allowing for proper comparison. The standard-setter will therefore need to give due consideration to the level of interpretation left to the preparer and to the number of options offered, recognising that:
- a) No principle-based reporting system can identify all specific facts and circumstances, but disclosure standards should aim to be prescriptive enough not to allow for significant deviations from one preparer to another.
 - b) Clear guidance with regard to the approach through which to calculate quantitative disclosures can help preparers ensure robust and replicable results. Guidance in particular can be needed with regard to:
 - (i) Gathering and understanding data, including as it relates to scope (e.g. economic activities covered, boundaries, business units targeted, value chain, etc.), and terms and definitions used (e.g. 'supply chain');
 - (ii) Performing calculations, including with regard to the calculation methods underpinning certain formulae; reference tools of use in making calculations; the base year for calculations and its rationale; and the specification of sources, methodologies and assumptions used;

⁶⁷ See materiality developments in section 2.5.

- (iii) Linkages to other credible and well-recognised standards, questionnaires and targets.
- c) Disclosure standards may offer options in situations where the standard-setter cannot select only one approach, yet such options should be as limited in number as possible and may require reporting entities to justify their selected option and any alternative information provided.
- d) In some areas of sustainability reporting relevant disclosures will be sufficiently context-specific to make it unreasonable to seek comparability between reporting entities given different strategies needed to address impacts and therefore different targets, metrics and narratives needed to report on progress. This is particularly the case when seeking to identify targets and indicators of actual outcomes, as against indicators of process. Where they meet 'relevance' and other criteria for quality information, they should be included within disclosure standards, with particular emphasis placed on consistency in the basis for their reporting over time.

Understandability: *sustainability information should be presented in a clear and understandable manner*

- 240 The standard-setter will need to ensure that disclosure standards result in information that is as simple as possible so that most stakeholders are in a position to receive and understand the information in a straight-forward manner.
- 241 It should also consider that digitisation is in a position to provide for easy access to sustainability information under a digital format through machine reading and the use of artificial intelligence, without undue risks of misinterpretation.

Reliability/verifiability: *sustainability information is reliable if it enables users to rely on the information in their decisions and can be audited when required*

- 242 In order to meet this criterion, the standard-setter should guide reporting entities to ensure that all assumptions, data compilations, methods and caveats that underpin reported information are transparent, documented and traceable, with due attention to avoiding the preparation of reporting posing undue burden on reporting entities.
- 243 Specific attention should be paid to the level of assurance (reasonable or limited) that can be considered for the information to be prepared under the standard. In this regard there is a necessary linkage between the level of assurance provided and the quality of the suitable criteria than can be derived from the standard. This will be particularly important with regard to forward-looking information, which may require certain caveats to avoid misperceptions or misunderstandings. 'Limited' assurance does not mean that the information produced is less compliant with the standards, but that less thorough tests have been performed to ensure that it is compliant (compared to 'reasonable' assurance).

Other characteristics for consideration include *Timeliness and Connectivity*

- 244 From a general standpoint information needs to be timely to be decision-useful. However, in a mandatory reporting environment this point is normally covered by the regulation itself.
- 245 As regards connectivity, standard-setting guidelines might include provisions related to the attention to be given to the necessary links with financial information⁶⁸.

Proposal #14

The standard-setter should develop guidance on principles governing the quality of information set out in the revised Non-Financial Reporting Directive, to be applied in its own standard-setting processes and by reporting entities.

Focus on certain specificities of sustainability information

- 246 In determining specific disclosures, whether at sector-agnostic or sector-specific level, the standard-setter will need to assess contemplated indicators and metrics for their capability to provide insight and for any risks in their application. The various types of sustainability information (narrative, quantitative non-monetary and monetary) together with the

⁶⁸ See section 2.6.

many possible units of account create specific hurdles in terms of quality which have to be considered by the standard-setter and by reporting entities.

- 247 There is a wide range of indicators and metrics already in use across a range of frameworks, guidelines, standards, benchmarks, ratings and other initiatives. This has raised concerns of proliferation and confusion for companies and investors alike.
- 248 The standard-setter should not assume that the indicators and metrics needed in EU standards can all be found among those that currently exist, given that:
- a) many existing indicators provide little insight into how well a company is minimising its negative impacts and maximising its positive impacts on people and the environment and often equally little insight into resulting impacts on value creation for the enterprise;
 - b) many indicators that are assumed to provide comparability across companies in fact fail to do so in practice, risking misleading conclusions by investors.
- 249 The standard-setter will therefore need to scrutinise any indicator or metric it considers for inclusion – whether an existing one or a new one – against some key criteria, to test its capacity for providing valuable insight to the users of reporting. These criteria, directly related to the characteristics of relevance, faithful representation, comparability or reliability/verifiability, could include:
- a) **Avoiding perverse consequences:** Whether an indicator or metric may have perverse consequences with regard to company practices. For example: a metric based on the number of grievances can lead to grievances being reclassified or suppressed to keep numbers low; lost time injuries metrics have led to people being brought back to work early in other roles for the same reason.
 - b) **Indicative capability:** Whether an indicator or metric provides a true signal of the likelihood that the company's practices are reducing negative outcomes and increasing positive outcomes for people and the environment or is unrelated or weakly related to such outcomes. For example, the existence of a policy holds little or no indicative power regarding the likelihood or quality of its implementation; metrics regarding the numbers of people trained, budget spent on training, or hours of training completed on certain issues such as general human rights hold little indicative power regarding whether it leads to improved practices (e.g. training may not be tailored to specific functions).
 - c) **Measurability:** in the case of quantitative metrics, whether the issue at hand can reasonably be measured by a company without an excessive amount of conjecture and unknowns that would render it too arbitrary to be of value. For example, metrics based on the percentage of a supply chain where there is a significant risk of forced labour rely on the measurement of a phenomenon that is notoriously highly hidden from view, in businesses that the company does not control and which may be remote, and in contexts that vary widely, making any stated numbers extremely unreliable.
 - d) **Contextualisation:** the extent to which an indicator can be relied upon for insight absent contextual information to enable its interpretation; and the extent to which variations in such contextual information mean that a quantitative indicator does not provide for comparability. For example, a metric based on the proportion of a supply chain where there is a significant risk of child labour does not reflect the extent to which child labour is prevalent or rare in the local areas or industries concerned, nor whether the company is incentivising or helping reduce its presence, nor whether a reduction in the percentage reflects success in tackling the issue, displacing the issue into other parts of the value chains, or moving out of a certain area, commodity or product.

Proposal #15

The standard-setter should assess all disclosures at both sector-agnostic and sector-specific levels – whether new disclosures or drawn from existing reporting standards – against criteria that test the validity of the insight the resulting information can provide to users and the potential for unintended consequences from their application.

2.3 DEFINING DETAILED RETROSPECTIVE AND FORWARD-LOOKING SUSTAINABILITY INFORMATION COMPONENTS

250 *There is a significant and increasing expectation to assess and report on transition trajectories that build on retrospective information but require assumptions about the future. This is in contrast with financial information where the primary focus is retrospective. This specificity of sustainability reporting requires additional attention since the reliability and comparability of forward-looking information is at stake. The ESS should consider adopting guidelines to ensure an appropriate level of quality in such information and avoid misrepresentations of future trajectories.*

Disclosure of retrospective and forward-looking information in accordance with relevant time-horizons

251 Financial information is essentially retrospective even if elements of forward-looking information are taken into account to measure and account for consequences of past events (e.g. goodwill impairment testing or expected losses provisioning). By contrast, sustainability reporting encompasses both retrospective information (positive and negative results to date) and forward-looking information (expected results).

252 Forward-looking information is an essential component for explaining how, and how fast, a company will transform or transition towards a future that meets international policy goals, such as the Sustainable Development Goals and the Paris Agreement. Reporting on forward-looking information is typically based on roadmaps, targets and outcomes from different scenarios. Generating this information requires assumptions regarding, for example, the nature and consequences of future events and management decisions. Meaningful and robust forward-looking information will benefit from the use of state-of-the-art methods and tools, such as science-based climate scenarios or science-based targets, and standardised reporting on them, considering, to the extent possible, different time horizons⁶⁹.

253 The strategies of reporting entities for addressing different sustainability matters will have different time horizons. It will be helpful for the ESS to develop provisions on what is to be considered short, medium and long term, in order to increase comparability of strategies, targets and business transformation processes reported among comparable companies/business models.

254 The determination of time horizons to be used for sustainability reporting purposes will, however, need to take account of:

- a) Differences between sectors and business models.
- b) The fact that the two perspectives of double materiality may imply different time horizons. For instance, a reduction in certain negative impacts on people or the environment may become evident in a shorter timeframe than the anticipated positive effects on enterprise value.
- c) Variations by sustainability matter. For example, strategies to substantially reduce forced labour in an extended value chain require a longer time horizon to achieve their goals than strategies to substantially improve health and safety in the workforce.
- d) The effects on the definition of relevant time horizons of public policy goals such as the Paris Agreement and regulatory developments such as under the EU Sustainable Finance Agenda or regarding mandatory human rights and environmental due diligence.

255 ESS provisions will need to balance the benefits of clear and shared definitions of time horizons with the need for flexibility to reflect these distinct factors.

69 In particular, the TCFD recommendations include specific guidance on forward-looking disclosures based on climate scenario analysis.

Proposal #16

The ESS should develop guidelines supporting the development of standards that reflect both retrospective and forward-looking information and provide guidance to report preparers on how to apply meaningful time horizons, building on existing frameworks and standards where possible.

Forward-looking information related to the business model⁷⁰

256 A company's business model reflects both how it creates (or destroys) value for customers and society and how it creates (or destroys) financial value for the enterprise and its shareholders. The two may be entirely or largely aligned and mutually supporting, yet they may also be in tension with each other where the generation of short- or medium-term financial value for the enterprise is achieved through the externalisation of risks and costs onto the environment and people. This question is at the heart of sustainability and therefore of central interest to the users of sustainability reporting.

Proposal #17

When developing the standard on business model, the ESS should consider the need for reporting entities' disclosures to include information regarding:

- a) the degree of alignment of an entity's business model and strategy with the Paris Agreement (using climate scenario analysis) and its plans to increase alignment where necessary, starting with carbon intensive sectors;*
- b) the degree of alignment of an entity's business model and strategy with other EU or international environmental goals, and its plans to increase alignment where necessary;*
- c) the extent to which material risks to or impacts on people are linked to aspects of an entity's business model and strategy and, where this is the case, how they are being addressed through adaptation of the model or strategy, or mitigation measures.*

Forward-looking information with regard to targets and target-setting⁷¹

257 There are growing expectations that companies provide the users of reporting with clear and measurable information about the entity's progress in addressing adverse impacts, sustainability risks and opportunities and creating value for the enterprise over time.

258 Through widening uptake of TCFD recommendations, this is now also an increasing expectation from investors with regard to climate-related disclosures, and even a requirement on companies in some jurisdictions. Moreover, long-term scenario analysis using a limited number of climate scenarios, including a 1.5°C scenario aligned with the Paris Agreement, plays a valuable role when setting climate-related targets, and can be applied for each aspect of double materiality.

259 In parallel, there are growing policy expectations and regulatory requirements on companies to demonstrate – as a key element in human rights and environmental due diligence – how they track the effectiveness of their efforts to prevent and mitigate negative impacts on people and the environment. This also points to the value of companies being able to report on their targets and progress against them in relation to material impacts.

260 In light of these developments, reporting against long-term targets, supported by near to medium term implementation/ transition plans and key performance indicators for monitoring and evaluating progress, is likely to become increasingly

⁷⁰ For PTF proposals on reporting areas, including strategy and business model, see Part 3.2.1.

⁷¹ Ibid.

important as a part of companies' public reporting on sustainability matters. When considering how best to develop standards or guidance for companies in relation to reporting on their targets and progress against them, the ESS will need to take account of a number of relevant factors:

- a) any specific requirements of companies with regard to the setting and reporting of targets on sustainability matters that are defined under emerging and future regulations (e.g. the EU's Sustainable Corporate Governance Initiative) or under globally recognised recommendations (e.g., TCFD recommendations on climate-related risks and opportunities);
- b) the need to balance the role of consistent targets in enabling the comparability of reported information over time, with the practical need to review targets sufficiently frequently to integrate significant scientific and policy developments and innovations;
- c) the fact that implementation/transition plans and supporting indicators may sometimes be most appropriately set at site level in order to provide sufficient clarity on the nature and rate of progress towards targets;
- d) the increased relevance and comparability of companies' reporting in relation to climate change and the environment when reported targets should be science-based and reference international standards, wherever available, and where they apply established calculation methods and/or well-defined accounting policies⁷²;
- e) the particular value of information regarding feedback from affected stakeholders in the context of entities' reporting on progress against targets that relate to impacts on people.

Proposal #18

Through its standards and guidance, the ESS should encourage the disclosure by reporting entities of targets and progress towards their achievement in relation to all material sustainability matters. In line with the reporting principles of relevance, verifiability and (wherever possible) comparability, the ESS should adopt guidelines for ensuring the value of target-based disclosures to users of reporting. Such guidelines may reflect that information regarding targets is typically of most value where they are:

- a) articulated in terms of their relevance to outcomes for affected stakeholders and/or the environment;*
- b) specific, measurable, achievable and time-bound;*
- c) set against a base year from which progress can be measured;*
- d) developed with input from internal or external subject-matter experts and, wherever possible, from affected stakeholders and/or their legitimate representatives;*
- e) science-based wherever feasible (in particular for climate and environmental issues) or, where this is not possible, linked to key EU or global policy objectives;*
- f) reported in combination with a set of key performance indicators that are used to monitor and assess progress against targets and which factor in feedback from affected stakeholders and/or their legitimate representatives.*

72 See also proposals about quality criteria for determining indicators, in section 2.2.

2.4 DEVELOPING STANDARD-SETTING METHODOLOGIES TO DEFINE LEVELS⁷³ OF REPORTING BASED ON CLEAR BOUNDARIES

261 *There is general agreement that sustainability reporting goes beyond the operations under the control of the reporting entity itself (as defined for financial reporting). It is expected that the value chain be also covered since major impacts of the activities carried out by a reporting entity may occur in the value chain or through products and services. Confronted with the challenge of defining disclosure standards corresponding to this reality and the related challenges of the reporting entities themselves the ESS should consider adopting guidelines adapted to the various expected levels of reporting.*

Different reporting boundaries between financial and non-financial (i.e. sustainability) information

262 Based on the current terms of the NFRD and of the European Commission's 2017 and 2019 non-binding guidelines on non-financial reporting, the PTF presumes that the legislative level will require that sustainability reporting extends beyond the reporting entity's operations to involve their upstream and downstream value chain.

263 This differs from financial reporting, where the boundary for the reporting entity's consolidated financial statements equates with the boundary of its own operations as a legal entity, based on the accounting concept of control, and therefore covers the reporting entity and – as applicable – its subsidiaries and associated companies.

264 By contrast, the reporting entity does not have direct control over the activities carried out in its upstream and downstream chain. It frequently has a degree of influence that depends on many factors including the respective economic weight of the two parties to a transaction and the nature of the transaction itself (e.g. a supply or service contract, franchise arrangement, the sale or use of products, or a transaction between two tiers in the reporting entity's value chain).

The relevance of the full value chain for sustainability reporting

265 When it comes to the financial materiality aspects of sustainability information, existing reporting standards reflect that this is not constrained to matters within the reporting entity's control, but that it extends to its value chain related to 'scope 2' and 'scope 3' indirect greenhouse gas emissions.

266 Similarly, under international standards on responsible business conduct espoused by the EU (notably the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises), a company's responsibility with regard to impacts on people and the environment is not based on the extent of its 'control' or 'influence' over an activity as defined for financial reporting. Rather, its responsibility is a function of the existence of an (actual or potential) adverse human rights or environmental impact that is directly linked to its operations, products or services either through its activities⁷⁴ or through its business relationships (including its upstream and downstream value chain). Its control or influence is then one determinant of what can reasonably be done to mitigate the impact, with the expectation that the reporting entity will take steps to increase its influence (often termed 'leverage') wherever possible in order to effect change.

267 This typically leads to a need to prioritise among impacts for the purpose of allocating resources to address them. International standards determine that such prioritisation should be based on the relative severity of the impacts, with those that are or would be most severe taking highest priority. Severity is assessed based on an impact's scale (how grave it is), scope (how widespread it is) and remediability (how difficult it would be to set it right). As reflected under the PTF's proposals regarding the determination of impact materiality (one part of double materiality), this same prioritisation process should determine which impacts are material for the purposes of reporting.

73 The term levels of reporting in this context refers to scopes of reporting, i.e. the boundaries of sustainability reporting, in this case. But under EU legislation, the term 'scope' refers to the universe of entities that are subject to a specific regulation (entities in scope of the NFRS...). In order to avoid any confusion, in the context of this report, the term 'level of reporting' is to be understood as scope of reporting.

74 Defined as own operations throughout this report.

Proposal #19

The ESS should develop clear guidelines regarding the levels of reporting to guide its own standard-setting processes as well as the data gathering and reporting processes of reporting entities. These guidelines should recognise that:

- a) The financial materiality of a sustainability matter is not constrained to matters that are within the control of the reporting entity; it should also include risks, opportunities and outcomes ‘attributable to or associated with other entities/stakeholders beyond the financial reporting entity that have a significant effect on the ability of the financial reporting entity to create value’⁷⁵.*
- b) The impact materiality of a sustainability matter is similarly based not on the level of a reporting entity’s control or influence with regard to the impact, but on:
 - (i) evidence of a direct link between the impact and the entity’s own activities, products or services (including through the value chain); and*
 - (ii) an assessment of the relative severity of the impact, with the most severe impacts being judged material.**
- c) The determination of the level (within a company and its value chain) where a material sustainability matter arises should be informed by the reporting entity’s materiality assessment.*
- d) Despite the narrower scope of financial reporting, points of connectivity between financial and sustainability reporting may extend beyond the control-based scope and reflect sustainability matters in the value chain’⁷⁶.*

Ensuring that disclosures are applied at the most relevant level(s) in the entity’s controlled operations and/or value chain

- 268 Under the current NFRD, companies usually disclose sustainability information aggregated for the group and/or the parent company. As a result, sustainability information from different categories of subsidiaries and associated companies may be consolidated in the sustainability report, as well as information related to different activities, operating sites or tiers in their value chain (upstream and downstream).
- 269 In the case of sustainability reporting, topics that are considered and disclosed in generalised terms at the group level may not provide sufficient insight when the impact or dependency itself occurs at a specific level such as one or more subsidiaries, business areas, sites, suppliers or specific assets. In such cases, the information disclosed should be sufficiently granular to reflect the specific context or contexts, and the ESS will need to provide guidance on whether and how such information should also be aggregated at the parent company or group level, if at all. When relevant, the ESS should also provide guidance on when disaggregated information should be provided, including the level of disaggregation required (e.g. site level, project level, etc.).
- 270 The ESS should take due account of the fact that a topic that is material for a particular sector (or even all sectors) may be material at different levels and in different locations for different companies in a sector. For instance, some reporting entities in the agricultural commodities sector may identify forms of forced labour or water pollution in their owned subsidiaries, while others identify these impacts predominantly in the first tier or further tiers of their supply chains. It may therefore be inappropriate for the ESS to require a specific level of application for a material topic (though in some instances, guidance might be appropriate). Rather, the question of where (at which level) the material impact or dependency regarding a specific topic occurs should be informed by the entity-level materiality assessment process⁷⁷, informed by standardised guidance from the ESS on how to determine the relevant level of application in line with the international standards outlined above.

⁷⁵ <IR> Framework, Reporting Boundaries, 3.30.

⁷⁶ See section 2.6.

⁷⁷ See section 2.5.

271 Moreover, appropriate disclosures on a material topic may extend across more than one level of application. For example, certain purchasing practices of a reporting entity (which are within its direct control) may create economic incentives for a supplier (first tier) to demand excessive hours and unpaid overtime of its workers, or to sub-contract work to unauthorised factories using child labour and failing to comply with environmental regulations (beyond first tier). Conversely, attention by a retailer to providing adequate lead times for the delivery of goods to customers (which is within its direct control) can help logistics providers (first tier downstream) manage the workloads of delivery drivers (often gig economy workers, beyond first tier) and mitigate the risk of severe health and safety impacts on those workers. As such, data relevant to the existence or severity of impacts frequently does not sit uniquely at one level in the value chain but involves dynamics across different levels, including the reporting entity's own operations. Disclosures should enable reporting entities to accurately reflect these connections and dynamics.

Proposal #20

Given that:

- a) a material topic may manifest at different levels in different entities' scope of operations and/or value chain, and***
- b) the dynamics that generate and mitigate risks and impacts can involve more than one of those levels and may be linked to the entity's own business model,***

the ESS should seek to ensure through appropriate guidelines that both its own standard-setting processes and the reporting processes of entities:

- a) ensure that disclosures reflect information that is sufficiently specific to the level at which the material matter arises;***
- b) support holistic and coherent reporting that recognises that the appropriate level(s) of information may vary by entity and context (while also recognising topics where certain risks and impacts are clearly linked with certain sectors and levels);***
- c) ensure that where data from different levels, or multiple locations within a level, is aggregated, this is done in a way that avoids obscuring the specificity and context necessary to interpret the information;***
- d) recognise the dynamics and causal connections between levels and avoid presuming that material information is constrained to one particular level;***
- e) ensure that disclosures enable relevant insight into those dynamics and connections and are not limited to generic and tick-the-box reporting (for example on value chain codes of conduct and value chain audits);***
- f) provide for disclosures to reflect connections to the reporting entity's business model and its role in generating positive or negative impacts on people and the environment and creating or destroying value for the enterprise as a result.***

Challenges of data gathering beyond the level under the reporting entity's control

- 272 Reporting entities can establish systems and internal control procedures to collect and process with objectivity relevant data from their own operations necessary to comply with reporting standards. Outside of their operations, the extent to which data of the same or similar quality can be gathered varies, in particular when moving beyond direct business relationships and looking at impacts further up or down the value chain, which may be especially the case for companies with limited bargaining power vis-à-vis their business partners in the value chain.
- 273 This challenge can be reduced in various ways, including where companies work directly with affected stakeholders or their representatives to assess and address impacts, or through collaborative initiatives that involve other entities in the value chain, including to obtain data deeper in the value chain. It may, however, remain difficult in relation to

some sustainability matters to gather robust data that reflects outcomes based on lagging indicators. In such cases, disclosures that are based on leading indicators may enable easier data-gathering, and – provided they meet certain quality criteria⁷⁸ – can provide valuable insight into the likelihood of certain outcomes occurring.

- 274 Given the typically greater challenges of gathering meaningful data beyond the level under a reporting entity's control, it is likely more time and efforts will be required to develop the capabilities to report in a way that reflects across all relevant levels.
- 275 Some EU policies and regulations may require certain disclosures to be reported at a specific level. The EU Taxonomy, for example, is built upon the measurement of environmental performance at the level of individual economic activities. Article 8 of the Taxonomy Regulation then requires companies to consolidate that information and to disclose at entity level the proportion of turnover, CapEx, and OpEx that is taxonomy-aligned. These disclosures will be further specified in Delegated Act to be adopted soon by the European Commission. Whether addressed from a sector-specific or entity-specific perspective, the activity-level dimension of the EU Taxonomy and relevant specific requirements deriving from other EU regulations, will be important elements to be considered by the ESS in determining the most relevant level of reporting for each disclosure.

Proposal #21

The sequence in which the ESS first develops and subsequently refines reporting standards should reflect:

- a) the urgent need to improve reporting on the most severe impacts and significant dependencies connected to a reporting entity's operations and value chains, regardless of its level of control or influence over them;*
- b) while being cognisant of the fact that it is typically easier for reporting entities to gather robust information within the scope of their controlled operations and most challenging to do so at remote points in the value chain (especially when bargaining power vis-à-vis business partners is low), and that it takes time to develop sustainability reporting systems that cover this.*

2.5 DEVELOPING STANDARD-SETTING ASSESSMENT GUIDELINES TO OPERATIONALISE THE DOUBLE MATERIALITY CONCEPT

- 276 *The operationalisation of the concept of double materiality is key to sustainability reporting standard-setting and to effective sustainability reporting by companies. While the concept of financial materiality for financial reporting purposes is relatively established (though having limitations and implying a significant exercise of judgement), double materiality cannot be extrapolated from that sole basis. The ESS should dedicate efforts to providing clear guidance on the implementation of the concept in each of its two dimensions.*

Double materiality

- 277 Materiality is to be understood as the approach for prioritisation and inclusion of specific information in corporate reports. It reflects (i) the needs and expectations of the stakeholders of a reporting entity and of the reporting entity itself⁷⁹, as well as (ii) the needs corresponding to the general public interest.
- 278 The concept of double materiality entails two perspectives:
- a) The first perspective relates to matters that reflect actual or potential significant impacts on people and the environment connected to a reporting entity's own operations and its upstream and downstream value chain, which in this report is referred to as 'impact materiality'⁸⁰.

78 See section 2.2

79 Please refer to separate recommendation on 'an inclusive range of stakeholders', in section 1.1.

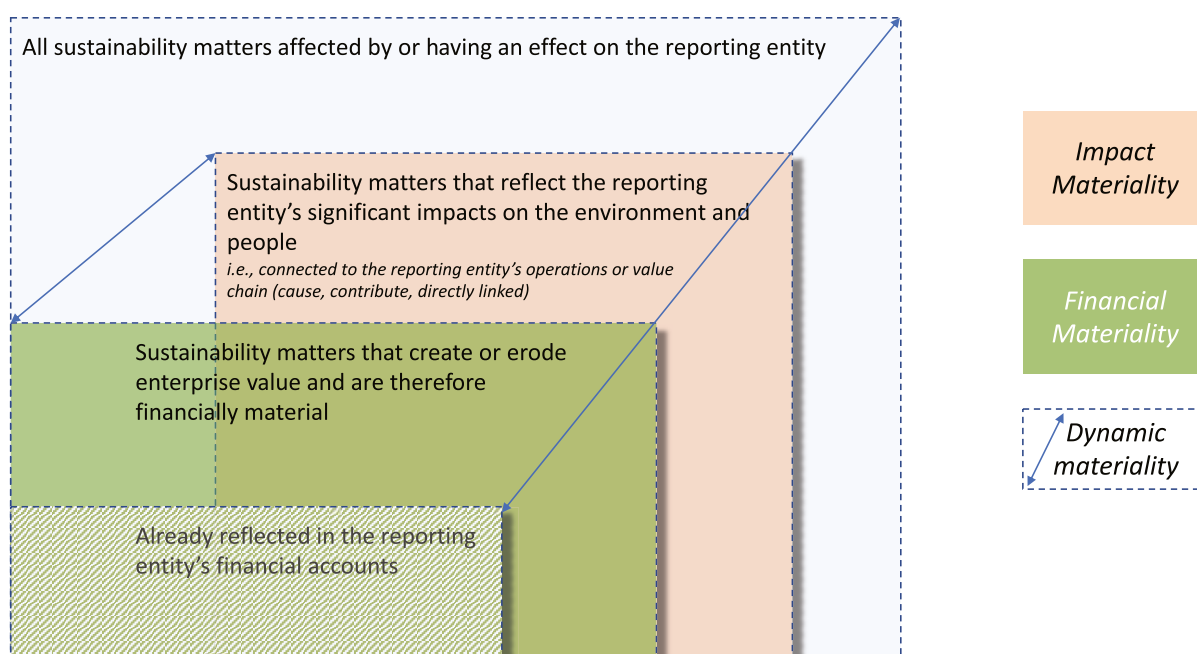
80 It can also be referred to as Environmental and Social materiality.

b) The second perspective encompasses all sustainability risks and opportunities that may positively or negatively affect the reporting entity's development, performance and position (over the short, medium or long term) and therefore create or erode its enterprise value. This is referred to in this report as 'financial materiality'. Some of these effects may have already taken place at the reporting date or may have been included in the projections of the cash-flows that support valuations and estimates used for financial reporting.

279 Double materiality requires that both perspectives be applied in their own right, while recognising that a reporting entity's impacts on people and the environment can also affect the entity's business model and therefore create or erode its enterprise value (the so-called 'rebound' or 'boomerang' effect). The extent to which they create or erode enterprise value may change over time (the so-called 'dynamic materiality').

280 The concept of double materiality is already reflected in the current NFRD (as clarified by the Non-binding Guidelines) and influences the preparation of non-financial information by many companies across the EU. Figure 4 presents a visual representation of the concepts.

Figure 4: Graphic representation of the double materiality concept⁸¹



281 The identification of material sustainability matters and related disclosures should take place at the level of both the standard-setter and the reporting entity:

a) Building on the framework of topics set out in the revised NFRD, the standard-setter should determine sustainability matters and disclosure requirements linked to public policy objectives that are appropriate to mandate for disclosure by all companies (i.e. sector-agnostic sustainability matters and disclosures).

b) The standard-setter should also identify sustainability matters that are likely to be material for companies within a specific sector based on the significance of impacts or effects on enterprise value and develop related disclosure requirements to the extent possible (i.e. sector-specific sustainability matters and disclosures)⁸².

c) Separately and in addition, reporting entities should be required to identify sustainability matters and related disclosures that are material for their business from both materiality perspectives (impact materiality and financial

81 An adapted version of the 'dynamic materiality' diagram by the Impact Management Project (IMP), the World Economic Forum and Deloitte in their role as facilitator to CDP, CDSB, GRI, IIRC and SASB (2020).

82 See section 1.7.

materiality). Entities should review the extent to which these sustainability matters overlap with sector-agnostic and sector-specific sustainability matters identified by the standard-setter in order to:

- (i) identify the disclosures mandated by the standard-setter for inclusion in their reporting; and
- (ii) assess what additional disclosures may be necessary in order to report completely against their material sustainability matters.

Proposal #22

The ESS should adopt guidelines in order to be clear and unambiguous in its application of the double materiality concept (as set out in the revised NFRD): double materiality requires that both the impact materiality and financial materiality perspectives be applied in their own right, while recognising the dynamic relationship between the two.

Principles guiding materiality assessments

282 Materiality assessment processes at both standard-setter and entity level should be guided by common principles that build on relevant international standards, including:

- a) Identifying sustainability matters that are material in terms of impacts based⁸³:
 - (i) the severity (scale, scope and remediability) and likelihood of actual and potential negative impacts on people and the environment connected with companies' operations and value chains, with due emphasis on the severity of impacts;
 - (ii) the scale, scope and likelihood of actual positive impacts on people and the environment connected with companies' operations and value chains;
 - (iii) the urgency derived from social or environmental public policy goals and planetary boundaries, as, for example, in the assessment of companies' contribution to climate change and mitigation, in alignment with the latest climate science recommended by the IPCC⁸⁴ / the Paris Climate Agreement and EU climate targets for 2030 and 2050.
- b) Identifying sustainability matters that are financially material⁸⁵ based on evidence that such matters are reasonably likely to affect a company's enterprise value beyond what is already recognised under the financial reporting conceptual framework, when considering its future (i) financial position (e.g., its balance sheet), (ii) financial performance (e.g., its income statement and cash flows) or (iii) risk profile (e.g., its cost of capital) over the short, medium, or long term. The determination of financial material effects on the reporting entity can rely on non-monetary quantitative, monetary-quantitative or qualitative data. Monetised data, e.g. for climate-related risks, in particular can assist in understanding the magnitude of these effects on enterprise value.

283 As regards the 'financial materiality' perspective, there is a fine line between what should be reported under financial reporting underlying concepts (IFRS in particular) and what should be reported under a proper sustainability reporting materiality assessment process. Sustainability risks may generate obligations in due course; however, it is a progressive evolution where financial materiality may increase over time until there is sufficient ground to disclose a risk and then to recognise a liability in financial reporting. Such an evolution needs to be monitored carefully.

83 Relevant standards for this perspective include the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises.

84 Intergovernmental Panel on Climate Change

85 Relevant standards for this perspective include Taskforce on Climate-related Financial Disclosures and Sustainability Accounting Standards Board.

Proposal #23

The ESS should adopt double materiality guidelines that will guide its own determination of material sector-agnostic and sector-specific matters and disclosure requirements as well as the double materiality process to be conducted by reporting entities. These principles should align with international standards of conduct such as the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises as well as the Taskforce on Climate-related Financial Disclosures.

Sector-agnostic, sector-specific and entity-specific material disclosures

Material sector-agnostic disclosures

- 284 The standard-setter will need to determine which information is relevant for all companies to disclose. This may be determined:
- a) based on the observation that a topic or sub-topic is sufficiently likely to reflect a significant impact on people or the environment and/or affect enterprise value across all sectors; or
 - b) based on the public interest in understanding collective progress towards specific public policy goals, such as gender equality, addressing poverty through the payment of living wages, reducing greenhouse gas emissions and energy use; or
 - c) based on information that, in aggregate, indicates an increase or decrease in systemic or structural risks, such as the extent of contingent labour in the workforce, the extent of freedom of association and collective bargaining across the workforce, and key pay ratios (such as CEO-to-median pay and gender pay gaps).
- 285 The identification by the standard-setter of sector-agnostic disclosure requirements and the methodologies for their calculation should be informed by:
- a) directions provided in the Non-Financial Reporting legislation (under a double materiality approach) and by other relevant EU legislation (under a double materiality approach or under one of the perspectives only, in which case they should be complemented);
 - b) a process of multi-stakeholder consultation that includes individuals with subject matter expertise across the full range of sustainability matters and both impact materiality and financial materiality perspectives;
 - c) research into the current use of sustainability indicators/disclosures in widely applied reporting standards, and lessons gained from their application in practice;
 - d) the assessment of all proposed disclosures against cross-cutting criteria for the quality of information⁸⁶.

Material sector-specific disclosures

- 286 The standard-setter should determine where and to what extent there are sector-specific disclosures that are material to all, or the significant majority of, companies within a sector, in accordance with the following guidance:
- a) To the extent that these are likely to be material for all or a large majority of companies in a sector, they should be mandated disclosures.
 - b) The standard-setter should provide clear and appropriate criteria for entities to follow in the event that they wish to justify why such a specific information is not disclosed based on a materiality assessment.

86 See section 2.2.

- c) The identification by the standard-setter of material sector-specific disclosures and the methodologies for their calculation should be informed by:
- (i) directions provided in the Non-Financial Reporting legislation and other relevant EU legislation;
 - (ii) a process of multi-stakeholder consultation that includes individuals with subject matter expertise across the full range of sustainability matters and both impact materiality and financial materiality perspectives;
 - (iii) research into the current use of sustainability indicators/disclosures in widely-applied reporting standards, and lessons gained from their application in practice, including identified gaps;
 - (iv) science-based targets, where relevant, applicable and available;
 - (v) the assessment of all proposed disclosures against cross-cutting criteria for the quality of information⁸⁷.

Entity-specific matters and disclosures

- 287 The standard-setter should also provide clear guidance for reporting entities on the process through which they determine what sustainability matters and disclosures are material for their entity, based on the double materiality concept.
- 288 With regard to impact materiality, this process should align with international standards on responsible business conduct such as the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises, and existing and forthcoming EU regulation (i.e., mandatory human rights and environmental due diligence as part of the Sustainable Governance Initiative led by DG JUST and the EU Eco-Management and Audit Scheme).
- 289 With regard to financial materiality, the entity may in due course refer to an indicative yet comprehensive list of sustainability matters, developed by the standard setter, that are likely to create or erode enterprise value for a typical company in the entity's sector or sectors, that extend beyond the mandatory sector-specific disclosures, and which demonstrate evidence of potential financial impact and investor interest⁸⁸.
- 290 The entity-level double materiality process will be essential for reporting entities to determine to what extent sector-agnostic and sector-specific disclosures mandated by the standard-setter are material to their entity and the basis for providing an explanation on those disclosures considered of limited materiality (the 'comply or justify' approach). It will also enable reporting entities to determine additional disclosures that need to be made where they identify material matters that are not covered, or not sufficiently covered, by sector-agnostic and sector-specific disclosures determined by the standard-setter.
- 291 The 'comply or justify' approach will require guidance for reporting entities to make clear when it may be applied and how it should be applied. The approach recognises that, in particular where there is a wide range of mandated disclosures, certain of them may not be material, or may be material in limited or specific ways that mean not all related disclosures would be relevant. In such circumstances, the reporting entity should be in a position to demonstrate under its own entity-specific materiality assessment process how and to what extent it is disclosing a mandated disclosure and explain/justify its decisions. This 'comply or justify' principle enables a reporting entity to determine and duly justify when a mandatory disclosure is not relevant and not applicable in its specific circumstances. It should not be applied or perceived as a way to avoid mandatory disclosures.
- 292 Guidance on the 'comply or justify' approach should ensure that this cannot be confused with so-called 'pick and choose' behaviour where the reporting entity elects certain disclosures and eliminates others for a variety of more arbitrary reasons such as the availability of data, a preference to emphasise certain matters, or inadequate reporting systems and resources. Guidance should make clear that:
- a) when the disclosure relates to a material matter for the entity, it should comply with the required disclosure;

⁸⁷ See section 2.2.

⁸⁸ See section 2.6.

- b) when the disclosure relates to a matter that the entity has not considered material, or material in a limited or specific way, it should justify that conclusion and any resulting omission or adaptation of the required;
 - c) the reporting entity should dedicate in any case the appropriate level of resources to prepare all required disclosures, including adequate justifications in relation to any required disclosures that are deemed by the reporting not to be material, or only in a limited or specific way.
- 293 If implemented in this way, the 'comply or justify' approach should not hinder the completeness of mandatory sustainability reporting as designed by the standard-setter, while recognising that the ultimate responsibility and accountability for the content of their sustainability reporting resides with each reporting entity.
- 294 Guidance from the standard-setter should also support reporting entities in determining disclosures that meet cross-cutting criteria for the quality of information⁸⁹.

Proposal #24

The guidelines should articulate:

- a) sector-agnostic sustainability matters and disclosures that are mandatory for all reporting entities, based on: public policy goals, information that in aggregate reflects changes in systemic or structural risk; or their materiality for most or all reporting entities;*
- b) sector-specific sustainability matters and disclosures that are mandatory for all reporting entities within specific sectors based on: public policy goals, information that in aggregate reflects changes in systemic or structural risk; or the likelihood of their materiality for entities in those sectors;*
- c) guidance to reporting entities on the double materiality process to be implemented in determining any additional sustainability matters and disclosures that are material for the entity's reporting; and*
- d) guidance for reporting entities in the event that they determine a mandatory sustainability matter or disclosure is either not material, or only in a limited or specific way in their particular case, enabling them to accompany that matter or disclosure with adequate justification.*

Material sustainability matters and related disclosures

- 295 The standard-setter should clearly recognise that in some instances it may be possible and appropriate to determine that a sustainability matter is material, but not, or not yet, to determine specific outcome indicators in relation to that matter, or in relation to all aspects of it. This can be due to:
- a) the varying levels of experience with reporting on different sustainability matters;
 - b) lessons drawn from the effects of including certain types of disclosure in reporting, such as frequent unintended consequences in either company practices or the interpretation of information reported; or
 - c) disclosures that depend on widely varying contextual factors and where more generalised disclosures cannot provide information of value to users of reporting.
- 296 As a result, the standard-setter should only mandate specific disclosures – whether new disclosures or drawn from existing reporting standards – where they meet certain criteria governing the quality of information⁹⁰, in order to ensure that they provide insights that enable users to make informed decisions.

⁸⁹ See section 2.2.

⁹⁰ Ibid.

297 It is worth mentioning that gaps between the disclosures determined by the standard-setter and those identified as material by the reporting entity are likely to reduce over time as standard-setting progresses. In the meantime, entity-specific assessment processes call for particular attention.

Proposal #25

The PTF recommends that ESS should distinguish between, on the one hand, the determination of sustainability matters as material based on principles underpinning the two perspectives within double materiality, and, on the other hand, the viability of mandating specific disclosures in relation to those material matters. The mandating of specific disclosures should be based on a rigorous assessment of both existing and newly developed disclosures against both general and specific characteristics of information quality⁹¹.

Additional focus on certain aspects of the entity-level double materiality assessment process

298 The standard-setter is expected to conduct a robust double materiality assessment process to establish the necessary mandatory disclosures. Reporting entities will also need to conduct their own double materiality assessment process in order to establish a sound basis for comprehensive sustainability reporting.

299 Given the central importance of the double materiality concept and application by reporting entities for achieving robust sustainability reporting in line with the objectives of the NFRD, as well as the challenges identified in current guidance and practice by reporting entities in relation to double materiality⁹², the PTF has invested significant time in researching and highlighting for the standard-setter the critical elements to consider. These insights can be summarised as follows.

300 **With regard to impacts on people and the environment**, the PTF highlights that the guidance set by the standard-setter should align closely with international standards on responsible business conduct – notably the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises – in particular with regard to the process for prioritisation of impacts with a view to the appropriate allocation of resources. In particular material sustainability matters and disclosures should be identified based on the following process steps:

a) Assessing the entity's actual and potential impacts on the environment and people by:

(i) Reviewing:

- its own activities, including the products and services it provides and how they are sourced, developed, distributed, promoted and disposed, the natural resources and energy used, the forms of employment and types (e.g., migrants) of workers employed; and
- its business relationships, including in the upstream and downstream value chain, direct and indirect relationships, as well as other forms of partnership or business engagement with private or public sector entities or individuals.

(ii) Assessing the contexts in which it operates, including legal requirements, local practices, political, economic, market and security conditions, technological developments and the state of the local, regional and global environment that may affect the kinds of impact that the company has on people and the environment.

(iii) Engaging with relevant stakeholders to understand the ways in which they or groups they represent, or support may be impacted through the entity's operations or value chain.

(iv) Engaging with relevant internal and external experts with insight into these potential impacts.

(v) Including in its assessment both impacts it may cause or contribute to through its own actions and decisions and impacts that may be directly linked to its operations, products or services by its business relationships.

91 See section 2.2.

92 See PTF Progress Report in Appendix 3 and Assessment report in Appendix 4.3.

- (vi) Considering both positive and negative impacts, but with the emphasis on negative impacts given their focus in international standards of responsible business conduct.
- (vii) Recognising that both actual and potential impacts may change over time with changes in the company's activities, business relationships and operating, sourcing or other contexts.

b) Identifying **material negative impacts** on the basis of:

- (i) their severity, understood as including their scale (how grave they are), scope (how widespread they are) and remediability (how difficult it would be to put them right);
- (ii) their likelihood, but placing the emphasis on severity over likelihood;
- (iii) a prioritisation of negative impacts based on these criteria to determine their relative materiality, and the determination and explanation of the threshold above which the entity will report on the impacts and how they are addressed.

c) Identifying **material positive impacts** on the basis of:

- (i) their scale (how positive/beneficial they are for people or the environment) and scope (how widespread the benefits are); and
- (ii) the determination of material positive impacts separately from material negative impacts to avoid any implied off-setting of negative impacts by positive impacts.

301 **With regard to climate change specifically**, and in addition to the above:

- a) The impact on climate change of the reporting company, including the upstream and downstream value chain, based on internationally agreed methodologies (e.g. the GreenHouseGas Protocol scope 1, 2, 3); for manufacturing companies, this can include a lifecycle analysis of the product(s) (raw material, use of product, end of life); for financial institutions this includes the indirect climate impacts of the services they provide and investments they make.
- b) The degree of alignment with planetary boundaries and international targets (e.g. the 1.5°C or well below 2°C goals of the Paris climate Agreement at the global level and the EU climate targets for 2030 and 2050, using forward-looking climate scenario analysis), as well as related transition plans, intermediate milestones and alignment with set targets.
- c) Assess the climate-related risks for the financial position, performance and outlook of the company in the short, medium and long term with regards to the physical risks of climate change and transition risks (building on TCFD).

302 **With regard to the financial materiality of sustainability matters**, this requires:

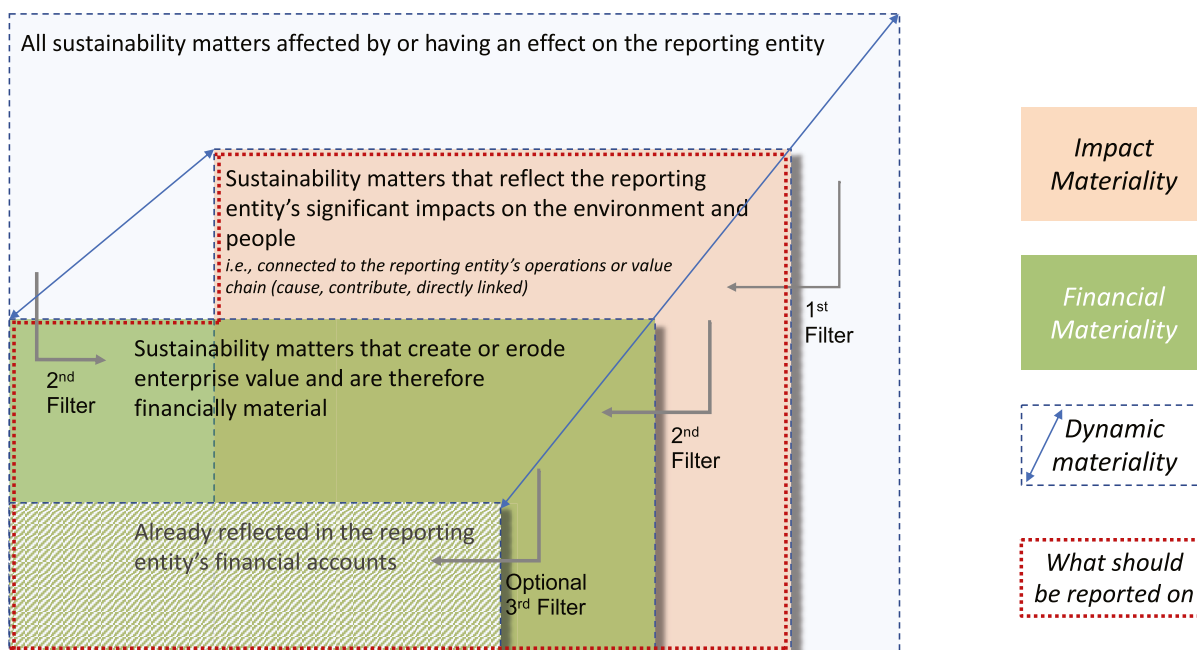
- a) referencing global standards that demonstrate evidence of financial impact and investor interest;
- b) identifying the sustainability matters that may reasonably be expected to affect in due course a company's financial position (e.g., its balance sheet), financial performance (e.g., its income statement and cash flows) or risk profile (e.g., its cost of capital), all of which influence a company's enterprise value in the short, medium and long term;
- c) referencing regulatory requirements for, or evidence of, significant investor interest in sustainability matters that are relevant for management of systemic risks. Such disclosures may not influence an individual reporting entity's enterprise value (i.e., may not manifest as entity-specific risks or opportunities) but, in aggregate, may create risk for investors' portfolios.

303 The following process steps represents a sequence that reporting entities could follow in their materiality process to reflect all relevant aspects of the double materiality process as laid out above and to arrive at a list of material issues to report on (see figure 3 below for a visual illustration):

- a) Reporting entities should first aim to identify all sustainability matters that they could affect or be affected by.

- b) Among this broad list, reporting entities should identify those sustainability matters connected to its business through their operations or value chain that meet the threshold of severe impacts on people and the environment. This will determine the sustainability matters and disclosures they need to include in their reporting from the perspective of impact materiality:
- (i) this should include both actual and potential impacts (with a time horizon appropriate for the particular matter under consideration);
 - (ii) the conclusions should be informed by perspectives and insights gathered through the reporting entity's engagement with affected stakeholders or their legitimate representatives, as part of their human rights and environmental due diligence processes.
- c) Reporting entities should assess this list of 'significant impacts' for their ability to have an effect on enterprise value in the short, medium or long term. They should also identify any sustainability matters that do not represent significant impacts but may nevertheless have an effect on enterprise value in the short, medium or long term. Taken together, these steps will determine the sustainability matters and disclosures that reporting entities should include in their reporting from the perspective of financial materiality.
- d) Entities may further identify a subset of financially material sustainability matters that are already reflected in the financial accounts, such that they can reflect this connectivity in their reporting, including through 'anchor points'⁹³.

Figure 5: Illustration of materiality determination process



Proposal #26

The ESS should provide clear guidance for reporting entities on the process to follow in applying the double materiality concept in order to establish information to disclose. The ESS should ensure that these processes align with existing EU and international initiatives and standards for the identification and prioritisation of impacts on people and the environment (in the case of impact materiality) and established processes for determining financially material sustainability matters (in the case of financial materiality).

93 See section 2.6.

2.6 DEFINING METHODOLOGIES AND PROCESSES ENABLING CONNECTIVITY BETWEEN SUSTAINABILITY REPORTING AND FINANCIAL REPORTING

304 Corporate reporting is to be coherent as a whole. All dimensions of corporate reporting need therefore to be interconnected under an integrated approach. Since it is considered paramount to position sustainability reporting on an equal footing with financial reporting the principles of integrated reporting need to be applied to structure the appropriate connectivity between the two. Sustainability reporting is currently not connected to financial reporting in a formalised way, leaving potential gaps, overlaps and a lack of coherence in corporate reporting, which is all the more emphasised when both reports are not issued at the same time.

Existing linkages between Financial Reporting and Sustainability Reporting

306 Financial reporting has clearly defined limits and borders, in alignment with a single monetary unit of account and with the fact that accounting systems which are translated into financial statements must record all monetary transactions without exception. By contrast sustainability information borders cannot be derived from the capture of and reporting on only one type of event or transaction and many units of account are necessary. The 'territory' to be covered by sustainability reporting and its borders are therefore a matter of clear definition of what is included under the concept of sustainability. Such a definition stems from a societal and political consensus at a moment in time which is formed by a worsening state of the environment, unbraked climate change and social tensions. This consensus may evolve over time, as clearly illustrated by recent evolution. Standard-setting must therefore be based upon a clear understanding of the borders derived from the consensus definition as defined by the legislative level and elaborate standards in accordance with an architecture built to fully reflect the agreed upon 'territory'.

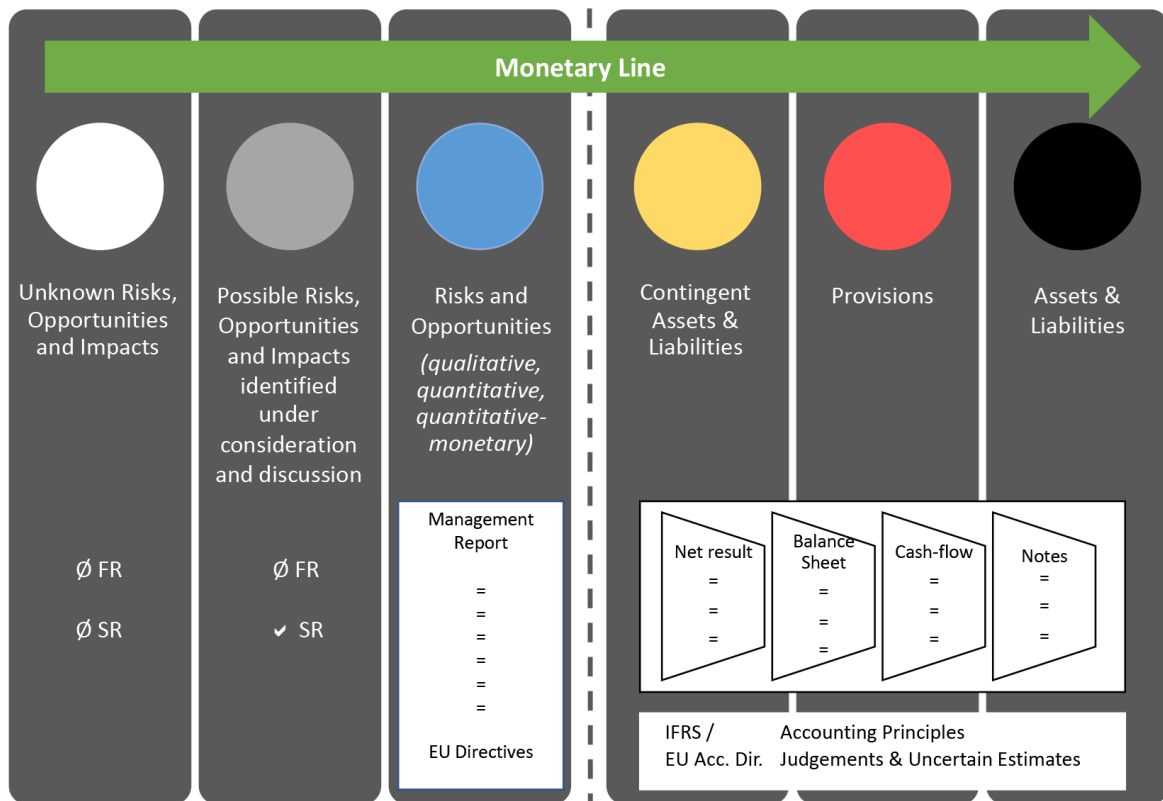
307 In this context sustainability information may be described by the fact that it covers what is 'non-financial' reflecting the observation that it may find its starting point where financial information finds its own well-defined border. In the introduction to this report the PTF addresses this terminology issue and expresses a preference for the use of 'sustainability', but the term 'non-financial' highlights a reality with regard to the relationship between sustainability and financial reporting.

308 In addition, sustainability information tends to eventually lead to financial consequences meeting recognition criteria for inclusion in the financial statements over time, which makes particularly relevant the connectivity between sustainability information and financial information to monitor the reporting entity value creation for users of both reporting. The question of (i) how risks which are not, and will not be, recognised as liabilities and (ii) internally created intangibles that are not, and will not be, recognised as assets, should be reflected through reporting is a pivotal one. The PTF recognises that financial reporting may want to describe through additional disclosures the matters that are on the border of recognition, but there is merit in not over-emphasising these at the risk of blurring the appropriate implementation of fundamental concepts defining assets and liabilities (based upon obligations, control, outflows and inflows).

309 The monetary line illustrates the two perspectives: risks and opportunities and impacts associated respectively with financial materiality and impact materiality; with an objective to help establishing the borders of financial reporting. It shows how sustainability topics can move along the monetary line and eventually meet the recognition criteria in the financial statements over time. This connectivity is important to understand and illustrate in corporate reporting⁹⁴.

94 See detailed assessment report in Appendix 4.4.

Figure 6: The monetary line



- The grey zone represents discussions about sustainability information with stakeholders (dilemmas, ongoing assessments) and reflections as to coming up impacts, risks and opportunities. If and once the risks, opportunities and impacts are considered effective/real, they move to the blue column for disclosure in the management report.
- White and grey zones cover mostly information defined as material from an impact perspective, though the information can become material from a financial perspective through a rebound effect.
- The blue zone is the information relevant for the management report (or a separate report).
- Yellow, red and black zones are covered by financial reporting standards and cover information that is necessarily material from a financial materiality perspective and could also be material from an impact materiality perspective.

310 In this context connectivity becomes essential and the ESS should adopt guidelines to ensure continuity both ways.

311 When considering connectivity, a distinction can be made between direct and indirect connectivity. **Direct connectivity** is characterised by the possible reconciliation of sustainability information with information or data included in the financial statements or in the general ledger. For instance, direct connectivity exists when a sustainability disclosure can be reconciled with information in the accounting system, whether it is deemed necessary for financial reporting purposes or not (e.g., training costs, health and safety costs, retrospective EU taxonomy revenues, OpEx, CapEx...). **Indirect connectivity** is characterised by the need to put in relation a sustainability disclosure (e.g., future investments or expenses, scenario analysis...) with an information used for financial reporting at large (5-year plan, Financial Planning & Analysis, Budget, Capex plan, etc) without being included in the financial statements or in the general ledger. Very often this is the case when a potential future impact cannot be directly measured in financial terms in the current year and is not reflected in the accounting assumptions or disclosed in the current financial statements.

Proposal #27

The ESS should define through appropriate guidelines methodologies and processes enabling connectivity (direct and indirect) and reconciliations between financial reporting, under IFRS or local GAAP, and sustainability reporting.

Concepts and methods allowing for proper connectivity

- 312 Connectivity is not likely to be achieved by shifting financial reporting borders but by pursuing a rational approach that bridges the two dimensions of financial reporting and sustainability reporting (while keeping both relevant). Connectivity aims at facilitating the interlinkages between financial reporting and sustainability reporting without developing new requirements for the sole purpose of bringing the two sets closer.
- 313 Connectivity should be achieved through the identification of 'anchor points'. An 'anchor point' is defined as a data and/or information (quantitative or qualitative) that offers a connection opportunity (e.g., area of overlap) between financial reporting and sustainability reporting, hence the absence of identified anchor points indicates the absence of potential connectivity.
- 314 Connectivity can be achieved through both qualitative and quantitative information ('Qualitative connectivity' and 'Quantitative connectivity'⁹⁵). They are both equally important and should both be considered in order to create specific guidance. Indeed, despite quantitative connectivity being desirable when possible, qualitative connectivity can be very useful when quantitative connectivity is not achievable or for reinforcing quantitative connectivity.
- 315 Creating the necessary connections between what should become the two key pillars of corporate reporting is therefore an objective that sustainability standard-setting should pursue to improve corporate reporting as a whole.
- 316 The ESS should define methodologies and processes enabling connectivity and reconciliations between financial reporting (under IFRS or local GAAP) and sustainability reporting: direct connectivity for sustainability disclosures derived from and reconciled with accounting systems or financial statements and indirect connectivity for disclosures having a link with financial information.

Direct Connectivity

- 317 **Direct connectivity** is characterised by the possible reconciliation of sustainability information with information or data included in the financial statements or in the general ledger.
- 318 If such reconciliation is possible, the connectivity is considered 'direct', even if the financial information is not required to be disclosed (i.e., when no standard requires to disclose the detailed information within the financial statements or the accompanying notes).
- 319 In addition, there is a direct connectivity when the assumptions for preparing financial reporting are consistent with the assumptions used in sustainability reporting (or vice versa). This relates for example to impairment assumptions or useful lives of assets in financial reporting that should be consistent with the information given in sustainability reporting on the same matter. Also, financial reporting may require certain disclosures on risks, where connectivity is possible (see the above developments on "border" matters), through disclosures consistent with sustainability reporting.
- 320 Examples of direct connectivity methods/disclosures are as follows⁹⁶:
- a) disclosure in sustainability reporting of % of green turnover under the EU Taxonomy Regulation delegated acts⁹⁷, reconciled with the total reported revenue in financial reporting;
 - b) disclosure in sustainability reporting of % of green CapEx related to environmentally sustainable activities under the EU Taxonomy Regulation delegated acts⁹⁸ reconciled with the investments in the balance sheet in financial reporting or the general ledger;

95 See A4 assessment report in Appendix 4.4.

96 Illustrative examples of direct and indirect connectivity are included in A4 assessment report in Appendix 4.4.

97 https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12302-Climate-change-mitigation-and-adaptation-taxonomy#ISC_WORKFLOW

98 Ibid.

- c) disclosure in sustainability reporting of % of green OpEx under the EU Taxonomy Regulation delegated acts⁹⁹ reconciled with the reported OpEx in financial reporting or the general ledger.
- 321 Consistency in the use of assumptions when preparing financial reporting and sustainability reporting: for example, useful lives of assets or impairment assumptions or risk information (e.g. disclosed in notes) in financial reporting should be consistent with the information (policies, concepts, implementation/transformation plans, targets, etc.) described or used in sustainability reporting. **Indirect connectivity** is key for disclosure objectives of the NFRD that cannot be directly reconciled to financial statements or the general ledger in the current period, or to accounting estimates used in the current period for preparing financial reporting, but likely have an effect on future financial performance (e.g. scenario analysis, stranded assets, evolution of risks along the 'monetary line').
- 322 Examples of indirect connectivity methods are as follows¹⁰⁰:
- a) Value creation / analysis on financial performance, assets and liabilities: qualitative explanation of how the management of ESG topics affects value creation/destruction of a company, as well as its financial performance, also over time (forward-looking information).
 - b) Scenario analysis to quantify risks and opportunities derived from climate changes: this would include the calculation of the potential financial impact (on revenues, expenditures, assets, liabilities, financing) under various climate scenarios, together with an illustration of why the business is resilient to risk thanks to the measures taken. The concept can potentially be expanded to topics other than climate change, if there is sufficient scientific guidance on how potential scenarios would look like.
 - c) Disclosures of additional capitals: based on existing multi-capital frameworks, disclosure of internal and external consequences (positive and negative) for the capitals as a result of an organisation's business activities and outputs.
 - d) Risk quantification: quantification of ESG risks with likely impact on business performance by using various risk models. This could also be done as a qualitative analysis.
- 323 Several indirect connectivity models like scenario analysis, impact valuation, risk quantification methods, etc. will lead to comparability issues if a clear guidance or standardisation of the application of these methods is lacking. The PTF therefore recommends that the future standard-setter provides or develops detailed guidance on the application of these methods.
- 324 The ESS should include in sustainability reporting standards the anchor points to be considered to create connectivity to financial reporting and the necessary reconciliations or cross-references to financial reporting in order to ensure continuity and coherence in corporate reporting as a whole. In terms of phasing, the ESS may want to consider first direct connectivity which presents a more obvious linkage to financial reporting and a higher level of maturity.

Proposal #28

The ESS needs to promote, in cooperation with the financial standard-setters, the coherence of the respective standards and ultimately of corporate information.

⁹⁹ https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12302-Climate-change-mitigation-and-adaptation-taxonomy#ISC_WORKFLOW

¹⁰⁰ Illustrative examples of direct and indirect connectivity are included in A4 assessment report in Appendix 4.4

PART 3: ELABORATING STANDARDS FROM A STATE-OF-THE-ART TARGET SUSTAINABILITY REPORTING ARCHITECTURE

325 A state-of-the-art standard-setting architecture (i.e. the overall target design under which standards are organised and complement each other) is one that contributes to providing reporting entities with clear guidance as to how to balance the needs and expectations of users. It is built on the foundations and the conceptual guidelines laid out in the first two parts of this report. Standards should cover the content, format, and accessibility of relevant and faithfully represented sustainability information. In order to achieve this, the PTF recommends that standards combine a comprehensive coverage of all possible aspects ('topics') of sustainability in relevant reporting areas¹⁰¹ (general and managerial aspects of sustainability, e.g. strategy, governance, risks, KPIs), allowing flexibility and proportionality, but also ensuring comparability. Within the constraints decided by the legislation itself, they also need to determine where sustainability information should be located and how it should be presented and organised (including possible digitised format) in order to ease its access and use by stakeholders and users alike.

Preliminary observations on key standard-setting features

The distinction between foundations and architecture

326 Foundations are not part of the standards architecture per se. They provide the fundamental principles and key building blocks that should shape the standard-setting process. By contrast the standard-setting architecture provides the structure that enables a robust and systematic standard-setting process that meets the expected quality criteria. It determines what the construct should look like when the project is completed and begins an enhancement and maintenance phase.

The distinction between target architecture and roadmap

327 The roadmap is the critical path to finalise the standards architecture. It is important to recognise the medium to long term nature of standard-setting. In such complex projects, reaching the desired architecture implies multiple, successive phases of enhancement and remains an ongoing project over time. Even if due to the current urgency there is a need to move forward expeditiously, the example of financial reporting standard-setting shows that time is a key factor in achieving robust standards. It is therefore crucial to ensure that the initial steps clearly set the new course and to combine this with a long-term ambition¹⁰² to arrive at a full, complete and robust set of standards.

The distinction between standards and guidelines

328 The PTF worked on the premise that standards should be elaborated by the ESS under a format that complies with the expected formal qualities of a regulatory text: they should be designed to be adopted by the EU institutions under a delegated act procedure and following their adoption, to become enforceable for all reporting entities concerned. By contrast, guidelines are tools designed by the standard-setter for the standard-setter: they guide the standard-setting activities and the standard-setter should not depart from the guidelines without due justification. They may be amended as necessary. Guidelines do not apply to reporting entities even if they are – and should be made – public. When relevant, they may be turned into guidance by the standard-setter in order to serve as a reference for implementation purposes (like criteria for the quality of information for entity-specific information, for example). They may also be translated into standards when it is relevant to establish a related requirement for reporting entities (for example, double materiality assessment for reporting entities).

¹⁰¹ See section 3.2.1.

¹⁰² See Section 4, 'Rolling out a phased-in standard-setting roadmap'.

The distinction between standards and recommended best practices (RBPs)

329 Under any regulatory regime there is an arbitrage between the standards which establish mandatory requirements and the RBPs which encompass more advanced disclosures, still under consideration and therefore optional. The PTF believes that it would be useful to promote RBPs in due course following a rigorous due process: in an ongoing standard-setting process it shows the way forward, paving the way to the next phases of standard-setting (i.e. the inclusion of RBPs as disclosure requirements in standards after proper due process and possible adaptation when required). More importantly, it does not slow down the most proactive reporting entities and avoids the 'lowest common denominator' bias and a mere compliance attitude. In this respect, it is worth mentioning that modern sustainability reporting will happen fast only with the full support and commitment of the reporting entities themselves, under the leadership of the most progressive ones.

3.1 PROMOTING PROPORTIONALITY, COMPARABILITY AND RELEVANCE THROUGH A THREE-LAYER REPORTING APPROACH: SECTOR-AGNOSTIC, SECTOR-SPECIFIC AND ENTITY-SPECIFIC DISCLOSURES

330 *If the purpose of sustainability reporting is to provide relevant, faithful and comparable information fit for each entity's specific situation, then the standards architecture needs to organise the necessary balance between too much (and possibly irrelevant) information and not enough information. A proportionate approach is one that defines what information is relevant and material at sector-agnostic, sector-specific and entity-specific level, across all sustainability topics and reporting areas.*

331 **Overall comparability** is made possible when standards prescribe common requirements for all reporting entities. However, pushed too far, this may translate into too heavy a burden for reporting entities and might also result in loss of relevance, as not all entities have the same sustainability risk and impact profile. Therefore, this **sector-agnostic layer** of standards should define disclosures and data points that are material **across sectors**. Sector-agnostic disclosure requirements will also foster comparability.

332 Not all sustainability sub-topics – and the risks and opportunities they represent – being equally relevant across sectors, **relevance** is reinforced when standards introduce additional disclosures tailored for a given sector, based on its specific sustainability footprint and future challenges. Addressing risks and impacts not covered, or not sufficiently covered, by sector-agnostic sustainability information, the **sector-specific layer** complements this first layer and encompasses disclosures and indicators required from all reporting entities in each given sector. This approach fosters **comparability within a given sector**.

333 Every reporting entity deals with a unique combination of value creation factors, risks and opportunities as well as impacts. Therefore, sustainability information – though standardised – might not be best suited to **faithfully** reflect its unique sustainability footprint and journey. It is therefore key for each reporting entity to 'own' its sustainability reporting process beyond the standardised part and to select, when necessary, the additional disclosures that would best illustrate its unique situation.

334 The **entity-specific layer** would include disclosures and data points appearing to be material as a result of the reporting entity's double materiality assessment process¹⁰³ and that would not be covered, or not sufficiently covered, by the requirements of the two standardised layers.

335 It is also important to bear in mind that sector-agnostic, sector-specific and entity-specific perspectives do not prejudice of the level at which each disclosure will apply in the entity's-controlled operations and/or value chain. As previously mentioned¹⁰⁴, the EU Taxonomy builds upon the measurement of environmental performance at the level of individual economic activities. It will be the ESS' task to ensure that regardless of being sector-agnostic, sector-specific or

103 The entity-level materiality assessment process would be carried out according to a standard inspired by the standard-setting guidelines on double materiality assessment. See section 2.5.

104 See section 2.4, § 275.

entity-specific, disclosures are provided at the relevant level of the entity’s operations and/or value chain, based on proper consideration of legislative and regulatory requirements and due assessment of what the most relevant level should be.

Figure 7: The three reporting layers



Proposal #29

The ESS standards architecture should be supported by three layers of sustainability information:

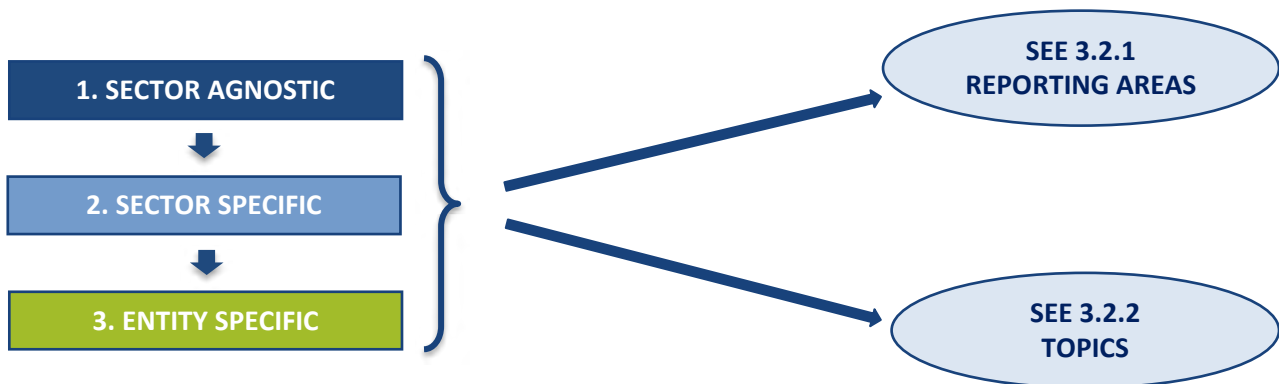
- a) a sector-agnostic layer applicable to all reporting entities,*
- b) a sector-specific layer applicable to reporting entities within each sector,*
- c) an entity-specific layer.*

3.2 DESIGNING A COMPREHENSIVE SCOPE FOR EU STANDARD-SETTING

The three layers of sustainability information should cover:

- a) three reporting areas and their subcomponents, and*
- b) three sustainability topics and their sub-topics.*

Figure 8: The three reporting layers feeding Reporting areas and Topics



3.2.1 Defining the relevant detailed sustainability reporting areas to ensure proper coverage

Comprehensive coverage through three reporting areas

- 336 The PTF defines Reporting Areas as the general and managerial aspects of sustainability matters which have to be covered by sustainability reporting either through specific disclosures or as an element of topical disclosures.
- 337 The NFRD¹⁰⁵ currently requires the disclosure of the following reporting areas: information on business model, policies (including due diligence processes), outcomes, risks and Key Performance Indicators (not defined, but some examples are proposed in the non-binding guidelines). Companies are free to use any reference standard or framework available¹⁰⁶ or none at all. The revision of the NFRD, though, could lead to modifications in the required reporting areas defined in EU legislation.
- 338 The NFRD's structure regarding reporting areas has been monitored by the major standard-setters and frameworks: CDSB and CDP published in February 2020 the EU Environmental Reporting Handbook¹⁰⁷, in an effort to align environmental reporting with the NFRD. In Chapter 2 of this handbook, one can see the reference to disclosures around business model, policies, outcomes, risks, performance indicators, etc. GRI published guidance linking the GRI standards to the NFRD, including the reporting areas mentioned above; SASB has an application guidance¹⁰⁸ where they include as key disclosures: governance, strategy, risk management, and activity metrics, among others. The standards issued by the ISO standardisation body either on general concepts (ISO 26000) or for specific sectors, should also be taken into consideration. The standards are monitored for the European Commission through the CEN, CENELEC or ETSI together with national bodies such as AFNOR, DIN, etc.
- 339 This structure is also very similar to the approach of the TCFD that proposes as core elements¹⁰⁹ of recommended climate-related financial disclosures the following: Governance (the organisation's governance and climate-related risks and opportunities); Strategy (the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning); Risk Management (The processes used by the organisation to identify, assess and manage climate-related risks); and Metrics and Targets (The metrics and targets used to assess and manage relevant climate-related risks and opportunities).
- 340 The European Commission published in June 2019 guidelines¹¹⁰ on non-financial reporting with a supplement on reporting climate-related information that integrated the TCFD's core elements. The recommended disclosures and further guidance include: Business model, Policies and Due Diligence Processes, Outcomes, Principal Risks and their Management and Key Performance Indicators.
- 341 The Corporate Reporting Dialogue, an initiative bringing together the major standard-setters and framework providers globally, released a report¹¹¹ on September 2019, showing high levels of alignment between the frameworks on the basis of the TCFD recommendations. As part of the Dialogue's Better Alignment Project, CDP, CDSB, GRI, IIRC and SASB collaborated intensively to assess alignment on the TCFD's disclosure principles, recommended disclosures and illustrative example metrics¹¹².
- 342 The NFRD reporting areas are compatible with global reporting standards for large enterprises¹¹³ and this objective is still pursued. However, the PTF has also looked at ways to ensure that reporting areas would be organised in a way that could reflect the above-mentioned different approaches, while being at the same time NFRD-compatible and flexible

105 See Appendix 4.1 §17-19

106 See Appendix 4.1 §20.

107 CDSB and CDP (February 2020) [EU Environmental Reporting Handbook](#).

108 SASB [Developing Your Disclosures](#) Section.

109 TCFD Hub, [Recommendations Overview](#).

110 European Commission (June 2019) [Guidelines on reporting climate-related information](#).

111 Corporate Reporting Dialogue (September 2019) [Driving Alignment in Climate-related Reporting](#).

112 It shall be noted that representative SME organisations have not been involved in these initiatives.

113 See Appendix 4.2 §49 on convergence and harmonisation.

enough to accommodate possible future additions. One way of doing so could be to organise reporting areas in a way that would reflect a company's decision-making and reporting cycle, and the related processes.

- 343 The articulation of reporting areas under three key management dimensions: Strategy, Implementation and Performance measurement reflects this approach and constitutes a possible way forward, sufficiently flexible and comprehensive to accommodate compatibility with:
- a) possible modifications or additions to existing NFRD reporting areas that may come in the revised directive; and
 - b) recognised reference frameworks on specific matters, such as TCFD recommendations for climate financial risks and opportunities.

Proposal #30

The ESS should consider structuring sustainability reporting standards around three reporting areas: Strategy, Implementation and Performance measurement, in order to ensure full coverage of all sustainability dimensions across a reporting entity's business cycle.

- 344 The PTF defines 'Strategy' as the sustainability aspects of a reporting entity's business strategy, the identification of its material sustainability risks, opportunities and impacts and related topics and the associated governance. Based on the description of its activities and business model, the reporting entity presents its material sustainability related risks and opportunities as well as its sustainability governance. These aspects are generally reported at reporting entity level as they span an entity as a whole and require specific disclosure standards.
- 345 The PTF defines 'Implementation' as a description of how a reporting entity manages its material topics and their related risks, opportunities and impacts including policies and targets as well as action plans and resources allocation. These elements are generally reported by topic and require being part of topical standards. However, to avoid different requirements for the same area, it appears desirable to define what is expected under each area at general level and to make reference to common definitions when elaborating each topical standard.
- 346 The PTF defines 'Performance measurement' as current achievements (qualitative and/or quantitative) and results (performance oriented) of a company's operations and activities based on metrics/KPIs. Performance measurement is most useful in monitoring and assessing progress against targets and supporting comparability across companies and sectors.
- 347 In this recommendation, the PTF combines expectations from both preparers and users, as well as broader stakeholders, such as civil society. From the preparers' side, the PTF wants to reflect the governance and management decision-making and monitoring processes of sustainability-related matters. From the users' perspective, the PTF wants to reflect a classification which matches the needs of quality sustainability information and which allows for a comprehensive and therefore decision-useful understanding of sustainability-related matters.
- 348 The PTF's proposal builds on existing initiatives, as mentioned above and is fully compatible with them while trying to bring in more management consistency. It will also allow for flexibility and can be easily reconciled with any NFRD enhancement as part of the NFRD review. As it can with the recommended disclosures put forward by major reporting standards as outlined above.
- 349 The PTF further details each of the reporting areas in the proposals below.

Proposal #31

The ESS should consider prescribing Strategy disclosures to be reported on the reporting entity as a whole while Implementation disclosures (under common definitions to be designed by cross-cutting standards) and Performance measurement disclosures would be reported on a topic-by-topic basis.

A 'Strategy' reporting area with an emphasis on sustainability matters

- 350 The NFRD requires companies to disclose information that is necessary for understanding a company's development, performance, position and impact. The PTF has assessed crucial that entities explain their activities, their context and their organisation as a first step in the strategy process.
- 351 The overall entity's Strategy and its consequences in terms of sustainability challenges and governance are designed, adopted and overseen globally by an entity's Board and Executive Management Team at the 'entity as a whole' level whatever the underlying legal structures of various subsidiaries forming the 'entity'. This is well-aligned with the reporting on a consolidated basis as allowed by the current NFRD and similar to the financial scope of reporting. The business strategy should also consider products and services along the value chain¹¹⁴.
- 352 As requested by existing international frameworks and the current NFRD, the reporting entity would have to start with the presentation of its activities and context (organisational profile, GRI, EMAS; Organisational overview and external environment, IIRC, EMAS) and its business model (NFRD, IIRC). The ESS should ensure consistency with other existing and forthcoming EU initiatives when developing the standard on strategy, like for example the Sustainable Corporate Governance initiative that will be run in parallel¹¹⁵.
- 353 The current text of the NFRD, which is subject to revision, requires companies to provide 'a brief description of the undertaking's business model', 'a description of the policies pursued by the undertaking' in relation to the topics identified by the directive, 'including due diligence processes implemented' and 'the principal risks related to those matters linked to the undertaking's operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts (.), and how the undertaking manages those risks'¹¹⁶.
- 354 The PTF assesses that the reporting areas described above all aim at providing users with a description of the strategic context in which the company puts in place action related to sustainability. This interpretation is also in line with the objective of the strategy disclosure identified by sustainability and integrated reporting initiatives in a recent report focusing on climate-related disclosures from a financial materiality perspective only¹¹⁷. This report states that 'the objective of the disclosure requirements is to enable the primary users of information to understand the way in which the implications of climate-related risks and opportunities are integrated into the entity's strategy and implications for the entity's business model, including how resources are to be used to support strategic resilience to climate-related risks and to realise climate-related opportunities'.
- 355 In an evolving sustainability reporting environment, both from an EU regulatory perspective and a sustainability reporting standard-setting point of view, the PTF advises that the ESS should set out standards that help to achieve the implicit objective of the policy maker to provide users and other stakeholders with a clear picture of the company's strategic context while at the same time respecting the need to safeguard business confidentiality, as in the current NFRD.

Proposal #32

The PTF therefore recommends that the ESS consider structuring the Strategy disclosures under three sub-areas:

- a) overall business strategy (including business model);*
- b) material sustainability risks, opportunities and impacts (as resulting from the double materiality assessment); and*
- c) sustainability governance & organisation.*

¹¹⁴ See section 2.4.

¹¹⁵ Horizontal alignment challenge: see section 1.3 for the definition of horizontal alignment.

¹¹⁶ See Appendix 4.1 §14.

¹¹⁷ 'Reporting on enterprise value: Illustrated with a prototype climate-related financial disclosure standard', December 2020 from CDP, CDSB, GRI, IIRC and SASB and facilitated by Impact Management Project, World Economic Forum and Deloitte.

- 356 The ESS should draw up its standards taking into account all reporting requirements included in the revised text of the NFRD as well as other existing or forthcoming legal reporting requirements applicable to companies in the scope of the NFRD¹¹⁸.
- 357 In addition, in drawing up its standards regarding ‘Strategy’, and in order to facilitate increased harmonisation and comparability, the ESS should take into account the data needs arising from users of sustainability reports who are preparers under other EU reporting obligations such as the SFDR, EU Taxonomy and Second Shareholders Rights Directive¹¹⁹. This means achieving standardisation of the sub-components of the overall business strategy reporting area.
- 358 As mentioned earlier, the PTF recommends that the disclosures under Strategy are made on the reporting entity as a whole, providing a description of the company’s position across all material sustainability risks, opportunities and impacts. However, the ESS should also explain how the overall sustainability Strategy should be translated on a topic-by-topic basis in order to get a coherent reporting at topic level. Besides, even if carried out on a consolidated basis as per the approach required by the NFRD, the description of the business model should take into account the specificities of the different sectors a company operates in.
- 359 The **Business strategy** sub-area aims at explaining how an entity creates value over time which has been defined by the NFRD Non-Binding Guidelines as including ‘business environment, organisation and structure, markets where they operate, objectives and strategies, main trends and factors that may affect their future development’.
- 360 The emphasis should be on the link between business strategy and sustainability. The reporting entity’s activities, products and services and their business relationships may generate positive or adverse impacts and be subject to sustainability risks and opportunities. These challenges are related to the overall business strategy and should be identified and prioritised from a double materiality assessment perspective¹²⁰.
- 361 The PTF highlights the forward-looking nature of disclosures associated with Business Strategy and recommends that the time horizons defined and adopted for the materiality assessment should be the basis for those used for the ‘business strategy’ disclosures, while depending on the topic, time horizons may differ.
- 362 Regarding sub-area **Material sustainability risks, opportunities and impacts**, the PTF recommends that the ESS should draw on the conceptual guidelines on materiality assessment¹²¹.
- 363 The ESS should monitor the evolution of the mandatory human rights and environmental due diligence proposals as part of Sustainable Corporate Governance Initiative to ensure horizontal alignment with the NFRD in the use of due diligence for the materiality assessment process at entity level.
- 364 Regarding impacts on people and the environment in particular, the ESS should aim to ensure vertical alignment with the SFDR, taking due note but not restricting itself to the disclosures for equity investments as included in the latest version of the Regulatory Technical Standards developed by the ESAs at the time of publishing this report.
- 365 How the reporting entity manages these sustainability-related material risks, opportunities and impacts through **Governance** oversight and what the management’s role in assessing and managing these challenges are relevant questions; this is why sustainability governance description has become a generally accepted practice and is requested by the main standard-setting initiatives.
- 366 The ESS should ensure that standards address the information required by the legislation regarding the way sustainability is managed within the company – for example, a description of the governance bodies, management responsibilities and the sustainability policies (not topic-specific) and the associated auditing system.

118 Horizontal alignment: see Appendix 4.1 Executive summary and Salient points for more details.

119 Vertical alignment: see Appendix 4.1 Executive summary and salient points for more details.

120 Whether the ESS or the reporting entity should perform this double materiality analysis is dealt with in section 2.5, along with the explanation of the double materiality concept and operational implementation.

121 See section 2.5.

367 The PTF recommends that the ESS should include the process put in place by the company for sustainability reporting under governance to the extent that it is required in the legislation itself.

A topic-by-topic action-driven 'Implementation' reporting area

368 After the presentation of the Strategy, the reporting entity has to present its policies, targets, action plans and resources on a topic-by-topic basis (which could be at the sub-topic or sub-sub-topic level depending on the matter)¹²².

369 This is the proposed implementation part which is a description of how the organisation manages its material topics and their related risks, opportunities and impacts. This operational phase is developed by the relevant functions within the reporting entity topic by topic. Their approaches to key sustainability topics are implemented through policies, commitments, objectives and action plans which describe how the reporting entity is planning to deliver on those objectives. Each of these implementation-related subareas should be standardised through cross-cutting standards which topical standards would have to refer to in order to ensure consistency and avoid redundancy.

370 The PTF understands '**policies**' not only as a formal, adopted and dated paper but to include an operational implementation with defined related objectives, specific coverage of activities and an accountable person in oversight.

371 The PTF understands '**targets**' goals to be achieved at topic level that can be absolute or intensity based, with specific time frames, a base year, key performance indicators used to assess progress as well as a description of the methodologies and assumptions used to define the scenarios and calculate targets¹²³.

372 The PTF understands '**action plans**' as plans that are undertaken by the reporting entity to ensure that it delivers against the targets. They help to prevent and mitigate existing material risks and impacts as well as to create value for the enterprise (double materiality approach). Action plans should be supported by '**resources**' that can be financial, human or technological and placed under the responsibility of the defined Governance.

373 When a reporting entity operates in sectors covered by the EU Taxonomy regulation, the resulting green CapEx and OpEx should also be considered in sustainability action plan as reflecting financial resources contributing to the implementation of the policies and the achievement of sustainability targets.

374 The ESS should clarify methodologies for due diligence processes and draw on current international standards providing methodologies for the application of due diligence to specific sustainability topics (e.g. Human Rights or Environment).

Proposal #33

The ESS should consider structuring the Implementation disclosures under two key components:

a) policies & targets, and

b) action plans & resources.

'Performance measurement' reporting area to reflect trajectories

375 As a key part of the sustainability management process, the reporting entity has to measure and monitor its performance and progress to deliver action plans and achieve targets set.

376 The main existing frameworks and standards for sustainability reporting, require forward-looking information¹²⁴ as a complement to backward-looking information. Disclosures should look at the future as well as at the past and present

122 This is in line with the approach of GRI articulated around the General Disclosures (GRI 102) to report contextual information about an organisation and the Management Approach (GRI 103) to report the management approach for each material topic which are detailed in topic-specific standards (GRI 200, 300 and 400).

123 Reporting on targets is well defined in GRI 103 and in TCFD.

124 See section 2.3 of this report.

and should communicate trends, factors and performance measurements relating to sustainability matters and be presented on a topic-by-topic basis.

- 377 Both backward-looking and forward-looking information are essential to monitor performance and to adjust strategy if necessary. **Current achievements**¹²⁵ are based on backward-looking information and are key to assess progress over time and give a view of the trajectory and progress of a reporting entity over time.
- 378 However, it is also necessary to monitor and measure **progress against targets**. This shall be possible through short to medium milestones set along the contemplated trajectory to achieve long-term targets supporting the Strategy. Reporting on targets and progress towards their achievement will be most valuable to users where the targets are developed on key quality criteria¹²⁶. Progress monitoring through forward-looking information is an essential input to the adaptation or revision of Strategy in case of deviation and to decide on possible corrective actions through revised Action Plans.
- 379 The ESS might require qualitative information through narrative explanations or quantified data, or a combination of both, but in the case of forward-looking information it may require projections or forecasts. Explanations about assumptions made by management should be required by the ESS.
- 380 To summarise, the proposed 'Performance measurement' reporting area should present 'results of a reporting entity's operations and activities based on metrics/KPIs most useful in monitoring and assessing progress and supporting comparability across companies and sectors'¹²⁷ and this definition is aligned with main standard-setting initiatives.

Proposal #34

The ESS should consider structuring the Performance measurement disclosures around two key perspectives:

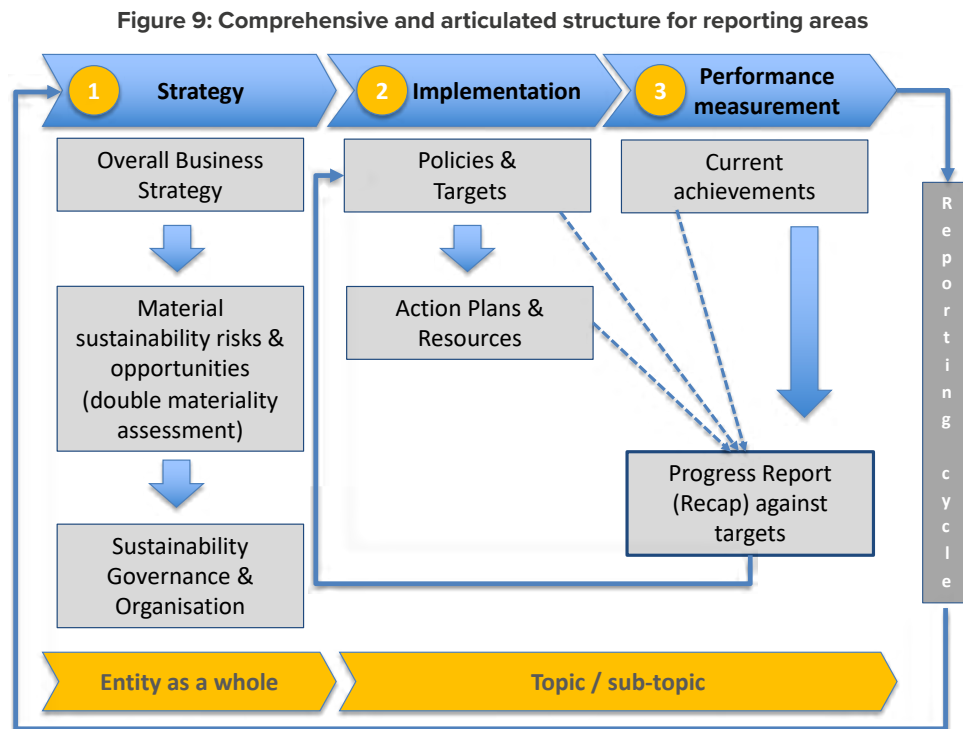
- a) retrospective view of current achievements at reporting date, and*
- b) forward-looking progress report on trajectory.*

125 See Appendix 4.2 §145-150

126 See section 2.2 on characteristics of quality of information.

127 See European Commission 2017 Guidelines on non-financial reporting.

381 The above Proposals can be summarised as follows.



3.2.2 Adopting the detailed sustainability reporting topics and sub-topics structure covering all aspects of the European sustainability goals and agenda

Organising a robust classification of topics and sub-topics as the backbone of topical standards and of sustainability reporting

382 Topics and sub-topics are sustainability themes on which reporting entities should report. The variety and diversity of sustainability topics and sub-topics, and the heterogeneity of existing frameworks aiming at organising their reporting and presenting them¹²⁸, has led to numerous and diverse reporting practices which do not facilitate understanding and comparability of reported information. The PTF therefore acknowledges the need for classification, without detriment to some flexibility. Indeed, without proper classification, a report containing the numerous sustainability matters identified may be unstructured and difficult to navigate and use.

383 The purpose of organising a clear and logical classification of sustainability topics (and sub-topics within each topic) is twofold:

- a) ensuring a comprehensive coverage of all sustainability topics as required by the legislation and an easier identification of relevant information in sustainability reports; and
- b) defining the list of topical standards that the ESS will have to produce to ensure comprehensive coverage of all sustainability topics.

384 It is therefore key that the classification of sustainability topics be not only comprehensive, but also the right balance between two objectives:

- a) be clearly organised in order to both support the adoption of relevant topical standards and to foster easier navigation by all preparers and users;

¹²⁸ For details, see Appendix 4.6 as from §34 for detailed analysis.

b) be flexible enough to accommodate the introduction, in due time, of additional relevant sub-topics as they emerge – the sustainability reporting field being a very dynamic and fast-evolving one.

385 The analysis of existing frameworks, standards and reporting practices showed that beyond the great diversity of approaches, the empirical ESG¹²⁹ (Environmental, Social, Governance) classification of sustainability topics is the widely referred to today.

386 But beyond the classic ESG approach, a number of additional reporting lenses and frameworks (SDGs, EU Taxonomy, multi-capital approaches, value chain and relationships approaches, Triple Bottom Line, etc.) exist or are gaining momentum. The PTF also notes that aspects closely related to impacts on people and the environment (for example tax responsibility & avoidance, anti-bribery & corruption, public subsidies, etc.) are also relevant. This is an important reality that calls for due consideration of their appropriate inclusion in the topics and sub-topics structure. But its richness and complexity also call for further investigation and analysis of the benefits and challenges of creating new sustainability topics that reflect those lenses. Consequently, the PTF acknowledges that it cannot take a strong stand on selecting one of those reporting lenses over another.

387 Therefore, the PTF agrees that for the time being the ESG classification is probably the most practical and easily-accessible approach for users and preparers alike. Indeed, it offers a logical and clear distinction between the three key drivers (and actors) of sustainability:

a) environment, namely the Planet (i.e. all natural resources and life forms other than human);

b) social, namely the People (i.e. human life in all its dimensions, from individuals to communities); and

c) governance, namely the Business (i.e. the reporting entity itself).

388 It would also be the less disruptive, at a moment when the introduction of sustainability reporting standards will already impose significant adaptation efforts on reporting entities.

389 Based on the above, the three categories would be as follows:

a) the **Environment category** would include standards defining how to report on impacts to and risks from the environment;

b) the **Social category** would include standards defining how to report impacts to and risks from people, over the whole scope of the entity's ecosystem (from the entity's own workforce to all other relevant affected stakeholders);

c) the **Governance+ category**¹³⁰ would include standards defining how to report on sustainability aspects relating to the reporting entity itself (as a legal entity under a consolidation perimeter).

390 However, it must also be noted that the sub-topics within this classification vary a lot from initiative to initiative¹³¹, and in current reporting practices. For reasons of clarity and to lay the ground for the topical standards architecture, the PTF points out that as a first step in its standard-setting process, the ESS will have to define further the list of sub-topics within each category of the ESG classification¹³². The PTF suggests ways to do so in the following paragraphs.

391 Without stepping into the ESS's remit, the PTF is of the view that the inclusion and organisation of sub-topics within each of the three topics should be based on the provisions of the revised NFRD, taking account of the sustainability agenda of the EU (considering how to best support priorities and the achievement of publicly agreed objectives), current scientific and expert consensus and international sustainability trends, as well as practical aspects such as flexibility and feasibility

129 Indeed, no current framework or standard actually formally organises sustainability topics this way. The NFRD for example organises sustainability topics around environmental matters, social and employees' matters, respect for human rights, anti-corruption and bribery, and diversity on company boards.

130 See further paragraph on 'defining and organising the content of the Governance+ category'.

131 See Appendix 4.2 as from §57.

132 A significant number of initiatives, frameworks, approaches, etc. were studied by the PTF and the result of this work may be leveraged by the ESS when detailing the sub-topics in each category. For more details, see Assessment Reports in Appendices 4.2 and 4.6.

for preparers, and subject to a written and legitimate process. ESS internal governance rules will need to include due process for adding new topics or updating current ones.

Proposal #35

The ESS should consider structuring its standard-setting work around the following three sustainability topics: Environment, Social and Governance+. The ESS should also consider building a clear list of all sub-topics included in each of these three categories, while allowing for future flexibility so as to capture new reporting lenses and innovative approaches. In doing so, the ESS should consider EU policy priorities and legislation, as well as a combination of existing frameworks, standards, scientific and experts' consensus and international sustainability trends.

Defining and organising the content of the Environment category

- 392 Based on the extensive research done by the PTF, the Environment currently appears to be the most mature of all sustainability topics, building on the numerous efforts and resources dedicated globally and in the EU to addressing climate change and other fast developing environmental issues like biodiversity for example.
- 393 One of the objectives of sustainability reporting standard-setting being to support the EU momentum and streamline the reporting requirements derived from EU policy priorities, legislations and regulations, an obvious key EU reference text in terms of environmental impacts is the EU taxonomy. As described in previous parts of the report, the EU taxonomy is an important instrument of both the EU Green Deal and the Sustainable Finance Strategy. Therefore, the PTF is of the view that a logical organisation of the Environment sub-topics would hence be fully consistent with the EU Taxonomy six environmental objectives.

Proposal #36

When defining the Environment sub-topics structure, the ESS should ensure it covers all environmental issues legally defined and required in the EU. If possible within that context, the ESS should consider making it consistent with the EU Taxonomy, as follows:

- a) climate change mitigation¹³³*
- b) climate change adaptation*
- c) water & marine resources*
- d) circular economy¹³⁴*
- e) pollutions¹³⁵*
- f) biodiversity & ecosystems.*

Defining and organising the content of the Social category

- 394 The Social category would include standards defining how to report on impacts to and risks related to people, over the whole scope of the entity's ecosystem (from the entity's own workforce to all other stakeholders). This is a very broad, rich and complex category as it embraces the multiple dimensions of any people-related relationship and can be looked at from varying perspectives. Because the information is potentially plentiful and diverse, it is all the more important that this category be well organised and structured, not just for the purpose of identifying all relevant topical standards to be

133 Including, among other things, energy mix, GHG emission and GHG intensity.

134 Including waste management.

135 Including air, effluents and land pollutions.

adopted, but also to organise the information itself in a way that will ease both its preparation and use, while fostering transparency.

- 395 One way of going about organising the social sub-topics would be to consider and follow the list of people-related factors or themes, such as health and safety, wages, benefits, exclusion of forced and child labour, non-discrimination, social dialogue – just to name a few from a much more comprehensive list of people and social themes¹³⁶. The challenge in this approach lies in the fact that various international and EU frameworks¹³⁷, from which such a list would be drawn, not only mention numerous themes and factors, but such themes and factors are not necessarily addressed the same way from one framework to another. Also, such social aspects are very much determined by national frameworks due to the fact that the EU only provides for minimum standards. So, if emphasis on the themes themselves is key, it has to be organised based on additional considerations.
- 396 Other approaches to social sub-topics classification have been looked into by the PTF that range from the Human Resources management perspective, to the broader Human Rights perspective to the Compliance with laws and regulations perspective and the Intangibles (Human capital) perspective. All three approaches can be traced in the multiple initiatives analysed by the PTF, but their seamless and logical articulation and combination remain to be further explored and challenged. The PTF would recommend that the ESS further explores this path. Given the importance of intangibles as stated above in the report, the PTF particularly recommends that the ESS complements the social matters with the relevant intangible capital aspects¹³⁸.
- 397 Yet another possible approach explored by the PTF would be to consider organising the themes themselves around the category of stakeholders it refers to. Indeed, all of the social themes or factors will apply – to varying extent– to different types of ‘populations’ in the reporting entity’s operations and value chain. If the entity’s own employees (or wider workforce) is an obvious one, other key stakeholders include its value chain workers, the local communities its operations might impact as well as the end users and consumers of its products and services, and wider society.
- 398 The PTF is of the view that this stakeholder-centred approach would ease the navigation and understandability of the social category and keep an appropriate focus on the people affected. However, it would still require the identification of social themes and factors relevant for each category of affected stakeholders in order to establish a practical, clear and detailed classification of matters to be addressed for standard-setting purposes.
- 399 The PTF is of the opinion that it would be premature to propose a list of these social sub-sub-topics to the ESS. However, the PTF recommends that having made sure that all considered options meet the requirements and the level of detail specified in the revised NFRD, the ESS proposes the following:
- a) Aligning Social standards¹³⁹ with the UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights, as well as with the Charter of Fundamental Rights of the EU.
 - b) Monitoring the ongoing work of the Platform on Sustainable Finance on extending the EU taxonomy to social objectives, which should inform the social sub-topics structure.
 - c) Drawing from these references a comprehensive and coherent list of social themes and matters covering all possible types of impacts on people.
 - d) Regrouping them in a coherent manner corresponding to the way they are managed in order to avoid a long list of potential impacts (see (ii)). At the same time making sure that disclosures cover the broader Human Rights perspective, the regulatory compliance perspective and the intangibles perspective as appropriate.

136 This is a very short sample of examples of commonly reported upon social sustainability factors. For further details, see Assessment Report in Appendix 4.2.

137 See Appendix 4.1 Part B as from §227.

138 See section 1.7 for developments on intangibles.

139 See Appendix 4.2.

- e) Distributing such social matters into stakeholders' categories and adjusting them to best represent the social impacts specific to each category.
- f) Monitoring consistency of social topical standards against the EU social objectives and priorities.

Proposal #37

*When defining the **Social** sub-topics structure, the ESS should ensure it covers all social issues legally defined and required in the EU. If possible within that context, the ESS should consider following a stakeholder-centred approach and further ensuring that the list of social sub-sub-topics to be covered for each relevant stakeholder group:*

- a) is aligned with international and EU reference frameworks and standards, including the UNGP on Business and Human Rights, the OECD Guidelines – and the other international declarations and principles such texts refer to – as well as with the Charter of Fundamental Rights of the EU;*
- b) covers all social matters listed in such EU and international references as a minimum, organised in a way that combines the management perspective with the Human Rights, regulatory compliance and intangibles perspectives;*
- c) organises and adjusts such social matters to best represent their specific impact on each category of stakeholders;*
- d) is consistent with EU social objectives and priorities;*
- e) makes the distinction between the entity's workforce and other affected stakeholders.*

Defining and organising the content of the Governance+ category

- 400 The third category of sustainability topics would include all sustainability aspects relating to the third key driver of sustainability, after the environment and the people: the reporting entity itself as a corporation.
- 401 The PTF acknowledges that, as of today, key aspects of governance and business ethics, despite being references in most if not all leading EU and global sustainability policies and initiatives, are not addressed in a coherent and systematic manner when it comes to sustainability reporting. They tend to be addressed separately and independently from each other, failing to evidence the obvious interrelatedness of sound and efficient organisation and governance structure as a warrant of sustainable business. Combining these key aspects and articulating them in a coherent and consistent way, by including them as sub-topics within the Governance category would foster transparency and further encourage sustainable business practices.
- 402 In addition to traditional corporate governance and business ethics aspects and based on the extensive analysis of numerous initiatives¹⁴⁰, the PTF also identified other drivers of sustainable value creation that tend to be misrepresented in sustainability reporting, possibly because they do not fit well into any commonly used sustainability topic category. Indeed, beyond its governance and business ethics, other aspects of an entity's business management can contribute to the creation of sustainable value for the entity itself and for its stakeholders. These include:
- a) Its organisational soundness: the robustness and efficiency of its systems will contribute to business operations continuity and safety; so will its cyber security strategy, including its protection of stakeholders data and systems; its internal audit and controls will protect it from the negative consequences of all sorts of dysfunctions, from errors to fraud and failure to comply to binding regulations – all causes for value destruction.
 - b) The way it manages and nurtures its relationships with stakeholders and business partners: beyond the potential impacts on people and the environment, there is value for an entity in growing and entertaining high-quality

¹⁴⁰ For list of initiatives reviewed and findings, see Appendix 4.2.

relationships with its stakeholders and business partners, by searching for common positive solutions in good and bad times alike, thus creating trust and links that are conducive of further mutually beneficial development.

c) Other broader and possibly intangible aspects such as its innovation investment strategy: an entity's capacity to develop safe, reliable, useful sustainable services or products is a relevant measure of its contribution to sustainability development, for itself and for all its stakeholders. The way it manages its reputation and brand (as a business partner, as an employer, as a corporate citizen) is another intellectual value creation item that can have positive or negative impact on its long-term sustainable development in that it will contribute to attract, keep or repel business partners and opportunities, talent and other counterparts key to its development.

403 Altogether, this third category could therefore include the following sub-topics:

- a) **Governance**, including Board composition, independence, assessment, remuneration, etc.
- b) **Business ethics**, including anti-corruption and anti-bribery, lobbying, data privacy, compliance, culture and conduct, etc.
- c) **Management of relationships with stakeholders and business partners**, applied between legal entities (other impacts deriving from relationships with stakeholders being reporting under the environment and/o social category), including for example payment terms, etc.
- d) **Organisation**, including management, systems, cyber security, internal controls, etc.
- e) **Innovation, products and services, reputation and brand**.

404 This broader vision of an entity's contributing aspects to the sustainable development of its business and operations has led the PTF to discuss whether the naming of this 'Governance' category is too narrow a description of all the various aspects it would include. However, the PTF does not envisage that changing this name would bring much value per se, notably regarding the fact that users and preparers are now much accustomed to the ESG framework. A transparent compromise would therefore be to refer to this third category as the 'Governance+' category, pointing to a content broader than just the strict governance aspects.

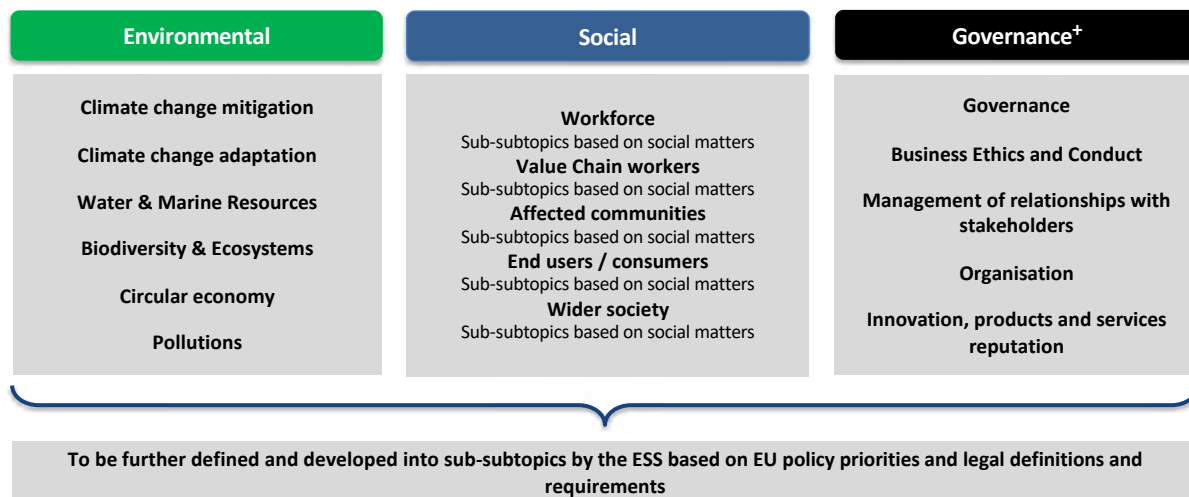
Proposal #38

When defining a Governance+ sub-topics structure, the ESS should ensure it covers all issues legally defined and required in the EU. If possible within that context, the ESS should consider developing a Governance+ sub-topics structure that would cover the drivers of sustainability for reporting entity itself, including:

- a) governance,*
- b) business ethics,*
- c) management of the quality of relationships,*
- d) organisation, and*
- e) innovation, products and services, reputation and brand.*

405 The above Proposals can be summarised as follows.

Figure 10: Proposal for a detailed structure for sustainability reporting topics and sub-topics



3.3 PROPOSING A UNIFIED SUSTAINABILITY REPORTING FORMAT AND THE RELATED DATA TAXONOMY¹⁴¹ MECHANISM ALLOWING EASY DIGITISATION

406 *One of the findings of the work done by the PTF is the difficulty faced by users to easily locate and access sustainability information that is often fragmented and insufficiently digitised¹⁴². If location of the information is a clear area for improvement, its user-friendly and easily-processed format is another much needed one. Though the PTF acknowledges that the decision regarding location of sustainability information will be made in the revised NFRD, it explored the best ways to structure sustainability information and considered the possibility of sustainability statements, which is the PTF's preferred option. Given the growing importance of facilitating access and processing of sustainability information, it also considered how to best include early digitisation in the standard-setting process. Subject to the legislative provisions relating to the sustainability information location, the PTF wishes to share in this report its views on how the information can be presented and on the potential consequences of different options.*

407 *The PTF has considered that the EU sustainability standard-setting should provide a clear and accessible reporting structure as well as a digital taxonomy¹⁴³ allowing for agile access and analysis.*

3.3.1 Sustainability statements: location and structure

408 There is not only broad agreement that, generally, financial reporting and sustainability reporting are both required to understand an entity's full 'story', their respective locations and statuses are also a central lever for integrating them. Therefore, determining the location of sustainability reporting is of key relevance.

409 In addition, while defining a consistent and coherent approach towards location of sustainability reporting, the PTF believes that the following objectives should be pursued:

- a) reaching alignment with financial reporting for which a well-established approach as to location already exists;
- b) allowing for clear identification of (standardised) sustainability information;
- c) increasing comparability.

141 Or classification, not to be confused with the EU Taxonomy.

142 See Appendix 4.6 as from §101.

143 Ibid.

- 410 The following reasons generally support the anchoring of sustainability information in the management report:
- a) it accounts for and signals the high relevance of SI;
 - b) it acknowledges and conveys that financial and sustainability information are interconnected and jointly required to understand an entity's full 'story', also by aligning the timing of the respective disclosures and equally considering assurance;
 - c) it eases proper supervision of compliance by national authorities.
- 411 Nonetheless, these general and specific advantages for including sustainability information in the management report build on the existence of robust materiality guidelines and standards. Indeed, including extensive amounts of sustainability information in the management report could reduce the usefulness of the management report and result in an information overload, not only for capital market participants, but also for other users.
- 412 While locating all standardised sustainability information in one report would avoid fragmentation, given the very different expectations of users in terms of content, language and format, it seems very difficult for companies to adequately serve the needs of all their potential users (via a 'one-size-fits-all' approach) in their entirety and concisely at the same time. The management report's legal nature adds complexity even if including information in it confers a proper emphasis and status.
- 413 Accordingly, the PTF views are that only standardised sustainability information required under the revised NFRD and the associated standards could be included in the management report, including sector-agnostic, sector-specific and entity-specific information deemed material. In contrast, entities should remain flexible with regard to any additional information (i) disclosed voluntarily, e.g. to comply with a voluntary framework or to provide further information to primary users or other users that are not requested by the revised NFRD or (ii) required under regulations other than the NFRD (e.g. under the SFDR).
- 414 Standardised sustainability reporting would preferably be reported in a separate and clearly identifiable section of the management report which would be presented as '**sustainability statements**'. Such a clear and identifiable presentation would enhance comparability, easy access and avoid fragmentation. More importantly, it would isolate the standardised part of the management report from the overarching part of the report which integrates the various dimensions of corporate reporting as a whole and is bound to be more interpretative and judgemental as a reflection of the governance and management's holistic views on the business and its evolution.
- 415 Some very specific disclosures required under the revised NFRD could also be included in other sections of the management report subject to unambiguous cross-referencing in cases where: (i) integration between financial and sustainability information is of particular relevance (e.g. to present strategy or risks comprehensively), or (ii) required (e.g. reconciliations).
- 416 The sustainability statements to be included in the management report could include information of both qualitative and quantitative standardised nature, backward- and forward-looking information, as defined by the ESS.
- 417 In any case, beyond standardised sustainability reporting under the NFRD, entity-specific disclosures derived from the entity-specific standardised materiality assessment should allow entities for catering to their stakeholders' specific needs via specific reports, formats and language. The following approach would be particularly promising in our view:
- a) All standardised sustainability information could be reported comprehensively and at the same time in a dedicated section, preferably in the management report and, potentially, in the annual report. For all standardised sustainability information, the same assurance requirements should apply.
 - b) All disclosures could be digitally 'tagged' as well as listed and cross-referenced for adequate navigation in the management report via an adequate index.
 - c) In addition, the management report could outline the relationship between all disclosures and ensure consistency across all disclosures.

- 418 The management report would represent the connecting node between all sustainability standardised disclosures and between financial and sustainability reporting. It could be the common entry point for all stakeholders. The European Single Access Point that is currently under development by the European Commission, will be an opportunity to make corporate financial and sustainability information better available and accessible, so that users in the future can navigate to user-specific contents and formats tailored to their specific interests. This approach would mitigate concerns related to fragmentation to a reasonable extent.
- 419 Finally, if the Level 1 decides to increase the scope of the NFRD, consideration should be given as to how best accommodate reporting entities currently not required to publish a management report (in particular some SMEs), as well as to the potential requirements as to integrating financial and sustainability reporting in such a case. This shows that, more generally, the location of sustainability reporting under the NFRD cannot be determined independently from other issues such as scope, materiality or assurance.

Proposal #39

The PTF view is that standardised sustainability information, both of qualitative and quantitative nature, should be preferably reported in a separate section of the management report clearly identified as ‘sustainability statements’¹⁴⁴.

3.3.2 A digital taxonomy: on-boarding a tagging technique from the beginning

- 420 The challenge for users today with sustainability reported data is that they encounter significant difficulties in accessing, comparing and using the companies’ financial and sustainability-related information published pursuant to the relevant EU legislation. This challenge is also observed at global level and generates the intervention of data collectors, aggregators and providers. In today’s NFRD reporting environment, users have difficulty in finding and exploiting the NFRD reported information, in particular because the information is not sufficiently digitised nor easily located. Paper documents, HTML reports, and PDF files require manual information extraction and data entry into software for users’ decision-making needs – a time-consuming, error-prone, inefficient and costly process¹⁴⁵.
- 421 Users are increasingly seeking sustainability information that is trustworthy, audited, accessible, and machine-readable, as well as relevant to all user groups, timely, and automatically updated. The PTF believes that having easy access to the data in one place and/or through a machine-readable structure would be easily and quickly integrated in software tools and search engines, freeing time for value-added analysis and interpretation by regulators, investors, rating agencies or other stakeholders. Such a transformation depends on digital taxonomies covering all corporate reporting data including sustainability reported data.
- 422 The Transparency Directive¹⁴⁶ was amended in 2013 in order to make reporting digital with tagging techniques for issuers and to facilitate accessibility, analysis and comparability of the information in a machine-readable data format. The European Securities Markets Authority (ESMA) was assigned the responsibility to develop the technical standards for European Single Electronic Format (ESEF) and the eXtensible Business Reporting Language (XBRL) tags. The inline XBRL (iXBRL) technology was chosen as the basis of providing both human readable and machine-readable data to the users. The amendment included a new requirement for issuers to prepare their annual financial reports in a single electronic reporting format (ESEF) of the annual reports. The ESEF is based on the XBRL International open-source data standard for business reporting, widely adopted globally for statutory and prudential reporting of financial disclosures.
- 423 For sustainability information to be as easily accessible and processed as financial information, similar classification methods and formats should be considered. This calls for enabling a digital XBRL (eXtensible Business Reporting Language) taxonomy for EU sustainability reporting standards along the standard-setting process. An XBRL taxonomy aligned from the outset with the new sustainability reporting standards will allow reporting entities to present information

144 For entities which are not required to produce a management report, sustainability statements should be presented in a separate document. See section 4.2.4 for development on SMEs.

145 See Appendix 4.6 §115 for the current status on digitisation.

146 See Appendix 4.1 as from §102.

that is required by the standards and formatted in accordance with the agreed-upon digital reporting taxonomy. The digitisation strategy should include developing and updating established digital taxonomies in parallel with standard-setting itself and covering all sustainability topics. The PTF recommends that the Sustainability Reporting taxonomy be integrated early in the standard setting process. This would also ensure architectural compatibility with other reporting taxonomies that are applied already by all EU-listed companies. The PTF believes that the digital reporting taxonomy should reflect the target architecture.

- 424 To define a scope of a digital taxonomy development program requires well-defined reporting standards. The sustainability standards and disclosures are principle-based in nature therefore the scope and size of the taxonomy should reflect:
- a) the granular disclosures required by sustainability standards (standardised tags);
 - b) the entity-specific disclosures (extension tags); and
 - c) the most common practice disclosures that are not derived from standards (common practice tags).
- 425 The first category should be predominant in the interest of comparability. Common practice is generally identified following empirical analysis of annual reports. The benefit to reporting companies is that they do not have to spend time extending their mark-up for disclosures that are commonly reported. This common practice approach would be of particular importance during the first years of implementation of EU standards as not all sets of standards will be ready and not all topics will be covered in-depth from the outset. This makes it easier for data consumers, including regulators, investors and analysts, amongst others, because there are fewer unique mark-up codes to manage. While common practice becomes part of a sustainability reporting taxonomy, this does not imply that common practice items are standardised reportable items nor provide guidance as to how each company should apply the standard but may become part of the core standard over time and should be considered from a standard-setting perspective. Developing extensions to the standard digital taxonomy for areas not covered by standards and common practices would also allow digitisation of entity-specific disclosures.
- 426 The PTF takes due note of the current initiative of the European Commission under its New Action Plan on the Capital Markets Union to develop a European Single Access Point that aims to make corporate financial and sustainability information digitally available. The PTF considers this initiative as a unique opportunity for digitisation of and better access to sustainability reporting. It stresses the need for cooperation between the ESS, European Commission and European Supervisory Authorities to ensure that sustainability information reported under the NFRD will be readily available in the future European Single Access Point.

Proposal #40

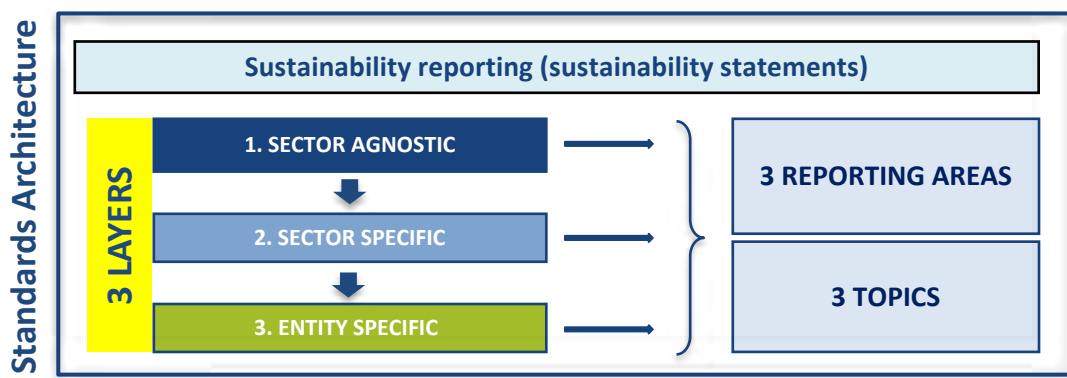
The ESS should consider translating the classification and the segmentation of sustainability disclosures into a digital taxonomy from the outset and as soon as required from preparers (i.e. in parallel to the issuance of the standard itself) fostering different levels of reading as well as the use of extensions when necessary.

3.4 SUSTAINABILITY REPORTING STANDARDS ARCHITECTURE

427 Following the developments made in 3.1, 3.2 and 3.3, the architecture should therefore be a combination of three components structuring the definition and the organisation of the standards themselves:

- a) Three layers of reporting: sector-agnostic, sector-specific, and entity-specific.
- b) Three categories of reporting areas¹⁴⁷: strategy, implementation, and performance measurement, and their relevant sub-components.
- c) Three sustainability topics¹⁴⁸: Environment, Social and Governance+, and their relevant sub-topics.

Figure 11: Sustainability reporting standards architecture



147 Reporting Areas are the general and management disclosures that may be required under the revised NFRD. See section 3.2.1.

148 Topics and sub-topics are sustainability themes (or nature of sustainability impacts) on which reporting entities should report. See section 3.2.2.

PART 4: ROLLING OUT A PHASED-IN STANDARD-SETTING ROADMAP

- 428 A target architecture of standards reflects an overall ambition. However, the time factor to build the full target architecture remains of the essence and needs due consideration. Financial standard-setting has taken decades to reach satisfactory maturity and is still evolving. By contrast, sustainability standard-setting must consider a game-changing evolution over a limited number of years since the PTF understands that the goal is to reach a credible sustainability reporting platform in the EU under a demanding political agenda. Even though sustainability reporting does not start from a blank page, this change of paradigm in standard-setting makes it necessary to carefully consider what the priorities are in order to start from the right foot, how to organise the journey to the destination and how to build on and amplify the momentum.
- 429 Standard-setting in the EU should indeed be organised to meet the deadlines assigned for the first-time application of the revised NFRD. This implies to establish a pragmatic roadmap combining (i) the need for game-changing initial sets of standards based on priorities and (ii) an ongoing longer term 'enhancement of content' process. The initial steps might be challenging time and resource-wise. However, the strategic objective of delivering a meaningful next step in sustainability reporting should lead the EU to make the appropriate pragmatic decisions and choices to meet the deadlines: they imply a rigorous initial preparatory work, based on a clear and robust due process, a swift start and adequate resources, all of this being placed as soon as possible under the umbrella of the appropriate EU standard-setting governance.
- 430 The following sections reflect the potential arbitration between the different constraints that standard-setting would have to consider from a technical standpoint. Other success factors such as resources or governance are not in the PTF's remit. As a consequence, the PTF's view on a possible technical way forward is subject to further decisions on these other key factors. The PTF assumes for instance that:
- a) further preparatory work for standard-setting could start in a matter of weeks following the issuance of this report;
 - b) reasonable resources would be dedicated to standard-setting in due time;
 - c) some tasks would have to be performed in parallel and would have to be subjected to formal due process check before finalisation; and
 - d) the standard-setter governance would be put in place in due time and would be able to review and validate what would have to be done under a preparatory work mode.

4.1 ESTABLISHING CRITERIA FOR PRIORITISATION

- 431 *Setting priorities right is the preliminary requirement to reconcile a long-term vision and short-term time constraints.*

Long-term view and game-changing initial steps

- 432 The ultimate goal for the EU is to establish, and benefit from, a comprehensive and stable sustainability reporting platform based on the ambitious architecture defined in Part 3 and the robust foundations and concepts described in Parts 1 and 2. The PTF has considered that under a rigorous approach to standard-setting establishing such a platform is a medium to long-term project. Even considering the obvious level of urgency, the lessons learnt from financial reporting standard-setting suggest the need for some reasonable time constraints to reach the stage where the standards architecture is fully covered. This will require strong political support and the capacity to quickly mobilise resources. Once established such a platform would have to be maintained and enhanced on a continuous basis.
- 433 At the same time, the EU standards must not be developed in isolation and therefore the ESS must cooperate with, build from and contribute to a constructive development of sustainability reporting globally with a further long-term view.

434 However, such a long-term view should not hinder the capacity for the EU to make initial game-changing steps as soon as possible. The EU standard-setting is a step-by-step effort towards the ultimate goal and the first steps are critical. The PTF therefore assumes that the standard-setting will have to deliver initial sets of standards allowing for a swift implementation of the provisions of the revised NFRD.

435 Therefore, the PTF considers that the first sets of standards should address clearly stated priorities as well as the implementation challenges under a pragmatic approach and highlights the following contextual angles to consider:

- a) In an effort to make swift progress, the first sets of disclosures should consider, whenever relevant, the best reporting achievements observed under the current NFRD or beyond, as a possible initial material to be consolidated and complemented, after being properly submitted to compliance check against all the ESS conceptual guidelines. This justifies an appropriate depth for 'core' disclosures which reflects a change in substance but requires fine-tuning in order to stimulate a positive move forward without burdening preparers unduly. Based on the rigorous application of the ESS double materiality assessment and criteria for quality of information, this approach should avoid a 'quick fix' or 'lowest common denominator' approach. Instead, it should lead to substantial improvement of sustainability information addressing the needs of users while at the same time adopting a pragmatic approach that can quickly be implemented by reporting companies.
- b) Some topics must be addressed beyond a 'core' approach on grounds of either maturity or urgency. This is particularly the case for climate related disclosures where TCFD recommendations and science-based targets are widely supported. A few others might need to be taken into account under the criterion of urgency, such as biodiversity and human rights.
- c) The sustainable finance agenda, as illustrated in this report, requires on-boarding the consequences of its policy objectives in terms of relevant data availability. Failing to do so would create major inconsistencies, potential undue burden and ultimately risk of shortcomings.
- d) Finally, in the interests of promoting decisive but proportionate steps at preparers' level, due consideration should be given to mobilisation and resources issues. In that respect the depth of mandatory content as well as the implementation timing are critical, bearing in mind that reporting entities are under high pressure from all stakeholders, from providers of financial capital to clients and customers, to progress anyway. A key priority for them is to move forward in a coherent system which avoids multiple requests from too many angles and in too many different formats. For preparers the question is not so much: 'do we need to progress in sustainability reporting?', but rather: 'how to progress? what standards to use? where to disclose the information?'

436 The PTF understands that the possible due dates for the two initial sets of standards are:

- a) Set no. 1: draft standards to be proposed by the ESS by June-September 2022 (applicable for reporting year 2023, i.e. applying to reports published in 2024).
- b) Set no. 2: draft standards to be proposed by the ESS by June-September 2023 (applicable for reporting year 2024, i.e. applying to reports published in 2025).

437 The PTF wishes to focus on these two initial sets of standards to clarify the initial level of coherent standard-setting ambitions.

From the start, guidelines for operational and cross-cutting standards on reporting areas in the conceptual framework

438 An orderly standard-setting process should start from agreed-upon conceptual guidelines for standard-setting. These guidelines, as described under Part 2 above, are designed to convert key concepts and principles into operational tools which create the right level of conceptual consistency when standard-setting. The PTF therefore supports the adoption of such guidelines alongside the finalisation of the first two sets of standards. From a rational due process standpoint, guidelines should be a prerequisite for standard-setting per se. However, because of the above-mentioned time constraints these guidelines would most likely have to be developed according to priorities and in parallel with the development of the first sets of standards. Should this be the case, the draft standards would have to be tested against

available conceptual developments (such as the ones available in this report and its appendices) and the relevant guidelines as soon as they are adopted to verify their compliance and trigger potential adjustments or complements.

439 As a reminder, there are six guidelines to consider¹⁴⁹:

- a) alignment of public policies guidelines,
- b) quality of reporting and standards guidelines,
- c) levels of reporting guidelines,
- d) time-horizon guidelines,
- e) double materiality operating guidelines,
- f) connectivity guidelines.

440 Reporting areas, as described in this report, may deserve standards per se. These standards should in principle be included in the first set, subject to an update in the second and following sets:

- a) The three reporting areas identified under 'Strategy' (strategy and business model(s), material sustainability risks and opportunities and impacts, sustainability governance focus) are directly linked to disclosures that are key to the meaningfulness of sustainability reporting at entity level. Cross-cutting standards should be adopted to cover these key areas.
- b) The two reporting areas identified under 'Implementation' (policies and targets, action plans and resources) do not justify disclosures in themselves on a stand-alone basis. However, topical standards will require disclosures on those reporting areas. As a consequence, in order to ensure consistency, it would be extremely positive to adopt cross-cutting 'reference' standards on how to disclose on those reporting areas:
 - (i) Topical standards would then incorporate requirements related to these reporting areas by reference to the relevant two cross-cutting standards; they could add but would start from a basis that would be common to all topics and sub-topics.
 - (ii) These two standards would also have to be complied with for entity-specific disclosures which would be considered necessary following the entity materiality assessment process.
- c) The reporting area identified as 'Performance measurement' does not seem to justify a standard in itself. It deals with specific sustainability information of a qualitative or quantitative nature which is primarily related to topics and sub-topics and would therefore be covered in the standards that cover the topics and sub-topics.

Proposal #41

As part of the first set of standards, the ESS should consider developing the three cross-cutting standards on Reporting areas relating to Strategy and the two cross-cutting reference standards on Reporting areas related to Implementation.

Offering a standardised reporting structure from the start

441 The general location of sustainability statements should be decided in Level 1.

442 Though defining content of sustainability statements is of course the primary objective of standard-setting, the benefits of progress at content level may largely be lost or difficult to secure without a proper reporting structure. A clear and logical organisation of sustainability reporting that allows both easy 'human readability' and 'machine readability' is

149 See Part 2.

therefore key, bearing in mind that the two aspects are not contradictory but that at this stage both should be considered in practice.

- 443 To facilitate digitisation, when elaborating standards, the ESS should ensure that a granular approach to data points is conducted to allow for easy 'tagging' of each data point under a digitised process.
- 444 As a consequence, the PTF has considered that the preferred reporting structure and the related reporting taxonomy should be defined in standards in the first set. This would imply for the ESS:
- a) Finalising the possible and preferred locations under the level 1 provisions and general principles of presentation of sustainability reporting within the management report, in particular regarding the definition of 'sustainability statements',
 - b) Adopting a standard on the detailed reporting structure, following a logical rationalisation of the defined perimeter of sustainability reporting in accordance with the overall architecture. It is key to benefit from a clear organisation of sustainability reporting that allows for 'human readability'. This is additional to, not in contradiction with, 'machine readability'.
 - c) Making sure, when adopting a standard, that a granular approach to data points is conducted in parallel to allow for easy 'tagging' of each data point under a digitised process.

Proposal #42

The ESS should consider developing a standard, in the first set, on the detailed reporting structure, following a logical rationalisation of the defined perimeter¹⁵⁰ of sustainability reporting in accordance with the overall architecture and allowing for easy digitisation.

Promoting progressive 'enhancement of content' through successive versions of standards

- 445 There is a need for the ESS to promote a balanced approach in sustainability reporting:
- a) the first set of standards should be comprehensive enough to ensure coherence in and reasonable coverage of, sustainability matters mandatory as from the first implementation date;
 - b) yet, this first set should be seen as the first step of a medium-term journey towards the target architecture, leaving ground for further progressive enhancement; and
 - c) the quality of standards should be guaranteed by a reasonable due process which takes a minimum time under a medium-term project approach.
- 446 To adopt a balanced approach, the question of the evolving depth of required disclosures is critical. As a consequence, the PTF is promoting the idea for the ESS to have the possibility of enhancing the content of its standards through successive versions of each standard, each new version building upon the previous version to increase the number of disclosures and therefore progress in terms of depth and faithful representation. For example, the version 1.0 of a standard would require a limited number of KPIs, e.g., the ones most commonly used or most urgent to report, and matching EU concepts. The version 2.0 would add new disclosures with the underlying goal to improve reporting, etc. This evolution could capitalise upon the experience derived from RBPs under a 'Core and advanced' approach.
- 447 One key provision is of course that the successive versions do not contradict the previous ones: it is an enhancement process, not a change in standards. Changes in standards may occur when necessary, but it is a different procedure which requires specific information (in particular to avoid hindering comparability).

¹⁵⁰ Perimeter is to be understood as the borders defining what is standardised sustainability reporting vs any other possible sustainability matters information.

448 Financial reporting is based upon the capture of all monetary transactions, summarised into financial statements and therefore can be seen as translating into reporting a well-defined and somehow 'closed' perimeter. Unlike Financial reporting, it must be borne in mind that, sustainability reporting does not benefit from an obvious perimeter with well-defined and stable boundaries and is therefore constantly evolving. This is why the PTF believes it is key to reflect (i) this evolutionary nature of the perimeter and also (ii) the time needed to cover it step by step, hence the successive versions approach. The ESS will elaborate standards that will go deeper over time.

Proposal #43

The ESS should consider developing successive versions of standards allowing for progressive 'enhancement of content'.

Addressing topics and sub-topics under an agreed-upon list of priorities

449 One of the advantages of the 'enhancement of content' approach is that it allows for a coherent coverage of most, if not all, sub-topics from day one: most sub-topics would therefore immediately benefit from disclosures but under an agreed-upon 'core' depth that is a step towards the ultimately desirable depth of content.

450 This approach should allow most sub-topics to be covered in the first set, but with different levels of depth on one or several of the three dimensions that are described below: time horizon, level of reporting and quality of information. It should thus be very clear within the first sets of standards whether the sub-topics are fully covered or on which dimension(s) further enhancements are to be considered in the following sets.

451 It should be clear from the outset:

- a) that such a day one coverage is not to be confused in terms of perception with a minimum or restrictive set of disclosures per se, when in fact this first set must be considered as an initial step towards a more ambitious architecture;
- b) that the alignment with other EU policies is fully ensured; and
- c) that the most mature or pressing matters are sufficiently covered.

452 In this context the PTF is proposing to establish priorities on sub-topics which should be covered from day one in more depth than others.

453 As a consequence, the general technical criteria to be followed by the ESS for establishing the initial depth level could be the following:

- a) the level of maturity on the sub-topic, as reflected by the number of suggested disclosures from various initiatives and their general recognition/acceptance;
- b) the level of urgency related to the sub-topic, as derived from market perception and/or public policy decisions.

454 In addition, the ESS may decide to cover extensively most sub-topics but differentiating under three key dimensions, as defined under the conceptual framework guidelines:

- a) the time horizon,
- b) the level of reporting,
- c) the quality of information.

455 As regards time horizon the backward-looking dimension of every sub-topic may be in the first place easier (i) to define at standard level and (ii) to implement at preparer's level. On some sub-topics it is already a serious management challenge to prepare retrospective disclosures based upon a well-defined standard which takes fully into account the quality characteristics mentioned in this report. It implies putting together systems and controls to collect and present

the relevant sustainability data in a way similar to the one generally considered as a prerequisite for proper financial information. It would therefore be possible for the ESS to focus initially on comprehensive disclosures that would be dedicated to a backward-looking approach, leaving the forward-looking approach for the following sets of standards, unless there is already sufficient maturity on the latter.

- 456 As regards levels of reporting it is easier (i) for the ESS to define and (ii) for preparers to report information related to their own operations than information related to their value chain. This situation derives from the difference between control or significant influence and less direct relationships, as described in this report. In addition, preparing information on the reporting entity may benefit from the systems and controls already in place for financial information which follow the principle of control. It would therefore be possible for some topics for the ESS to focus initially on information related to the reporting entity's own operations leaving the value chain information for the following sets of standards, unless reliable data exists already on the latter.
- 457 As regards quality of information, the PTF is of the view that it might be more difficult for certain sub-topics to define quantitative information meeting the desired level of quality: currently there may be too much room for interpretation in the available suggestions, scientific references may also require additional analysis. As a consequence, the ESS would need time to define properly the quantitative disclosures that would allow for faithful representation, relevance, reliability and comparability. It becomes a timing concern as for the other two above dimensions. In the meantime, any qualitative information would have to meet the criteria for quality of information.
- 458 The above suggestions call for three observations:
- a) for selected sub-topics (in particular those associated with maturity or a sense of urgency), the various dimensions are already reasonably covered in practice and there would be no reason for downgrading the level of requirement in the first place;
 - b) from a general standpoint such an approach should not be perceived as a downgraded approach nor as a compromise at the expense of meaningfulness (faithful representation), but as a pragmatic step-by-step approach starting from 'core' disclosures. It should be explained and clear from the beginning;
 - c) a progressive approach to standard-setting (first sets of mandatory disclosures) does not preclude a reporting entity from having (potentially temporarily) additional disclosures under the entity-specific layer, in particular if already reported in prior periods.
- 459 The number of topical standards should reflect a classification of sustainability matters by sub-topics or at a more granular level where relevant (social topics for example).

Proposal #44

The ESS should aim as a first step at (i) a set of 'core' disclosures offering a coherent coverage of sub-topics and (ii) more extensive disclosures for certain priority sub-topics.

4.2 DEFINING THE FIRST TWO SETS AND A ROADMAP FOR STANDARD-SETTING

- 460 *Under the above-described circumstances and from a technical standpoint, a pragmatic standard-setting roadmap needs to arbitrate between (i) coverage (in terms of number of reporting areas and sub-topics), (ii) depth (nature and number of disclosures per sub-topic) and (iii) delivery dates. This should be done under the umbrella of adequate governance and resources which are not within the remit of the PTF but that the PTF wants to highlight because of their interaction with the technical aspects covered by the PTF.*
- 461 A progressive and phased-in approach is inevitable and has to be designed to ensure a rapid evolution of the substance of sustainability reporting in the EU from the start while allowing reporting entities to adjust to a fast-moving mandatory reporting environment.

- 462 With this objective in mind, the phased-in roadmap of the ESS would have to plan for the elaboration of the following:
- a) conceptual framework operational guidelines and sector-agnostic cross-cutting standards on Reporting Areas;
 - b) sector-agnostic topical standards addressing as many sub-topics as possible (ideally most) in the first sets of standards under a 'core' approach with some priority sub-topics addressed more extensively under an 'advanced' approach and following sets aiming at enhancing the previous version of the topical standards (see (e) below);
 - c) sector-specific disclosure standards, either starting with most impactful/most impacted sectors in a first set, each successive set of sector-specific standards covering new sectors or following a 'core' approach;
 - d) an SMEs enabling approach; and
 - e) a rolling planning of standards enhancement and 'enhancement of content' completion in successive sets of standards over the years, based on progress made and evolution of both EU policies and of international initiatives on sustainability reporting.

4.2.1 Getting started with a first set of sector-agnostic 'core' standards

- 463 As a starting point and based on the previously mentioned prioritisation criteria, the first set of guidelines and standards should include the following:

a) Conceptual Framework Operational Guidelines

- Should the ESS be confronted with the need to prioritise, out of the current proposed 6 guidelines, the first set should focus on the elaboration of the guidelines relating to double materiality and quality of information while the remaining four would be dealt with temporarily on the basis of the related developments provided for in this report.

b) Sector-agnostic and reporting structure cross-cutting standards

- three standards on Reporting Area – Strategy,
- two reference standards on Reporting Area – Implementation,
- one reporting standard on the reporting structure of sustainability statements,
- one standard on an entity-specific materiality assessment process.

Proposal #45

Should there be a need to prioritise, in the first set of guidelines and standards, the ESS should consider developing two conceptual guidelines – double materiality and quality of information – as well as cross-cutting standards covering Reporting Areas, Reporting Structure and entity-specific materiality assessment.

- 464 Applied to **sector-agnostic topical standards**, this phased-in roadmap would translate into a first set of standards aiming at **'core' disclosure standards on most sub-topics**; in order to promote coherence from the beginning, 'core' is to be understood as:
- a) the most relevant and commonly used disclosures;
 - b) all additional disclosures deemed necessary under the conceptual guidelines to avoid misperceptions and/or an unbalanced presentation; and
 - c) the disclosures necessary to support the Sustainable Finance agenda (i.e. SFDR and EU Taxonomy as a starting point).

- 465 The ESS would have to arbitrate the coverage, based upon maturity in particular (as a consequence leaving aside some sub-topics which do not benefit from sufficient recognition and which require more research), and the depth, based upon considerations on time horizon, levels of reporting, quality characteristics.
- 466 In the context of this first set the determination of what is 'core' in practical terms is critical. In this regard, the PTF observes that there are a number of valuable proposals to consolidate the most commonly used disclosures into coherent 'packages' that are designed to facilitate voluntary adoption by preparers and an initial level of comparability. Other initiatives are also willing to improve and adapt the standards they promote. The PTF believes that the ESS could capitalise on and contribute to these efforts when determining what is 'core'. The ESS would:
- a) screen those proposals to identify disclosures considered 'core' in the proposed 'packages';
 - b) compare its findings with disclosures to be considered as a priority in the EU, in particular as a consequence of the revised NFRD itself, of Sustainable Finance disclosure requirements (SFDR/EU Taxonomy), and of the integration of TCFD recommendations;
 - c) define standardised relevant disclosures in compliance with a double materiality approach, required quality of information and other EU-specific concepts.
- 467 This work on 'core' disclosures could be done, when appropriate, in co-construction mode with relevant international initiatives¹⁵¹.

'Advanced' (more extensive) disclosure standards for some priority sub-topics

- 468 Some sub-topics refer to matters that are mature enough or that require urgent attention. The PTF proposes to adopt 'advanced' standards for these sub-topics as from the first set of standards. These should at least encompass climate change related disclosure on a TCFD compatible basis.
- 469 For the reporting entities that already go beyond 'core' disclosures, the PTF thinks that they should continue to disclose in accordance with their current reporting practices under the entity-specific layer. As new sets of standards are produced, such 'more advanced' reporting practices will progressively be embedded in mandatory disclosures.

Sub-topics that could be postponed to the second set

- 470 In the interest of prioritisation under a tight schedule, the ESS may decide to postpone to the second and following sets certain sub-topics, in particular if they are not mature enough and require further preliminary analysis. Such sub-topics could be, for example under Governance+, Organisation, Relationships quality management and Innovation and Reputation.

Proposal #46

In the first set of standards, the ESS should consider developing 'core' standards for most sub-topics and 'advanced' standards for some priority sub-topics such as, for example, climate change.

4.2.2 Enhancing coverage and depth of topical standards in the second and following steps

- 471 Keeping in mind the principle of the progressive 'enhancement of content' standard-setting strategy, the ESS roadmap will have to ensure a continuous enhancement of coverage of sector-agnostic sustainability information.
- 472 What will be achieved through the first set of topical standards will help determine the second and following sets. The general intent is to progressively move from 'core' disclosures to subsequent 'advanced' levels over time and to maintain alignment of sustainability reporting with newly adopted EU policies.

¹⁵¹ See section 4.3.

473 The second set would in particular include the following:

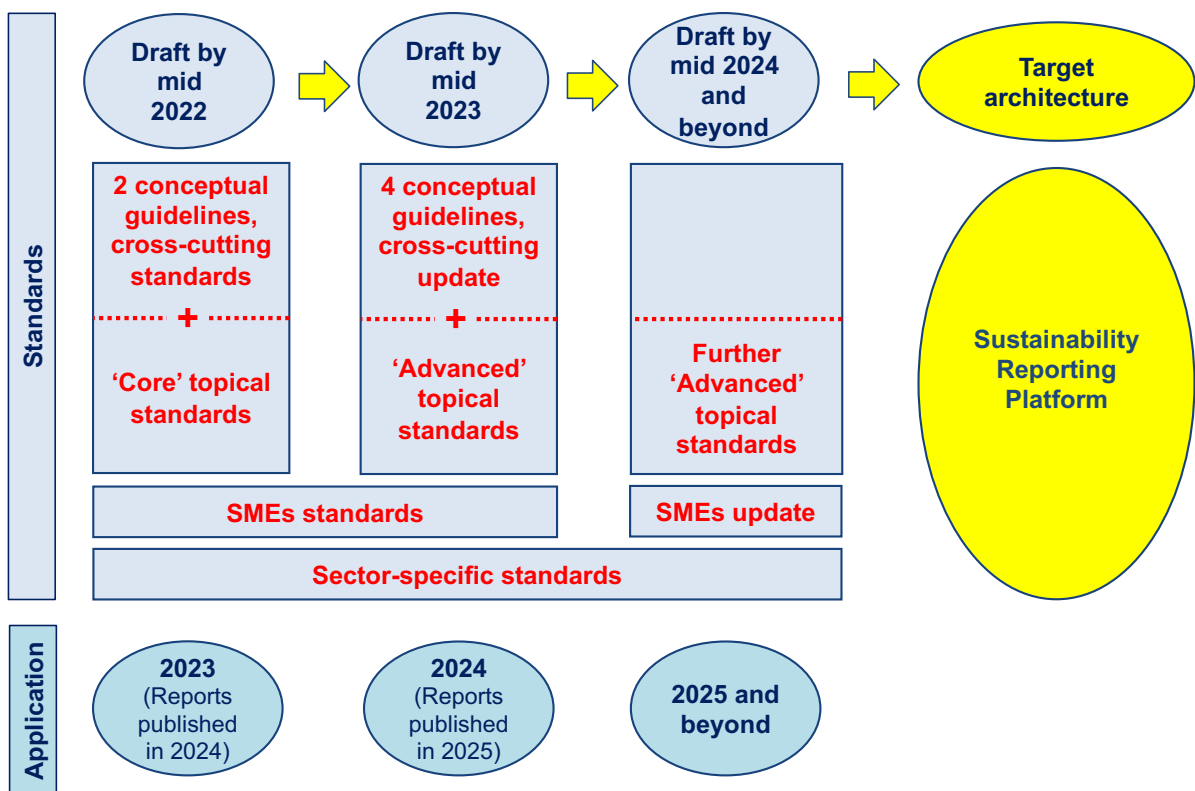
- a) the four remaining guidelines (alignment and benchmarking with policy priorities, levels of reporting, time horizon, connectivity);
- b) the sub-topics that would not have been covered in the first set;
- c) additional substance to ‘core’ disclosures as defined in the first set, on certain sub-topics.

Proposal #47

Taking into account any political or legislative decision, the ESS should determine during the elaboration of the first set of standards the priorities to be covered in the second and following sets under the ‘enhancement of content’ strategy.

474 Following the first two sets of standards, sustainability reporting will not have fully reached the reporting platform defined by the target architecture. Progressive ‘enhancement of content’ (in terms of sub-topics covered and number of disclosures per sub-topic) will be essential. The main objective of the subsequent standard-setting work should be to add depth through successive versions of topical standards. This should be organised on the basis of a review of achievements accomplished with the first two sets. The overall standard-setting roadmap can tentatively be illustrated as follows:

Figure 12: Tentative standard-setting roadmap



4.2.3 Considering possible options for sector-specific standards coverage in the first sets

Defining a relevant classification of sectors

- 475 As explained in Part 1, the PTF observed that current sector-specific standard-setting initiatives do not operate from a common classification of sectors and recognise the importance of ensuring coherence of reporting with other EU legislative/regulatory, reporting, statistical or organisational features.
- 476 Therefore, the PTF proposes to start from the existing Statistical classification of economic activities in the European Community (NACE) as has been the case for the development of the EU Taxonomy. This classification encompasses 4 hierarchical levels, from 21 Level 1 A-U sectors to more than 600 Level 4 (4-digits) detailed sectors. It is also already mapped with other widely used international classifications.
- 477 Further investigation is needed in order to define the appropriate level of granularity that will allow relevance and comparability of information. In doing so, consideration should be given to the way the EU Taxonomy uses NACE for sector classification, in order to ensure consistency between the sector classification for sector-specific standards and the way the EU Taxonomy has identified sectors and activities.
- 478 Besides, a process for re-evaluation of the sectors list should be defined on a regular basis (e.g. every 3 to 5 years) to ensure a good coverage of emerging sustainability risks and opportunities.

Proposal #48

The ESS should consider starting from a clear definition of sectors (i) derived from the EU NACE classification and (ii) presenting a reasonable level of convergence and coherence with other classifications from international initiatives.

Defining criteria for prioritising high-impact sectors coverage

- 479 As a first option, the PTF is of the opinion that the ESS should (i) cover all sectors over time and (ii) start from most impacted/most impactful sectors. Although as a priority the first set of standards will focus on sector-agnostic information, the ESS should also consider including the most impacted and impactful sectors in the first sets.
- 480 When developing sector-specific standards, the ESS should consider the following path to set priorities within the roadmap:
- a) considering EU priorities and coherence with other EU legislations (e.g. EU Taxonomy classification and prioritisation);
 - b) leading a materiality assessment of all identified sectors to identify the high-impact sectors from a double materiality perspective: sectors that present the most severe environmental and social impacts and sectors that are the most vulnerable to environmental and social issues (high transitional or physical risks);
 - c) assessing the depth of additional requirements that may be needed to bridge the gap with sector-agnostic information and reach satisfactory relevant information for the identified sectors (e.g., for some sectors with low impacts, sector-agnostic information could possibly be deemed sufficient).
- 481 As the ESS should aim at covering all sectors in a reasonable timeframe, it should consider co-constructing with existing initiatives, and for instance making sure that there is a coordinated prioritisation approach.

Proposal #49

The ESS should start from EU priorities and consider including in the first set of standards some sector-specific disclosures for most impacted/most impactful sectors that are particularly relevant in the EU landscape and specificities and completing the sector coverage over time.

Alternative to sector prioritisation

- 482 The advantage of sector prioritisation is to focus, in terms of depth, on high-impact sectors with an 'advanced' coverage. The disadvantage is that it takes time and is not supported by current trends observed on global financial markets.
- 483 As a consequence, as a second option, the ESS might consider an alternative solution which could be to adopt, in the first or second set, a 'core' (more limited in terms of depth) approach and move to an 'advanced' approach in the following sets on the basis of priorities. The PTF suggests that the ESS explores possibilities of co-construction.

Elaborating standards taking into account legislative and regulatory jurisdictions specificities

- 484 Even more than sector-agnostic sustainability information, sector-specific information tends to build upon jurisdictional requirements that can be very specific and different from one geography to another.
- 485 When defining the content of sector-specific standards, the ESS should therefore be very careful to align with existing EU and international requirements to ensure that, to the greatest possible extent:
- a) all sustainability disclosures requirements are coherent with and do not contradict EU-wide regulatory / legal requirements (e.g. clean vehicles emissions thresholds);
 - b) sustainability disclosures requirements are coherent, when possible, with international sustainability initiatives and regulatory / legislative requirements. When they are not, assessing (i) whether they are contradictory (as specific to other geographies for instance) or less demanding and hence possibly limiting the efforts of alignment from the EU perspective or (ii) stricter than EU requirements and a hence possibly to be aligned.
- 486 Alignment of the content will be key to meeting the needs of the EU-based international firms that need to juggle different requirements in different geographies and to ensure international coherence as much as possible.

Proposal #50

The ESS should consider defining sector-specific standards with a particular attention to streamlining existing international and EU requirements to ensure coherence and simplification.

4.2.4 Developing an enabling SME approach

- 487 A key preliminary question is whether a distinction of sustainability reporting requirements should be made for different categories of SMEs, and what the differentiating factors should be. In this context, the PTF has challenged the conventional approach to differentiating SMEs based on size. In addition to size, which does not necessarily best reflect a SME's sustainability footprint and profile, it is the PTF's conclusions that the business activity/sector and its associated risk profile should also be a primary driver for determining sustainability reporting requirements for SMEs, while simultaneously applying the proportionality principle.
- 488 Therefore, the PTF suggests considering a sector-specific approach towards sustainability reporting requirements for SMEs which would lead to sector-agnostic disclosures applicable to all SMEs and sector-specific disclosures for a subset of SMEs operating in most high impact sectors.
- 489 While, as previously mentioned, it is not the PTF's role to determine whether SMEs should be subject to mandatory sustainability reporting, it is nevertheless the PTF's opinion that SMEs will most likely not be able to produce sustainability information at a reasonable cost for them, at least not for the foreseeable future. Therefore, they should only be expected to report if they operate in a high impact sector, as defined by the ESS. In general, the use of existing data and certifications to automatise the reporting process and decrease the administrative efforts required should be explored.

Proposal #51

The ESS should consider focusing on two levels of sustainability reporting for SMEs, based on a combination of the risk profile and size: (i) sector-agnostic 'core' sustainability reporting disclosures to ensure coherence and efficiency in value chains for small and medium-sized enterprises and (ii) additional sector-specific sustainability reporting disclosures based on a risk-based approach differentiating highly critical sectors from less critical sectors.

- 490 The **sector-agnostic** 'core' sustainability reporting requirements to ensure coherence and efficiency in value chains for small and medium-sized enterprises should:
- a) have indicators compatible with the mandatory EU sustainability standards for large reporting entities within the scope of the revised NFRD to ensure coherence within value chains and appropriate contribution by SMEs to their larger stakeholders' own reporting obligations;
 - b) prioritise key sustainability topics that either demand urgent action according to scientific evidence (e.g. climate change, biodiversity) and/or that have been prioritised by EU policy (e.g. gender equality);
 - c) build on requirements that already exist.
- 491 The **sector-specific** sustainability reporting requirements for highly critical sectors should:
- a) follow a transparent process to determine which sectors should be classified as 'highly critical', based on EU policy priorities and legislative definitions (e.g. EU Taxonomy), with consistency and predictability of such classification over time;
 - b) apply to all SMEs, in these sectors, while taking account of the limited administrative capacity of SMEs as compared with larger companies.
- 492 Recognising the specificities of SMEs in terms of management and systems as described under Part 1 of this report and the need to establish a proportionate sustainability reporting tailor-made for them, the PTF proposes to focus SME sustainability reporting on:
- a) a brief description of:
 - (i) the business model; and
 - (ii) an assessment of the major sustainability challenges of the reporting entity (i.e. a basic coverage of reporting areas including current achievements) together with key forward-looking sustainability priorities;
 - b) a coherent but limited number of 'core' disclosures (mainly KPIs) that focus on past performance while aligned with value chain and financial institutions expectations; and
 - c) for critical sectors, some key additional KPIs.

Proposal #52

The ESS should consider developing proportionate SME standards (i) focusing on the business model, a summary of major sustainability challenges and retrospective KPIs and (ii) corresponding to the expectations of the SME leadership team, the value chain counterparts, and financial institutions.

- 493 As regards the reporting structure it is important to recognise that not all SMEs are required to prepare a management report. Consequently, if and when they were to report on the basis of standardised disclosures adopted by the ESS, then they should locate this information in a specific report based upon the sustainability statements proposal presented above.

494 The ESS may also encourage the implementation of easy to communicate reporting means, e.g. through certifications evidenced by seals and logos (subject to appropriate verification processes), that indicate compliance with certain sustainability requirements and criteria. In this way sustainability information also becomes public and drives awareness and action (as compared to simply reporting in business registers).

4.2.5 Indicative and tentative initial planning for standard-setting

495 Even under a 'core' approach, but with a game-changing coverage of sub-topics, elaborating the first sets of sustainability reporting standards as described in this section entails significant work and dedication.

496 The PTF has therefore considered the way forward in practical terms following the submission of this report assuming June-September 2022 as the deadline for delivering the first set of standards and their implementation in reports published in 2024 with information covering reporting year 2023.

497 From a preparer's perspective the PTF observes first:

- a) that a period of about 18 months (June-September 2022 to early 2024) between issuance of standards and implementation is relatively short;
- b) but that the reporting entities in the contemplated scope of the revised NFRD are currently under market pressure anyway;
- c) that they have been practising the current NFRD requirements for some time now;
- d) and that a coherent and unified reporting system may justify a specific first time effort in order to streamline their resources (in addition to the other benefits derived from a legitimate and recognised sustainability reporting).

498 From a standard-setting perspective the main assumptions could be the following:

- a) Due process. A robust due process is a necessary key step of the elaboration of standards, in particular on advisory panel input, public authority involvement and on public consultation.
- b) Governance. This matter is not in the PTF's remit. However, the PTF observes that the formal establishment of the standard-setter's governance might take some time. The initial phase of standard-setting could possibly start with preparatory work that would then be duly reviewed and validated by the ESS as soon as in place. Not doing so would make the June-September 2022 objective unrealistic.
- c) Production cycle of a standard. The production cycle of a 'core' standard may be estimated at about 15 months even if this may look demanding.
- d) Sequencing. Ideally conceptual guidelines and cross-cutting standards should come first. The PTF thinks that they could be elaborated in parallel to the elaboration of topical standards, for example in a white paper format, and then submitted to proper due process before the publication to make sure that standards are consistent with guidelines. A summarised draft of guidelines based on the relevant developments in this report and its appendices could be prepared at inception as a provisional tool.

499 On such a basis the PTF notes that standard-setting should start rapidly, ideally as soon as the Commission has adopted the draft revised NFRD, and progress in parallel to the legislative process under the obvious assumption that the amendments introduced at legislative level will be taken into account before finalisation of the standards.

500 On such a basis the PTF also notes that there is a pivotal need for appropriate subject matter expertise and for substantial drafting and coordination skills. The ways and means to mobilise resources are critical and would need to be resolved.

501 In a tight schedule, any incident may derail a project. The PTF has therefore envisaged possible alternatives (implementation at a later date, first set on a 'guidelines' basis, etc.), but none appears compatible either with the political agenda given the recognised urgency or with coherent and quality reporting. As a consequence, the PTF highlights the resources issue.

4.3 POSSIBLE WAY FORWARD TO ON-BOARD INTERNATIONAL INITIATIVES: A 2-STEP APPROACH

502 *As described in Part 1 of this report the PTF recommends building on and contributing to international initiatives under a partnering and co-construction spirit. Most relevant and significant initiatives should be considered by the ESS for input and cooperation. Available disclosures should be capitalised upon following a thorough process to validate as well as to update, adapt and complement them if need be. This primary task is an opportunity for cooperation, knowledge and expertise sharing and/or joint projects. Together with the disclosures designed by the ESS on its own, and once translated into EU compliant regulatory wording, this would represent a comprehensive set of sustainability reporting standards built under a two-way interaction approach and able to support EU mandatory implementation as well as global progress.*

Assessing and fostering congruence of international initiatives and disclosures with EU standard-setting features

503 On the basis of its assessment work the PTF is of the view that many initiatives can be considered for input to the EU sustainability reporting standard-setting but that the disclosures of most interest will probably come from a number of sources rather than from one only and should be assessed carefully.

504 Congruence with EU policies and priorities is the primary reason for considering initiatives, and the disclosures they promote, from an EU standard-setting perspective. From a general standpoint assessing congruence would imply:

a) Identifying initiatives that would best support the implementation of the EU Sustainability Agenda. Among the criteria to be considered for assessing how EU congruent the initiatives are, are the following:

(i) ESS foundations: how many of the overarching principles and building blocks does the initiative embrace and to what extent? In particular how is stakeholder engagement organised from an inclusiveness perspective. How does it fit with the EU double materiality principle?

(ii) EU ambitions and agenda: what part(s) of the EU sustainability goals the initiative could positively support within the timing set by the EU to achieve these goals?

b) Understanding the due process and governance context: assessing the initiative due process, as well as its governance and accountability, against international standard-setting quality criteria (possibly chosen from the ISEAL Credibility Principles Framework).

c) Understanding the level of global acceptance of the initiatives in order to prioritise alignment with standards of high, international acceptance for the benefit of the competitiveness and global alignment of sustainability policies.

505 At selected disclosure level congruence should also be assessed against ESS features:

a) Building blocks: beyond the initiative itself, to what extent a disclosure or data point concretely serves the principles and goals of EU sustainability reporting standard-setting?

b) Materiality approach: in this regard it is of particular importance to determine how each disclosure is aligned with the double materiality approach as defined by the EU guidelines.

c) Quality characteristics: does the disclosure meet the expected quality criteria as defined by the EU guidelines? Has the disclosure been updated recently? This last point is pivotal in a fast-evolving sustainability reporting environment.

d) Roadmap: under what set of standards can the disclosure be considered?

506 When the congruence assessment suggests that the selected disclosure does not fully meet the EU requirements, then there is a need for adapting and/or complementing adaptation to fit EU needs:

a) in terms of content coverage: when gaps are identified, complements should be developed;

b) in terms of content depth: when adjustments are considered necessary, they should be introduced to reflect the depth required under an EU approach.

Translating the selected disclosures into EU regulatory compliant wording

- 507 The PTF understands that the ESS would elaborate standards to be adopted through Delegated Acts. This implies adopting formulation methodologies complying with the EU legal environment.
- 508 In addition, the PTF thinks it necessary for the sake of homogeneity to adopt homogeneous standard drafting methods since it helps stakeholders and preparers to understand and implement standards easily and consistently.
- 509 As a consequence, the final step for on-boarding initiatives' disclosures or sub-sets of disclosures after they have been complemented and/or adjusted to fit EU's needs will consist in translating them into an EU regulatory compliant format ensuring overall coherence in the EU.
- 510 In addition, such a single format would support:
- a) Reporting digital taxonomy and 'tagging' efforts.
 - b) Comprehensive and understandable publishing of the standards. Handbooks, guides, manuals or compendiums are common practice in the standard-setting environment. They may be digital or in paper format. They facilitate the dissemination of knowledge under a comprehensive presentation.
 - c) The elaboration of training and educational materials, for preparers and users as well as for professionals.

Proposal #53

When building on international initiatives, the ESS should consider a 2-step approach:

- a) Assessing initiatives and disclosures' (i) congruence with EU priorities; (ii) due process and governance context; and (iii) compliance with the European standard-setting objectives, guidelines and roadmap and if need be adapting and complementing the selected disclosures to fit EU needs.***
- b) Translating the selected disclosures into an EU regulatory compliant wording, ensuring overall coherence of EU standards.***

Offering its own standard-setting as a contribution to global progress

- 511 Beyond integrating disclosures stemming from international initiatives under the above-described two-step approach the ESS will elaborate a number of standards on its own either because no international input is suitable or because there are specific EU requirements.
- 512 It is impossible and probably pointless at this stage to determine the relative proportions of the two sources. In addition, the updating, adapting and complementing exercise constitutes a mix of the two. Proportions might in addition evolve over time.
- 513 In this context it is nevertheless key to indicate in this report that the ESS will (i) communicate on its work-plan, (ii) share progress reports regularly, (iii) open consultations to non-EU comments and (iv) offer openly the outcome of its work as a contribution beyond the mandatory scope of the EU sustainability reporting standards.

An overall contribution of substance

- 514 The momentum towards a comprehensive approach and a mandatory sustainability reporting regime, observed globally, can in itself be a factor for global progress. However, the PTF is of the view that the ESS should deploy further proactivity internationally to facilitate decisive progress of sustainability reporting, under six dimensions to be considered as a whole:

- a) The integration of disclosures from international initiatives is an excellent opportunity to establish confident bilateral relationships. This cannot be done without a structured dialogue and the PTF believes that such a dialogue always bear fruit.
- b) The work carried out by the ESS on disclosures selected from international initiatives has two benefits:
 - (i) it confers credibility since the assessment process is an additional proof of quality;
 - (ii) the updating, adaptation and complement of content introduced at ESS level is in return a potential enhancement of the standards that is available to the initiative and to its adopters.
- c) The standards developed by the ESS on its own can be considered by international initiatives. The amount of work that will be undertaken under this dimension can be expected to be a significant contribution.
- d) The ESS should be willing to consider joint projects to develop new standards under clear terms of reference.
- e) The ESS should in principle be available to participate to global convergence efforts and to make convergence happen as quickly as possible. In this respect such a participation should be placed in the PTF's view under the general co-construction spirit that it recommends as a cornerstone of the ESS contribution to global progress. It is a matter of coordination, joint projects, pooling/allocation of resource that needs to be addressed from a long term and positive perspective. The ESS should pay particular attention to the decisions to be made by recognised global standard-setters in order to promote convergence and seek ways and means to build on and contribute to initiatives under co-construction mode. Due to the specific relationship established between the EU and the IFRS Foundation following the 2002 IAS regulation, the PTF suggests that dialogue be organised once the Foundation has set a possible course of action.
- f) The ESS should happily participate, beyond the essential coordination to be organised at EU level, to international fora dedicated to foster coherence and integration of corporate reporting as a whole (in particular connectivity between financial and sustainability reporting).

Proposal #54

The ESS should contribute to sustainability reporting progress globally by:

- a) Making available internationally the outcome of its standard-setting activities,*
- b) Establishing confident and fruitful bilateral relationships and stimulating joint projects,*
- c) Promote and participate to convergence efforts on a co-construction basis, and*
- d) Participate in fora dedicated to foster coherence and integration of corporate reporting as a whole (in particular connectivity between financial and sustainability reporting).*

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APPENDIX 1: PTF'S MANDATE



VALDIS DOMBROVSKIS
EXECUTIVE VICE-PRESIDENT OF THE EUROPEAN COMMISSION

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Mr Jean-Paul GAUZÈS
Chairman of the
EFRAG Corporate Reporting Lab
Square de Meeûs 35
1000 Brussels

jean-paul.gauzes@efrag.org

Brussels, 25.06.2020
AB//mp Ares(2020) S_3738002

Dear Mr Gauzès,

I am writing to you in your capacity as Chairman of the Steering Group of the European Corporate Reporting Lab @ EFRAG (European Lab), to invite the European Lab to provide me with recommendations about potential European non-financial reporting standards to support the implementation of the Non-Financial Reporting Directive (NFRD). I have written to you under separate cover requesting recommendations about possible changes to the governance of EFRAG in case the latter is designated in a revised NFRD as the organisation charged with developing European non-financial reporting standards.

I consider that the European Lab is well placed to carry out this technical preparatory work in light of the multi-stakeholder composition of its Steering Group, that extends beyond the more limited range of stakeholders that have traditionally dominated financial reporting, and the Lab's demonstrated ability to mobilise a broad range of expertise in the area of non-financial reporting.

To this end, I invite the European Lab to establish a task force specifically dedicated to the preparation of the technical advice, based on an open call for applications. The task force would have to incorporate a balanced representation of stakeholders from the public-sector, the private sector and civil society from across the EU. All members of the task force would have to have proven expertise across all areas of non-financial reporting and shall act in the public interest in their capacity as members of the task force. The latter would have to be chaired by a person with proven and policy-relevant expertise in the field of corporate reporting, in particular non-financial reporting, and related areas. The selected chairperson would have to have a demonstrated ability to deliver recommendations to a demanding schedule and to carry-out broad consultations. The composition of the task force would have to reflect an appropriate geographical and gender balance. The European Supervisory Authorities should be closely involved in developing potential EU non-financial reporting standards, as they play an important role in setting standards for sustainable finance disclosures and transparency.

Please note that the European Commission has not yet taken any decisions about the future role, if any, of standards in the context of the forthcoming revision of the NFRD. This matter has been subject to a public consultation carried out by DG FISMA and will be fully assessed in the context of the impact assessment that will support the Commission's legislative proposal to revise the NFRD. However, I consider it necessary to already launch technical preparatory work to allow for the swift adoption and implementation of European standards should that be the choice included in the Commission's proposal. It will ultimately be for the Council and the European Parliament, as co-legislators, to decide whether the use of standards should be included in the revised NFRD and, if so, pursuant to which modalities.

I announced my intention to request this technical preparatory work in a speech I delivered on 28 January, in accordance with the conclusions on the deepening of the capital markets union agreed by the Economic and Financial Affairs (ECOFIN) Council on 5 December 2019. These conclusions invited the Commission to "consider the development of a European non-financial reporting standard taking into account international initiatives, with specific attention for climate-related disclosures (in order to promote Paris alignment of investment flows)." In my speech, I stated that the EU cannot develop such standards alone, that the best and most widely accepted elements of existing standards and frameworks will be our starting point and that we will use expert assistance from those organisations and individuals who can best contribute to the process.

I reiterated these points in another speech I made on 19 February 2020, in which I also stated that the EU's work to develop any future European non-financial reporting standards would be open, transparent and inclusive, as we want to avoid fragmentation of global capital markets. Furthermore, I also set out the need to involve relevant European bodies, in particular the European Securities and Markets Authority (ESMA) and the European Environment Agency (EEA), to ensure consistency between, on the one hand, any future standards and, on the other hand, both the objectives of relevant EU policy and the requirements of relevant EU legislation.

I emphasise the importance of the two conditions set-out in the ECOFIN Council conclusions and in my speeches. In practice, these imply that:

- The technical advice I am inviting the European Lab to prepare must analyse and build on existing reporting standards and frameworks to the greatest possible extent. To this end, relevant standard-setting organisations shall be closely associated with the task force's technical preparatory work;
- ESMA, the EEA and the Platform on Sustainable Finance to be established pursuant to the Taxonomy Regulation shall be included as full members in the task force. The Technical Expert Group on Sustainable Finance established by the European Commission shall participate until the Platform is formally established. Other relevant European institutions and agencies shall be invited to participate as full members.

These points are addressed in more detail in the annexed mandate, which also lists a number of technical matters about which I am requesting the European Lab's technical advice.

Given the strong link between the technical preparatory work covered by this mandate and the ongoing work on the revision of the NFRD, I consider that the Commission's staff must participate in the abovementioned task force as an observer with a right to speak. To this end, I nominate Mr Alain Deckers, who heads DG FISMA's corporate reporting unit and who is currently the Vice-Chair of the European Lab's Steering Group. Mr Deckers will also act as a

liaison between the task force and other Commission services. The representation of the Commission services in the task force should ensure that the latter takes into account the conclusions of the abovementioned public consultation and the policy choices retained in the Commission's impact assessment.

I look forward the European Lab's technical advice. Should you have any further questions about this matter, please address them to Mr Alain Deckers (contact details: +32 229 92 348, alain.deckers@ec.europa.eu).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'V. DL' followed by a long horizontal stroke.

Valdis Dombrovskis

REQUEST FOR TECHNICAL ADVICE

Subject: preparatory work for the elaboration of EU non-financial reporting standards

I. BACKGROUND

1. The European Commission adopted an updated Work Programme on 27 May 2020 that foresees the publication of a legislative proposal to revise the Non-Financial Reporting Directive (NFRD) in Q1 2021.¹
2. One of the principal findings of the European Commission's analysis of the implementation of the NFRD is that public disclosures made by companies pursuant to the NFRD are inadequate to allow users of company reports to understand how non-financial matters impact the value and performance of companies, nor how companies themselves impact society and the environment. Specific issues include:
 - i) Reported non-financial information is not sufficiently comparable or reliable.
 - ii) Reported non-financial information is not sufficiently relevant, i.e. companies do not report all non-financial information that stakeholders think is necessary, and many companies report information that stakeholders do not think is relevant.
 - iii) Some companies from which investors and other stakeholders want non-financial information do not report such information.
 - iv) Users have difficulty in finding and exploiting the reported information, in part because the information is not sufficiently digitalised.
3. One possible means to enhance the comparability, reliability and relevance of information disclosed by companies pursuant to the NFRD would be to mandate the use of a common set of non-financial reporting standards. This could also facilitate the assurance of non-financial information, its enforcement and its digitisation using a taxonomy (tags) and a structured data standard. This is one of the possible options that is currently being analysed in the Commission's impact assessment and for which feedback is being sought in the public consultation.²
4. In a speech on 28 January 2020,³ Executive Vice-President Dombrovskis announced his intention to request that EFRAG launch technical preparatory work in accordance with the conclusions on the deepening of the capital markets union agreed by the Economic and Financial Affairs (ECOFIN) Council on 5 December 2019. These conclusions invited the Commission to "consider the development of an European non-financial reporting standard taking into account international initiatives, with

¹ https://ec.europa.eu/info/publications/2020-commission-work-programme-key-documents_en

² <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12129-Revision-of-Non-Financial-Reporting-Directive>

³ See https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_20_139.

specific attention for climate-related disclosures (in order to promote Paris alignment of investment flows).”⁴

5. The European Commission has not yet taken any decisions about the future role, if any, of standards in the context of the forthcoming revision of the NFRD. This matter has been the subject of a public consultation carried out by DG FISMA and will be fully assessed in the context of the impact assessment that will support the Commission’s legislative proposal to revise the NFRD. However, it is necessary to launch technical preparatory work to allow for the swift development, adoption and implementation of European standards should that be the choice included in the Commission’s proposal. It will ultimately be for the Council and the European Parliament, as co-legislators, to decide whether the use of standards should be included in the revised NFRD and, if so, pursuant to which modalities.

II. MANDATE

6. The European Corporate Reporting Lab (European Lab) @ EFRAG shall establish a Task Force in order to develop recommendations about the possible scope, content and structure of future non-financial reporting standards for use by European companies in preparing periodic, entity-level (at both legal entity and group consolidated level) reports that are disclosed to the public. The Task Force’s recommendations shall take into account the existing requirements in the NFRD, including the double materiality perspective of the NFRD.
7. Matters related to the governance and funding of EFRAG shall be outside the remit of the task force.
8. The Task Force shall consider the full sustainability spectrum of environmental, social and governance factors in line with the overall aim of the European Green Deal and Agenda 2030. This would also bring the work in line with the broader scope of the six environmental objectives of the Taxonomy regulation as well as other relevant work streams aimed at strengthening corporate sustainability.
9. This task force shall carry out, at least, the following tasks:
 - i. Map the relevance of existing non-financial reporting standard-setting initiatives⁵ to meet the needs of investors and other stakeholders to understand (i) how non-financial matters, and sustainability-related matters in particular, impact the performance, development and position of companies; and (ii) how companies impact society and the environment.

⁴ See <http://data.consilium.europa.eu/doc/document/ST-14815-2019-INIT/en/pdf>, at page 11.

⁵ This shall include but need not be limited to the standards/frameworks produced by the Global Reporting Initiative (GRI), the practice statement on management commentary of the International Accounting Standards Board (IASB), the recommendations of the Task force on Climate-related Financial Disclosures (TCFD), Carbon Disclosure Standards Board (CDSB), the Carbon Disclosure Project (CDP), the Sustainability Accounting Standards Board (SASB), the International Integrated Reporting Council (IIRC). Organisation Environmental Footprint. Other potentially relevant initiatives include the European Eco-Management and Audit scheme, Natural Capital Protocol and ISO 14000 series of standards.

In carrying out this assessment, the Task Force will take into account at least the four non-financial matters currently covered by the NFRD (environment; social and employee matters; human rights; bribery and corruption) and the key categories of information currently required by the NFRD (business model; policies including due diligence processes; outcomes; principal risks and risk management; Key Performance Indicators).

The Task Force shall also consider how to improve narrative reporting about intangible factors, including in relation to human capital and workforce skills. The task force may consider the need to take into account additional non-financial matters.

- ii. Consider how best to structure the standard or set of standards. For example, the task force may take into account the four level structure (governance, strategy, risks and metrics) used in the recommendations of the Task force on Climate-related Financial Disclosures (TCFD), the elements set out in the IASB's practice statement on management commentary or other relevant initiatives. The structure of the standards shall reflect the NFRD's double-materiality perspective.

The task force shall also consider other approaches to structure standards, for example:

- a. general disclosure requirements applicable to all enterprises, for example the description of their governance, business model (including the role of intangibles), risk management system, or due diligence;
 - b. thematic disclosure requirements, for example the environment, including the climate; social and employee rights; human rights; and
 - c. potential additional disclosures requirements applicable to certain economic sectors justified by the sustainability-related risks and dependencies specific to those sectors.
- iii. Assess whether sectoral non-financial reporting standards should be developed for financial institutions, in particular credit institutions and insurance undertakings, taking into account the specific role they play as investors. For example, many of the impacts of financial institutions on the environment and society are indirect, arising via their lending portfolios, financial products and investment decisions, rather than directly via their own operations.

Any recommendations applicable to financial entities shall be consistent with the disclosure requirements set out in relevant EU legislation, including:

- (a) the Regulation 2019/2088 on sustainability-related disclosures in the financial sector (SFDR), pursuant to which the Joint Committee of

the European Supervisory Authorities is currently consulting about draft Regulatory Technical Standards⁶, and

- (b) the Regulation on the establishment of a framework to facilitate sustainable investment (the Taxonomy Regulation), pursuant to which the Commission is developing Delegated Acts.
- (c) Other relevant EU law, e.g. in the field of corporate governance and environmental protection.

This assessment shall also consider the possibility of integrating relevant non-financial disclosure requirements foreseen in EU prudential legislation in non-financial reporting standards applicable to banks and insurance companies. This includes any relevant requirements applicable to Pillar III reports disclosed by banks pursuant to the EU Capital Requirement Regulation and Solvency and Financial Condition Reports (SFCRs) disclosed by insurance undertakings pursuant to Solvency II, including relevant technical standards and guidelines developed by the European Supervisory Authorities.

The Task Force shall consider that one of the objectives of any future European non-financial reporting standards will be to ensure that companies subject to the (revised) NFRD shall disclose information necessary to allow financial market participants to meet the requirements of at least the above-mentioned taxonomy regulation and SFDR.

- iv. Assess how future EU non-financial reporting standards could ensure a more integrated view of the performance, development, position and risks of companies, ensuring connectivity between the financial and non-financial statements contained in company periodic reports.
- v. Consider the possible non-financial information taxonomy and structured data standards enabling non-financial information to be provided in a digital, computer-readable format. In light of the fact that non-financial information may be disclosed in the management report, which is part of the annual financial report, the task force shall consider the possible linkage with the requirements of the European Single Electronic Format (ESEF) that is already applicable to annual financial reports of companies listed on EU regulated markets.
- vi. Assess whether future standards should be developed in a staged or progressive manner to ensure that companies shall quickly be able to provide at least a basic level of disclosures, including potential Key Performance Indicators (KPIs).
- vii. Assess whether a simplified standard or set of standards, possibly applied on a voluntary basis, could be appropriate to promote and facilitate cost-effective

⁶ See <https://www.esma.europa.eu/press-news/esma-news/esas-consult-environmental-social-and-governance-disclosure-rules>.

disclosure of non-financial information by Small and Medium-sized Enterprises (SMEs).

10. The Task Force shall take into account relevant EU legislation when preparing its proposals in order to ensure the consistency and alignment of future non-financial reporting standards with EU law. Relevant EU legislation includes but is not necessarily limited to the Accounting Directive, as amended, the Regulation on International Accounting Standards, as well as the Taxonomy Regulation and the SFDR mentioned above, together with relevant implementing measures adopted pursuant to these legal acts.

The Task Force shall also aim at ensuring the consistency of its recommendations with EU legislative initiatives that are being developed which may result in disclosure obligations for companies on sustainability-related matters, in particular in the company law and corporate governance field where corporate due diligence and board duties regarding the integration of sustainability into corporate strategy are being considered; and in the field of green claims. Due consideration should also be given to EU and international environmental and social policy.

11. In carrying out the tasks referred to above, the task force shall take into account that periodic non-financial reports disclosed to the public may in future be subject to appropriate assurance and/or audit procedures, whether on a voluntary or statutory basis, pursuant to the revised NFRD.
12. The Task Force shall ensure that its recommendations for mandatory elements of any future standards do not exceed the requirements of the (revised) NFRD, although it may recommend a combination of mandatory elements intended to comply with the NFRD requirements and voluntary elements that companies may use if they wish to provide more detailed or extensive information.
13. The Task Force shall consider the relevance of both qualitative and quantitative disclosure requirements, including KPIs, in future standards. Regarding both types of information, the Task Force shall consider the need for comparability and relevance of non-financial information.

III. COMPOSITION OF THE TASK FORCE

13. The composition of the Task Force shall include representatives of a broad range of stakeholders with a legitimate interest in non-financial information. It shall include, as a minimum, representatives from the following categories of stakeholder organisations:
 - ✓ Non-Financial Corporations (NFCs) with securities listed on EU regulated markets.
 - ✓ Unlisted NFCs and Small and Medium-Sized Enterprises (SMEs).
 - ✓ Financial Institutions, in particular banks and insurance companies, including both listed and non-listed institutions.
 - ✓ Other categories of financial market participants as defined in Article 2(1) of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.
 - ✓ Auditors, assurance providers and accountants.

- ✓ Sustainability rating agencies and index providers.
 - ✓ Non-Governmental Organisations active in the areas covered by the NFRD, including consumer organisations.
 - ✓ Trade Unions.
 - ✓ Academics specialising in the field of corporate reporting, in particular in sustainability or ESG reporting.
13. The members of the task force shall collectively have relevant and broad-based expertise in the different matters covered by the NFRD (environment; social and employee matters; human rights; bribery and corruption) in order to accomplish the tasks listed in section II. The membership of the task force shall ensure a balanced representation of the different categories listed above (this does not necessarily require that there should be exactly the same number of members from each category). The task force composition shall ensure appropriate geographic and gender diversity. Only nationals of countries that are members of the European Economic Area shall be eligible to be members of the task force.
 14. The Steering Group of EFRAG's European Reporting Lab shall approve a call for applications and oversee the selection process for the members of the task force. It shall appoint a Nominating Committee consisting of the Chairman and Vice-Chairman of the Steering Group, and no more than three other members of the Steering Group. The Steering Group shall appoint a Chair(wo)man of the task force on the proposal and with the agreement of the Steering Group Chairman and Vice-Chairman.
 15. The Committee of European Audit Oversight Bodies (CEAOB), the European Central Bank (ECB), the European Investment Bank (EIB), the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Securities Market Authority (ESMA), the European Environmental Agency (EEA) and the EU Agency on Fundamental Rights (FRA) shall each be invited to nominate one member of the Task Force.
 16. Until the establishment of the Platform on Sustainable Finance, a member of the Technical Expert Group (TEG) on Sustainable Finance nominated by the TEG's plenary shall be a member of the task force. In addition, the Chair(wo)man of task force shall make him or herself available to participate in meetings of the TEG to report on the progress made by the task force especially as regards the consistency of the latter's proposals with the taxonomy of sustainable economic activities developed by the TEG. The provisions of this paragraph shall apply *mutatis mutandis* following the creation of the Platform on Sustainable Finance.
 17. The Chair(wo)man of the task force shall also liaise with and report the progress achieved by the task force to the appropriate standing committee(s) of EBA, EIOPA and ESMA.
 18. The task force will invite representatives of the standard-setting initiatives and organisations identified in section II to participate in and contribute to its work, with a view towards ensuring to the greatest extent possible the compatibility of future EU non-financial reporting standards with the key private sector standards and frameworks used in the market.

The Task Force shall consult widely with stakeholders and shall operate in an inclusive and transparent manner.

19. The Chair(wo)man of the task force shall liaise with the person designated by the European Commission's Executive Vice-President for an economy that works for the people to prepare recommendations about possible governance changes in EFRAG.

IV. DELIVERABLES

20. The task force shall agree a report with recommendations covering the issues referred to in section II, and about other matters that the task force may determine are relevant to the development of future EU non-financial reporting standards.
21. The task force Chair(wo)man, with the agreement of the Chairman and Vice-Chairman of the Steering Group of the European Lab, shall deliver to the European Commission's Executive Vice-President for an economy that works for the people:
 - a progress report no later than 31 October 2020;
 - the final report of the task force no later than 31 January 2021.
22. The report of the task force shall be accompanied by a tentative work programme for the development of EU non-financial reporting standards. This work programme shall ensure the delivery of a first standard or set of draft standards to the European Commission no later June 2022.

REQUEST FOR TECHNICAL ADVICE

Subject: preparatory work for the elaboration of EU non-financial reporting standards

I. BACKGROUND

1. The European Commission adopted an updated Work Programme on 27 May 2020 that foresees the publication of a legislative proposal to revise the Non-Financial Reporting Directive (NFRD) in Q1 2021.¹
2. One of the principal findings of the European Commission's analysis of the implementation of the NFRD is that public disclosures made by companies pursuant to the NFRD are inadequate to allow users of company reports to understand how non-financial matters impact the value and performance of companies, nor how companies themselves impact society and the environment. Specific issues include:
 - i) Reported non-financial information is not sufficiently comparable or reliable.
 - ii) Reported non-financial information is not sufficiently relevant, i.e. companies do not report all non-financial information that stakeholders think is necessary, and many companies report information that stakeholders do not think is relevant.
 - iii) Some companies from which investors and other stakeholders want non-financial information do not report such information.
 - iv) Users have difficulty in finding and exploiting the reported information, in part because the information is not sufficiently digitalised.
3. One possible means to enhance the comparability, reliability and relevance of information disclosed by companies pursuant to the NFRD would be to mandate the use of a common set of non-financial reporting standards. This could also facilitate the assurance of non-financial information, its enforcement and its digitisation using a taxonomy (tags) and a structured data standard. This is one of the possible options that is currently being analysed in the Commission's impact assessment and for which feedback is being sought in the public consultation.²
4. In a speech on 28 January 2020,³ Executive Vice-President Dombrovskis announced his intention to request that EFRAG launch technical preparatory work in accordance with the conclusions on the deepening of the capital markets union agreed by the Economic and Financial Affairs (ECOFIN) Council on 5 December 2019. These conclusions invited the Commission to "consider the development of an European non-financial reporting standard taking into account international initiatives, with

¹ https://ec.europa.eu/info/publications/2020-commission-work-programme-key-documents_en

² <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12129-Revision-of-Non-Financial-Reporting-Directive>

³ See https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_20_139.

specific attention for climate-related disclosures (in order to promote Paris alignment of investment flows).”⁴

5. The European Commission has not yet taken any decisions about the future role, if any, of standards in the context of the forthcoming revision of the NFRD. This matter has been the subject of a public consultation carried out by DG FISMA and will be fully assessed in the context of the impact assessment that will support the Commission’s legislative proposal to revise the NFRD. However, it is necessary to launch technical preparatory work to allow for the swift development, adoption and implementation of European standards should that be the choice included in the Commission’s proposal. It will ultimately be for the Council and the European Parliament, as co-legislators, to decide whether the use of standards should be included in the revised NFRD and, if so, pursuant to which modalities.

II. MANDATE

6. The European Corporate Reporting Lab (European Lab) @ EFRAG shall establish a Task Force in order to develop recommendations about the possible scope, content and structure of future non-financial reporting standards for use by European companies in preparing periodic, entity-level (at both legal entity and group consolidated level) reports that are disclosed to the public. The Task Force’s recommendations shall take into account the existing requirements in the NFRD, including the double materiality perspective of the NFRD.
7. Matters related to the governance and funding of EFRAG shall be outside the remit of the task force.
8. The Task Force shall consider the full sustainability spectrum of environmental, social and governance factors in line with the overall aim of the European Green Deal and Agenda 2030. This would also bring the work in line with the broader scope of the six environmental objectives of the Taxonomy regulation as well as other relevant work streams aimed at strengthening corporate sustainability.
9. This task force shall carry out, at least, the following tasks:
 - i. Map the relevance of existing non-financial reporting standard-setting initiatives⁵ to meet the needs of investors and other stakeholders to understand (i) how non-financial matters, and sustainability-related matters in particular, impact the performance, development and position of companies; and (ii) how companies impact society and the environment.

⁴ See <http://data.consilium.europa.eu/doc/document/ST-14815-2019-INIT/en/pdf>, at page 11.

⁵ This shall include but need not be limited to the standards/frameworks produced by the Global Reporting Initiative (GRI), the practice statement on management commentary of the International Accounting Standards Board (IASB), the recommendations of the Task force on Climate-related Financial Disclosures (TCFD), Carbon Disclosure Standards Board (CDSB), the Carbon Disclosure Project (CDP), the Sustainability Accounting Standards Board (SASB), the International Integrated Reporting Council (IIRC). Organisation Environmental Footprint. Other potentially relevant initiatives include the European Eco-Management and Audit scheme, Natural Capital Protocol and ISO 14000 series of standards.

In carrying out this assessment, the Task Force will take into account at least the four non-financial matters currently covered by the NFRD (environment; social and employee matters; human rights; bribery and corruption) and the key categories of information currently required by the NFRD (business model; policies including due diligence processes; outcomes; principal risks and risk management; Key Performance Indicators).

The Task Force shall also consider how to improve narrative reporting about intangible factors, including in relation to human capital and workforce skills. The task force may consider the need to take into account additional non-financial matters.

- ii. Consider how best to structure the standard or set of standards. For example, the task force may take into account the four level structure (governance, strategy, risks and metrics) used in the recommendations of the Task force on Climate-related Financial Disclosures (TCFD), the elements set out in the IASB's practice statement on management commentary or other relevant initiatives. The structure of the standards shall reflect the NFRD's double-materiality perspective.

The task force shall also consider other approaches to structure standards, for example:

- a. general disclosure requirements applicable to all enterprises, for example the description of their governance, business model (including the role of intangibles), risk management system, or due diligence;
 - b. thematic disclosure requirements, for example the environment, including the climate; social and employee rights; human rights; and
 - c. potential additional disclosures requirements applicable to certain economic sectors justified by the sustainability-related risks and dependencies specific to those sectors.
- iii. Assess whether sectoral non-financial reporting standards should be developed for financial institutions, in particular credit institutions and insurance undertakings, taking into account the specific role they play as investors. For example, many of the impacts of financial institutions on the environment and society are indirect, arising via their lending portfolios, financial products and investment decisions, rather than directly via their own operations.

Any recommendations applicable to financial entities shall be consistent with the disclosure requirements set out in relevant EU legislation, including:

- (a) the Regulation 2019/2088 on sustainability-related disclosures in the financial sector (SFDR), pursuant to which the Joint Committee of

the European Supervisory Authorities is currently consulting about draft Regulatory Technical Standards⁶, and

- (b) the Regulation on the establishment of a framework to facilitate sustainable investment (the Taxonomy Regulation), pursuant to which the Commission is developing Delegated Acts.
- (c) Other relevant EU law, e.g. in the field of corporate governance and environmental protection.

This assessment shall also consider the possibility of integrating relevant non-financial disclosure requirements foreseen in EU prudential legislation in non-financial reporting standards applicable to banks and insurance companies. This includes any relevant requirements applicable to Pillar III reports disclosed by banks pursuant to the EU Capital Requirement Regulation and Solvency and Financial Condition Reports (SFCRs) disclosed by insurance undertakings pursuant to Solvency II, including relevant technical standards and guidelines developed by the European Supervisory Authorities.

The Task Force shall consider that one of the objectives of any future European non-financial reporting standards will be to ensure that companies subject to the (revised) NFRD shall disclose information necessary to allow financial market participants to meet the requirements of at least the above-mentioned taxonomy regulation and SFDR.

- iv. Assess how future EU non-financial reporting standards could ensure a more integrated view of the performance, development, position and risks of companies, ensuring connectivity between the financial and non-financial statements contained in company periodic reports.
- v. Consider the possible non-financial information taxonomy and structured data standards enabling non-financial information to be provided in a digital, computer-readable format. In light of the fact that non-financial information may be disclosed in the management report, which is part of the annual financial report, the task force shall consider the possible linkage with the requirements of the European Single Electronic Format (ESEF) that is already applicable to annual financial reports of companies listed on EU regulated markets.
- vi. Assess whether future standards should be developed in a staged or progressive manner to ensure that companies shall quickly be able to provide at least a basic level of disclosures, including potential Key Performance Indicators (KPIs).
- vii. Assess whether a simplified standard or set of standards, possibly applied on a voluntary basis, could be appropriate to promote and facilitate cost-effective

⁶ See <https://www.esma.europa.eu/press-news/esma-news/esas-consult-environmental-social-and-governance-disclosure-rules>.

disclosure of non-financial information by Small and Medium-sized Enterprises (SMEs).

10. The Task Force shall take into account relevant EU legislation when preparing its proposals in order to ensure the consistency and alignment of future non-financial reporting standards with EU law. Relevant EU legislation includes but is not necessarily limited to the Accounting Directive, as amended, the Regulation on International Accounting Standards, as well as the Taxonomy Regulation and the SFDR mentioned above, together with relevant implementing measures adopted pursuant to these legal acts.

The Task Force shall also aim at ensuring the consistency of its recommendations with EU legislative initiatives that are being developed which may result in disclosure obligations for companies on sustainability-related matters, in particular in the company law and corporate governance field where corporate due diligence and board duties regarding the integration of sustainability into corporate strategy are being considered; and in the field of green claims. Due consideration should also be given to EU and international environmental and social policy.

11. In carrying out the tasks referred to above, the task force shall take into account that periodic non-financial reports disclosed to the public may in future be subject to appropriate assurance and/or audit procedures, whether on a voluntary or statutory basis, pursuant to the revised NFRD.
12. The Task Force shall ensure that its recommendations for mandatory elements of any future standards do not exceed the requirements of the (revised) NFRD, although it may recommend a combination of mandatory elements intended to comply with the NFRD requirements and voluntary elements that companies may use if they wish to provide more detailed or extensive information.
13. The Task Force shall consider the relevance of both qualitative and quantitative disclosure requirements, including KPIs, in future standards. Regarding both types of information, the Task Force shall consider the need for comparability and relevance of non-financial information.

III. COMPOSITION OF THE TASK FORCE

13. The composition of the Task Force shall include representatives of a broad range of stakeholders with a legitimate interest in non-financial information. It shall include, as a minimum, representatives from the following categories of stakeholder organisations:
 - ✓ Non-Financial Corporations (NFCs) with securities listed on EU regulated markets.
 - ✓ Unlisted NFCs and Small and Medium-Sized Enterprises (SMEs).
 - ✓ Financial Institutions, in particular banks and insurance companies, including both listed and non-listed institutions.
 - ✓ Other categories of financial market participants as defined in Article 2(1) of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.
 - ✓ Auditors, assurance providers and accountants.

- ✓ Sustainability rating agencies and index providers.
 - ✓ Non-Governmental Organisations active in the areas covered by the NFRD, including consumer organisations.
 - ✓ Trade Unions.
 - ✓ Academics specialising in the field of corporate reporting, in particular in sustainability or ESG reporting.
13. The members of the task force shall collectively have relevant and broad-based expertise in the different matters covered by the NFRD (environment; social and employee matters; human rights; bribery and corruption) in order to accomplish the tasks listed in section II. The membership of the task force shall ensure a balanced representation of the different categories listed above (this does not necessarily require that there should be exactly the same number of members from each category). The task force composition shall ensure appropriate geographic and gender diversity. Only nationals of countries that are members of the European Economic Area shall be eligible to be members of the task force.
 14. The Steering Group of EFRAG's European Reporting Lab shall approve a call for applications and oversee the selection process for the members of the task force. It shall appoint a Nominating Committee consisting of the Chairman and Vice-Chairman of the Steering Group, and no more than three other members of the Steering Group. The Steering Group shall appoint a Chair(wo)man of the task force on the proposal and with the agreement of the Steering Group Chairman and Vice-Chairman.
 15. The Committee of European Audit Oversight Bodies (CEAOB), the European Central Bank (ECB), the European Investment Bank (EIB), the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Securities Market Authority (ESMA), the European Environmental Agency (EEA) and the EU Agency on Fundamental Rights (FRA) shall each be invited to nominate one member of the Task Force.
 16. Until the establishment of the Platform on Sustainable Finance, a member of the Technical Expert Group (TEG) on Sustainable Finance nominated by the TEG's plenary shall be a member of the task force. In addition, the Chair(wo)man of task force shall make him or herself available to participate in meetings of the TEG to report on the progress made by the task force especially as regards the consistency of the latter's proposals with the taxonomy of sustainable economic activities developed by the TEG. The provisions of this paragraph shall apply *mutatis mutandis* following the creation of the Platform on Sustainable Finance.
 17. The Chair(wo)man of the task force shall also liaise with and report the progress achieved by the task force to the appropriate standing committee(s) of EBA, EIOPA and ESMA.
 18. The task force will invite representatives of the standard-setting initiatives and organisations identified in section II to participate in and contribute to its work, with a view towards ensuring to the greatest extent possible the compatibility of future EU non-financial reporting standards with the key private sector standards and frameworks used in the market.

The Task Force shall consult widely with stakeholders and shall operate in an inclusive and transparent manner.

19. The Chair(wo)man of the task force shall liaise with the person designated by the European Commission's Executive Vice-President for an economy that works for the people to prepare recommendations about possible governance changes in EFRAG.

IV. DELIVERABLES

20. The task force shall agree a report with recommendations covering the issues referred to in section II, and about other matters that the task force may determine are relevant to the development of future EU non-financial reporting standards.
21. The task force Chair(wo)man, with the agreement of the Chairman and Vice-Chairman of the Steering Group of the European Lab, shall deliver to the European Commission's Executive Vice-President for an economy that works for the people:
 - a progress report no later than 31 October 2020;
 - the final report of the task force no later than 31 January 2021.
22. The report of the task force shall be accompanied by a tentative work programme for the development of EU non-financial reporting standards. This work programme shall ensure the delivery of a first standard or set of draft standards to the European Commission no later June 2022.

APPENDIX 2: APPROACH AND ACKNOWLEDGEMENTS

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PTF MEMBERS

- 1 The preparatory work on the project for the elaboration of possible EU non-financial reporting standards was carried out by the European Corporate Reporting Lab @EFRAG (European Lab).
- 2 The preparatory work was carried out by a multi-stakeholder Project Task Force (PTF) appointed by the European Lab Steering Group on 1 September 2020, following a relevant call for candidates published on 17 July 2020. This PTF, composed of 35 members (originating from 13 European countries) and representatives of nine EU public authorities, has incorporated a balanced representation of a broad range of stakeholders with a legitimate interest in non-financial information, spanning the public sector, the private sector, SMEs and civil society from across the EU, in line with the EC request for technical advice. The members of the PTF have proven expertise in the different matters covered by the NFRD and the requirements of the EC request for technical advice.
- 3 The term of appointment of the PTF was for the duration of the project and all members committed to dedicate two days per week for the entire length of the project.
- 4 In addition, various organisations have proposed additional part-time workforce for the program management office (PMO) and support.
- 5 Members, representatives and support:

PTF Member and Chair

Patrick de Cambourg, from ANC-Autorité des normes comptables

PTF Members and Stream leads (by alphabetical order)

PierMario Barzaghi, from KPMG (Italy)

Hendrik Fink, from PricewaterhouseCoopers (Germany)

Delphine Gibassier, from Audencia Business School

Sara Lovisolo, from Borsa Italiana

Marie-Pierre Peillon, from Groupama AM

Stefan Schnell, from BASF

David Vermijs, from The Shift Project

Liv Watson, from Impact Management Project

PTF Members (by alphabetical order)

Piotr Biernacki, from Foundation for Reporting Standards (Fundacja Standardów Raportowania)

Emmanuel Bloch, from Thales

Alan Brett, from MSCI

Eric Duvaud, from EY (France)

Sophie Flak, from Eurazeo

Isabel Gavin Pérez, from CaixaBank

Giulia Genuardi, from Enel

Begoña Giner, from University of Valencia

Sebastien Godinot, from WWF European Policy Office

Ron Gruijters, from Eumedion

Laura Gutierrez, from BEUC-The European Consumer Organisation (up to mid-October 2020)

Luc Hendrickx, from SMEUnited

Kristian Koktvedgaard, from Confederation of Danish Industry
Jasper de Meyer, from BEUC-The European Consumer Organisation (as from mid-October 2020)
Maria Mora, from AECA-Spanish Association of Accounting and Business Administration
Gianluca Manca, from Eurizon Capital
Marco Masip, from Telefonica
Philippe Meunier, from ENGIE
Birgitte Mogensen, from Board Management/Birgitte Mogensen
Mikael Niskala, from Mitopro
Esther Ortiz Martínez, from University of Murcia
Roman Sauer, from Allianz
Susanne Stormer, from Novo Nordisk
Christoph Toepfer, from German Environment Agency
Kristiina Vares Wartiovaara, from Tracefi (as from 1 December 2020)
Wouter van't Hoff, from Rabobank (up to 30 November 2020)
Sigurt Vitols, from WZB Berlin Social Science Center
Carsten Zielke, from Zielke Research Consult

PTF EU Public Authorities Representatives (by alphabetical order)

Andreas Barkman, from European Environmental Agency (EEA)
Juliette Desloires, from European Central Bank (ECB)
Marjolein Doblado, from Committee of European Audit Oversight Bodies (CEAOB)
Alessandro d'Eri, from European Securities and Markets Authority (ESMA)
Jonas Grimheden, from EU Agency on Fundamental Rights (FRA)
Pilar Gutierrez, from European Banking Authority (EBA)
Sandra Hack, from European Insurance and Occupational Pensions Authority (EIOPA)
Hakan Lucius, represented by Georges Gloukoviezoff from European Investment Bank (EIB)
Patrycja Pogodzinska, from EU Agency on Fundamental Rights (FRA)

PTF PMO Central team

Maud Gaudry, from Mazars – Lead PMO
Julie Mary, independent expert and as from 1 February 2021 Deloitte (France)
Lina Lemessiou, from EFRAG

PTF PMO Support team (by alphabetical order)

Clementina Chiara, from KPMG (Italy)
Emmanuelle Cordano, from Audencia International Research Centre on Multi-Capital Integrated Performance supported by Danone, Kering
Louis-Henri Devant, from Amundi
Ophélie Didriche, from Audencia International Research Centre on Multi-Capital Integrated Performance supported by Danone, Kering
Anne-Claire Ducrocq, from BNP Paribas
Federico Fragassi, from EY (Italy)
Federica Girolami, from OIC
Julia Linares, from WWF
Roy Linthorst, from EY (Netherlands)
Raphaël Reynaudi, EY (France)
Anne Robillard, from EY (France)
Evelien Spitteler, from PWC (Netherlands)

Valérie Viard, from ANC-Autorité des normes comptables

EFRAG Management

Chiara del Prete

Saskia Slomp

- 6 In addition, the support streams got other occasional contribution from:
- Abdellah Baid, intern at Audencia International Research Centre on Multi-Capital Integrated Performance
 - Emilien Bravo, Mazars (France)
 - Enrica Bruna, from Ethifinance
 - Dorian Delevoy, Mazars (France)
 - Eugénie Faure, PhD student at Audencia International Research Centre on Multi-Capital Integrated Performance
 - Lisbeth Frederiksen, from FSR-Danish Auditors
 - Charlotte Gardes, from French Ministry of Finance, Direction Générale du Trésor
 - Dr. Julia Menacher, from Allianz
 - Alexia Perversi, Mazars (UK)
 - Bhanu Putumbaka, research associate at Audencia International Research Centre on Multi-Capital Integrated Performance)
 - Daniel Worret, from PricewaterhouseCoopers (Germany)
- 7 In total, we can estimate **a full time equivalent of 30/40 people** dedicated to the PTF from 11 September 2020 to 19 February 2021 (25 working weeks).
- 8 EFRAG expresses special thanks to all PTF members and contributors in the central team and project management office for their commitment and valuable input to make the project a success.

PTF APPROACH

- 9 The approach adopted by the PTF is based upon three main phases. The work was structured for the entire duration of the PTF under seven streams: six streams dedicated to the detailed review of the status of non-financial information and sustainability reporting and one stream for the overall coordination of the project (acting as a PMO). The following meetings took place:
- a) 13 plenary sessions of one full day with all members, observers and support team (in average one every two weeks),
 - b) One weekly meeting with all the stream leaders,
 - c) One weekly meeting with all the stream supports,
 - d) One weekly meeting with EU DG FISMA representatives.
- 10 In addition, at least one dedicated meeting per week was organised in each stream to elaborate, coordinate and review the detailed analysis and work performed by all members within each stream.
- 11 In total, it is estimated that more than 1000 hours were spent on meetings.

PHASE 1 FROM 11 SEPTEMBER TO EARLY NOVEMBER: ASSESSMENT PHASE

- 12 The objective of this phase was to analyse the current state of play and globally of the non-financial information status in the EU. 6 main focuses were identified and the analysis was performed through 6 streams (sub-groups of PTF members):
- a) Stream A1: EU NFI requirements momentum and coherence
 - b) Stream A2: Possible output from existing initiatives

- c) Stream A3: Conceptual framework for NFI
 - d) Stream A4: Financial information and non-financial information interconnection
 - e) Stream A5: Financial institutions NFI focus
 - f) Stream A6: Current non-financial reporting formats and practices
- 13 All the assessments were on either through reviews of available literature and documentations or specific consultations through interviews or specific questionnaires. This led to the identification of salient points. A specific progress report highlighting all these salient points was submitted to the EC on 6 November 2020 (see Appendix 3).
- 14 Detailed assessment reports are gathered together in Appendix 4.
- 15 This work structure by streams was maintained for the duration of the PTF.
- 16 During this phase, memorandum of cooperation was also signed with the six following non-financial initiatives: GRI, SASB, CDSB, CDP Europe, WICI, IFRS Foundation, AFNOR and IIRC.

PHASE 2 FROM EARLY NOVEMBER TO MID-JANUARY: PROPOSAL AND CONSENSUS BUILDING

- 17 Based on the salient points identified during phase 1, each of the six streams elaborated specific proposals on possible recommendations. These proposals were shared with all members for consensus building under three successive batches covering ultimately the full scope of this report. Consensus building was organised first through online questionnaires to all PTF members supported by appropriate presentations and second through plenary debates and break-out sessions for the topics which needed more discussion before arriving at a consensus.
- 18 In addition, on 10 December 2020 EFRAG hosted a meeting with some of the leading international corporate reporting initiatives. The aim of the meeting was to allow for a mutual understanding of the entire EU agenda, how these initiatives are planned for 2021 and beyond and how this can contribute to promoting high quality corporate sustainability disclosures in Europe in the short and longer term. Following presentations from Shaun Berrigan (DG FISMA) and Patrick de Cambourg (PTF Chair), nine of the major international initiatives shared their ambitions and agendas for the coming:
- a) CDP / CDSB, represented by Steven Tebbe and Mardi McBrien
 - b) GRI, represented by Eric Hesperheide
 - c) WEF IBC, represented by Brian Moynihan
 - d) IFRS Foundation / IASB, represented by Erkki Liikanen and Hans Hoogervorst
 - e) SASB / IIRC, represented by Janine Guillot and Charles Tilley
 - f) TCFD, represented by Mary Schapiro
 - g) UN Global Compact, represented by Sanda Ojiambo together with Laura Palmeiro
 - h) UN Guiding Principles Reporting Framework, represented by Caroline Rees
 - i) WICI, represented by Takayuki Sumita together with Jean-Philippe Desmartin

PHASE 3 FROM MID-JANUARY TO MID-FEBRUARY: OUTREACH EVENTS AND RECOMMENDATIONS REPORT DRAFTING

- 19 Based on the work performed in phase 2, an outreach document was prepared and shared on the EFRAG website on 11 January 2021 as a basis for the outreach events. This document reflected the main recommendations under consideration and also the outstanding issues at that date. The objective of these outreach events was to gather views

from European stakeholders on the tentative proposals of the PTF to the European Commission. This outreach phase took place between 13 and 22 January 2021 through seven outreach events in the form of public online webinars (3 hours each): one in France, one in Germany, one in Italy, one for Nordic countries, one in Spain, and 2 in Brussels (one dedicated to financial institutions issues and one on more general issues).

- 20 All webinars were initiated by a PTF Chair introduction and moderated by PTF members. The first (inner) circle of each roundtable was composed of 10 to 15 stakeholders who shared their views on the questions raised. The other event participants contributed to the discussions through audience polling questions and the submission of written questions and comments.
- 21 In total, they attracted more than 4000 registrants with a turn-out rate of around 70% and involved almost 100 panellists from all stakeholder groups.
- 22 All the sessions were recorded and the recordings are available on EFRAG website.

DATE	FOCUS	LANGUAGE
13 January	Spain	Spanish
14 January	Nordics	English
15 January	European organisations and other European countries	English
18 January AM	Financial institutions	English
18 January PM	Germany	German
21 January	France	French
22 January	Italy	Italian

- 23 A summary of the feedback resulting from the outreach events is available in Appendix 5 (main feedback and detailed feedbacks per outreach events).
- 24 Following the events, the PTF received written contribution from: Insurance Europe, Accountancy Europe, ESG-PYMES (UPVEHU), Capitals Coalitions, Disability Hub Europe and AFNOR.
- 25 All these materials enabled the PTF members to propose drafting recommendations for the final report. This drafting was made by the existing streams based on the proposed recommendations resulting from their assessment report.

ACKNOWLEDGEMENTS

26 EFRAG and the PTF would like to acknowledge the high level of commitment of all contributors who have participated in this project. All inputs proved very valuable in constructing the recommendations and we thank, in particular, all the following contributions:

Mairead McGuinness, Commissioner

Vladis Dombrovskis, Commission Executive Vice-President

EU Commission representatives

Ugo Bassi

Alain Deckers

Tom Dodd

Elena Arveras

Malgorzata Feluch

Elena Palomeque-Pozas

Rogier Weznbeek

Andreia-Delia Mehedintu

Interviews DG FISMA

Pauline Chadenet

Jean-Christophe Nicaise

Cesare Posti

Axel Fougner

Rostislav Rozypal

Robert Hintze

Monica Gonzalez

Hannes Huhtaniemi

Lukas Bortel

Cristina Vespro

Gintaras Griksas

Interviews DG JUST

Zsofia Kerecsen

Katalin Koos-Hutas

Interviews DG env

Kevin Flowers

Thomas Verheye

Lars Mueller

Pietro Cesaro

Marija Simunovic

Astrid Ladefoged

Christian Heller

Mark Gough

Interviews DG CLIMA

Arthur Corazza

Polona Gregorin

Heiko Kunst

Carla Benagues

Interviews DG EMPL

Katarina Jaksic

Bernardo Urrutia

Nicholas Costello

Benedikt Buenker

Interviews DG DEVCO

Matthias Altman

Interviews DG GROW

Georg Raab

Michela Lafranconi

Artur Romanek

Antonella Correr

EFRAG

Jean-Paul Gauzès, EFRAG Board President

Gloria Lebron

Cécile Etevenot

Hocine Kebli

Robert Stojek

IASB / IFRS Foundation

Hans Hoogervorst, IASB Chair

Nick Anderson, IASB Member

Larry Neva, Vice-Chair Trustees

PARTICIPANTS TO THE OUTREACH EVENTS

Spain

- 27 The organisation of the Spanish outreach has been supported by Consejo General de Economistas de España and by ICAC, the Instituto de Contabilidad y Auditoría de Cuentas.
- 28 Introduction was made by:
- Amparo Lopez de Senovilla (Undersecretary for Economic Affairs and Digital Transformation. Ministry of Economic Affairs and Digital Transformation of the Government of Spain.),
 - Valentin Pich, president of Consejo General de Economistas de España and
 - Santiago Duran, president of ICAC

Panelists:

- Iñigo Zavala, Vicepresidente de la Comisión de RSE de la Confederación Española de Organizaciones Empresariales (CEOE).
- Rodolfo Gijón, Director de Políticas Sectoriales e Internacional de la Confederación Española de la Pequeña y Mediana Empresa (CEPYME)
- Patricia Rodríguez, Asesora Mercados Financieros en Asociación Española de Banca (AEB).
- Blanca Gloria Navarro, Directora de Estrategia de Instituto de Crédito Oficial (ICO).
- Maite Ballester, Socia Fundadora de Nexus Iberia Private Equity I.
- Francisco Gracia, Presidente Economistas Contables del Consejo General de Economistas de España (EC-CGE) y Presidente del Registro de Expertos Contables-REC].
- Carlos Puig de Travy, Presidente del Registro de Economistas Auditores del Consejo General de Economistas (REA-CGE).
- Fernando Cuñado, Vicepresidente del Registro de Expertos Contables-REC].
- Ferrán Rodríguez, Presidente del Instituto de Censores Jurados de Cuentas de España (ICJCE)
- Elena Ordozgoiti, Jefa de Normalización en Servicios de UNE.
- Oriol Amat Salas, Decano Barcelona School of Management - Universidad Pompeu Fabra.
- David Baixauli, Director RSC y Autor de la Guía de Memorias Sostenibilidad en LaLiga.
- Xavier Subirats, Coordinador de la Comisión de Responsabilidad Social Corporativa (RSC) e Informes Integrados (II) del Registro de Economistas Auditores del Consejo General de Economistas (REA-CGE) Asociación Española de Contabilidad y Administración de Empresas (AECA).
- Bernabé Escobar Pérez, Presidente Asociación Española de Profesores Universitarios de Contabilidad (ASEPUC).
- Eduardo Manso, Director del Departamento de Información Financiera y Corporativa de la Comisión Nacional del Mercado de Valores (CNMV).Banco de España.
- Javier Aguilar, Inspector de Seguros de la Dirección General de Seguros y Fondos de Pensiones (DGSFP).
- Ana Puente, Subdirectora General de Legislación de Mercado de Valores e Instrumentos Financieros de la Dirección General del Tesoro.
- Álvaro Urrutia, Subdirector General de Control Técnico de Auditoría del Instituto de Contabilidad y Auditoría de Cuentas (ICAC).
- Javier Molero Director de Proyectos y Agenda 2030. Global Compact in Spain - Pacto Mundial Red Española
- Isabel Peñalosa, Directora de Relaciones Institucionales y Asesoría Jurídica. Asociación Española de Fundaciones (AEF).
- Aureo Díaz-Carrasco, Director Ejecutivo FEDIT, Federación Española de Centros Tecnológicos.
- Luis Piacenza, Vocal del Comité de RSC e Informes Integrados del REA Auditores. IAASB, Emerging forms of External Reporting Project - Advisory Panel Member

Moderators (outside PTF members):

- Salvador Marín, Presidente de la European Federation of Accountants and Auditors for SMEs (EFAA for SMEs).

- Marta Bartolome, Directora Financiera de Bolsas y Mercados Españoles (BME)
- Francisco Javier Martínez, Vicepresidente EC-CGE y Miembro del Consejo Directivo del REC]
- María Dolores Urrea, Subdirectora General de Normalización y Técnica Contable del ICAC
- Lázaro Rodríguez Ariza, Gerente de la Agencia Nacional de Evaluación de la Calidad y Acreditación (ANECA)
- Paul Thompson, Director de la European Federation of Accountants and Auditors for SMEs (EFAA for SMEs).

Nordics

- 29 The organisation of the Nordic outreach has been supported by the Confederation of Danish Industry and OP Asset management.

Panelists:

- Anders Ekholm, Director of Investments, Helsinki University
- Birgitte Mogensen, FSR–Danish Auditors
- Bror Frid, Council of Swedish Financial Reporting Supervision
- Marie Baumgarts, Head of Sustainability Regulatory Affairs and Sustainability Office, SEB
- Jacob Fjalland, WWF DK
- Jeppe Hoff Nielsen, Vice President, Head of Reporting & Accounting Excellence, Ørsted A/S
- Joni Mäkitalo, Director of Sustainability Reporting, Stora Enso OY
- Ole Buhl, Senior Vice President Environment Social Governance, ATP
- Thomas Baden Fabricius, Danske Bank
- Tram Nguyen, Sustainability Specialist, Teknos Group OY

Germany

- 30 The organisation of the German outreach has been supported by Global Compact Netzwerk Deutschland, Econsense and DRSC.

Panelists:

- Alexander Bassen, Rat für NACHHALTIGE Entwicklung
- Michael Fechner, Daimler AG, DAI -Deutsches Aktieninstitut
- Axel Haller, Schmalenbach-Gesellschaft – Integrated Reporting and Sustainable Management and Externe Unternehmensrechnung
- Kilian Harbauer, BVMW -Bundesverband mittelständische Wirtschaft, Unternehmerverband Deutschlands e.V.
- Nadine Hönighaus, econsense -Forum Nachhaltige Entwicklung der Deutschen Wirtschaft e.V.
- Lena Kern, United Nations Global Compact -Netzwerk Deutschland
- Georg Lanfermann, DRSC -Deutsches Rechnungslegungs Standards Committee e.V.
- David Ryfisch, Germanwatch e.V. Marianne Schönnenbeck, UGA –Imweltgutachterausschuss
- Bernd Stibi, IDW -Institut der Wirtschaftsprüfer in Deutschland e.V.
- Rainald Thannisch, DGB -Deutscher Gewerkschaftsbund
- Götz Treber, GDV -Gesamtverband der deutschen Versicherungswirtschaft

France

- 31 The organisation of the French outreach has been supported by the ANC, the French Accounting Standard Setter (Autorité des normes comptables).
- 32 Introduction was made by Olivia Grégoire, Secretary of State to the Minister of Economy, Finance and recovery in charge of the social, solidarity and responsible economy.

Panelists:

- Pierre-Emmanuel Beluche, French Ministry of Finance
- Delphine Dirat, Autorité des Marchés Financiers (AMF)
- Pauline Fiquémont, Mouvement des Entreprises de France (MEDEF)
- Elisabeth Gambert, Association Française des Entreprises Privées (AFEP)
- Sandrine Bourgogne, Confédération des Petites et Moyennes Entreprises (CPME)
- Claire Berchatsky, Fédération Française des Assurances (FFA)
- Alix Faure, Association Française de gestion (AFG)
- Jean-Luc Barlet, Compagnie Nationale des Commissaires aux Comptes (CNCC)
- Brigitte Pisa, Confédération Française Démocratique du Travail (CFDT)
- Caroline Avan, OXFAM France
- Nicolas Antheaume, Full professor at Université de Nantes
- Martine Leonard, Société Française des Analystes Financiers (SFAF)

Italy

- 33 The organisation of the Italian outreach has been supported by Assirevi (Associazione Italiana delle Società di Revisione Legale) and OIC, the Italian Accounting Standard Setter (Organismo Italiano di Contabilità).

Panelists:

- Marcello Bianchi, Vice-General Director, Director of the Capital Market and Listed Companies Area, Assonime
- Cristina Bombassei, Chairwoman Corporate Social Responsibility Technical Group, Confindustria
- Angelo Doni, Co-General Director, Ania
- Patrizia Giangualano, member of Board of Directors, Nedcommunity
- Gian Franco Giannini Guazzugli, Chairman, Forum Finanza Sostenibile
- Manuela Mazzoleni, Operations and Markets, Assogestioni
- Chiara Mio, CNDCEC and Full Professor at Ca 'Foscari University of Venice
- Guglielmina Onofri, Head of Issuers Information Division, CONSOB
- Marisa Parmigiani, Chairwoman, CSR Manager Network
- Claudia Pasquini, Head of Risks, Controls and Sustainability Office, Abi
- Eleonora Pessina, Sustainability and Equal Opportunities, Pirelli Group
- Massimo Romano, Head of Integrating Reporting, Generali
- Cristina Saporetti, Sustainability Monitoring, Reporting and Communication Manager, Eni

Brussels: for financial institutions

- 34 The organisation of this outreach has been hosted by EFRAG and supported by Accountancy Europe, AFME, EBF, EFAMA, EFFAS, ESG, Insurance Europe, European association of cooperative banks.

Panelists:

- Bouke de Vries, Chair of the EACB Sustainable Finance Working Group, RaboBank
- Lucile de La Jonquière, member of the EBF Sustainable Finance Working Group, CIB, Société Générale
- Elena Flor, Intesa San Paolo, member European Lab PTF-CRR
- Massimo Romano, Generali Group
- Uwe Siegmund, R+V Versicherungsgruppe Asset management
- Anna Hyske, Bank of Finland Asset Management Division
- Isabelle Cabie, Corporate Sustainability, Candriam
- Ullrich Hartmann, member of the Accountancy Europe Sustainable Finance Group, PwC
- Matteo Brusatori, member of the Accountancy Europe Insurance Working Party, EY

- Jean-Philippe Desmartin, Co-Chair of the EFFAS Commission on ESG, member of European Lab PTF-RNFRO, Edmond de Rothschild Asset Management.
- Richard Mattison, ESG, S&P Global

Brussels: for other European countries and European organisations

- 35 The organisation of this outreach has been hosted by EFRAG and supported by Accountancy Europe, CSR, EAA, ecoDA, EFAA, EFFAS, European issuers, Eurosif, RJ.

Panelists:

- Salvador Marin, President European Federation of Accountants and Auditors for SMEs (EFAA)
- Vanessa Otto-Mentz, Deloitte
- Mark Vaessen, Deputy President Accountancy
- Halina Bletek, Olivia & Julius, SMEunited
- Lucia Lima Rodrigues, member EAA Stakeholder Reporting Committee, Vice Chair CNC Portugal
- Maria Alexiou, Board member CSR Europe
- Mihaela Croitoru, INNOVA Project Consulting, ARIR member of European Issuers
- Kirsten Margrethe Hovi, Norsk Hydro
- Fritz Mostboeck, Vice Chair EFFAS, member of the EFFAS ESG Committee
- Dawn Slevin, adviser to SIF Ireland, member organisation of Eurosif
- Nicolas Naudin, member of the ecoDa Task Force on ESG
- Wim Bartels, representing the Dutch Standard Setter, DASB/RJ
- Isabelle Schömann, Conferal Secretary ETUC

ACCESS TO DATABASE

- 36 UN Global Compact allowed access to and use of the extensive sustainability reporting database developed in a joint project with Audencia. The PTF wishes to express its gratitude for this very valuable contribution.

ORGANISATIONS WHICH HAVE ANSWERED TO THE QUESTIONNAIRE ON THEIR INITIATIVES (CONTRIBUTION TO STREAM A2)

By alphabetical order

AFNOR

Airports Council International Europe

Alliance for Water Stewardship

Association Planet' RSE

ATEMIS

B Lab

Biom

Bureau de normalisation du Québec

Carbon Disclosure Project

CDP/ADEME

Clean Cargo Working Group

EFFAS (the European Federation of Financial Analysts Societies)

Ellen McArthur Foundation

EPRA – European Public Real Estate Association

Foundation for Reporting Standards (Fundacja Standardów Raportowania)

Future Fit Foundation

German Council for Sustainable Development

Ginkyo

Global Aquaculture Alliance

Global Reporting Initiative (GRI)

Goodwill Management / Observatoire de l'Immatériel /ESDES

INTERCESSIO /INTERACTIS

IPIECA / IOGP / API

Label Lucie

Mazars / The Shift Project

Métropole de Nantes

PEFC

Research Team University of Turin

Share Action

Smart Freight Centre

Sustainability Accounting Standards Board (SASB)

TPI

Transparency International

UNCTAD ISAR

UNGC / GRI

United Nations Environment Programme/ Climate & Clean air coalition

WBCSD

WEF/ EY, KPMG, PwC, Deloitte

Wise Holding / Club of Brussels

World Benchmarking Alliance

World Intellectual Capital Initiative (WICI)

World Resources Institute

Zoological Society of London (ZSL)

DEDICATED MEETINGS WITH INTERNATIONAL CORPORATE REPORTING INITIATIVES

Chloe Chilton, UNPRI

Nathan Fabian, UNPRI and Chairperson at European Platform on Sustainable Finance

Steven Tebbe, CDP Europe

Mardi Mc Brien, CDSB

Michael Zimonyi, CDSB

Thijs Reuten, GRI

Bastian Buck, GRI

Peter Paul van de Wijs, GRI

Eric Hespenheide, GRI

Charles Tilley, IIRC

Philippe Peuch-Lestrade, IIRC

Vicky Mc Cardle, IIRC

Stefano Zambon, WICI

Jean-Philippe Desmartin, WICI

Mario Abela, WICI

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Norie Takahashi, WICI

Takayuki Sumita, WICI

Janine Guillot, SASB

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Laura Palmeiro, UN Global

Corinne del Cerro, AFNOR

Franck Le Beugle, AFNOR

Ludovic Royer, AFNOR

Bruno Costes, AFNOR

OTHER CONTRIBUTORS TO PTF STREAMS

Datamaran Ltd

Impact Management Project

Confederazione Nazionale dell' Artigianato e della Piccola e Media impresa (CNA), Italy

Confédération des Petites et Moyennes Entreprises (CPME), France

European Federation of Accountants and Auditors for small and medium-sized enterprises (EFAA), Europe

Micro, Petita i Mitjana Empresa de Catalunya (PIMEC), Spain

National Confederation of Hellenic Commerce (ESEE), Greece

Unie van Zelfstandige Ondernemers (UNIZO), Belgium

Union des Entreprises de Proximité (U2P), France

Zentralverband des Deutschen Handwerks (ZDH), Germany

Tanuj Agrawal, Bon Conseil

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Francisco Flores, Asociación Española de Contabilidad y Administración de Empresas (AECA)

Bettina Grabmayr, Stephanie Dinter Crocq and Sylvain Guyoton from Ecovadis

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APPENDIX 3: PROGRESS REPORT

Commissioner McGuinness
Financial Services, Financial Stability and Capital Markets Union
Rue de la Loi, 200
B-1049 Brussels
Mairead.mcguinness@ec.europa.eu

Brussels, November 6, 2020,

Dear Commissioner McGuinness,

We are writing to you in our respective capacities as EFRAG Board President and Chairman of its European Lab Steering Group and as Chair of the Project Task Force on preparatory work for the elaboration of EU non-financial reporting standards (the “Task Force”). Please note that the Chair of the Task Force is acting on behalf of all Task Force members.

In accordance with the mandate sent on June 25, 2020 by Executive Vice-President Dombrovskis, we attach the Progress Report prepared to reflect the work accomplished so far by the Task Force during the first phase of the project, which has focussed on assessment of the current state of play.

This report is the outcome of the collective work of the Task Force. It was prepared by the Chair based on the contribution of each Task Force member within their respective work streams, and was discussed with the Task Force during two plenary meetings, held on October 26 and November 2. It was then amended on the basis of individual suggestions and finally approved through a written procedure.

Based on the commitment and contributions from all members, it aims to provide the European Commission with a view of (i) the Task Force’s organisation and activities up to October 31 and (ii) the preliminary high-level assessment points emerging from the above-mentioned assessment phase.

We remain at your disposal and at the disposal of DG FISMA to answer any questions and receive comments that you may have. We would welcome the opportunity to present the preliminary findings of the Task Force and to hear your views on this crucial dimension of corporate reporting.

Yours sincerely,



Jean-Paul Gauzès
EFRAG Board President and Chairman of
the European Lab Steering Group

Patrick de Cambourg
Chair of the Task Force and Chair of
Autorité des Normes Comptables

Copy:
Executive Vice-President Dombrovskis

Sean Berrigan, Director-General, DG FISMA
Ugo Bassi, Director Financial Markets, DG FISMA
Alain Deckers, Head of unit Corporate reporting, Audit and Credit rating agencies, DG FISMA

**PROGRESS REPORT OF THE PROJECT TASK FORCE ON PREPARATORY WORK
FOR THE ELABORATION OF POSSIBLE EU NON-FINANCIAL REPORTING
STANDARDS (PTF-NFRS)**

STATUS AND PRELIMINARY HIGH-LEVEL ASSESSMENT POINTS

Background

1. The European Commission adopted an updated Work Programme on 27 May 2020 that foresees the publication of a legislative proposal to revise the Non-Financial Reporting Directive (NFRD) in Q1 2021. One of the possible ways of enhancing the comparability, reliability and relevance of information disclosed by companies pursuant to the NFRD will be to mandate the use of a common set of non-financial reporting standards. Such standards could also facilitate the assurance of non-financial information, its enforcement and its digitisation using a taxonomy (tags) and a structured data standard.
2. Pursuant to the above, the European Commission has mandated EFRAG to undertake technical preparatory work to allow for the swift development, adoption and implementation of European standards, should that be the choice of the European Union following the wider revision of the NFRD. This mandate is being carried out by a multi-stakeholder Project Task Force that was appointed by the Steering Group of the European Reporting Lab @EFRAG.
3. This progress report is communicated by Mr. Patrick de Cambourg as Chair and on behalf of the Project Task Force on preparatory work for the elaboration of possible EU non-financial reporting standards (the Task Force) to the European Commission, as requested by the Task Force's mandate.
4. This report was prepared by the Chair based on the contribution from each working group, was presented and was discussed with the Task Force during two plenary meetings, held on October 26 and November 2, 2020. It was then amended on the basis of individual suggestions and finally approved through a "no objection" written procedure.
5. This report aims at providing the European Commission with a view of (i) the Task Force's organisation and activities up to October 31, 2020 and (ii) the preliminary high-level assessment points emerging from the assessment phase of the project, which is still under finalisation.

Task Force organisation and activities as of October 31, 2020

6. Following the official appointment of its members and Chair on September 4, and based on the mandate given by the European Commission, the Task Force developed an operational structure and work plan (the roadmap) that were presented, discussed and approved by the Task Force during its first plenary meeting, held on September 11.
7. The Task Force's roadmap follows a three-phase approach:
 - a. Phase I – Assessment until the end of October (with a possible overlap with Phase II during the first weeks of November). For this phase, the Task Force has been split into seven streams, each of them focusing on a specific aspect of the overall scope of work, as follows:

- i. A1 – The momentum and coherence of EU non-financial information requirements: responsible for mapping all current, developing and expected European initiatives having non-financial requirements and/or implications through a series of interviews with the relevant policy departments of the European Commission and a comparative analysis of European initiatives.
- ii. A2 - Possible input from existing initiatives: responsible for mapping and assessing the quality and robustness of two key dimensions of the current non-financial reporting landscape: (i) significant international initiatives (standards, frameworks or others) which are developing non-financial indicators; (ii) the indicators themselves. This is achieved through a questionnaire filled in in close cooperation with the initiatives themselves as well as the assessment of the non-financial indicators against a set of quality criteria.
- iii. A3 - Conceptual framework for non-financial information: responsible for reviewing, analysing and assessing core structural elements of existing international initiatives. The critical review and analysis of major standards and frameworks is articulated around nine key features: conceptual framework, categorisation and taxonomy, materiality, scope of reporting, time horizon, level of application, types of information, principles of quality of information and reporting, and links to global policy objectives.
- iv. A4 - Interconnection between financial and non-financial information: responsible for identifying the boundaries of financial information and mapping the complementarity of these two dimensions of corporate reporting based on an extensive review of non-financial information frameworks and of IFRS-related information through a series of criteria including connectivity opportunities and anchor points.
- v. A5 - Focus on non-financial information for financial institutions: responsible for identifying the challenges faced by financial institutions in reporting on the indirect impact of their asset management, banking and insurance activities. This is achieved by reviewing the existing and expected non-financial reporting regulations applying to financial institutions themselves and to their clients and counterparts, and highlighting potential gaps, overlaps and timing issues.
- vi. A6 - Current non-financial information reporting practices and formats: responsible for assessing management reporting practices and digitisation progress, as well as identifying hurdles for stakeholders, especially for small and medium-sized enterprises. The assessment relies on a combination of recently published research reports together with specific queries in appropriate databases made available by data providers.
- vii. A7 – Assessment, coordination and conclusion: responsible for identifying gaps and overlaps, coordinating the streams and promoting interaction.

- b. Phase II – Proposal, to start at the beginning of November and last until the end of December 2020. During this phase, possible scenarios will be designed, detailed recommendations elaborated, and formal outreach initiated. The detailed organisation of this phase is not yet finalised and will be based on the final assessment points highlighted in phase I.
- c. Phase III – Outreach and Conclusion, to take place in January 2021 to finalise the recommendations and integrate feedback from key stakeholders before the delivery of the final report by January 31.

Status report against the roadmap

8. All six technical streams were set up and operational a week after the kick-off meeting and a project management office was created.
9. Since then, four further plenary meetings took place:
 - a. On September 28, detailed work plans from each stream were shared and approved and the European Commission shared feedback on the results of the NFRD revision Public Consultation.
 - b. On October 12, status updates were shared by each stream.
 - c. On October 26 and November 2, the technical streams had the opportunity to present their high-level assessment points to the whole Task Force, allowing for constructive comments and input. Two draft versions of this Progress Report were shared and discussed.
10. The Task Force is now at a turning point, where all technical streams are finalising their detailed assessment work and the coordination stream is preparing the next phase, with a view to smoothly transition towards Phase II of the project – Proposal. An additional plenary meeting, scheduled on November 10, will discuss and decide on the organisation of Phase II and start its implementation.

Preliminary high-level assessment points

11. The following preliminary high-level assessment points derive from the work done by the six technical streams during the first seven weeks of the project. Some require further and deeper analysis in order to better substantiate informed and concrete propositions during Phase II. As a consequence, some of the points below might be amended as the assessment analysis concludes.

Clarifications regarding the following assessment points

12. The mandate to EFRAG refers to non-financial information. The Task Force understands that this refers to publicly available information and considers that information made available only to specific public authorities, such as regulators, does not fall within its remit except with regard to possible streamlining opportunities (for example environmental regulations) or to identify use-cases (for instance CRR). In addition, it is worth mentioning that certain Task Force members consider that the term “non-financial” does not reflect the objectives of the related information and that it would be of interest to consider a more positive terminology.

13. In the context of the work carried out by the Task Force, a data point should be understood as an elementary item of non-financial reporting which provides on a stand-alone basis a single, decision-useful piece of information. The clear identification of data points provides a basis for efficient standard-setting, for the orderly classification of information (via a taxonomy¹), and for efficient collection and storage of information as well as access (via tagging) to that information. Reporting on a topic may encompass one data point or a combination of data points. A data point can be a description, a statement, an indicator (KPI or metric), etc. A data point generally falls into one of the three following categories: qualitative (narrative), quantitative monetary (denominated in currencies), quantitative non-monetary (denominated in a defined unit of account). A data point can be retrospective (i.e. related to past events, flows, positions, etc.) or prospective / forward-looking (i.e. related to future events, flows, positions, targets, scenarios, etc.).
14. From a general standpoint, while concentrating on potential EU standard-setting activities (“Level 2”), the Task Force may put the emphasis on certain assessment points that are or could be of a legislative nature (“Level 1”). When this is the case the purpose is only to indicate the importance of those points and of the related policy and framework options as a foundation for the development of a robust set of standards.

A1. THE EU NON-FINANCIAL INFORMATION SYSTEM: MOMENTUM AND CHALLENGES TO ALIGNMENT AND STANDARDISATION

The establishment of a well-defined set of principles and relevant, reliable and comparable non-financial data aligned with EU policies is a prerequisite to the success of the current momentum in EU non-financial disclosure-related policies.

15. Together with the revision of the NFRD currently underway - which is critical and core to the effectiveness of the EU sustainability-related information system - the number and the innovative nature of identified and analysed EU requirements, both legislated and forthcoming, demonstrate significant momentum. These requirements have major direct and indirect implications in terms of non-financial information, both for preparers and for users along the non-financial data value chain.
16. This momentum is derived from the ambitious policy objectives adopted by the EU institutions in this area and appears to create a non-financial information ecosystem that is specific to the Union.
17. As a consequence, the EU non-financial disclosure ecosystem appears increasingly comprehensive but also complex, with potential inconsistencies emerging in terms of horizontal alignment (inconsistent requirements for a given data preparer) and vertical alignment (data outputs from data preparers not aligned with reporting obligations of data users).
18. There is a clear recent trend of establishing new sets of data points, which stems from the more recent EU disclosure initiatives (mainly Non-binding Guidelines, Taxonomy

¹ Not to be confused with the taxonomy of sustainable economy activities established under the Taxonomy Regulation.

- regulation, SFDR, Benchmarks). This trend signals that a simple set of data points cannot fit all needs and gives rise to new alignment and streamlining challenges.
19. Effective and efficient implementation of EU non-financial disclosure requirements is ultimately based on the relevance, comparability and reliability of the data both generated and used. The initial analysis indicates that there is room for more homogenous and clear definitions, principles and data preparation standards in support of a series of EU disclosure requirements. The current lack of systematic verification processes, in particular prior to publication, may also hinder data reliability.
 20. Clarifications via robust definitions, principles and standards can address and mitigate potential inconsistencies across disclosure requirements, such as:
 - a. Different treatment of materiality assessment across regulations: assessment by the data preparer coexists with mandatory disclosures based on an assessment predefined by the legislator.
 - b. New emerging disclosure areas addressed in different ways across regulations, including: substantial contribution to social and environmental objectives (Taxonomy, SFDR), goal-alignment (e.g. Taxonomy) and alignment with scenarios (e.g. Benchmarks), “do no significant harm” (DNSH) and adverse impacts (SFDR, Taxonomy); due diligence (NFRD, SFDR, Sustainable Corporate Governance initiative).
 - c. Some EU regulations adopt sector-specific (or asset-class specific) approaches, on top of generic requirements, to enhance the relevance of disclosures, while this is not the case for example in the current NFRD.
 - d. Proportionality considerations are embedded in some regulations (e.g. NFRD and consequently EU Taxonomy article 8, and SFDR) and absent from others, while trickle-down effects on SMEs are not systematically addressed.
 21. Robust Level 2 standards could address some of the identified gaps and potential vertical and horizontal misalignments and enhance data comparability, relevance and reliability. In any case, it appears that Level 2 measures will play a decisive role in successfully implementing the objectives and principles of ambitious EU disclosure requirements contained in Level 1 legislation.

A2. THE CONTRIBUTION OF EXISTING INITIATIVES

The number and diversity of existing initiatives means that further assessment steps are necessary to classify and assess initiatives and data points on the basis of robust criteria.

22. Apart from the EU initiatives, there is a large number of initiatives in relation to non-financial information standard-setting. Close to 100 relevant initiatives have been identified and are currently under detailed analysis.

Generic ² initiatives	16
Topical initiatives	27
Sector initiatives	28 of which 7 are multiple sectors, with one which has 77 sectors
SME initiatives ³	24
Total	95

23. Such a situation illustrates a significant, and constantly increasing, trend towards the development of new non-financial information references, suggestions, or recommendations. However, this trend encompasses a variety of approaches and focuses which, whilst providing different options for different company situations, also makes choices and implementation difficult and costly for reporting entities and hinders reliability and comparability.

1997-2009	10
2010-2015	12
2016-2020	19
Total	41

Generic and topical initiatives (41 with an identified date out of 43)

24. Most initiatives appear to be of a private nature (originating from service providers to think tanks, standard-setting organisations, coalitions of stakeholders or NGOs, professional associations...) and supported by specific communities of stakeholders expressing a commitment in terms of governance and/or financial support.
25. As a consequence of the private status of nearly all initiatives, reference to or adoption of recommendations by reporting entities is mostly voluntary. However, three elements nuance this observation. First, adoption by a significant number of preparers is encouraging other reporting entities to consider some initiatives as important references – SMEs for example have little choice but to elect for the references commonly used in the supply chain they are part of, or risk losing business opportunities. Second, initiatives have made extensive efforts to collaborate with governmental and/or stock exchanges initiatives to be referred to at legislative or regulatory level. Third, some other initiatives

² An initiative is considered generic when it aims to contribute to non-financial information as a whole, in opposition to focusing exclusively on certain topics or certain sectors.

³ The assessment as SME initiative is based on a self-declaration of the authors of the tools and does not guarantee its fitness for all SMEs.

try to partner with other market participants in order to increase reference to or adoption of their recommendations by preparers.

26. Key factors to differentiate initiatives include their governance, approach to materiality, the type of recommendations (from general management principles to conceptual frameworks or standards per se) and their approach to sustainability. A preliminary study of generic initiatives has found that 69% specifically state that they apply a double materiality perspective and 25% a financial materiality perspective.
27. Convergence and harmonisation efforts among some initiatives are taking place. These efforts include Memorandums of Understanding, Statements of Intent, Consultation processes and, from a technical standpoint, tables of translation from one initiative to another. They aim at promoting global approaches, the content, decision-making processes and timing of which are currently under consideration. Despite such efforts, the number of initiatives has continued to grow over the past years. A first analysis of convergence processes however highlights cross-references made by newer initiatives to a limited number of existing initiatives.
28. More than 5000 KPIs or data points of a non-financial nature have been inventoried so far, of which more than 3000 are generic⁴, 700 relate to climate and environment (this is a gross amount of KPIs that does not take into account cross-referencing between indicators). They are currently under detailed assessment. The vast majority tends to concentrate on negative impacts rather than potential positive impacts. The notion of “positive impacts” remains vague and does not correspond to standardised language across different stakeholders and initiatives. In addition, some initiatives focus on intangible indicators (but mostly under sector or experimental approaches) in order to concentrate on what is not currently captured by financial information.

A3. CRITICAL CONCEPTUAL ORIENTATIONS

Major areas of conceptual differentiations have been identified which suggests the need for confirmation or clarification to provide a clear orientation for standard-setting.

29. There is a large spectrum of underlying concepts that guide the preparation of non-financial information. They may be implicit or explicit (i.e. presented in a published conceptual framework). As a consequence of this large spectrum, reporting practices may significantly differ, different user groups having different interpretations and focuses. Even if certain orientations have already been taken in the EU, there is a need for further guidance and policies based on explicit reporting principles and a standardised approach. The following conceptual points (inter alia) would benefit from further clarification to establish a clear playing field that would provide a comprehensive and widely endorsed basis for standard-setting.
30. Categorisation of topics and subtopics. Non-financial information can address a significant variety of topics, from environmental to people matters (including human rights), governance, or anti-corruption issues. Non-financial information does not have obvious borders and may evolve as new issues emerge and become more relevant over time. The manner in which topics are defined and organised is obviously relevant for how

⁴ See definition of a generic initiative – or KPI – under paragraph 22.

reporting entities structure and present information. Standards can also consider prescribing certain categories of information (e.g., policies, risks, targets, metrics) per topic, noting that there may be a different balance among various types of information for each topic. It is therefore critical to consider how this could be done and weigh the pros and cons of structuring and presenting topical information in a variety of ways, including subcategories of topics. The dynamic nature of issues, and how emerging topics can be incorporated as they become more relevant over time, are particularly important considerations. In addition, a clear and concise structure will also help to develop a data taxonomy for the necessary digitisation of sustainability information

31. **Materiality.** Materiality is to be understood as the approach for inclusion and prioritisation of specific information in corporate reports, considering the needs and expectations of the stakeholders of an organisation and of the organisation itself. Three main perspectives can be distinguished on this crucial topic: the first one (financial materiality) puts the emphasis on risks to the reporting entity's financial performance (outside-in, including the so called "rebound" effect); the second one (environmental and social (people) materiality) concentrates on the impacts on people, communities and the environment connected to a reporting entity's activities and business relationships (inside-out); the third one (double materiality) recommends to cover both in their own right, while recognising they overlap in part. The concept of double materiality is already reflected in the current NFRD (as clarified by the Non-binding Guidelines) and influences the preparation of non-financial information by a number of companies across the EU. The question then is how this concept of double materiality can be applied and operationalised in a manner consistent with the NFRD's objectives.
32. The approach to materiality usually derives from an understanding of the role of businesses in both the economy and society and how they should be accountable to stakeholders: from investors and lenders to a broader range of stakeholders (workforce, suppliers, customers, communities, public authorities and civil society, as well as investors and lenders). There are various definitions and concepts for materiality that may in themselves be technically clear and provide operational guidance aligned with the other underlying concepts, but they have not led to sufficiently relevant information being disclosed from a double materiality perspective. This is probably due to a lack of appropriate tools to meet the challenges of operational implementation of double materiality, including:
 - a. The application of social and environmental materiality currently often relies on certain stakeholders' views or interests, instead of an assessment related to the (actual or potential) impacts on people, communities and the environment.
 - b. Current guidance fails to adequately include the perspectives of affected and other relevant stakeholders in the assessment of impacts or in prioritisation for action and reporting.
 - c. Insufficient alignment between what companies are expected to prioritise for reporting and what they are expected to prioritise for action. (This will become especially relevant in the context of possible new legislation on mandatory human rights and environmental due diligence, at national and EU level).
 - d. Existing non-financial standards, frameworks and proposals have diverging approaches to prescribing material topics and information. Hence, what is

material can be defined by the standard-setter or the reporting entity or on the basis of a mix of both.

33. Scope of reporting. Many users consider that non-financial information should include information related to the whole value chain of the company, including supply chain operations (upstream) as well as products sold and services rendered down to their end-of life (downstream), far beyond the boundaries applied to financial information, which covers only the reporting entity's own operations (scope of financial consolidation). It is generally considered important to include the whole value chain when assessing how companies can create (and/or destroy) value through their activities, including through business relationships and when acting together with other stakeholders, while keeping sight of a need for proportionality across the value chain, in order not to impose unmanageable burden on smaller reporting entities (see below A6).
34. Time horizon. While financial information, as expressed by financial statements, is essentially retrospective, it is generally considered important to put the emphasis on the forward-looking dimension of non-financial information in addition to retrospective information on performance. Time horizons that are considered adequate to address the sustainability challenges ahead may vary considerably.
35. Sector-agnostic, sector-specific and entity-specific approaches. Non-financial information may be approached from a generic standpoint (allowing inter-sector comparisons) or from a sector-specific standpoint (putting the emphasis on a "best-in-class" comparison) or from a combination of both. In addition, the EU Taxonomy has brought the perspective of economic activity or asset specific information (allowing a more granular comparison of company performance). Standardised approaches may also leave flexibility to introduce elements of entity-specific information. Such an approach could increase relevance but reduce comparability and could take its point of departure in the business model, as built into the current NFRD. A standardised approach could also include elements such as governance oversight, and related policies and procedures, and strategy on topics covered by the NFRD and connections between those topics. Proper standard-setting implies clarification in this domain, balancing comparability and flexibility in order to accommodate the constraints and capabilities of entities of all sizes and sectors.
36. Types of information. For non-financial information, both qualitative and quantitative (both non-monetary and monetary) information are equally important, including where qualitative information provides essential context for the interpretation of numerical data or when numerical data illustrate or support qualitative information. The different types of non-financial information are not always clearly defined. The obvious differences with financial information (as reflected in Financial Statements), which is monetary by construction, are also not always clearly taken into account. On the basis of a prima facie comparison with financial information (which has reached a high level of maturity and recognition), there is a risk of focusing excessively on non-financial information expressed in monetary and quantitative terms and of perceiving non-financial information simply as an extension of financial information. There is therefore a need to better define the specificities of non-financial information within the confines of an integrated approach.
37. Principles (characteristics) of quality of information and reporting. The current quality of non-financial information and non-financial reporting does not meet users' extremely diverse needs and has been found to be insufficient when compared to the EU's clearly

stated objectives. The gap is generally considered to be significant. As regards the principles of quality of non-financial information (data points at the most granular level), there is a lack of precision on the expected attributes of the information, both for standard-setting and preparation purposes. It may be observed that while existing conceptual frameworks are converging on general attributes (faithful representation, relevance, comparability, reliability...) and that those attributes may not be fundamentally different from the ones associated with quality financial information, a clear definition of such attributes is necessary to align non-financial and financial information quality. There is also agreement on the need to further explore connectivity between non-financial and financial information (see below under A4) as a quality to be introduced in order to establish coherent and comprehensive corporate reporting. As regards the principles of quality of non-financial reporting (organisation and presentation of data points), there is also a lack of precision that creates difficulties for reporting entities to prepare understandable non-financial statements and for users to access meaningful information (see below under A6). Adopting principles of quality seems therefore to be a prerequisite to achieving the necessary level of quality for proper non-financial information and reporting, aligned with the adopted concepts and similar to the ones defined for financial information.

38. **Linkage to Global Policy Priorities.** Global policy priorities, including the 2030 Agenda for Sustainable Development (SDGs) and the Paris Agreement, and globally adopted objectives and standards, notably ILO Labour Standards, UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises, reflect commonly accepted goals aiming at advancing sustainable development. Businesses are considered key in contributing to the achievement (or not) of these goals. A key consideration is how global priorities may be reflected in reporting standards for companies, also taking into account their dynamic nature. Any reference to global policy priorities and related standards or initiatives should consider the risk of reporting entities referring to those global policy priorities (such as SDGs, that may be considered communicating a certain legitimacy or credibility) without significantly aligning their strategy with these goals (including through their materiality assessment process). The articulation between global and EU policy objectives should also be considered.
39. **General remark.** From a preparer's perspective, to the extent that a conceptual framework for future standard-setting defines an ideal structure for non-financial reporting, it is considered important to allow preparers adequate time to transition towards meeting those expectations (see A6 below).

A4. THE CHALLENGES OF INTERCONNECTING FINANCIAL AND NON-FINANCIAL INFORMATION

The principle of interconnecting financial and non-financial information is widely shared but it remains technically and operationally challenging to create a seamless relationship between financial information, which has clear boundaries, and non-financial information, for which key concepts are still under development.

40. The idea of integrating the various dimensions of corporate reporting (reporting for investors and capital providers as well as for a broader range of stakeholders) is increasingly supported. In this regard, interconnecting financial and non-financial information appears to be a key feature for quality corporate reporting.
41. The major strength of financial information comes from the existence of a robust and generally accepted conceptual framework. In this context, the boundaries of financial information are well established, based upon the following key concepts:
 - a. financial information is designed to serve primarily the information needs of providers of financial capital as well as business owners and managers themselves, with a scope based on “financial materiality”;
 - b. the boundaries of the entity are defined on the basis of a relatively clear concept of control (scope of consolidation);
 - c. financial information is primarily monetary and retrospective with a strong emphasis on neutrality and availability of data which can be reliably determined;
 - d. liabilities are reported if there are probable cash outflows resulting from past events; low levels of probability do not generate financial liabilities;
 - e. to be recognised, assets have to be under the control of the reporting entity allowing it to benefit from the resulting future cash inflows; in this context the recognition of internally generated intangibles is limited;
 - f. applying the “double entry” accounting approach, every entry to an account (e.g. a component in the profit or loss) requires a corresponding and opposite entry to a counterpart account (e.g. a component of the statement of financial position) and this contributes to the arithmetical robustness of financial statements.
42. A substantial part of non-financial information as identified in various non-financial information frameworks covers the “information space” beyond the clearly defined boundaries of financial reporting. Major evolutions of these boundaries are not expected in the short or medium term, even though the non-financial information space is still developing as of today.
43. Although the principle of “connectivity” is widely accepted, there are insufficient guidelines to ensure adequate reporting of issues at the boundaries of financial and non-financial information (such as impairments or intangible assets), to avoid gaps or overlaps, and to organise synergies (continuity/coherence) both ways. This would include for example how to deal with the future financial implications of ESG impacts or with differences in the reporting boundaries.
44. Some priority issues for addressing the challenge of interconnection have been identified at this stage, including:

- a. monetary indicators or information deemed not relevant for financial information per se but relevant for non-financial information purposes;
 - b. monetary indicators with ESG attributes;
 - c. scenario analysis;
 - d. impact valuation;
 - e. risk quantification;
 - f. location of narrative information related to capitals other than economic capital.
45. These priorities demonstrate that, beyond the need for a technically operational approach to connectivity, there is a need to consider including connectivity as a general principle of quality.
46. The above-mentioned priorities will be further analysed in order to develop recommendations in the context of potential future non-financial reporting standard-setting.
47. In addition, the location of the information (separate report or embedded in mainstream report or management report) may also play a role, as well as the identification of “anchor points” to the financial statements, such as reconciliations with monetary data or consistency of management’s assumptions and scenarios. These potential methods for structuring or creating connectivity will be further analysed.

A5. THE SPECIFIC SITUATION OF FINANCIAL INSTITUTIONS

The dual role of financial institutions as preparers and users of non-financial information highlights the challenges of their reporting obligations, especially on their - main - indirect impacts, and calls for a significant effort on availability and quality of data.

48. To facilitate the transition towards a greener and more inclusive economy, the EU has decided to activate the sustainable finance lever. This policy decision has significant non-financial information implications for financial institutions (asset managers/owners, banks, insurance companies). In addition, institutions may also make management decisions and take public commitments with ESG dimensions that may have non-financial information implications. Beyond reporting on their own activities, like any reporting entity, these institutions find themselves confronted with specific challenges as regards non-financial information related to their investment and lending portfolios as well as, for insurance activities, the provision of insurance cover.
49. As of today, prudential regulations introducing non-financial reporting requirements are developed independently from other non-financial reporting provisions, leaving obvious links and synergies between the two largely unaddressed. Also, the implementation, timing and requirements of the various regulations are seen as an area for improvement.
50. Financial institutions are at the same time preparers and key users of non-financial information. On the one hand, they are requested to disclose the impacts generated by their own operations (direct impact), while on the other hand they are requested to disclose the impacts deriving from their products, services and interactions with clients

and third parties (indirect impact). This latter aspect of financial institutions non-financial reporting appears as the most critical of the two. It raises specific questions, for example about the appropriate level of reporting (entity level, product or service level, asset or counterpart level...) or the choice between static versus dynamic disclosure (stock vs inflows/outflows), and is not consistently addressed by existing or upcoming regulations, leaving considerable discretion to the reporting financial institutions.

51. At this stage, sustainable finance mainly focuses on investment activities and products, with an emphasis on climate-related matters, particularly on climate change mitigation and adaptation, in alignment with European public policies. In this area, multiple definitions, classification and calculation methodologies coexist for climate indicators. Clarification and harmonisation of such definitions and methodologies are missing or under development (SFDR RTS). Also, beyond climate, other environmental topics (including the four other environmental objectives defined in the Taxonomy Regulation), and social and governance topics, are less developed at the moment and need a broader integration.
52. In contrast, banking (lending, trading, clearing, ...) and insurance (personal and corporate protection provisions) seem to be less central to the execution of sustainable finance strategy, although they nevertheless entail significant sustainability risks and impacts. Consequently, non-financial reporting provisions for banking and insurance in existing and upcoming European non-financial regulations are relatively less advanced than is the case for investment activities.
53. One other challenge of the dual role of financial institutions lies in the fact that to be able to report on the indirect impact of their activities, financial institutions rely entirely upon the availability and quality of non-financial data they can obtain from investees. These investees might or might not be subject to similar non-financial reporting requirements, or any non-financial reporting requirement at all, such as micro and small entities for example. In addition, the existence of multiple frameworks and standards used by reporting companies does not foster comparison. Addressing this gap would appear to be a priority.
54. Another challenge relating to data availability relates specifically to forward-looking information and impact or performance measurement. In order to reorient capital flows towards Taxonomy compatible activities, aligned with their own as well as the larger European sustainable goals – both in terms of trajectory and timing of execution – financial institutions need to perform fundamental analysis of the performance of the economic activities performed in relation with the EU Taxonomy. This analysis can supplement longer-term risks and scenario analysis, by providing point in time assessment of an entity's alignment to the goal(s). Such analyses depend on the availability of non-financial information that is comparable in terms of format (if qualitative data is useful, quantitative data is also needed), time-horizon and content (transparency on methodology used to produce the reported data). As of today, reported forward-looking information is either largely narrative or, when quantitative, based on assumptions and methodologies that lack transparency. The same applies to impact and performance reporting, where information available is often more about the steps and actions taken to reach objectives than about progress against such objectives. Clear and consistent guidance around forward-looking and performance measurement information is a key success factor for financial institutions to play their role in the European sustainable finance strategy.

A6. INCONSISTENCY IN REPORTING PRACTICES, REQUIREMENTS AND SYSTEMS

The large and increasing number of reporting requirements and provisions, together with their heterogeneity (in scope, objective, implementation – voluntary or mandatory –, technology, ...), are a source of numerous inconsistencies in reporting practices, ultimately failing to address users' needs while being a burden for preparers of non-financial information, whose specificities and capacities (from large companies to SMEs) are not sufficiently considered.

55. Despite their increasing number, reporting provisions pursuing different objectives for different users fail to provide consistent guidance about what information to report (scope, breadth, depth), how and where. In this context of high complexity, companies are unsure whether they provide non-financial information that would be considered of good quality by users while at the same time being relevant to their main impacts, risks or policies. Users, on the other hand, struggle to locate and sometimes make sense of the reported data. This situation is further complicated by the lack of uniform requirements for monitoring of compliance and independent verification of the data.
56. Mirroring the fast-growing number and diversity of reporting provisions, non-financial disclosures have significantly increased in a somewhat unfocused manner. An increasing amount of non-financial data is disclosed in a variety of different places outside of the annual report or sustainability report via external links and complementary online content (investor briefs, press releases, newsletters, websites...). This makes it difficult for users to find decision-useful information and introduces uncertainty about whether or not the provided information is different between the different formats. The diversity of disclosure formats also makes it difficult for users to assess the relevance, comparability and reliability of the disclosed information.
57. The focus and momentum on environmental related matters both at policy level and in reporting frameworks is reflected in the efforts and focus put on reporting about climate or other environmental issues. In comparison, information given about other topics of interest to users seem to be less developed and elaborate.
58. Different reporting provisions put different emphasis on reporting of actual data compared to providing information on progress over time, on outcomes and on impact and/or on providing a forward-looking perspective. Existing provisions appear to focus rather on documentation and reporting per se instead of driving real action. As a consequence, reporting entities' efforts tend to be directed at describing policies rather than focusing on the impacts of such policies and highlighting the link between "risks, policies and impacts". Although reporting increasingly includes references to the Paris Agreement or Global Policy Priorities (see above under A3), the extent of reporting specific targets to measure progress is limited (e.g. failure to report on targets on climate change, and measurement of actions to manage human right risks). This may be explained by challenges in the quantification of some of the topics (especially social issues), the lack of standardised metrics and also the lack of maturity in the systems and processes which support the generation of this information.
59. Non-financial reporting provisions currently tend to focus on large and listed companies, meaning that some users' needs are not met. In that regard, the situation of SMEs that are part of the supply and value chain of companies subject to mandatory non-financial reporting is a challenging one. Existing reporting requirements have not been tailored to

consider their limited resources and capacities, making their contribution to the overall non-financial reporting objectives a source of problems both for them and for the multitude of stakeholders that wish to use their data and information. Specific consideration on how to include SMEs in the non-financial reporting landscape at a reasonable cost and effort for them appears to be missing. As such, upcoming new provisions for non-financial reporting for large and listed companies should not simply be scaled down for SMEs. Instead, a tailored approach towards SMEs is expected.

60. Beyond SMEs, preparers of all sizes are pointing at the difficulty to find the right balance between satisfying the needs of a broad universe of users (having very different perspectives, expectations and therefore needs) and their own reporting needs, while keeping reporting costs at a reasonable level. In addition, while asking for clarification about a non-financial reporting target structure, all preparers are also expressing the need for a proportionate approach to a staged implementation based on a proper cost / benefit analysis.

From a digitisation perspective, the non-financial reporting ecosystem is diversified in many ways, inflating costs, creating operational and compliance risks, and ultimately hampering access.

61. Regulators apply their own standards, data definitions (if any) and validation rules for similar non-financial data elements and metrics. In the EU currently there is no digital taxonomy of non-financial data allowing for efficient and consistent access to such non-financial data (with the exception of Spain, although even the Spanish taxonomy⁵ is little used in practice).
62. This lack of cohesion in standards and (digital) taxonomy⁶ results in higher entity and regulatory costs in terms of time and resources. It also weakens the auditability of information and increases risks due to increased subjectivity, differences in interpretations, misinformation, and inadvertent partial compliance or non-compliance. Also, the assembling, dismantling, and repackaging of data in the required format can cause compliance issues and unintentional information errors when filing.
63. Same inconsistencies and insufficiencies apply to access controls, validation rules and data format specifications. These differences and gaps increase the complexity and challenge the usefulness of a compliance ecosystem.
64. The flows and interfaces between input, throughput and output across various systems are not aligned and often require manual intervention to ensure that the output of one system is reprocessed in the necessary format to be validated for submission to the next system.
65. Modes of information submission differ for different forms and types of information.

⁵ Not to be confused with the taxonomy of sustainable economy activities established under the Taxonomy Regulation.

⁶ Same as above.

APPENDIX – GLOSSARY

Benchmarks	<p>EU Regulation 2019/2089 of the European Parliament and of the Council of 27 November 2019 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks</p> <p>https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2089&from=EN</p>
CRR	<p>Capital Requirements Regulation</p> <p>https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R0575&from=EN</p>
DNSH	<p>Do Not Significantly Harm, term used in the Taxonomy and in the SFDR</p>
EFRAG	<p>European Financial Reporting Advisory Group, private association established in 2001 with the encouragement of the European Commission to serve the public interest. Its Member Organisations are European stakeholders and National Organisations having knowledge and interest in the development of IFRS Standards and how they contribute to the efficiency of capital markets.</p> <p>https://www.efrag.org/About/Facts</p>
European Reporting Lab @EFRAG	<p>The European Lab was established by EFRAG, following the call by the European Commission in its March 2018 Action Plan on Financing Sustainable Growth. The European Lab serves the European public interest and its objective is to stimulate innovation in the field of corporate reporting in Europe.</p> <p>https://www.efrag.org/Activities/1807101446085163/European-Lab-facts</p>
IFRS	<p>International Financial Reporting Standards, accounting standards adopted (subject to endorsement) by the EU in 2002 with which all EU-listed companies producing consolidated financial statement must comply</p> <p>https://ec.europa.eu/info/law/international-accounting-standards-regulation-ec-no-1606-2002/amending-and-supplementary-acts/acts-adopted-basis-regulatory-procedure-scrutiny-rps_en</p>
ILO Labour Standards	<p>Since 1919, the International Labour Organization has maintained and developed a system of international labour standards aimed at promoting opportunities for women and men to obtain decent and productive work, in conditions of freedom, equity, security and dignity.</p> <p>https://www.ilo.org/global/standards/lang--en/index.htm</p>
KPI	<p>Key Performance Indicator</p>
NFRD	<p>Non-Financial Reporting Directive, Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014</p> <p>https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014L0095&from=EN</p>

Non-binding Guidelines	Refers to the guidelines on non-financial reporting published by the EU to accompany the implementation of the NFRD in 2017 (https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52017XC0705(01)&from=EN) and in 2019 for climate-related information (https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52019XC0620(01)&from=EN)
OECD Guidelines for Multinational Enterprises	The OECD Guidelines for Multinational Enterprises are recommendations addressed by governments to multinational enterprises operating in or from adhering countries. They provide non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognised standards. http://www.oecd.org/daf/inv/mne/48004323.pdf
Paris Agreement	The Paris Agreement sets out a global framework to avoid dangerous climate change by limiting global warming to well below 2°C and pursuing efforts to limit it to 1.5°C (versus pre-industrial levels). It was agreed at the Paris climate conference (COP21) in December 2015 and is currently ratified by close to 190 parties, including the EU and its Member States.
PTF-NFRS	Project Task Force on preparatory work for the elaboration of possible non-financial reporting standards
SDGs and Agenda 2030	SDGs refers to the 17 Sustainable Development Goals that were adopted at the United Nations Sustainable Development Summit on 25 September 2015 within the 2030 Agenda for Sustainable Development. https://sdgs.un.org/goals
SFDR	Sustainable Finance Disclosure Regulation: EU Regulation 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2088&from=EN
SFDR RTS	The Regulatory Technical Standards on ESG disclosures under development under the EU Regulation on sustainability-related disclosures in the financial services sector Regulation (SFDR).
SMEs	Small and Medium Enterprises
Sustainable Corporate Governance Initiative	This Sustainable Corporate Governance initiative - currently under public consultation - aims to improve the EU regulatory framework on company law and corporate governance. https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12548-Sustainable-corporate-governance
UN Guiding Principles on Business and Human Rights	The Guiding Principles seek to provide an authoritative global standard for preventing and addressing the risk of adverse human rights impacts linked to business activity. https://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf

Taxonomy Regulation	EU Regulation 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R0852&from=EN
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APPENDIX 4: ASSESSMENT REPORTS (PER STREAM)

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1 Appendix 4 comprises the assessment reports of the six streams of the PTF¹:

Appendix 4.1:	Stream A1 Assessment Report EU non-financial information requirements momentum and coherence
Appendix 4.2:	Stream A2 Assessment Report Possible input from existing initiatives
Appendix 4.3:	Stream A3 Assessment Report Conceptual framework for non-financial information standard setting
Appendix 4.4:	Stream A4 Assessment Report Interconnection between financial and non-financial information
Appendix 4.5:	Stream A5 Assessment Report Focus on financial institutions
Appendix 4.6:	Stream A6 Assessment Report Current non-financial reporting formats and practices

2 The above six assessment reports are published as separate documents due to their size and are [available on the EFRAG website](#).

¹ See Appendix 2 for details of the PTF approach.

APPENDIX 5: OUTREACH EVENTS – SUMMARY OF FEEDBACK RECEIVED

APPENDIX 5: OUTREACH EVENTS – SUMMARY OF FEEDBACK RECEIVED

- 1 The objective of the outreach events conducted was to collect a wide and representative range of views regarding the priorities and approach for the possible ESS should there be one, while providing a preliminary view of the PTF possible orientations.
- 2 This summary is a consolidation of feedback received regarding the work of the PTF presented through a published outreach document. Detailed feedback per outreach event is available at the end of this appendix.
- 3 The summary does not intend to reflect all individual comments and voices heard and read, but rather to summarise the recurring comments that appeared to be widely shared throughout the different events and that needed to be considered by the PTF and taken into account in its final recommendations. It is based on different pieces of feedback received as follows:
 - a) Written feedback shared by each of the seven outreach event organising teams;
 - b) Analysis of answers to polling questions used during the outreach events, taking into account that, in some cases, there was only a limited number of responses;
 - c) Formal written comments received from the following organisations: Insurance Europe, Accountancy Europe, ESG-PYMES (UPVEHU), Capitals Coalitions and Disability Hub Europe;
 - d) Discussions with other stakeholders.
- 4 The tables in the section below present the outreach take-aways for consideration and the way they were translated into the final report of the PTF.

KEY TAKE AWAYS

General comments

- 5 There was an overall high level of support about the orientations taken by the PTF, with no strong disapproval of any presented feature in particular.
- 6 However, there was a wider range of views when diving into the details, which need thorough consideration. The PTF also noted that the views expressed during the outreach events were in fact very representative of the range of views within the PTF.
- 7 The main views expressed overall are reflected below:

OUTREACH COMMENTS RECEIVED	INTEGRATION IN THE FINAL PTF REPORT
The standards should build on existing initiatives to the greatest possible extent to ensure global harmonisation. The PTF should consider adding an overarching principle.	An overarching principle was added within the Foundations. The PTF indeed realised that because the goal of convergence should guide the ESS, elaborating on co-construction in the last Part could appear too limitative.
The standards should allow proportionate disclosures for all, not just for SMEs.	The importance of proportionality is highlighted in the location of SI, but should also derive from a strong materiality assessment that would enable reporting entities to disclose only material issues.
The standards should streamline and simplify existing requirements and be careful not to add an extra layer so as to achieve consistency across EU regulations.	This Part is very well developed in Building Block 1.3: supporting the EU sustainability reporting momentum where the PTF underlined the needs for vertical and horizontal alignments.
<p>The target architecture is very ambitious:</p> <ul style="list-style-type: none"> • prioritisation should be key • urgency to have a robust sustainability reporting – especially for climate 	The prioritisation is also deemed key by the PTF due to time constraints (included in the dedicated Parts 4.1 and 4.2 about a phased-in approach)
More definitions and details are expected, especially as it was noted several times that terminology is sometimes new. In many cases, bridges could be helpful.	The PTF included a glossary to clarify the terminology used.

OUTREACH COMMENTS RECEIVED	INTEGRATION IN THE FINAL PTF REPORT
Principles-based approach supported.	Dedicated overarching principle
Use of 'sustainability' supported rather than 'non-financial' (along with a clear definition).	Glossary should help and the change of name was also addressed in the introduction.
Sector-specific approach generally supported, as a complement to a sector-agnostic core standard.	Part 1.5 Building Block 3
An inclusive range of stakeholders, that needs to be further clarified, as well as the purpose of sustainability reporting.	The definition of stakeholders is addressed in Overarching Principle 1 and the purpose in the Introduction.
Other overarching principles were proposed: several times 'alignment with global frameworks/standards' but also 'conciseness of the information', 'proportionality', 'relevance', 'cost/benefit implementation'	The PTF agreed on the importance of adding an additional building block 'Building from and contributing to sustainability reporting global coherence / convergence'
<p>A proportionate approach for SMEs was supported, with the following aspects:</p> <ul style="list-style-type: none"> • Key role of SMEs in enabling transitions • A progressive scale for different categories of SMEs, notably depending on their size and sector • A scaled-down approach of the reporting system rather than a stand-alone standard • Appropriate onboarding to explain benefits of the reporting and mitigate costs/burden • A voluntary approach for some SME categories, though some noted that due to trickle-down effect it ends up being necessary anyway 	<p>Though the scaled-down approach was preferred, the underlying objective was to have a coherence between SMEs and their trickle-down effect through value chain / providers of financial capital. This objective is well reflected in the Proposals of the PTF, as well as the importance to enable transitions.</p> <p>Regarding voluntary / mandatory, this will be the role of Level 1 to decide, the PTF can also build on the envisaged assumptions.</p>
<p>A specific approach for financial institutions is encouraged by all geographies:</p> <ul style="list-style-type: none"> • financial institutions are seen as specific economic actors vs other sector-specific entities due to their roles • A separate treatment for each of the 3 categories of financial institutions is supported, though it is not clear on how to actually approach financial institutions 	The particular approach and specificities of financial institutions is well described in Part 1.5
<p>The importance of intangibles is acknowledged, but many concerns were expressed regarding their definition and maturity, but also recognition measurement in the standard.</p> <p>To be noted that in one event (Germany), 'the building block related to intangibles was perceived as highly debatable'.</p> <p>In most cases, the intangible dimension is seen as very interesting, sometimes important, but rarely a priority.</p>	The PTF agrees that the intangibles approach is not yet at the right level of maturity though acknowledges the importance in Part 1.8.

OUTREACH COMMENTS RECEIVED	INTEGRATION IN THE FINAL PTF REPORT
<p>The fundamentals of the operational guidelines were approved across outreach events:</p> <ul style="list-style-type: none"> • Alignment within EU policies and with global ones (though not always well understood) • Double materiality principle and the materiality assessment • Quality of information 	<p>It was clarified during the outreach events that policies refer to political decisions and ambitions, and not to international standard-setting initiatives.</p>
<p>The importance of aligning policies within the EU policy field was much expressed, along with the compatibility of the EU standard with other major existing initiatives.</p> <p>Germany outreach expressed that the consistency of NFR requirements across EU regulations is absolutely essential, notably with view to potential timing issues that financial institutions will face.</p>	<p>The alignment with EU policies is well treated in Part 1.3 and the PTF recognises the importance of streamlining information to avoid adding extra layers and overload the amount of information disclosed.</p>
<p>Double materiality generally highly agreed upon, with some geographies highlighting the need for clear guidance.</p> <p>No clear consensus on the most challenging steps in the assessment process, however #1 is Bringing together sustainability material issues and financially material issues, #2 Prioritisation methodologies (magnitude and likelihood of impacts) and #3 Stakeholders engagement.</p> <p>Rare voices were raised highlighting a first financial materiality approach.</p> <p>Rare concerns about how to apply double materiality to SMEs.</p>	<p>In all outreach events, the importance of the EU double materiality perspective was in general very well understood and agreed in principle.</p> <p>The need for an operational process was also sometimes highlighted which is reflected in Part 2.5 of the Report.</p>
<p>Forward-looking information, though complex to gather and verify, was acknowledged as an important part of the SR.</p> <p>Some geographies highlighted the risks regarding time horizon of (not) disclosing confidential information.</p>	<p>The PTF acknowledged the importance of forward-looking information as key in Part 2.3. Methodologies and relevance according to the topics concerned will be important to consider in order to ensure operationalisation, all the more considering the confidential aspect of forward-looking information in some cases.</p>
<p>All geographies approved that ensuring the auditability of the data will be helpful.</p> <p>At least limited assurance level should be considered.</p> <p>Within geographies, views diverge regarding the width (all or part of the sustainability information?), the depth (same requirements as for financial info?) and the timing of the audit.</p> <p>Some entities like SMEs could be exempted from some verifications.</p>	<p>Though the decision regarding the assurance requirement of SR is in the hands of Level 1, the PTF points in Part 2.2 that the ESS will need to ensure auditability of information through quality criteria and robust processes.</p>
<p>Regarding the levels of reporting, the importance of addressing the whole value chain was supported, with shades of grey.</p> <p>Two elements should be considered: the responsibility of the reporting entity and its control / influence over the value chain.</p>	<p>As for time horizon, the PTF acknowledges the importance to consider the whole value chain in some cases and also the operationalisation / implementation difficulties. This is reflected in Part 2.4.</p>

OUTREACH COMMENTS RECEIVED	INTEGRATION IN THE FINAL PTF REPORT
<p>The key aspects of the proposed architecture received support across outreach events:</p> <ul style="list-style-type: none"> • The 3-layer approach (sector-agnostic / sector-specific / entity-specific) • The topics organisation in three categories close to the ESG framework 	<p>The PTF reflected these two aspects of the architecture respectively in Part 3.2 and 3.1.2.</p>
<p>The proposed Reporting areas and link with management decision-making were largely supported and the approach found interesting.</p> <p>Several voices suggested a clearer link to existing frameworks (e.g. TCFD).</p> <p>Also it was highlighted in one event (Nordics) that under the strategy disclosures it is important to highlight business model impacts and value creation.</p>	<p>The PTF noted the importance of a mapping with TCFD reporting areas which is presented in Part 3.1.1.</p>
<p>Adopting the ESG framework was the favoured approach, as already widespread and consistent with common practices.</p> <p>The ESG + Relationships approach was not strongly rejected but did not generate much enthusiasm.</p> <p>Several noted that classification (ESG vs. ESG renaming vs. four categories) is not crucial in contrast to the definition of the actual content and the importance to cover all topics.</p> <p>Few voices: Need to clarify what social is and what it should encompass and need to divide climate-related topic into mitigation and adaptation for Taxonomy Regulation alignment (Italy).</p>	<p>Following the outreach event feedbacks, which also echoed the consensus reached within the PTF, the Proposal in Part 3.1.2 reflects an ESG classical framework.</p> <p>Further work will need to be led by the ESS to deep dive into the sub-topics and sub-sub-topics in some cases.</p>
<p>Linking the topics framework with a multi-capital approach was globally understood and supported. Nevertheless, a high number of attendees across outreach events were not familiar with the multi-capital methodology.</p> <p>Some speakers pointed out that making the link could lead to more complexity, and that the added value of such a link is to be proven.</p>	<p>Considering the mixed views linking directly capitals with topics, the PTF elected not to express a strong opinion within the Proposal 3.1.2, but rather to highlight that when defining sub-topics, the ESS will need to consider the capital dimension of topics and the linkage with existing frameworks.</p>

ESS reporting structure

OUTREACH COMMENTS RECEIVED	INTEGRATION IN THE FINAL PTF REPORT
<p>There was a large support across outreach events for sustainability statements within a dedicated section of the management report and many also encouraged an integrated reporting approach.</p> <p>Speakers advocate for the consistency, clarity, efficiency that integrated reporting would provide, possibly within the Management Report.</p> <p>Nevertheless, oversized reports should be avoided: if there are large appendices, they might be put in another location, with clear cross-reference with the main report.</p> <p>Concerns are expressed for entities that may not publish a Management report (e.g. SMEs).</p>	<p>The PTF consensus echoed well the feedback received regarding the location of sustainability information. While it is not in its remit to expressly give advice on the possible location, the PTF developed a Proposal for the Level 1 and ESS to consider how to articulate the information that would be requested under the revised NFRD and the related standards in Part 3.3.1.</p>
<p>Digitisation is supported.</p> <p>Some consider that it would help improve the reporting cycles, others that it would bring efficiency and timeliness.</p> <p>A single point of access is pointed out as a priority by several geographies.</p>	<p>The importance of digitisation was underlined in the rationale around the location of sustainability information in Part 3.3.1 and the PTF also proposes to onboard tagging techniques from the beginning, that could eventually be accessible through a single point of access, as for financial information.</p>
<p>Importance of connectivity between sustainability and financial information is acknowledged, with sometimes a fear that it would bring more complexity.</p> <p>Connectivity is an interesting idea, but it needs further development and mapping.</p> <p>The distinction between direct and indirect is not clear for everyone.</p> <p>Some suggested to add it in the Foundations.</p>	<p>The PTF agrees with the potential complexity of connectivity hence decided to integrate it in the standard-setting Guidelines, in Part 2.6. The Proposal is that the ESS should propose methodologies on how to operate this concept.</p>

ESS priorities

OUTREACH COMMENTS RECEIVED	INTEGRATION IN THE FINAL PTF REPORT
<p>Defining a coherent first set of requirements is seen as the highest priority across geographies.</p> <p>In order to do so, fostering alignment with the other major existing frameworks (TCFD, GRI, SASB, etc.) is perceived as critical.</p> <p>‘A global playing field needs a global standard’: being consistent and working jointly with other international standards is key.</p>	<p>The PTF drew a Roadmap in Part 4.2 underlining the importance of a first set of requirements covering all topics in the first set of standards.</p> <p>The alignment with existing frameworks, as foundation, will indeed be key but also should reflect a co-construction approach.</p>
<p>Simplifying and streamlining is also expressed as an important challenge.</p> <p>Standards should be considered from the users’ and preparers’ point of view, focusing on the right level and nature of information and avoiding being burdensome.</p>	<p>The ESS should indeed be careful not to add additional layers (hence the harmonisation highlighted in Part 1.3) and to consider with great care horizontal and vertical alignments.</p>
<p>Other comments:</p> <ul style="list-style-type: none"> • Keep the momentum. • Climate-first for several without forgetting human rights and other people-related matters for others. • Swift timing to release a 1st set of core KPIs is of essence, as the EU has to be among the first movers to ensure the credibility of its standard. 	<p>The PTF fully agrees with the critical importance of keeping the momentum, as highlighted in the Executive Summary.</p> <p>Regarding topics, the PTF highlighted criteria for priorities, but the priorities themselves shall be set by the ESS.</p> <p>However, the PTF does not recommend to start with climate only, but to also look at very important social aspects.</p>

DETAILED MINUTES OF OUTREACH EVENTS

- 8 The notes in the tables below were prepared by the organising team of each outreach event.
- 9 It should be noted that the views expressed by individual panelists may not reflect the views of the organisations or entities to which they may belong.

Minutes related to Spain outreach event held on 13 January 2021

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
General points regardless the organisation	<ul style="list-style-type: none"> • Need of clear principles and requirements about non-financial information • Inclusive range of stakeholders • Support the EU sustainability reporting momentum • Need of proportionality for SMEs 	ESS foundations
	<ul style="list-style-type: none"> • Alignment all existing initiatives/requirements about non-financial reporting • Need of quality of information 	ESS operational guidelines
	<ul style="list-style-type: none"> • Support the general proposed standard-setting in three reporting layers 	ESS architecture
	<ul style="list-style-type: none"> • Unique location of non-financial information 	ESS reporting structure
	<ul style="list-style-type: none"> • Most important priority to simplify and streamline 	ESS priorities
Non-financial corporations with securities listed on EU regulated markets	<ul style="list-style-type: none"> • Need of alignment with existing initiatives because are generally used and accepted 	ESS foundations
	<ul style="list-style-type: none"> • Reporting in the value chain determined by responsibility of the reporting entity and the control or influence by the reporting entity 	ESS operational guidelines
Unlisted non-financial corporations and SMEs	<ul style="list-style-type: none"> • Keep the commonly accepted ESG classification of topics 	ESS architecture
	<ul style="list-style-type: none"> • Total support to proportionality for SMEs • Agreement with all SMEs are not the same, and establishment distinctions by size and sector • Bear in mind micro-entities • Distinguish higher-risk/impact companies • Give longer time to SMEs for introducing new regulation • Cost-benefit function positive in SMEs and need of giving incentives • Regardless voluntary or mandatory for SMEs are affected by trickle-down effect and value chain, positive incentives to those affected 	ESS foundations
Financial institutions, in particular banks and insurance companies including both listed and unlisted institutions, and other financial market participants	<ul style="list-style-type: none"> • Voluntary verification for SMEs 	ESS operational guidelines
	<ul style="list-style-type: none"> • Need to bear in mind specificities of financial institutions • Bear in mind different categories of financial institutions, they are not the same • Requirements of non-financial information in a longer term in order to can answer to investors 	ESS foundations
	<ul style="list-style-type: none"> • More importance to forward looking information due to the investors' needs 	ESS architecture

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
Auditors, assurance providers and accountants	<ul style="list-style-type: none"> • Total support proportionality for SMEs • Agreement with all SMEs are not the same, and establish distinctions by size and sector • Bear in mind micro-entities • Distinguish higher-risk/impact companies • Give longer time to SMEs for introducing new regulation • Cost-benefit function positive in SMEs and need of giving incentives 	ESS foundations
	<ul style="list-style-type: none"> • Need of quality of information, and so need to verify it • About verification need of clear standards • Verification of all the non-financial information but with exceptions, for example SMEs 	ESS operational guidelines
	<ul style="list-style-type: none"> • Unique location of non-financial information • Support specific section of management report 	ESS reporting structure
Sustainability rating agencies and index providers, and academics specialising in the field of corporate reporting, in particular in sustainability or ESG reporting	<ul style="list-style-type: none"> • Support include intangibles in non-financial information • Intangibles if in non-financial information without collision with financial information and interconnected • Intangibles included in reporting areas 	ESS foundations
	<ul style="list-style-type: none"> • Double materiality must be clearly defined 	ESS operational guidelines
	<ul style="list-style-type: none"> • Well valued association of reporting areas with management decision-making, but it has to be something intrinsic in the philosophy of the company • Keep the commonly accepted ESG classification of topics • Support the relationship between topics and sub-topics and a multi-capital approach 	ESS architecture
	<ul style="list-style-type: none"> • Support of non-financial information located in a dedicated section of the management report • Support digitisation of non-financial information • Financial and non-financial information must be a whole 	ESS reporting structure
Regulators and supervisors	<ul style="list-style-type: none"> • Need of alignment transpositions and interpretations in the EU • Need of alignment financial entities regulation with the non-financial ones in order to be coherent and get comparable information • Need of coordination between different regulators and supervisors 	ESS foundations
	<ul style="list-style-type: none"> • Need of alignment of double materiality between all regulators and supervisors with a clear framework 	ESS operational guidelines
Non-governmental organisations active in the areas covered by the NFRD and Trade Unions	<ul style="list-style-type: none"> • Need of alignment with existing initiatives because are generally used and accepted 	ESS foundations
	<ul style="list-style-type: none"> • Trade Unions: double materiality implies to tackle the challenge of bring together sustainability material issues and financial material issues 	ESS operational guidelines
	<ul style="list-style-type: none"> • Trade Unions: pay more attention to area social/people, and concretely employees • Keep the commonly accepted ESG classification of topics 	ESS architecture

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
N/A	<ul style="list-style-type: none"> • Two overarching principles and 5 building blocks can form right elements for a coherent set of standards. A principles-based approach is supported. • Many of us have a vested interest to replace word ‘non-financial’ by ‘sustainability’. • The users of reporting and users’ needs are not adequately addressed in the foundations. There are different users and different user needs, where the sustainability reporting should answer. This was illustrated by three different types of users: decision users, position users and compliance users. Focusing primarily on demand from compliance users with predefined materiality could dismiss the entity’s attention to report on the materiality process and reduce the value of the reporting for the decision and position user. • Focus on primary users, mainly investors and lenders, was highlighted. There is a need for an ecosystem of sustainability information, which needed to ensure specific needs and information required from financial institutions (SFDR). • Strong support was provided to sector-specific approach to foster relevant reporting (80% agreed on great or reasonable extent in the polling question 1). • A scalable version of standards for SMEs was supported, but it was highlighted that there are different kind of SME. More focus should be placed on medium enterprises (50-249 employees) and non-listed large companies. Most of the existing standards are built for large, listed companies. Needs of non-listed large companies should be considered. • Some concerns were raised on intangibles. The importance of intangibles was acknowledged, but also challenges of recognition and measurement of intangibles in existing IFRS-standards. Therefore, it was proposed to consider further role of intangibles. There is also a need to define what is intangible value in sustainability reporting and clarify how to report on creation/destruction of intangible value to the companies and to society. 	ESS foundations
	<ul style="list-style-type: none"> • The importance of reliable data compatible with global approach and alignment with the existing global initiatives was highlighted in several comments. At EU level a common, robust framework is needed, but with a global standard setter in mind, and in time, it must be a global approach. • Quality of information will be fundamental for usability of information. Disclosed information should be credible and complete in connection of boundary. If this is not get done right, the use of information would be lower. Auditability would be helpful, at least limited assurance level should be considered. In the poll question almost 90% of responses favored auditability. Cost efficiency of data should also be considered, eg in light of diverse expectations from e.g. NGOs. • The role of forward-looking information was discussed and its potential acknowledged. Forward-looking and intangibles are important element of sustainability reporting as opposed to financial information. • It was supported that the level of reporting should cover everything in control. • Double materiality concept was supported. In the polling question the most needed steps for tackling the double materiality were understanding and identifying the relevant users and bringing together sustainability material issues and financially material issues. Two lenses are needed, and they should not be combined to one. There is a need for financial materiality as well as environmental and social impact materiality. 	ESS operational guidelines

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
	<ul style="list-style-type: none"> • The proposed architecture with the three-layer model and reporting areas got support. It was mentioned that under the strategy disclosures it is important to highlight business model impacts and value creation as well as balanced presentation of positive and negative impacts and externalities. A framework describing this would be useful especially companies entering to reporting for the first time. • ESG is well established as categorizing topics. No clear views were expressed to have Relationships as a fourth category, or exact categorization of subtopics. • Role of SMEs in the reporting architecture was discussed. Proportionality needs to be defined more broadly – not only no of employees. It should include also the minimum necessary metrics to secure financing for SMEs. • We also touched upon multi-sector companies, i.e., those operating in multiple sectors simultaneously. Who shall define which metrics they choose? Would they make the presentation of materiality choices & sector exposures in entity-specific layer? • Role of monetary, other quantitative & qualitative data was discussed & the need to link to risk management of financial institutions, impact measurement, forward-looking policies & practical goals. 	ESS architecture
	<ul style="list-style-type: none"> • Priority should be in comparability of ESG disclosures, linking data points to make use of disclosures easy. Importance of connectivity between sustainability reporting and financial reporting was agreed, but some concerns were expressed complexity of combining these and maturity to include sustainability in financial reporting. Report preparers prefer focused approach and flexibility. From users' perspective structured set-up, use of XBRL/digital solution, and year-to-year changes were mentioned as priority. • Views on the location of sustainability reporting varied from inclusion in the management report to a separate report. Integrated approach being the direction. Public ESG data register in the EU is seen as one of the solutions to integrate data from various reports digitally (if reporting stays dispersed to many reports). • Risk measurement is needed and, thus, monetary values of selected metrics are important. • For reporting entities flexibility & multi-report structure was preferred while for users / financial institutions combined report and financial materiality focus are important. 	ESS reporting structure
	<ul style="list-style-type: none"> • Concerns were raised if the standard setting process is not taking place at global level. Global approach and alignment with existing initiative should be a priority. Global paying field needs global standards. • Urgency of climate reporting was mentioned. Continuing the development of the non-binding EU guidelines for climate reporting, TCFD and Taxonomy regulation disclosure requirements, focus on climate would be reasonable. Global markets need transparency on climate issues, how well the market is fulfilling the Paris agreement and SDGs. • Polling question suggests a coherent first set of requirements as well as simplifying and streamlining being the most important priorities in 2-3 years. From users' perspective standards setting should facilitate the process to get all companies to a necessary level of reporting. Focus on implementation. 	ESS priorities

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
Preparer	<ul style="list-style-type: none"> • Important to have clear guidance and examples for the correct implementation of the principles by preparers. • Important to take into consideration the needs of the different types of users. Maybe they should be prioritised on the basis of dependency, influence and other criteria. • Regarding SMEs, there are voices that say that they should be excluded from the obligation for sustainability reporting. But if they are going to be required to do so, a proportional approach should be applied for SMEs due to the high compliance costs involved. • Some companies in the eastern part of Europe have only recently started to report sustainability information, and need guidance and time to adapt and improve their reporting. The sustainability reporting framework needs to be elaborated in a way that it will be operational for all companies concerned. • Sustainability reporting obligations should also be extended to non-EU companies operating in Europe so as to avoid unfair competition. 	ESS foundations
User	<ul style="list-style-type: none"> • Agree with the principles-based approach and the five building blocks. • Member States autonomy for the implementation of the revised NFRD needs to be balanced through the use of standards and guidance for a harmonised implementation approach that will ensure comparability of information across the EU which is essential for users. • The 2018 Sustainable Finance Action Plan and the renewed sustainable finance strategy of the European Commission provide a context for the revision of the NFRD and the sustainability reporting standards. • Investment firms need access to data that is reliable. The demand for better information is driven by the investors' need to understand the risks and wanting to avail opportunities for growth. Through the development of standards, Europe is best placed to enable sectors of the economy to transition to sustainability. • Proposed to add another principle – that of equal standing between financial and non-financial reporting, which are interconnected and interdependent. • ESS foundations approach presented is comprehensive. • From a Board's perspective, relevance of sustainability information is a priority. • Boards are primarily interested in information that supports the strategic decision-making process of the company. • Sustainability reporting should reflect how sustainability matters are embedded in the strategy and performance management of the company. It should explain the nature of a company's business model, how strategic decisions are made based on sustainability information, and how Boards are arbitrating the often conflicting expectations of stakeholders. • Thus, the availability of data is important. Comparability is also important, but not at the expense of relevance. The sustainability reporting system should create the conditions to allow data users to take a 'deep dive' into the business model of a company. 	ESS foundations

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
Accountant or other consultant	<ul style="list-style-type: none"> • In favour of a principles based approach. • To avoid ambiguity for consistency and comparability purposes and application cost efficiency, sufficient guidance is required to allow interpretation by stakeholders in a similar manner. Suitable criteria is also needed to allow the evaluation of consistent application of the standards and the auditability of the reporting. • Recognise the need for an inclusive approach, but note that further guidance and prioritisation is needed, to focus on what is achievable/pragmatic and not hold the momentum back. • Support the five building blocks. • Appropriate to recognise the role and needs of the wider financial services sector vs only financial institutions. • Larger SMEs and SMEs involved in riskier sectors should be reporting under sustainability standards. • Consistency is essential in what SMEs report and what is required of larger entities to report on with regard to their value chain, since SMEs are part of the value chain of larger entities. • Depth and extent of reporting by SMEs may be adapted in line with the materiality principle. • Proportionality, clear guidance and support are key for SME reporting. • Support the development of sector-specific sustainability reporting but should first focus on a core set of topics that are sector-agnostic, to keep the momentum. • Suggest to consider an additional building block that focuses on building on international initiatives to the extent suitable to the EU. • Due to the urgency and importance of channelling capital to sustainable investments, and the challenges being global, the ESS should work on 3 goals in parallel: (i) information using the same language at EU and global level to the extent possible; (ii) avoid unnecessary complexity by creating different layers of standardisation; (iii) proactive standards to meet the needs of the European community and aligned with international developments that move the sustainability reporting agenda forward. • Overall impression is that the project is very ambitious with a very broad scope and a very tight deadline. • Due to the time sensitivity of some aspects, in particular climate change, prioritisation is necessary. • The terminology and definitions should be aligned as much as possible with what stakeholders are familiar with as well as global discussions (referred to ESG as an example). 	ESS foundations

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
Preparer	<ul style="list-style-type: none"> • Supportive of the EU action in the field of non-financial reporting standardisation. It is important to promote the efforts made by European companies, to streamline international investors requests for non-financial data and eventually relieve companies from the obligation to comply with multiple reporting standards. Even if EU reporting standards are developed, international investors will probably not change their practices. Hence, need to take existing international initiatives into consideration for developing EU standards. • Most EU companies use predominantly the GRI framework so any EU initiative should start by referring to that. • International standards and methodology can be very useful as regards the quality and of the information and the content, because the important principles included therein are already being used by preparers. • Double materiality should be dealt with caution so as not to risk losing information that could be material. The two perspectives should be kept separate. It is very important to provide sufficient clarification for the implementation of double materiality as well as for standard-setting. Companies need to retain the control on defining what is material information. Requiring a negative statement explaining why some issues are not material could lead to illegible reports and a box-ticking approach. • Regarding the time horizon, current non-financial reporting practice concentrates more on a backward-looking perspective. Integrating a forward-looking perspective is something new, and it will be difficult to tackle by all preparers as they will need to elaborate complex scenario analysis that can affect the timing of the reporting. This should be seen also in relation to the location of the sustainability information – if this is to be included in the management report, the preparers need to have sufficient time to prepare it. Thus, flexibility on the location of sustainability information should be maintained at least for the moment. • As preparers, strong promoters of integrated reporting, but still find the language in the outreach document unfamiliar. • In terms of double materiality, expressed concern regarding losing material information if the financial reporting materiality concept is to be used with the threshold being much higher compared to what is relevant for ESG reporting. • The materiality analysis must be done for each reporting organisation. It is not clear from the outreach document if it should be by sector or reporting organisation. • The needs of advanced financial stakeholders are aligned with those of other stakeholders. 	ESS operational guidelines
Accountant or other consultant	<ul style="list-style-type: none"> • Echoed the point made by the previous speaker on the way the double materiality was described in the summary document, which causes some confusion. Double materiality should perhaps be aligned more with the concept of the dynamic materiality. • On benchmarking global, he shared the sentiment of the need to be building on international initiatives. 	ESS operational guidelines
Standard Setter	<ul style="list-style-type: none"> • A conceptual framework would be important for addressing the exact purpose of the standards. • Reporting initiatives should ultimately fit together in a comprehensive reporting system. Hence, they are in favour of a modular approach, where EU standards would build on existing European initiatives. Regarding the notion of benchmarking global policies, it would be important to build on other international initiatives. • Recommends to align the principles relating to the quality of information with the existing frameworks (e.g. notes the concept of the principle of balance to be missing – part of the GRI guidelines). • Agree with the split of time horizon between backward looking and forward looking. A forward looking time horizon begs the question of which time horizon to use and how to set the boundaries. • The concept of double materiality for sustainability and financial, covering also intangibles, can cause confusion. Strongly recommends to align terminology with common understanding to-date. It is very important to clarify what double materiality means in setting the standards and in applying them. 	ESS operational guidelines

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
Preparer	<ul style="list-style-type: none"> • Welcome the great opportunity to standardise sustainability reporting in order to speak the same language for the benefit of all stakeholders. • The reporting environment needs to become harmonised, clearer and simpler. Some sectors are already overregulated and they carry the burden of reporting in many different ways, on many different matters, to many different stakeholders, addressing many different questions. The proposed architecture will help in the alignment of interests. • The report itself is not the end, but just one of the tools, that will help to build the internal reporting system, to manage companies' social and environmental impacts. The architecture proposed (a concept based approach) can help companies to move from content-based to more context-based reporting. The three layers proposed will help companies with how they describe the context. • The internal company reporting architecture should be built according to the strategy of the company. An important element to underline in this respect is that it depends on the governance of the company whether the report itself is validated enough with the processes in place to provide accurate quality information to specific audiences. • The proposed architecture is really building on current experience of almost sixteen thousand companies in Europe using standards, both from global standard setters but also sectoral standards for their sustainability reporting. • Sectoral standards are important, and they need to be further developed, to allow fair treatment between sectors with a high impact on the economy and social and environmental issues. The proposed architecture can be used to build on further in the right direction. One critical element is harmonisation and inclusion, in terms of sectors, enterprises and member states. There are differences in gear and level of maturity, and it is necessary to build the capacity and competences needed to reach the same level of engagement within the EU market, for enhancing trust in the market. • ESG reporting is about topics not covered by traditional financial reporting but can be financial by nature. • Would be rather concerned with the use of terminology not known to ESG practitioners. • Current ESG reporting is not perfect, but has been evolving for more than 20 years, hence existing systems and experience cannot be ignored. The challenges relate to quality and comparability of reported information. Quality can be addressed through legislation and improvement of existing ESG standards. Comparability is more difficult to address, as it is the qualitative analysis which is the most important, supported by the quantitative analysis. • Regarding Options 1 and 2, there are topics with cross-cutting impact, like environment and human rights, corruption and human rights, or corruption and environment. Including even more categories, like in Option 2, adds to the challenge. • With reference to the reporting areas outlined on page 27 of the outreach document, they seem to be very prescriptive and would lead to extending the length of reports without improving readability. 	ESS architecture

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
SME/SMP	<ul style="list-style-type: none"> • 99% of companies in Europe are SMEs. Business owners are increasingly taking sustainability into account for their decision-making, seek to reduce their negative impact on the environment and society, and are more and more committed to people empowerment, strong communication with stakeholders, diversity, healthy working and living environment, etc. However, unsurprisingly, they do not want extra reporting and administration which is time-consuming and costly. If sustainability reporting becomes mandatory for SMEs it should require the least effort and cost possible. SMEs will need help and guidance and the standard-setter should ‘think small first’. Feedback and reactions should be sought from companies of different sizes. • Future standards should start with a feasibility assessment for the smallest enterprises who will be unable to apply difficult concepts without the help of experts, which would be costly. • In Flanders, they made some ‘sector passports’ that help companies in particular sectors to apply GRI guidance and work on their sustainability reporting. It might be worth checking some of them and pick some elements from there in creating the new standards. • The SGDs are becoming more and more widely used and known to a larger public. Hence, why not build new standards around them? • Support Option 2. • The most important thing is to have clear standards, clear guidelines and apply proportionality for SMEs. • Non-financial information should not become a burden for SMEs. Forward-looking information is difficult to provide for SMEs. • Not all SMEs are the same, hence standards should distinguish between different types of SMEs, higher risk sectors, number of employees, listing, while not forgetting micro entities. 	ESS architecture
User	<ul style="list-style-type: none"> • Agreed with preparer’s perspective. • The three different standard-setting layers are important. • For the sector-agnostic layer, mandatory requirements are necessary to be followed by all reporting entities. A uniform design and format should provide general guidance for existing entities as well as future ones. • Some mandatory requirements would also make sense for the sector-specific layer, for instance regarding risk-related ESG information that would affect the stock market pricing process. • The entity-specific layer, could also make sense, due to the fact that some companies, exceptionally, may have specific risks beyond what would be covered by the sector-specific layer. • Reporting areas and evaluation have to be focused on company strategy, respective implementation and final performance measurement. All of this should be related to long-term KPI targets and management remuneration systems. • In favour of Option 1 as ESG is the common mainstream and well understood terminology. People and relationships are included in the ‘S’ of ESG anyway. 	ESS architecture

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
Academic	<ul style="list-style-type: none"> • Agrees with most of the work done so far. • Sceptical about replacing the term 'non-financial reporting' with 'sustainability reporting'. The term non-financial reporting clearly showed complementarity with the financial reporting. The term sustainability reporting is subject to different interpretations. Hence, there is a need to explain clearly what sustainability reporting is, and define boundaries to sustainability information. • Agrees with the three layers of the architecture, which is in accordance with recent developments in other international frameworks. • On topic and sub-topics to be disclosed, the PTF should develop them further. She found it essential to harmonise with what we already have and not add to the existing 'alphabet soup'. There is a need to clarify and harmonise the sustainability topics. • The Portuguese securities market regulator is considering proposing a voluntary report model, aimed at assisting companies in fulfilling the existing reporting obligations, to provide clear, simple, objective and comparable information. The main objective should always be to simplify and produce clear easy to understand non-financial information. • Supports a multiple-capital stakeholder view and prefers Option 2 which is more similar to the <IR> framework that many are used to structuring non-financial information around. However, renaming the well-known concepts is not advisable. But clarification of the concepts is needed to lead to consistency. • Suggested to keep 'social' instead of 'people', and would add 'external' to 'relationships' to clarify it. 	ESS architecture
Trade Union	<ul style="list-style-type: none"> • It is key to stick to existing concepts, specifically the SDGs and the issue of a taxonomy around ESG, to avoid creating more confusion. The ESS architecture should not be based on selective pieces of those elements, but rather have a combined, inclusive and comprehensive approach. When it comes to social aspects for instance, the standards should stick to existing international pronouncements, e.g. the ILO core conventions to this end. These issues should also be taken on board and form part of a non-financial reporting exercise. • Within the architecture, the seriousness with which non-financial reporting is taken by businesses is important. Concerned with what she heard from previous speakers regarding effort, that sustainability reporting could be reduced to something which is nice to have without being too much of a burden. It is important to make sure that this is not the context in which businesses have to report, or perceive reporting. Reporting also represents investment in society and not just about making a profit. 	ESS architecture
Preparer	<ul style="list-style-type: none"> • The concerns of SMEs are important as SME reporting is relevant for the supply chain. • Time should be spent on better reporting and not more reporting. Agree that for reporting structure there should be some directions on what should be included in the management report. But being too prescriptive on format may result in a report that is not balanced or representative of the reporting organisation, and is difficult to read. There are good examples in this respect by IIRC or could be obtained through GRI. • Regarding taxonomy, with reference to page 36 of the outreach document, a clear and stable classification of disclosures is a prerequisite, and the GRI and SASB have a good approach. Further development and machine readability would be welcome. • Generally in favour of interconnection in relation to integrated reporting. Better common arenas are needed to collaborate for achieving connecting financial and non-financial reporting. • Agree that the direction is to have an integrated management report. • Companies that don't have so much experience in preparing non-financial information should be allowed time to develop in this respect. 	ESS reporting structure

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
SME/SMP	<ul style="list-style-type: none"> • The location of non-financial information should be clearly defined. At the first outreach event in Spain, the audience said that non-financial information should be included in a clearly identified section of the management report. • In agreement with the previous speaker regarding the importance of digitalisation and a classification taxonomy. These are essential in order to facilitate the preparation of non-financial information. • Sustainability reporting should not be extensive for SMEs, but a document as compact as possible. A concise summary could be included in the annual report filings. • Not many SMEs can afford the cost of engaging advisors to assist in the development and verification of their reporting. This doesn't mean they don't find sustainability reporting important, but the costs involved are too high for some of them. 	ESS reporting structure
Accountant or other consultant	<ul style="list-style-type: none"> • It is important that the management report and the financial statements are closely connected and given the same weight. Making sustainability reports more connected with the financial statements makes much more sense, and is in line with the position of Accountancy Europe for facilitating integrated thinking. • It would be worth distinguishing between sustainability information relevant for value creation (more capital market focus) hence more closely linked with the financial statements, and that with a wider impact which could be reported in a different section. The Accountancy Europe concept of 'Core and more' could capture this idea. In a paper-based world, there are concerns about the volume if both dimensions are included in the management report. • Very supportive of digitalisation and a taxonomy. Sustainability reporting should become part of the digital provision of information. Users are clearly looking for this data digitally, and robust standards are a prerequisite for minimising the cost in the long run. • Fully agree with interconnection and anchoring of sustainability reporting with financial reporting. There is an additional dimension to keep in mind – the connection between enterprise value relevant sustainability disclosures and more specific detailed sustainability reporting on certain wider impacts (e.g. wider social impacts). Liaising with the IASB is necessary to ensure interconnectivity, a good example being the recent IFRS educational guidance on climate risks, showing the connectivity between the two topics. • There may be a need for an interconnected framework, which will probably be for level 1 rather than level 2 of the legislative process. 	ESS reporting structure
Standard Setter	<ul style="list-style-type: none"> • Sustainability reporting is interconnected to financial reporting. There are many interconnections between sustainability information and the rest of the management report, and the diagram in the outreach document should be strengthened to show these interconnections. • Not sure if a separate sustainability statement would address the need for decision useful information, as interconnections with data in the management report would be missing. • Concerned also that if a separate sustainability statement is requested, many companies will make it an exercise that does not relate in any regard to their strategy and ongoing performance. • On the reporting taxonomy, a question to consider is how it would relay to a principles-based approach and entity level specific issues. Sustainability and non-financial issues are continuously evolving (biodiversity, discrimination, etc), often with entity specific topics. It is therefore necessary to already consider how this would fit with the taxonomy. • Regarding the pace of development of the standards, on the basis of past experiences developing a taxonomy from the beginning might hinder the progress needed. Hence this should perhaps be dealt with in parallel. 	ESS reporting structure

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
Academic	<ul style="list-style-type: none"> • Interconnection and consistency between financial and non-financial reporting is very important. Both reports should be in the same document. A combined report would be the most appropriate format. • Sustainability reporting must be in accord with sustainability activities. Users need some level of comfort on the quality and legitimacy of sustainability reporting as opposed to it being used by organisations as a facade. • Supportive of the idea of adopting a reporting taxonomy as soon as possible. There is a strong need for greater comparability in non-financial reporting. 	ESS reporting structure
Trade Union	<ul style="list-style-type: none"> • Non-financial reporting should be an ongoing process, to help inform the decision-making processes within businesses that also involve the workforce. • For country by country reporting purposes it is important to include key social indicators and not reinvent the wheel. • There is a necessity to have a section on sustainability in the management report. 	ESS reporting structure
Preparer	<ul style="list-style-type: none"> • Agree with prior views expressed. • There is an urgent need to take a step by step approach moving beyond compliance mode. • A commonly agreed terminology is needed in order to ‘speak the same language’ for building consensus to cultivate and enforce the necessary changes to be effective by becoming standard practice. • Need to equip preparers and users with skills and competencies to understand sustainability reporting. Important to specify the report format and relevant stakeholders to help set the right questions and use the right standards to answer those questions properly and effectively. • Need to work further on policy alignment with connected standards and regulations. There are a number of new initiatives coming that will create more confusion and more burden both for preparers and users. 	ESS priorities
User	<ul style="list-style-type: none"> • In the financial analysis/research area and the asset management industry, a variety of completely different evaluation models/methods are used, that nobody can really follow any more. The sustainability momentum calls for uniform reporting and a common set of standards. There is a strong need for alignment, convergence and harmonisation. Welcome a uniform state of the art standard-setting architecture and reporting structure for at least the EU as a single market. • The top priority should be convergence between ESS and the ongoing European initiatives. • Harmonisation with international frameworks is also needed. • The big issue for the investment community is accessing data, so it is important to have companies report the right type of data and in a timely manner. This is difficult and the burden is to be shared by everyone. 	ESS priorities
Accountant or other consultant	<ul style="list-style-type: none"> • The priority is to keep the momentum by building on the existing harmonisation platforms. • Secondly, focus on the sub-topics and data quality, and leave the reporting more flexible for the preparers to use. • Examples of disclosures and prototypes would help to clarify and achieve consensus. • Support the European standards, but place emphasis on the importance of international cooperation. Need to build on what’s already there. At the moment, this is not truly coming through the report. 	ESS priorities
Academic	<ul style="list-style-type: none"> • It would be pragmatic to prioritise climate related disclosures. Still, social issues like human rights must also be considered. • The most important priority is to prepare a set of requirements consistent with other international frameworks. There is no need to reinvent the wheel, rename topics and sub-topics, terms and concepts used now for many years. This way alignment of objectives in Europe and globally will be achieved. • SMEs of the modern economy and having sustainability reporting obligations for being value chain participants, will benefit from a set of simplified standards. 	ESS priorities

Minutes of financial institutions outreach event held on 18 January 2021

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
Accountant or other consultant	<ul style="list-style-type: none"> Support of the PTF work as important, critical for correct allocation of financial resources. Right level of scrutiny and monitoring important as regards the non-financial reporting, which is less mature than financial reporting. Non-financial reporting needs more structure and thorough quantitative and qualitative model. Eventually this must result in high-quality neutral / unbiased & reliable data. Data needs to be such as to enable monitoring. in favour of forward-looking data as well as reporting on intangibles, which are subject to monetary valuation and impairment testing – for example based on DCF models. How to integrate this with sustainability issues? 	ESS foundations
Insurance expert	<ul style="list-style-type: none"> Importance of the purpose definition of sustainability reporting and suggested to add a 3rd overarching principle: the cost-benefit evaluation of reported information. He also suggested to call the reported information as 'pre-financial' reporting. Need for clarification of the approach regarding intangibles – trying to make the approach more practical. Agreed on the need to separate out financial institutions as a special stakeholder. Timing issue outlined. Prioritising & simplifying outlined – to avoid overload of information (insurers are also preparing for & reporting on IFRS 17 & 9 – big effort for them). 	ESS foundations
Asset manager	<ul style="list-style-type: none"> Intangibles represent the economy of a century and there is a lot of overlap with sustainability reporting. For example, patents (incl. green patents), client satisfaction, climate change urgency & solution providers etc. Need of education and belief in science. All this is being constantly priced by the markets. Strong support for finding a way to integrate intangibles. 	ESS foundations
Bank	<ul style="list-style-type: none"> Importance of placing sustainability at the heart of strategy and ensuring the comparability of data. Sustainability approach is integrated with: <ul style="list-style-type: none"> capital allocation decisions impact assessment of ESG on traditional risks impact on society through impact on clients, alignment of sustainability and lending activities Supportive of proportionate approach to inclusion of SMEs to sustainability reporting, but suggested this should be optional – especially if we consider possible disruptive events like Covid-19 and such events' possible impact on SMEs 	ESS foundations
Asset manager	<ul style="list-style-type: none"> 'non-financial' gives an incorrect flavour >> 'sustainability' is much better. It needs to be 'financially relevant sustainability information'. It should form the 3rd leg and overarching principle of reporting for financial institutions: <ul style="list-style-type: none"> financial reporting financially relevant sustainability reporting other sustainability reporting Such structure would bridge the gap between the users' needs and minimum requirements for reporting entities – before we are able to enlarge reporting to cover broader set of sustainability information. 	ESS foundations
Rating agency	<ul style="list-style-type: none"> Welcome the EU reporting standardization efforts and the financial institutions' angle, which is being proposed – as financial institutions for a large user group. Stressed the need for minimum set of broadly applicable KPIs – given that banks lend to a broad number of companies. Need for international reporting integration. Sectoral importance – and ability to translate the long-term (e.g. 2050) targets to short-term (e.g. 2025) goals & commitments. Would welcome reporting on all financial instruments (not only green loans) as well as asset-level disclosure. Defining materiality now & 'potential materiality' in the future (and 'past materiality'). Materiality from equity & credit perspectives could be different, as well as materiality at different levels (operational, supply chain, product impact, etc.), as there are different embedded risks. Externality cost accounting is very important for assessing both financial materiality of externalities as well as the 'do no significant harm' criteria, which might be beyond what companies themselves report/recognise 	ESS operational guidelines

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
Asset manager	<ul style="list-style-type: none"> Climate has human rights issues >> broader than just climate. We need to focus on financial materiality – we can't expect entities to report on everything 'from A to Z'. Need to look at global benchmarks – especially TCFD & SASB, of which TCFD nicely outlines the short, medium and long-term risk & opportunities. There is already large reporting burden on large companies: can they possibly drop some part of reporting? What is necessary to be added? Reporting on impacts is important: own operations + whole value chain. 	ESS operational guidelines
Insurance expert	<ul style="list-style-type: none"> wider scope for reporting standards – including all companies which are investable, not only those which are capital markets' oriented. For SME's broader definition of proportionality (not only no of employed but also assets under management, etc.). Consider how to ensure that foreign firms in EU territory also comply to some degree. 	ESS operational guidelines
Asset manager	<ul style="list-style-type: none"> Need to be pragmatic from users' point of view. Need to include all companies in Level 1, also all SMEs & foreign – and need to look into which sustainability KPIs are included into financial assessment. Also forward-looking information needed. 	ESS operational guidelines
Bank	<ul style="list-style-type: none"> Need to be as simple as possible. Supports largely the proposed architecture apart from not supporting the multi-capital link, which needs to be clearer. Supports strongly the social goal / relationships & people division. All ESG aspects need to be covered. Timing synchronization needed. Location-specific, sector-specific and especially info on how companies segment their businesses (including operations in several sectors at the same time) needs to be disclosed better. This would support measuring how human rights are taken care of and how communities are affected. 	ESS architecture
Accountant or other consultant	<ul style="list-style-type: none"> Need to quantify sustainability risks – it is crucial for risk management. There is currently no clear benchmark how to do it. There are ECB guidelines, EBA paper and BaFin guidance. Broader scope: financial institutions need data from all entities which are being financed 	ESS architecture
Bank	<ul style="list-style-type: none"> Not a 'fan' of capitals approach – thinks its just another layer of complexity. Need to include not only climate but all ESG. Timing important. Focus on financial materiality 	ESS architecture
Asset manager	<ul style="list-style-type: none"> Sector classification needs to be addressed – how to ensure inter- and intra-sectoral comparison, how to ensure disclosure of firm operations simultaneously in various sectors. Stick to ESG (option 1). Capitals approach – OK but need to connect it carefully with what is already being reported. At least 6-12 months reporting lag. Simplicity & pragmatism are needed. 	ESS architecture
Bank	<ul style="list-style-type: none"> SMEs are part of ensuring our economies' transition to more green. All companies need to be aware of this transition and climate risks – as well as try to be part of solution. Regarding SMEs: need to start voluntarily and gradually move towards mandatory. How to simplify concepts & ensure clear Taxonomy? Need to take example from SASB, which is nicely tuned to sectors & topics. All companies need to be made aware of their CO₂e footprints: its not only needed for reporting but needs to be used for capital rising purposes. 12-months lag for reporting for financial institutions on indirect impacts in needed. 	ESS architecture
Insurance expert	<ul style="list-style-type: none"> German insurers are strongly in favour of single access point – it needs to be a public good. Sustainability reports would like to see separate from financial reports. Price to carbon / plastics – if material needs to be considered. There can be other issues coming up in the future, which are not considered today – don't want management report full of sustainability issues. Need to report impacts on SDGs and on 'do no significant harm'. Need to do quantitative climate stress tests and other quantitative assessments. 	ESS reporting structure
Asset manager	<ul style="list-style-type: none"> In favour of integrated reporting and including various types of capital. Efficiency is important. 	ESS reporting structure
Insurance expert	<ul style="list-style-type: none"> In favour of integrated reporting – and ensuring integration with management decisions – making a clear link with sustainability 	ESS reporting structure

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
Rating agency	<ul style="list-style-type: none"> • Need to clearly cross-reference, tag the reported data, which comes from separate reports. Strongly in favour of digitisation – it will improve reporting cycles. 	ESS reporting structure
Bank	<ul style="list-style-type: none"> • For users it is good to have all information in the same document. Agree on digital taxonomy. Over-sized reports need to be avoided though. Possibly some compromise: include some ESG to main report – the rest in annexes / separate statements. 	ESS reporting structure
Bank	<ul style="list-style-type: none"> • ESG risks and impacts' measurement needs to be made a priority • comparability across & within sectors (companies' operating in various sectors at the same time) • inclusion of SME's • accessibility of data • a set of mandatory KPIs to know what needs to be reported • compatibility with international standards • all sustainability needs to be in one report – not various statements 	ESS priorities
Asset manager	<ul style="list-style-type: none"> • need to align with global benchmarks: TCFD, SASB, GRI, CDP, PRI, IFRS; all reporting needs to be based on already existing frameworks • KPI's divided to (a) 'core KPIs' (not 'mandatory KPIs') – these should be both sector-agnostic and sector-specific, as well as (b) additional KPI's, which are to be reported by large corporates • entity-specific reporting needs to consider how materiality is assessed and defined (how choice of metrics from various sectors is combined in entity's reporting) • more integrated reporting is needed, in Finland management report is part of financial statements already. 	ESS priorities
Accountant or other consultant	<ul style="list-style-type: none"> • need to look at existing frameworks, standards & regulations 	ESS priorities
Bank	<ul style="list-style-type: none"> • EU public (free or at reasonably low / affordable cost) data register – it is positive that the EC has announced the creation of this data register. This needs to include also sustainability data which is already collected in the EU: by central banks & statistics offices (for example emissions' data). • Link of KPIs to green taxonomy 	ESS priorities
Insurance expert	<ul style="list-style-type: none"> • EU has opportunity of being the first mover in mandatory sustainability reporting, but EU needs to be part of global connection & alignment in reporting • Liked the 'Core KPIs' proposal by Anna Hysrke • Timing issues – SDFR already coming soon 	ESS priorities

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
N/A	<ul style="list-style-type: none"> • Strong emphasis on the fact that reporting on sustainability topics and the transformation to sustainable value creation is of global relevance; accordingly, strong recommendation that a global solution should be pursued from the beginning at best or as soon as possible; two questions seem to be of particular interest: a) whether / when a global solution will be pursued and b) how a global solution will be pursued; in the meantime, consistency with existing global sustainability reporting standards (and with these that may e.g. be developed by the IFRS Foundation) needs to be ensured to account for indispensable future dynamics; EU-level solution that is incompatible to global standards is not deemed as promising with view to the mid- to long-term, but could serve as a valuable impulse with view to a global solution. In this regard, a panelist mentioned that the front-runner role of the EU can also be a competitive advantage in the future, because EU-standards may serve a role model for international standard setting. 	ESS foundations
	<ul style="list-style-type: none"> • A global solution is particularly important for companies operating globally, in general, and for financial institutions in specific due to their dual role and their specific and much more extensive disclosure requirements extending to investees worldwide. A detailed EU standard could be perceived as an additional layer of bureaucracy/need for compliance if not well linked and consistent with existing international reporting practices. 	ESS foundations
	<ul style="list-style-type: none"> • Strong emphasis on the need to rely / build on existing international initiatives (e.g. GRI), on the need to consolidate / harmonize existing guidance and on the fact that any efforts in this regard should be supported by a future standard setter; deemed as key that a future standard setter would cooperate with these initiatives and recommendation for a future standard setter to proactively use the EU momentum to drive this forward and thereby contribute to simplifying the corporate reporting landscape from a global perspective as much as possible. 	ESS foundations
	<ul style="list-style-type: none"> • Consistency of NFR requirements across EU regulations is absolutely critical, especially but not only with view to timing issues that financial institutions would face given the need to rely on other companies' disclosures; related to this, more broadly, the lack of high-quality and timely data is of key relevance; an electronic data base for reporting on a consistent basis would be highly recommended. 	ESS foundations
	<ul style="list-style-type: none"> • Note that forward-looking information is particularly important, especially as input for forward-looking valuation models for financial institutions (today proxies are used); standardized approach to quantify monetary effects of e.g. environmental risks is key and should be addressed to achieve comparability 	ESS foundations
	<ul style="list-style-type: none"> • High agreement as to a sector-specific approach, both with view to financial institutions and SMEs; yet, strong emphasis that proportionate guidance needs to be developed for SMEs, taking into account what they can realistically manage and afford and what would also be beneficial for them (e.g. in terms of integrated thinking); question as to whether very small companies shall in fact be in scope at all. One stakeholder suggested that SMEs know their sustainability topics well and that maybe a relief is not even necessary. 	ESS foundations

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
	<ul style="list-style-type: none"> • Scope extension is generally welcome, especially in terms of including all large companies given their significant market relevance. • Strong emphasis that appropriate and clear guidance is required as to materiality; note that the underlying materiality concept shall ensure a) a reasonable degree of comparability and b) that ESG is actually incorporated into internal steering and decision-making by the company's management. • Building block related to intangibles is perceived as highly debatable and is less agreed upon; many do not consider it as adequately placed within this task force; they rather perceive that there is no clear rationale as to why it would directly be related to SR, that different know-how is needed; note that interconnectivity with FR to be ensured. • Note that financial vs. non-financial will become a less important question while material vs. non-material will become the key question. • Strong emphasis that objectives need to be clarified and included in the overarching framework, namely a) SR as a complement to financial reporting and b) SR as a support of policy initiatives with view to the significant challenges societies currently face (globally), which require timely action. • Objectives of the standards should be clearer – are they guided by public policy objectives or provide a technically sound general reporting framework or both? Probably not only for 'pure' reporting needs but address societal challenges. • It was noted that the user groups of NFI should be clearly defined by the PTF or the ESS. Investors are important but civil society is also a relevant user group. • Multi-stakeholder approach with inclusive participation is absolutely key; ask of a trade union in the panel: specific stakeholders should be actively consulted (e.g. employees). • Regarding the ESS foundations, one panelist emphasises the need to have democratic legitimization for (sustainability) reporting requirements. Thus, EU policy makers should take conscious decisions which elements of (sustainability) reporting shall be subject to political decision making, and which elements should be delegated to a standard setter for further elaboration of reporting requirements. 	<p>ESS foundations</p>

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
	<ul style="list-style-type: none"> • Strong emphasis that connectivity between FR and NFR is of particular importance. A parallel framework next to a global framework should be avoided. • Assurance seems to be perceived as feasible and there is rather broad agreement that assurance should be required; i.e. call for the standard to be developed in a way to facilitate / support auditability. • Especially existing NFR guidance, but also existing and well-established systems for reporting data need to be considered and should be built on as much as possible (e.g. proposal to use EMAS for reporting on 'E'); rationale noted both for benchmarking at EU level and globally. • Strong agreement that forward-looking information should be reported; yet, note that various risks to be considered (e.g. information on transformation may be of proprietary nature, uncertainty, especially with view to longer time horizons). • Note that focus should be on companies' own operations first and then the entire value chain, given the need to rely on third-party data and likely high lack of timely and high-quality data, also outside EU borders. • Diversity of SMEs should be taken into account and exposing them to any risks should be avoided by all means; in a similar vein, regional differences should be taken into account; i.e. call for standards to grant sufficient flexibility for companies to apply the requirements in their entity-specific context. • Strong support of double materiality concept, but broad agreement that clarification is needed that 'OR' (i.e. reporting if information is material with regards to the impacts on environment and people OR the financial performance of the company; not only the overlap between both materiality perspectives) is correct. Worth considering is also a link to the efforts of the Value Balancing Alliance for better covering the inside-out perspective. • Clarification as / agreement as to the different users is needed to gain a common understanding of whom SR shall serve. • Reporting progress against targets is of key relevance as it ensures that companies report on what they actually do; i.e. integrated thinking as key concept and objective in this regard. • Note that proportionality is a key topic, not only for SMEs; to be assessed early on what solutions are both appropriate for resolving specific issues, but at the same time proportionate. 	<p>ESS operational guidelines</p>
	<ul style="list-style-type: none"> • Structure is not directly intuitive – why not base it more on existing standards? • Clarification is needed as to the reporting areas and their respective sub-categories; deemed as critical that there is no obvious reliance on existing guidance; note that ESG performance reporting should focus on forward-looking information. • Classification (ESG vs. ESG renaming vs. four categories) is not perceived as crucial in contrast to the definition of the actual content, but being consistent with existing guidance is deemed as most beneficial; in any case, consistency with NFRD legislative text to be ensured; still, German stakeholders seem to rather support maintaining the ESG classification as it is already well-established. The relationship category was not clear for everyone. • Mixed view on multi-capital approach; while it could serve as a valuable approach to systemize sources of value creation and to show how companies use different resources, it may be too 'economic' for non-financial stakeholders and not sufficiently well-established in the current reporting landscape / practice. • Classification of content into entity-specific, sector-specific and sector-agnostic is strongly supported; however, it could be clarified that the management approach is decisive for the entity-specific ledger. • Be careful with requiring companies to disclose too specific roadmaps → can compromise competitiveness, esp. for multinational enterprises which do not operate in a level playing field regarding reporting. • Recommendation to allow flexibility, for example through a mix of mandatory and voluntary disclosures (whereby the voluntary disclosures provide room for entity-specific definitions) 	<p>ESS architecture</p>

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
	<ul style="list-style-type: none"> • Reporting in the management report is generally supported to allow for interconnectivity and account for the fact that both types of information are equally important (and NFI also has financial implications); still, as stakeholders have very different information demands, most likely also in terms of detail, language and format, it is perceived as questionable whether it is still appropriate with view to today's opportunities to require full disclosure in the management report rather than providing core information in the management report and then 'complying by reference' to different reports / formats that serve particular stakeholders groups. • Integrated reporting is generally supported and full integration would be desirable; it is, however, deemed questionable whether / how full integration could be achieved now and in the future with view to the different users, materiality concepts, lack of integrated thinking, etc.; in any case, integration to be pursued in a second step only; would also depend on the degree to which quantification of monetary effects is successfully achieved; anchor points are perceived as a valuable approach in this regard. • Tagging is generally supported, but with lower priority; while a respective taxonomy and tagging should already be taken into account from the beginning, actual requirements in this regard should not hinder timely progress and the current fast pace in sustainability reporting; a proportionate approach as to tagging is particularly required for SMEs. • A single point of access should be a key focus area to achieve a coherent reporting system for FR and NFR; this is deemed as beneficial for both preparers and users. • NFR should not be referred to as such as it is not 'non-financial' in many cases, given potential financial implications 	<p>ESS reporting structure</p>
	<ul style="list-style-type: none"> • A future standard setter should focus as much as possible on existing initiatives in all contexts, i.e. with view to SR, but also e.g. ESG classification and established reporting systems / databases. • Necessary for ESG to be incorporated in actual steering and decision-making in the short-term. • It needs to be ensured that matters such as climate risks which are particularly urgent are covered in the short-term, but don't forget human rights and other people related matters • Interconnection between level 1 and level 2 regulation should be a key objective. Level 1 legislation should set the necessary and clear planks for the more detailed level 2 requirements. Level 2 implementing acts should be well defined and from the beginning used with due care especially by taking international developments on board to the largest extent possible. • Key objective should be to focus on existing guidance as much as possible based on what initiatives are already suitable now for preparers and are already known by users. • Coherence with FR & interconnectivity should be added as a building block. • It is absolutely key to avoid that companies will ultimately report on a twofold basis, once globally and once at EU level; promising international initiatives to be considered with view to global solution (e.g. by IFRS Foundation); this should represent a specific building block. • SDGs should be considered in defining priorities. 	<p>ESS priorities</p>

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
Academic	<ul style="list-style-type: none"> SMEs are often subcontractors and suppliers to large clients and are already required to provide non-financial information in their reporting. If the standard is adapted to SMEs, it must be compatible with what their clients already require of them. It is important to come back to the definition of capital. For intangibles, it is important to better define what the company owns (assets) and therefore important in financial analysis. But also other definitions: natural capital, biodiversity, the state of rivers and oceans, we will speak of capital rather as a common good and then we will not try to show what the company owns extra-financially but what it does to keep it in good condition and how it uses it. (difference between capital 'asset' and capital 'common good'). 	ESS Foundations
	<ul style="list-style-type: none"> If we have to work on the connectivity of the link between the financial and the extra-financial, we have to give a level of auditability of this information that is different between the two rather (I would rather have understood who is closer?). The question of objectives and forward looking is an illustration of the challenge of extra-financial standardisation with the other objectives of the EU. If the EU's objectives, there is necessarily a translation of these objectives through the organisations. This needs to be thought through and limited in number, but it is necessary to align and translate them in the organisations. I agree with the idea that it is more interesting to report on the process followed than to impose a process. 	ESS operational guidelines
	<ul style="list-style-type: none"> How are the topics going to be articulated with the reporting areas? In addition, it is a pity to put the WB in sub-categories of the strategy when it is at the heart of it. (What I lack is details on the link between the 'reporting areas' and the topics and sub-topics. It is a pity that the notion of business model is now only one category of the strategy because it is the notion of business model, which is the 'engine' of the organisation that would facilitate this link). Once again, as in the discussion on the intangible, it is important to clearly define what is meant by capital 	ESS architecture
	<ul style="list-style-type: none"> It all depends on the definition of direct and indirect, but distinguishing between them provides a point of anchorage via direct (what corresponds between the two and to what extent there is a financial translation in the company's accounts) and indirect via budgets and scenario analysis is more prospective, i.e. what means the company is prepared to put in place. It all depends on how it is defined by the FT. 	ESS reporting structure
	<ul style="list-style-type: none"> Priorities: 1. stabilise the recommendations in order to publish a common set of indicators and qualitative information to be published; 2. involve principals in providing extra-financial information, thus helping SMEs and to publish voluntarily; 3. international coordination is needed so that it is internationally compatible, without renouncing Europe's values. 	ESS priorities

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
Preparer	<ul style="list-style-type: none"> • Companies are interdependent with investors. Problem on the availability of data: companies need to participate in this standardisation in order to satisfy investors' demands. It underlines the lack of consistency in substance and timing between the requirements for investors and the timing of companies. • The SASB and the major international investors already choose the sectoral approach. The future European standard should ensure convergence with the SASB's sectoral indicators, while adapting to what Europe needs (the SASB does not have the dual materiality approach). This would avoid multiple injunctions and be consistent with international initiatives. • Think that this is a very important subject but that it is not mature enough to be included in a European standard, the same difficulty as what companies encounter on the evaluation and definition of human and natural capital. So they should already be well defined what will be in the extra-financial before adding the immaterial. • Have always maintained that the non-financial and financial audit is different due to the different nature of these data, and therefore are attached to this difference in audit, linked to the reality of the due diligence carried out. 	ESS Foundations
	<ul style="list-style-type: none"> • Many companies already publish targets in different areas (waste, diversity, etc.). However, they often choose a time horizon in line with their CSR strategy. Therefore, this is a good practice. The choice of period and the objectives that companies wish to choose must be preserved. They do not want a horizon imposed on them to set objectives, because the evolution is not always linear, there are technological breakthroughs, so it would be very difficult to publish a forward-looking trajectory year after year, and it should not be too rigid. This would not be acceptable for companies. It would not be necessary to publish the financial results of these objectives. • Opposed to a general obligation to publish targets. Wish to keep the freedom of how they set targets. • Transparency of supply, the willingness of some to impose almost total transparency on a large group; of course it is a lot of direct suppliers so it is important to underline the main principles that should guide this reporting. We must limit ourselves to what is most significant in the value chain. What is the point of having a lot of pages on all the suppliers + competition issues and transparency on supplier relations? This should not infringe on trade secrets. • Support the principle of dual materiality, financial and non-financial. The dual materiality must be further clarified to avoid divergent interpretations. Support the principle of sectoral materiality. One has the impression that you would be tempted to impose an analysis of materiality but the choice of the company in its own analysis of its materiality must be preserved and made transparent. However, this should not be imposed, as there are very different consultation methods (mainly or solely at the specific entity level). But ready to make the process public. 	ESS operational guidelines
	<ul style="list-style-type: none"> • If it is already in the NFRD, it suits them well. Companies are attached to the ESG pillars without adding a 4th. • Re option 1, agree with keeping the 3 ESG structural pillars because they are used internationally. The 4th pillar would add additional complexity with responsible purchasing and other issues. • On the location of this non-financial information in the annual report, it is ok and it is already the practice so it is good to keep this for other EU member states. However, that is not the point. Element on the reporting taxonomy: the information should already be standardised before starting the digitisation process. Digitisation is more difficult to achieve. Having said that, it could be important to think about it from the start so that when it is mature we can digitise. Especially for qualitative data. In addition, the future format must be consistent with what is done in the accounting field so as not to impose additional costs on the company. 	ESS architecture
	<ul style="list-style-type: none"> • Support consistency between the two types of financial and non-financial reporting. All this is being put in place, so for the moment we need to ensure consistency and it is difficult to go any further. A little more work will be needed as for other points. 	ESS reporting structure
	<ul style="list-style-type: none"> • Agree with the dialogues between stakeholders, issuers and investors, and a common framework with international obligations. In addition, the EU needs to exert more influence internationally with clear indicators selected through its work and by simplifying them and bring its values and approaches to the international level. 	ESS priorities

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
Investor	<ul style="list-style-type: none"> It is very important for them to have a separate category for financial institutions (preparers/ investors). It would be too cumbersome to be specific by category. A single separate category for all financial institutions and not several different ones would be ideal. 	ESS Foundations
	<ul style="list-style-type: none"> Progressiveness of indicators important + as managers they invest internationally and this should be taken into account in the different layers of indicators. It is essential to have an audit of the data because it is as important as the financial data. This requires a limited number of standardised data that can be audited and compared. Forward-looking indicators are a good idea but very difficult to use, so there should not be too many of them. Principle of temperature is forward looking, so it has to be understood in this dimension. It is necessary to have some but not all of them. On the concept of materiality, it seems very important to us that NFRD takes hold of this definition and obviously integrates the double materiality. Today there are bits of definitions in several regulations/directives. 	ESS operational guidelines
	<ul style="list-style-type: none"> Supports option two in particular with the social and societal distinction. Clarification on the environmental pillar: this pillar is mature, whereas biodiversity is not. Proposal to make the link with the different types of capital is favourable and makes it possible to make the link with intangibles. 	ESS architecture
	<ul style="list-style-type: none"> Synthesis statements: this would be very important and would limit the number of indicators, so would like a synthesis in the management report for the non-financial. Interconnections are important in the analysis of an issuer, but should a distinction be made between direct and indirect interconnections? That would introduce a lot of complexity and an unnecessary straitjacket, especially since the subject is not a mole science. They are in favour of an integrated annual report even if it remains theoretical and abstract, so forecasting TF would be good. 	ESS reporting structure
	<ul style="list-style-type: none"> They support a quick minimum base of information while limiting the information that would be audited. It should be proportional to the size of the company. There needs to be a dialogue between issuer, investor and auditor. 	ESS priorities
	<ul style="list-style-type: none"> Increasing factor of value generation but not always taken into account in finance. They support the approach proposed by PTF even if the task will not be easy as it will be necessary to list and define what we are talking about. Would natural capital be included? In addition, how to value this capital? It is up to PTF to decide whether they have the capacity to carry out this task. 	ESS Foundations
Regulator	<ul style="list-style-type: none"> The scope today varies according to the different actors who publish. What we want today is transparency and clear justification. They want the perimeter to be widened according to the WB of the companies (subcontractors, franchisees...?). They are very much in favour with this approach. 	ESS operational guidelines
	<ul style="list-style-type: none"> Have always been in favour of including it in the management report and would like it to be a rule at European level. Because it is important to ensure that there is a single set of accessible information and to avoid a multiplicity of documents to be published. In addition, the EPBD makes sense to include it in the annual report because of its nature. 	ESS reporting structure
	<ul style="list-style-type: none"> We need an ambitious and operational European standard as soon as possible with SME and sector standards that is as complete as what already exists, even if it is said that we need to be progressive. It is also necessary to better organise the performance indicators, to compare companies to others. Standardisation is also necessary to ensure consistency while maintaining strong specificities, particularly the dual materiality. 	ESS priorities

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
Trade Union	<ul style="list-style-type: none"> • Sectoral specificities are very important and must be worked on with the actors of the sectors. 	ESS Foundations
	<ul style="list-style-type: none"> • They support this approach but it is going to be very difficult to implement and it must not be built according to what people are going to want to say. 	ESS operational guidelines
	<ul style="list-style-type: none"> • Are for option 1 as well. 	ESS architecture
	<ul style="list-style-type: none"> • The intervention of representative trade unions in France at this type of round table is very important. Are in favour of a rapid European standard, with a common base. We must not dump new things by those who prepare the accounts, but we must build on what already exists and focus on SMEs, since they have to account for extra-financial information. In addition, don't forget, employees also have things to say in the profit-sharing and pension funds in which they invest. So this information is very important in large companies that have this type of fund. 	ESS priorities
Auditor	<ul style="list-style-type: none"> • The accounting profession thanks and distinguishes companies and SMEs for their voluntary approaches. The standards should apply to all sizes of companies and SMEs should be able to register in voluntary approaches. • Adhere to a reference framework based on principles. It will be necessary to balance the three levels, but the principle explained will allow companies to adapt. They support the 3 levels. • At the international level, a lot of work is being carried out, so it will be necessary to ensure joint work with what is already being done (IASB work in particular). 	ESS Foundations
	<ul style="list-style-type: none"> • They have always campaigned (in 2007 during the Grenelle Environment Forum) to improve the visibility and auditability of this information, as initially provided for in the NRE law. And the important thing was to associate this information with the management report to give the governing bodies an equivalent timeframe. Then CSR has made progress since 2007 with the DPEF (2017), the introduction of the 'société à mission' (PACTE law) and to be credible the financial and extra-financial reporting and tomorrow the integrated reporting must be audited. To create the conditions of transparency for the eco and societal sphere, it also offers the company the opportunity to ask itself the right questions, to change for society, to give relevant indicators, thus an existential advantage for the future of companies. • The quality of the reporting and internal control system is important, as is governance: it is interested in and challenges what is being done, but it is also important to have this adaptability of companies of all sizes, all types of ownership and governance. • See a certain urgency on social, environmental and climate issues. See with the mission companies that companies react quickly to this urgency. The prospective aspect seems important but the companies most concerned by their raison d'être and mission will make this choice on their own and a certain quality of data will be necessary. On the company with a mission they are preparing technical opinions on this change. • Strong support for this approach, which is important. It is necessary to take into consideration both the internal part but also the subcontractors and all the actors of the value chain of a sector. This will involve the volunteer SMEs. • Support for this approach as well. Reporting on the process monitored and flexibility of the process implemented: it is often said that integrated reporting has only one materiality (short, medium and long-term value creation) and follows the paragraph to be committed to for the stakeholders. So the important thing is how it will be applied in the standards. • This development will have to be clearly aligned with level 1, and the EPBD mechanism has shown effectiveness and an undeniable advance in quality because it has been taken as a real tool for reflection to demonstrate in a transparent manner the stakes, the creation of value and how they take into account environmental impacts, with quantified indicators. 	ESS operational guidelines

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
Auditor	<ul style="list-style-type: none"> Option 2 gave all the concepts of the GRI, IICR . It is important that it is in the management report, and even applies to unlisted companies, especially family businesses, to support their specific business model. 	ESS architecture
	<ul style="list-style-type: none"> We can see that this is starting to be discussed at board meetings, if only by listing it alongside or inside the annual report. Interconnectivity comes naturally from the transparency of the WB, from total value creation, and therefore de facto this interconnectivity must be given a certain flexibility, but it will come of its own accord. 	ESS reporting structure
	<ul style="list-style-type: none"> Its three main points = principle-based reference system + information in the management report + urgency. Level 1 provides a solid basis for non-financial reporting, but the important thing is to move on to standardisation. 	ESS priorities
SME	<ul style="list-style-type: none"> They are convinced that CSR is not reserved for large groups but is a performance factor for small companies. A simplified standard for SMEs would be an answer because it would be adapted to their sector, their challenges and their size. To be effective, this approach must remain voluntary and easy to access. The SME is not a large group in a scale model, so a sectoral approach with a common core of limited and balanced indicators per pillar should be taken. This information should be consistent with the ISO 26000 standard. The current approaches of sectors to CSR reference frameworks are based on this ISO. On the threshold, the word 'voluntary' has its place for the SME approach. The lowering of the threshold from 500 to 250 leads to a movement. They were attached to the 500. Not all family businesses have the necessary human and financial resources. However, the 250 threshold remains acceptable. On the type of information, they think that the sectoral aspect is important and must take into account the 4 main fields of CSR (governance, economic, environmental, social and societal). It must be adapted to the reality of companies and relevant to their issues. 	ESS Foundations
Public Authority	<ul style="list-style-type: none"> It supports specific treatment for financial institutions. France is in favour of extending NFRD to more than 250 employees with the involvement of the entire value chain and the principle of proportionality. Small companies that would like to get involved should not be excluded. It should be voluntary and adapted to the specificities of SMEs. Temporality and threshold effect should be avoided, and the 'rating effect' should also be avoided. Convergence of benchmarks yes, it is necessary for this to converge, and for Europe to take over what exists (such as the alignment of the CAC40 by the President on 12 December last at the TCFD) and to be able to make compulsory what is not yet compulsory. It is necessary to extend the CSR audit obligation to all member states. 	ESS Foundations
	<ul style="list-style-type: none"> Choice of materiality themes, dual materiality is essential wherever there are public policy objectives, so we must be able to ensure that these objectives are achieved. On materiality inside out, when they develop public policy instruments (internationalisation of externalities – via carbon taxes and quotas, etc.), there will be a convergence of double materiality with financial materiality. Without waiting, we must prepare for this convergence and move forward on both fields. 	ESS operational guidelines
	<ul style="list-style-type: none"> We're not going to reinvent the wheel, the GSS is already well established. On the other hand, the S is often ambiguous, we must keep the social and societal, which also works in English. G for general and governance ok. For option 1, and for relationships, this will be dealt with in the autonomous text on the duty of vigilance which is currently being consulted. 	ESS architecture
	<ul style="list-style-type: none"> We already have everything we need to move forward, so we have to get started. And set up a European standard-setter, before the others do so, and the European influence will follow automatically. 	ESS priorities

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
Investor	<ul style="list-style-type: none"> The proposal is relevant because investors are both preparers and users of the data. From 2022 onwards, insurers and investors will have to publish information under the disclosure and taxonomy obligations. This has consequences at company level for the structuring of the data so that they can publish this information. It is important to note that investors will have to take note of N-1 information: can we position ourselves on N-2 data to produce this information? (Timing level of taxation of the different standards between institutions and companies) Share preparers' position to be progressive and proportional by focusing on the essential without too many indicators and a progressiveness. 	ESS Foundations
	<ul style="list-style-type: none"> The academic work has not yet been completed, so a maturing phase must be opened up, one must not go too fast and must be mature. Share preparers' position because of the different nature of the information given, which is based on different types of information. We will have to see how to ensure these data without certification being the same as for financial data. Agree with the proposal made of the themes, but not for a systematic application because some KPIs are not attached to a precise action plan but which is still important (ex: absenteeism rate). Agree with the structuring but it can be complex for entities to decline. 	ESS operational guidelines
	<ul style="list-style-type: none"> Fully adhere to the position of preparers, very interesting option 2 but complicated to launch. Initially, option 1 and perhaps later option 2 when it will be more mature. It is very complicated to add non-financial information to an already short and rhythmical financial process (cost in time, in people), therefore doubts about the possibility of SMEs and VSEs to produce this information within this time frame. Vigilance is therefore desirable, but it seems delicate. On the subject of digitalisation, it is essential for them to integrate it from the outset, with an ESG base to facilitate access for investors. Digitisation combined with data structuring is essential. 	ESS architecture
	<ul style="list-style-type: none"> She shared the presentations and interventions. On the link between the two pillars, there is no need for a common standardiser for both, they just need to talk together and interact, but the mistakes of imposing a non-European model on Europe without a democratic process should not be repeated. 	ESS reporting structure
	<ul style="list-style-type: none"> His first point, as an investor, is to develop indicators at company level to enable them to fulfil their obligations in 2022 a material urgency in the face of taxonomy and disclosure in addition to the climate emergency. Must quickly define these elements. 	ESS priorities

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
Preparer	<ul style="list-style-type: none"> • Agree with the idea that all companies will be impacted by the revision of this directive, and SMEs must also be included. Important in the first instance: the objective and usefulness of this reporting must be clearly defined in order to define the way in which SMEs can be involved in a voluntary reporting format with a framework for this involvement. We also hope that it will be a steering tool for companies. • A sector-based approach may be interesting, but the objective and usefulness of this reporting must first be well defined and have a progressive aspect (initially generalist indicators) and gradually see what works or does not work so that it can be done intelligently and in the common interest (useful for companies and stakeholders). On the other hand, there are mixed feelings about the notion of higher risk sector: taking into account the very global environmental approach, we should look deeper into what is understood behind it with a definition of the issues and a progressive approach. • Lack of maturity for the moment on the subject and need to move forward in several stages. • If it is compulsory, it will be necessary to adapt to what is required of VSEs and SMEs and to ask ourselves how useful this steering will be for these companies. Positive approach for companies of all sizes. 	ESS Foundations
	<ul style="list-style-type: none"> • Agree with the other interventions on the importance of having indicators that are limited in number in terms of forward looking and very precise in their definition for comparability. It is also to be linked more globally to the way in which these reports will be presented, therefore it will define the quantitative data and qualitative information more freely on the substance and the level of obligation that will be put on each of these points reflection on the objective of these reports and data to ensure the comparability and use of these indicators by companies and their stakeholders. • Clearly define what is expected per reporting entity, the scope of what is expected for the continuity of the debates in this standard. • Before taking a position on the topics where the dual materiality approach would be mandatory, it is important to agree on the concrete operational definition of this dual materiality and how companies can implement it. Because beyond the macro definition of this approach, there is not necessarily consensus and reality behind it. We need to redefine what we expect from it before saying what it should apply to. • Preference to keep the GSEs that have become familiar over time. Clarify the articulation between the use that will be made of these data to clearly define the topics and subtopics and the link with the multi-capital approach, interesting but not yet mature to internalise this approach for companies. 	ESS operational guidelines
	<ul style="list-style-type: none"> • Agree with what is presented with a focus on the reporting timings: the data in the management report do not all have the same rules on deadlines and publications and this could be in contradiction with extra-financial reporting. It is therefore important to articulate these two points while keeping in mind the objective of this reporting, what is expected of it and to adapt the way it is structured in the reports to ensure operational consistency at company level. 	ESS architecture
	<ul style="list-style-type: none"> • Indeed, it is necessary to clarify what this means. At what level is this interconnection created? Timing has to be taken into account for publications. And to have a precise framework on what is expected in these interconnections. 	ESS reporting structure
	<ul style="list-style-type: none"> • The most important thing is to redefine the objectives of this non-financial reporting and the expectations of stakeholders. Clearly define the concepts for a better common understanding of what is expected in order to move forward more quickly afterwards. Agree on the progressive approach but not necessarily not to go fast, but to be able to act according to the maturity of the different subjects, and proportional to the reality of companies, especially SMEs, and the cost/benefit ratio for companies and the operability of the concepts and the applicability of the principles in the company's processes. Finally, governance of standardisation, even if it is a mission in progress and carried out in parallel by EFRAG, the objective of this reporting must be redefined. 	ESS priorities

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
NGO	<ul style="list-style-type: none"> SMEs are in the value chains of large companies. They should therefore be able to specify the aspect of high impact risk (extractive or other) with higher risks, and they should be able to organise their reporting taking into account impacts on the whole value chain. They are ok with these levels, especially the sectoral aspect and the definition of risk sectors. 	ESS Foundations
	<ul style="list-style-type: none"> In connection with the forthcoming sustainable governance directive. Article 19 of 17 December in connection with this directive, they must publish and follow a sustainability strategy for the company. So it's linked to the fact of having objectives, we will have to assess the type of objective that we need to have. Need for alignment for climate change with the EU for corporate targets (Paris agreement). Need to go further with transition plans and intermediate targets to be defined to see if the trajectory is linked. To date, less than 15% of companies are postponing a target that is aligned with the Paris agreement. Directive on Sustainable Corporate Governance which aims to introduce a substantial obligation to address the risk of impact on value chains. Therefore reporting on this value chain cannot be dissociated. Today only 23% describe specific risks related to their supply chain. This materialises differently depending on the sector. Very important to take into account. On supplier reporting, one should not confuse substantial obligations in the value chain with reporting obligations. But it is important to mention reporting at least on the first row of suppliers (which Nike already does). It is advisable to go beyond level 1 reporting in certain sectors (e.g. mining). Support this definition of the dual materiality approach and that it be done in the level 1 (legislative) text and that it be based on the parliamentary resolution that calls for taking into account the impact beyond the creation of value for companies. This approach must be the subject of thematic variations. But in addition to the sectoral approach, there must also be a general approach on the process that has been followed and what they should follow. Especially on the aspect of consultation with stakeholders and affected communities. In the strategy pillar, what would be appropriate would be to develop a future standard to define how materiality is reflected in the company's strategy and how the administrative and management bodies are taken on these issues. 	ESS operational guidelines
	<ul style="list-style-type: none"> They are more in favour of option 1, whereas option 2 is more reporting based on the scope of consumption and pushing out the supply side, which is what needs to be taken into account. Topics and subtopics, we must look at quantitative information with a precise methodology and qualitative information more on processes and the apprehension of impacts. With a general base of important indicators. 	ESS architecture
	<ul style="list-style-type: none"> Priorities: articulation between the revision of the NFRD and the future sustainable corporate governance. And therefore a question of objectives on the one hand and inclusion of the value chain on the other. Dual materiality guideline must be a priority. Quality of information is essential and qualitative information must not be forgotten (impact on human rights must be a priority). Finally, we agree on the urgent need to act on the climate change issue, but also on the impact on human rights, + the fact of having a set of indicators common to all companies is a priority. 	ESS priorities

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
Analyst	<ul style="list-style-type: none"> • Sectorial information is of particular importance since they analyse on behalf of their employers (investors,...), analyse by sector of activity and analysts are often specialists in a sector of activity. They must establish a hierarchy within a sector. Sectorial information must be limited, without too many indicators to be published vs. general information. But they are major users of sector information. • Question of time horizon: it will be necessary to be very precise both on the foundation and on the reporting standards, to specify if the analysis they have is short term, MT, LT and if mixed with natural capital, what is seen more CT. • In case it seems to the public that there is a position between what analysts indicated and that of academics, it is placed within the framework of a company, natural capital used within a company is indeed a subject seen from a microeconomic point of view. It will be necessary to make the link between intangibles and intangibles and notions of controversy with discussion to be taken into account. • Are in line with investors, need something standardised. Although we are attached to qualitative information that explains, we need numerical indicators on which to base it, it is essential and it must be audited. 	ESS Foundations
	<ul style="list-style-type: none"> • An important point for impact funds with a strong development today is the double materiality and we must be able to extract the contributive profit from the double materiality because otherwise they will not have enough to analyse the impact funds. 	ESS operational guidelines
	<ul style="list-style-type: none"> • The answer is intermediate: a great preference for option 2 because there are certain subjects that are, whatever happens, integrated (tax, human rights, etc.). Supply very important and interesting but will be taken into account in a more indirect way because the information is not completely reliable. And yes for the link with capital. 	ESS architecture
	<ul style="list-style-type: none"> • Values that can be audited with a deferral period; the notion of interconnections does not necessarily have to be immediately implemented, but it is the expression of the double materiality, so the interconnection must be in the line of sight. In addition, strong support for EU policy on these issues. 	ESS priorities

Minutes of Italian outreach event held on 22 January 2021

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
Bank	<ul style="list-style-type: none"> Support for providing a reduced version of the reporting system for SMEs as there is a need for more information, at least on the transition and physical risk/opportunity. Possible exemption for micro-entities to be evaluated 	ESS foundations
Preparer	<ul style="list-style-type: none"> Support for sector-specific focus (especially with reference to the insurance sector) Proportionality is crucial and should not only be addressed at SMEs level but also in the overall framework. SMEs are very different within each other. The integration in the revised Directive is absolutely relevant, keeping in mind the need for proportionality for who will fall within the scope. Support for a separate (non-mandatory) standard with separate risk profile and for simplified reporting for SMEs, also to meet the requirements of credit institutions Support in identifying KPIs that are comparable at sector level 	ESS foundations
User	<ul style="list-style-type: none"> It is important to create a framework for SMEs to boost comparability. This is also important for larger companies that are increasingly seeking to involve SMEs in the supply chain. 	ESS foundations
Accountant or other consultant	<ul style="list-style-type: none"> With regard to SMEs, it is important to reach an European solution. SMEs have already accepted the challenge through the supply chain and to obtain funding. It would be useful to have a framework from EFRAG that allows them to answer questions such as 'what is your business model?' 'what sets you apart from your competitors?' rather than providing a list of KPIs, which could be seen as a burden. 	ESS foundations
Public authority	<ul style="list-style-type: none"> In recent years, there has been little voluntary participation in drawing up the NFD. Our recent consultation on the topic showed that SMEs are only concerned about the costs without realizing the benefits that could arise from the reporting. At the same time, it also emerged that there is an increasing demand for information from SMEs. Therefore, there is support for including SMEs but through a step-by-step approach. 	ESS foundations
Sustainable finance forum	<ul style="list-style-type: none"> Burdening SMEs with this additional commitment may seem like a cost burden, but in perspective, not paying proper attention to these issues could lead to problems. 	ESS foundations
Preparer	<ul style="list-style-type: none"> A transition period is needed for SMEs to adapt to the new information requirements. A transition period is needed for SMEs to adapt to the new information requirements. It is certainly useful to have sector-specific KPIs for benchmarking purposes. However, there are concerns about how sectors and sub-sectors will be identified (in particular, to identify what is material for the sub-sectors). Support for KPI sector-agnostic and KPI sector-specific Need to add an additional 'overarching principle/building block': conciseness and relevance of the information to be provided Fundamental need to provide data on sector-specific KPI Prudence in the development of sector-specific standards as being a necessarily gradual operation they could create distorting effects between sectors (the sectors initially covered could have advantages compared to those initially not covered) and within the same sectors that have articulations that should be carefully evaluated 	ESS foundations
Investment manager	<ul style="list-style-type: none"> It is important to have sector-agnostic standards but it is clear that for a more specific understanding of reporting entity realities it is important that these standards are accompanied by sector-specific standards and KPIs, having in mind a materiality approach With reference to SMEs, it is appropriate to start from listed SMEs but the issue is subject to the evolution of the Non-Financial Reporting Directive 	ESS foundations
Preparer	<ul style="list-style-type: none"> Need to add an additional 'overarching principle': cost-benefit principle 	ESS foundations
Public authority	<ul style="list-style-type: none"> Comparability is very important and we are in favor of having sector-specific information but the underlying principles, especially materiality, must be very clear. Intangibles are important but information about them is very sensitive. Therefore, it would be necessary to maintain supervisory mechanisms and have a very specific standard 	ESS foundations

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
Sustainable finance forum	<ul style="list-style-type: none"> • Support for sector-agnostic and sector-specific standards 	ESS foundations
Preparer	<ul style="list-style-type: none"> • The ability to describe and enhance intangibles is fundamental, also taking into consideration that they can represent a link between sustainability report and financial report 	ESS foundations
Bank	<ul style="list-style-type: none"> • On the subject of intangibles, we have some concerns because creating a superstructure and including them in non-financial information may lead to think that some information has no financial impact, but this is not the case. 	ESS foundations
Preparer	<ul style="list-style-type: none"> • Importance of quantify intangibles but, at the same time, it is found that at management level there is no maturity around this practice 	ESS foundations
Bank Preparer	<ul style="list-style-type: none"> • Support for the inclusion in the new standards of specific criteria that facilitate the external verifiability of sustainability information (in particular support for limited assurance) 	ESS operational guidelines
Preparer	<ul style="list-style-type: none"> • Need to move towards a synthetic materiality that helps to bring the interaction between the financial and sustainability variables back to a single concept of materiality. The double materiality is only an intermediate step 	ESS operational guidelines
User	<ul style="list-style-type: none"> • It is essential to have an external verification of sustainability information • With regard to double materiality, it is important to carry out a detailed stakeholder analysis, especially in a forward-looking logic. 	ESS operational guidelines
Preparer	<ul style="list-style-type: none"> • The need for standardization and to make information verifiable is fundamental • It is essential that the standards define how a good materiality is built that is able to look at all the stakeholders and the impacts on the company and of the company. Otherwise, there is a risk of having different levels of in-depth information that does not make it comparable • Materiality is one of the monumental elements of this work, it is the driving force behind all reporting and alignment with the reporting entity's strategy is key 	ESS operational guidelines
Accountant or other consultant	<ul style="list-style-type: none"> • Assurance is linked to accountability but there is an issue around expectation gaps: assurance is not related to performance, it is about guarantee solid process • Concerns about the application of double materiality to SMEs. At EFRAG level, reference should be made to the 'Reporting on enterprise value climate prototype' document of December 2020, where materiality is expressed very clearly. 	ESS operational guidelines
Preparer	<ul style="list-style-type: none"> • Incitement to have a single materiality matrix 	ESS operational guidelines
Sustainable finance forum	<ul style="list-style-type: none"> • Need to have standardized and at the same time complete tools 	ESS operational guidelines
Bank	<ul style="list-style-type: none"> • The issue of forward-looking information for banks is very important 	ESS operational guidelines
Preparer Bank User	<ul style="list-style-type: none"> • Preference for the first option, that is linked to the ESG classification 	ESS architecture
Investment manager	<ul style="list-style-type: none"> • Preference for the second option 	ESS architecture
Preparer	<ul style="list-style-type: none"> • The two options (and the connection to capitals) presuppose a fundamental question: the subjects to whom the information is addressed • Need to make a greater connection with the regulatory framework in progress at European level 	ESS architecture
Sustainable finance forum	<ul style="list-style-type: none"> • Preference for the second option (for large companies). • Preference for first option (for SMEs). 	ESS architecture
Preparer	<ul style="list-style-type: none"> • Both classification options could be offered as well as the multi-capital approach (leaving flexibility to reporting entities) 	ESS architecture

PERSPECTIVE	MAIN INPUT	RELATED ISSUE
Preparer Bank Investment manager	<ul style="list-style-type: none"> Multi-capital approach might create confusion 	ESS architecture
User Sustainable finance forum	<ul style="list-style-type: none"> Multi-capital approach is an interesting perspective, which allows to understand the value created by each type of capital 	ESS architecture
Preparer Bank	<ul style="list-style-type: none"> Support for the classification according to TCFD recommendations Climate related topic should be divided between mitigation and adaptation, as foreseen in the Taxonomy Regulation Italian banks are more oriented towards separate report. Digitisation of information is essential 	ESS architecture
Bank Investment manager Sustainable finance forum	<ul style="list-style-type: none"> Support for the connectivity between financial and non-financial information 	ESS reporting structure
Public authority Investment manager Preparer	<ul style="list-style-type: none"> It is not considered a priority for the standard setter to define now where non-financial information should be placed. 	ESS reporting structure
Public authority	<ul style="list-style-type: none"> Taxonomy and digitisation are very important Support for connectivity, which has already been tested in supervision. 	ESS reporting structure
Preparer	<ul style="list-style-type: none"> Concerns about how a taxonomy can be defined if there are no specific KPIs Agree on the integration of the two types of information and highlight the need for synthetic standards, without focusing on breakdowns of indicators which can be explored in other documents Support for maintaining the possibility of making references to other documents in the annual report, so as not to overload the management report Support for an integrated approach. The connectivity is essential, especially the indirect connectivity which needs additional effort from reporting entities Support for an integrated approach. Support for a Core&More model Support for not using the term 'non-financial information'. Preference for 'pre-financial information'. Connectivity is important but it will take a long time to have a clear definition 	ESS reporting structure

TENTATIVE GLOSSARY IN THE CONTEXT OF THE PTF REPORT

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Affected stakeholders	Individual or group that may be positively or negatively impacted by the reporting entity's activities and through its value chain business relationships (including the Environment).	<i>Refer to PTF Final report § 75</i>
Anchor points	Quantitative or qualitative data and/or information that offers a connection opportunity from Financial reporting (primary statements and notes to Sustainability reporting or from Sustainability reporting to Financial reporting).	<i>Refer to PTF Final report § 313</i>
Architecture	Architecture of reporting: Overall structure of sustainability reporting. Architecture of standards: Overall structure of sustainability reporting standards.	<i>Refer to PTF Final report § 18</i>
Boundary (Reporting boundary)	Limits or borders which define intended perimeters or scopes to be covered by sustainability reporting (e.g. own operations including subsidiaries, joint ventures or value chain including sub-contractors, suppliers, customers). <i>Related: Levels of reporting</i>	<i>Refer to PTF Final report § 13</i>
Building blocks	Key contextual elements that constitute the platform for sustainability reporting standard-setting in a jurisdiction.	<i>Refer to PTF Final report § 8</i>
Characteristics of information quality	Characteristics which combined ensure an agreed-upon level of quality of sustainability information. These include fundamental qualitative characteristics – relevance and faithful representation – and three enhancing qualitative characteristics – comparability, understandability and reliability/verifiability... Other characteristics for consideration include Timeliness and Connectivity.	<i>Refer to PTF Final report § 11</i>
Conceptual framework	Set of concepts which constitute the highest level of (legal) principles from which sustainability reporting standards are elaborated and sustainability reporting is prepared.	<i>Refer to PTF Final report § 9</i>
Conceptual guidelines	Detailed guidance on how to implement concepts into standard-setting and/or sustainability information preparation.	<i>Refer to PTF Final report § 9</i>
Connectivity (direct and indirect)	Links between Financial information and Sustainability information.	<i>Refer to PTF Final report § 311</i>
Cross-cutting standard	Standards defining content or reporting structure applicable at reporting entity level or common to topic specific standards (to avoid redundancy in their development and application).	<i>Refer to PTF Final report § 31</i>
Data point	Item of non-financial reporting which is providing on a stand-alone basis a decision-useful information and which is defined by the standard setter for that purpose. A data point can be a description, a statement, an indicator (KPI or metric), etc. A data point generally falls into one of the 3 following categories: qualitative (narrative), quantitative monetary (denominated in currencies), quantitative non-monetary (denominated in a defined unit of account). A data point can be retrospective (i.e. related to past events, flows, positions, etc.) or prospective / forward-looking (i.e. related to future events, flows, positions, targets, scenarios).	<i>Refer to Appendix 4.2</i>
Disclosures	<i>see Sustainability disclosures</i>	
Due diligence	Process or processes the reporting entity should carry out to identify, prevent, mitigate and account for how they address actual and potential adverse impacts on people and the environment in their own operations and upstream or downstream value chain. Due diligence includes four key steps: assessing actual and potential impacts; integrating and acting on the findings; tracking responses; and communicating about how impacts are addressed.	
Environmental and Social materiality	Level of significance of a reporting entity's impacts on the environment and people. <i>Social and Environmental materiality might also be referred to as inside-out materiality or as Impact materiality</i>	

Financial materiality	<p>Level of significance of a sustainability matter on the reporting entity's ability to create or erode financial value.</p> <p>NBG 2019: ...'affecting the value of the company (in a broad sense, not just in the sense of affecting financial measures recognised in the financial statements'...</p> <p>For sustainability reporting purposes, financial materiality addresses financial risks and opportunities, existing or potential assets and potential liabilities that are not recognised in financial reporting on the basis of the related financial conceptual framework definitions.</p> <p><i>Financial materiality might also be referred to as outside-in materiality</i></p>	
Foundations	<p>Overarching principles and building blocks that constitute the platform for sustainability reporting standard-setting in a jurisdiction.</p> <p>See Overarching principle</p>	<p><i>Refer to PTF Final report § 5</i></p>
Impact materiality	<p>See Environmental and Social Materiality</p>	
Intangibles	<p>Non-monetary assets without physical substance (non-monetary assets being defined as assets which are neither (i) money or units of currency held nor (ii) assets to be received in fixed or determinable amounts of money or units of currency).</p> <p>In the context of sustainability reporting, the intangible dimension can be classified into three categories:</p> <ul style="list-style-type: none"> (i) Human Capital corresponds to the individual and collective contribution to performance. It is made up of the accumulation of knowledge and skills by individuals within a company. It includes talent, experience, charisma, leadership, humanity, empathy, resilience, interpersonal relationships... (ii) Organisational and intellectual capital reflects the organisation's philosophy and the systems to leverage the organisation's capabilities. This includes techniques, procedures, intellectual property (commercial rights, copyrights, trademarks, patents), management, information systems, innovation... (iii) Relational and social capital corresponds to the different interactions between the company and its eco-system. It is based on relations with shareholders, partners, customers, suppliers, prescribers, distribution networks... 	<p><i>Refer to PTF Final report § 197, 198, 199</i></p>
Layers of reporting	<p>Categories of disclosures that a reporting entity should include in its sustainability reporting. Three categories should be considered: (i) sector-agnostic disclosures; (ii) sector-specific disclosures; and (iii) entity-specific disclosures.</p>	<p><i>Refer to PTF Final report § 20</i></p>
Levels of reporting	<p>Levels of reporting refer to the various perimeters of sustainability reporting, the limits of which are defined by the boundaries. They generally include the reporting entity own operations as defined for financial reporting purposes and operation of its value chain. (including the entity's upstream and downstream business relationships and the entity's products and services).</p> <p><i>Related: Boundary</i></p>	<p><i>Refer to PTF Final report § 263</i></p>
Materiality assessment	<p>Approach for prioritisation and inclusion of specific information in corporate reports. It reflects (i) the needs and expectations of the stakeholders of a reporting entity and of the reporting entity itself, as well as (ii) the needs corresponding to the general public interest.</p>	<p><i>Refer to PTF Final report § 278</i></p>
Material topic	<p>Topic (i) that reflects a reporting entity organisation's significant impacts on the environment and people, or which significantly affects value creation for the reporting entity, and (ii) that it is useful to the assessments and decisions of stakeholders.</p>	
Monetary line	<p>Illustration of the two perspectives: 'outside-in' risks and opportunities and 'inside-out' impacts associated respectively with financial materiality and social and environmental materiality; with an objective to help establishing the respective borders of financial and sustainability reporting. It shows how sustainability topics can move along the monetary line and eventually meet the recognition criteria in the financial statements over time.</p>	<p><i>Refer to PTF Final report § 309</i></p>
Overarching principle	<p>Key contextual principles that constitute the platform for sustainability reporting standard-setting in a jurisdiction.</p> <p>See Foundations</p>	<p><i>Refer to PTF Final report § 7</i></p>

Performance measurement	Current and expected achievements (qualitative and/or quantitative, implementation oriented) and results (performance oriented) of a reporting entity's operations and activities based on metrics / KPIs most useful in monitoring and assessing progress against targets and supporting comparability overtime, and across companies and sectors.	Refer to PTF Final report § 375
Principle-based	Framework which establishes the predominance of higher level legally binding principles as guidance or guidelines for the conduct of activities. Such a framework can be combined with detailed prescriptions or rules but in the absence of such prescriptions a direct reference to the relevant principles must be made by the subject of the regulation in the exercise of judgement.	Refer to PTF Final report § 84
Purpose of sustainability reporting	Objectives of the sustainability reporting. To provide relevant, faithful, comparable and reliable information: a) About (i) material sustainability impacts of the reporting entity on affected stakeholders (including the environment) and (ii) material sustainability risks and opportunities for its own value creation; b) Enabling users of information (i) to understand the reporting entity's sustainability position and performance and (ii) to inform their decisions relating to their engagement with the entity.	Refer to PTF Final report § 3
Reporting areas	General and managerial aspects of sustainability matters which have to be covered by sustainability reporting either through specific disclosures or as an element of topical disclosures.	Refer to PTF Final report § 335
Reporting entity	An entity that is required, or chooses, to prepare sustainability reporting as required by the NFRD. A reporting entity can be a single 'undertaking' or a 'group' through its parent company. A reporting entity is not necessarily a legal entity. (NBG 2017) <i>Reporting entity might also be referred to as undertaking.</i>	
Reporting taxonomy	A system to classify and identify data points allowing for easy 'tagging' (e.g. attaching a digital label) of each of them under a digitised process. <i>Reporting taxonomy should not be confused with the EU taxonomy.</i>	Refer to PTF Final report § 422
Sector-agnostic	Not specific to a sector or a reporting entity, generic.	Refer to PTF Final report § 20
Severity	In the context of impact materiality: basis on which impacts are prioritised for inclusion in reporting. Its assessment is based on consideration of the scale of impacts (how bad they are or would be), their scope (how widespread they are or would be) and their remediability (how hard it would be to put them right, should they occur). <i>Related: Impact materiality assessment</i>	
Sustainability disclosures	Narrative information, KPI's, metrics, data points attached to a reporting entity's sustainability statements. <i>Sustainability disclosures might also be referred to as sustainability information.</i>	
Sustainability statements	Statements gathering standardised sustainability disclosures in a structured and easy to access format.	Refer to PTF Final report § 414
Topics and sub-topics	Sustainability themes on which reporting entities should report.	Refer to PTF Final report § 382
Undertaking	For the purpose of EU law, an 'undertaking' is any entity engaged in an economic activity, regardless of its legal status and the way in which it is financed. <i>Related: Reporting entity</i>	
Value chain	A reporting entity's value chain encompasses the activities that, beyond and in relation with its own operations, convert input into output by adding value. It includes entities with which the reporting entity has a direct or indirect business relationship and which either (i) supply products or services that contribute to the organisation's own products or services, or (ii) receive products or services from the organisation. The value chain covers the full range of an organisation's upstream and downstream activities, which encompass the full life cycle of a product or service, from its conception to its end use.	

LIST OF ACRONYMS

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2°C	2° Celsius
ACI Europe	Airports Council International Europe
ACT	Alliance for Corporate Transparency
ACT initiative	Assessing Low Carbon Transition initiative
ACCA	Association of Chartered Certified Accountants
AD	Accounting Directive
ADEME	Agence de l'Environnement et de la Maîtrise de l'Énergie
AECA	Spanish Association of Accounting & Business Administration
ASC	Accounting Standards Codification
AUM	Assets under management
AWS	Alliance for Water Stewardship
BEIS	Department for Business, Energy and Industrial Strategy of the UK government
BNEF	Bloomberg New Energy Finance
BSR	Business for Social Responsibility
CEO	Chief Executive Officer
CFA	Chartered Financial Analyst
CHRB	Corporate Human Rights Benchmark
CDP	Carbon Disclosure Project
CDSB	Climate Disclosure Standards Board
CRD	Corporate Reporting Dialogue
CRR2	Capital Requirements Regulation 2
CSO	Chief Sustainability Officer
CSR	Corporate Social Responsibility
DJSI	Dow Jones Sustainability Index (private benchmark)
DNSH	Do no significant harm
EBA	European Banking Authority
EBITDA	Earnings before interest, taxes, depreciation and amortisation
EC	European Commission
ECB	European Central Bank
ECIIA	European Confederation of Institutes of Internal Auditing
EFAA	European Federation of Accountants and Auditors
EFFAS	European Federation of Financial Analysts Societies
EFRAG	European Financial Reporting Advisory Group
EIOPA	European Insurance and Occupational Pensions Authority
EMAS	Eco-Management and Audit Scheme
EPIC	Embankment Project for Inclusive Capitalism
ERM	Environmental Resource Management
ERP	Enterprise resource planning

ESA	European Supervisory Authorities
ESG	Environmental Social Governance
ESMA	European Securities and Markets Authority
ESS	European Standard Setter
ETS	Emissions Trading System
EU	European Union
FASB	Financial Accounting Standards Board
FI	Financial information
FR	Financial reporting
FRC	Financial Reporting Council
FSB	Financial Stability Board
FTE	Full-time equivalent
FTSE	Financial Times Stock Exchange
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
GHG	Greenhouse gas
GICS	Global Industry Classification Standard
GIIN	Global Impact Investing Network
G20	Group of Twenty
GRI	Global Reporting Initiative
GSSB	Global Sustainability Standards Boards
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBC	International Business Council
ICMA	International Capital Market Association
ICT	Information and communication technologies
IEA	International Energy Agency
IFAC	International Federation of Accountants
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IIGCC	Institutional Investors Group on Climate Change
IIRC	International Integrated Reporting Council
ILO	International Labour Organisation
IPCC	Intergovernmental Panel on Climate Change
IPIECA	International Petroleum Industry Environmental Conservation Association
ISAE	International Standard on Assurance Engagements
ISAR	International Standards of Accounting and Reporting
ISEAL	International Social and Environmental Accreditation and Labelling Alliance
ISO	International Organization for Standardization
KPI	Key performance indicator
MS	Member State(s)
mHRDD	Mandatory human rights due diligence

NACE	Statistical Classification of Economic Activities in the European Community
NBG	Non-binding guidelines
NFI	Non-financial information
NFR	Non-financial reporting
NFS	Non-financial standard
NFRD	Non-Financial Reporting Directive
NGO	Non-governmental organisation
OAM	Officially appointed mechanism
OECD	Organisation for Economic Co-operation and Development
OEMS	Original equipment manufacturers
PEFC	Programme for the Endorsement of Forest Certification
PIE	Public interest entities
PTF	Project Task Force
RBPs	Recommended best practices
R&D	Research & development
RE	Reporting entity
RTS	Regulatory Technical Standards
SASB	Sustainability Accounting Standards Board
SBR	Standard Business Reporting
SCG	Sustainability corporate governance
SDG	Sustainable Development Goals
SDS	Sustainable development strategy
SFDR	Sustainable Finance Disclosure Regulation
SFI	Sustainable Forestry Initiative
SME	Small and medium enterprise
TCFD	Task Force on Climate-related Financial Disclosures
TEG	Technical expert group
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNEP	United Nations Environment Programme
UNGC	United Nations Global Compact
UNGP RF	United Nations Guiding Principles – Reporting Framework
US GAAP	US Generally Accepted Accounting Principles
USDE	U.S. dollar equivalent
VBA	Value Balancing Alliance
WASH	Water, sanitation and hygiene
WBA	World Benchmarking Alliance
WBCSD	World Business Council for Sustainable Development
WEF IBC	World Economic Forum – International Business Council
WICI	World Intellectual Capital Initiative
WRI	World Resources Institute
XBRL	eXtensible Business Reporting Language

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