

This paper provides the technical advice from EFRAG SR TEG to the EFRAG SRB, following EFRAG SR TEG's public discussion. The paper does not represent the official views of EFRAG or any individual member of the EFRAG SRB. This paper is made available to enable the public to follow the EFRAG's due process. Tentative decisions are reported in EFRAG Update. EFRAG positions as approved by the EFRAG SRB are published as comment letters, discussion or position papers or in any other form considered appropriate in the circumstances.

TNFD Interoperability document – SR TEG recommendations

Objective

- 1 This paper provides a summary of the SR TEG discussions in its meeting of 18 January 2024 relative to the draft ESRS-TNFD Interoperability mapping document. The TNFD Staff attended this session.

Summary of discussions

- 2 Members recognised that making available as soon as possible to preparers, auditors and consultants support material that maps ESRS with other global frameworks, and TNFD in particular, is very important. This would also support global adoption of nature and biodiversity risk management and disclosure, through TNFD, and this is an objective which is aligned with EFRAG purpose to contribute to global consistency in reporting. The agreed with the intention of issuing a joint document, as this is the natural result of the cooperation in place between the two organizations. Finally, clarifying the commonalities (and differences) this document could also benefit implementation of standards E2 to E5, as TNFD has published a considerable amount of reference materials that could benefit companies disclosing under ESRS, also in light of the time that may be needed before EFRAG can finalize such topical guidance;
- 3 While appreciating the good work done by the two teams (EFRAG and TNFD) and the intention of, ideally, to showing a good degree of alignment (which the EFRAG secretariat genuinely considers to exist) they did not think that the document prepared for this meeting was ready to be approved. They thought that a more cautious language would be appropriate for several reasons. In particular:
 - (a) the term “interoperability” or “alignment” should be reserved to instances where the issued guidance enables ESRS preparers, with some identified adjustments if needed, to claim compliance with the other framework/standards;

- (b) the LEAP approach, which is the cornerstone of TNFD, is a “may” requirement in sector agnostic ESRS (it may become a “shall” in the appropriate sector standards). The application of this approach entails a focus at site level in the materiality assessment. As such, the number of adopters will change overtime, but this requires implementation investments. To have the insights of an outreach with the European applicants of TNFD¹ and understand in practice the implications of it, would be necessary, before the finalization of a guidance;
 - (c) ESRS has been developed having in mind the drafts available in 2021 and 2022, before the finalization of TNFD and there seem to be differences in terminology that should not be underestimated in practice (e.g. nature and biodiversity disclosures in TNFD, as opposed to water/pollution/biodiversity and circular economy in ESRS; or policies in TNFD as opposed to processes in ESRS);
 - (d) considering the above, the granularity of the current analysis may be insufficient, specifically the granularity of the comments in mapping each disclosure requirement/metric and more detail would have been appreciated, if an “interoperability” mapping (expressing a stronger judgement on the alignment) had to be issued;
 - (e) it is not clear how to read and interpret the document and more education would be welcome before the approval, on the content of the TNFD and on the methodology adopted by the team in performing the work.
- 4 The EFRAG secretariat specified that while there are differences in terminology, there are also many commonalities and that differences were mapped up in the document to a certain level and, at each level, there is some discretion teams have to take in the analysis. The work does not imply full equivalence, however is a useful tool to understand the interoperability between ESRS and TNFD framework.
- 5 It was also considered whether any conclusion on interoperability with TNFD could affect ESRS preparers that also intend to apply IFRS. On this point, the initial consideration is that the IASB has not yet issued standards on nature related matters and it may be premature to consider this issue.

¹ According to the TNFD staff, of the total 320 companies so far committed to adopt TNFD, 43% come from Europe (not necessarily EU, however most UK companies that apply TNFD will also be applying ESRS according) the expectation is that many more will adhere.

Conclusions and possible course of actions

- 6 On how to proceed, some TEG members think we should take time for this work and do a thorough review of it, while others were happy with the current status of the work and would publish it sooner, as future publications adding other details are also possible.
- 7 In conclusion, they tentatively agreed that the way forward should be to modify the document calling it “correspondence table” instead of “interoperability”, to reconsider it in future meetings and trying to finalize it expeditiously, without moving to a higher level of granularity.
- 8 The EFRAG Secretariat intend to:
 - (a) organize an educational session and other sessions to illustrate in more detail the methodology, before the approval of this correspondence table;
 - (b) organize a workshop with European preparers that apply TNFD to get information about their experience;
 - (c) finalize the correspondence table as suggested by EFRAG SR TEG as soon as feasible, after the steps above.

Questions for EFRAG SRB members

9 Do EFRAG SRB members have comments on the above discussions and decisions?

Please explain.