

Sustainability reporting in the agri-food chain: EU legal framework

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 - CSRD key features
 - ESRS key features
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- Sector-specific ESRS
- ESRS for SMEs



OVERVIEW OF THE EUROPEAN LEGAL REGIME

The key features of the CSRD 1/2

 Goal: addressing the quality issue of sustainability-related data by placing sustainability reporting on an equal footing with financial reporting

- A mandatory reporting regime for all large entities (250+ employees) and listed SMEs with subsidiary exemption
- A progressive phase-in: 2024 reporting year for NFRD reporters, 2025 for the other large entities, 2026 for listed SMEs (with opt-out option until 2028), 2028 for Non-EU companies with branches/subsidiaries
- Other SMEs encouraged to adopt a simplified voluntary reporting
- A comprehensive coverage of sustainability matters: E, S & G, under standards elaborated by EFRAG (multi-stakeholder approach, consensus based) and adopted by the EC via delegated acts ➡ a robust legal framework with Level 2 (ESRS, regulation) complementing Level 1 (CSRD, directive)

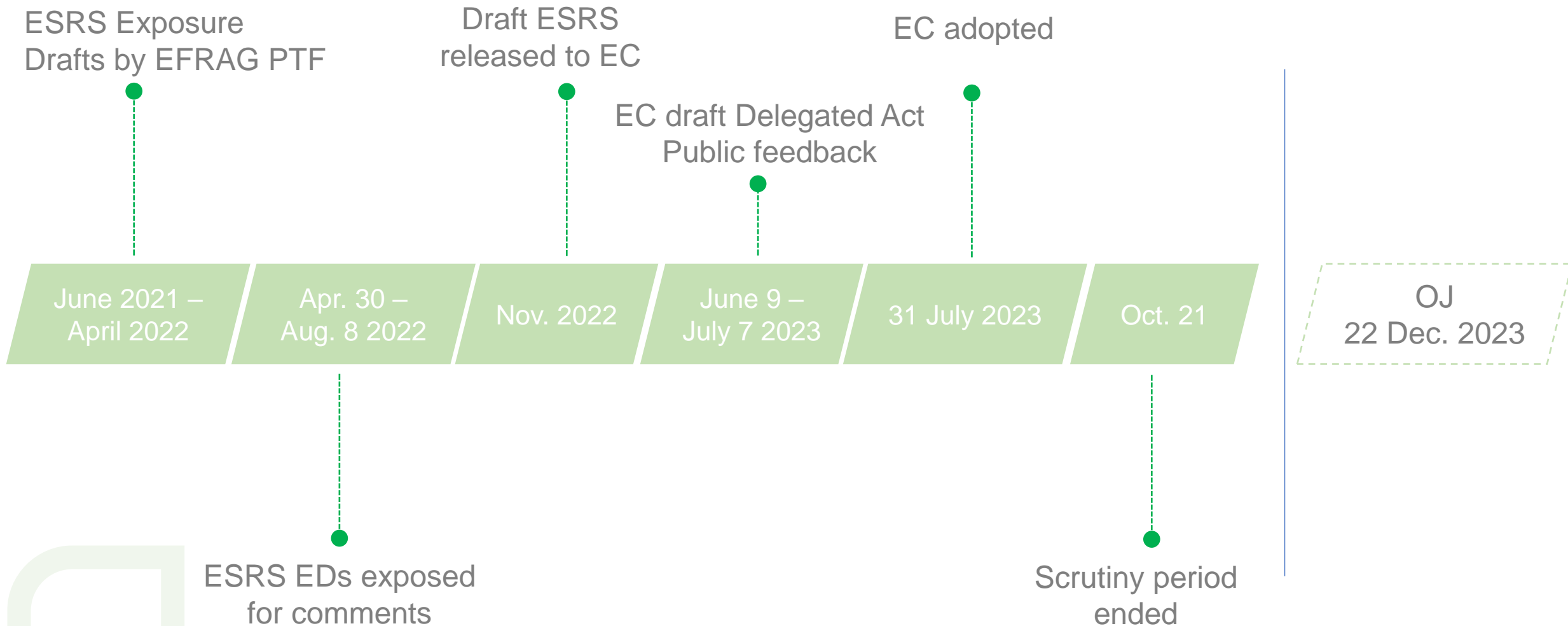
The key features of the CSRD 2/2

- A key concept: double materiality (impacts and financial risks/opportunities)
- Location and timing of reporting: in the management report, i.e., at the same time as financial statements
- Mandatory audit: limited assurance to start with, moving to reasonable assurance
- Digital tagging of the ESRS and Article 8 « EU Taxonomy » disclosures

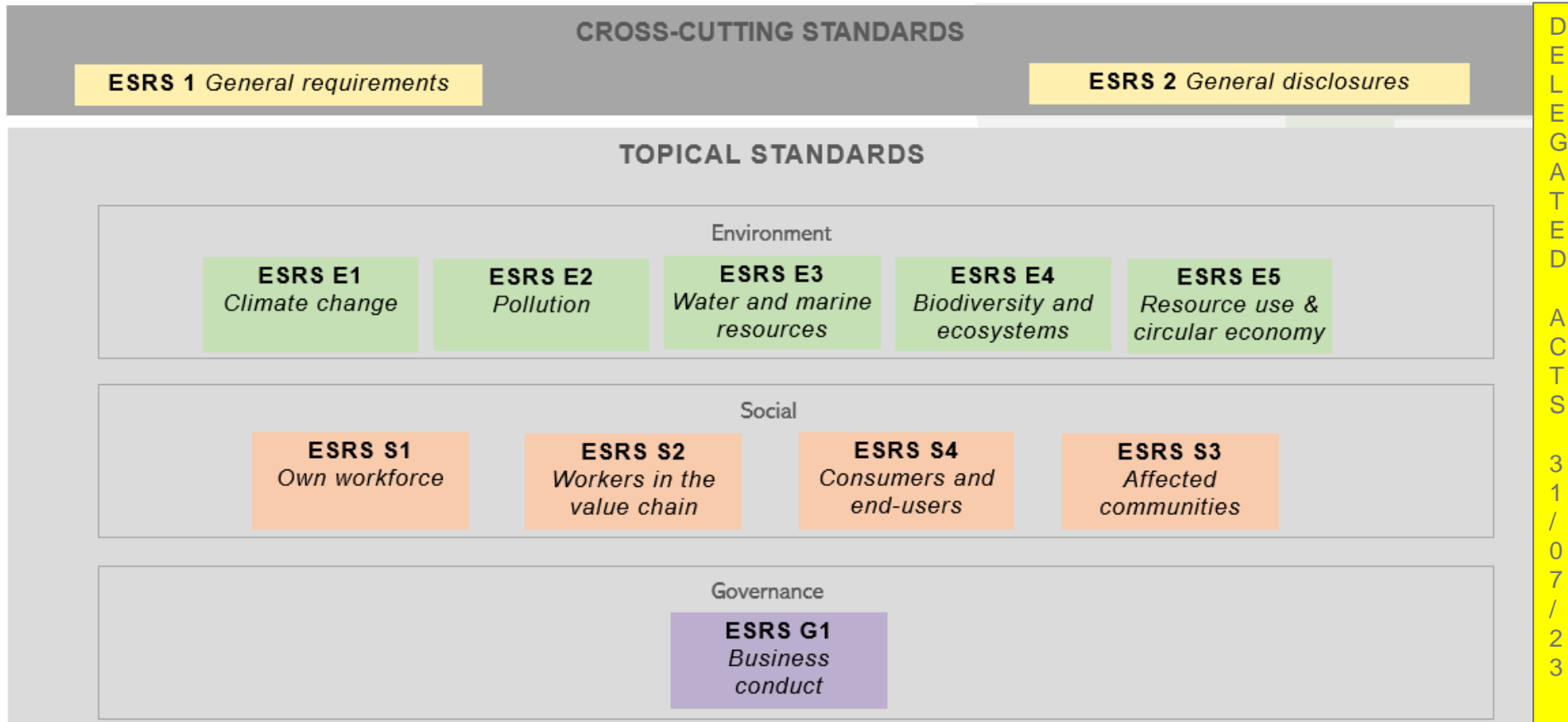


Transposition into national law: probably focused on some specific points as harmonisation level already high

The sector agnostic standards



The first set of sector agnostic ESRS elaborated by EFRAG



84 Disclosure Requirements

Qualitative or quantitative

Double materiality

- Financial materiality
- Impact materiality

4 pillars

- Governance
- Strategy
- Impact, risk and opportunity management
- Metrics and targets

Digitisation

... to be complemented by sector specific standards + SME standards (next steps)

Other sustainable finance legislation in the ESRS: CSRD, Article 29b

SFDR

1 Shall at least include:

- **information that financial market participants** subject to the disclosure obligations of Regulation (EU) 2019/2088 **need** in order to comply with those obligations


EU Taxonomy and Benchmark Regulations

2 To the greatest extent possible, shall take account of

- criteria, indicators and methodologies set out in the delegated acts adopted pursuant to Regulation (EU) 2020/852, including the technical screening criteria **and the reporting requirements set out in the delegated act adopted pursuant to Article 8**
- **disclosure requirements applicable to benchmark administrators** in the benchmark statement and in the benchmark methodology and the minimum standards for the construction of EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks

ESRS 1, par. 35: If the undertaking omits the information prescribed by a datapoint that derives from other EU legislation (Appendix B of ESRS 2), it **shall explicitly state that it is “not material”**.

CSRD on Due Diligence: Article 19a (f)

- **Undertakings shall include in the management report, a description of:**
 - (i) the **due diligence process** implemented by the undertaking with regard to sustainability matters, and where applicable, in line with EU requirements on undertakings to conduct a due diligence process;  **CSDDD**
 - (ii) the **principal actual or potential adverse impacts** connected with the undertaking's own operations and with its value chain (...) and other adverse impacts which the undertaking is required to identify according to other EU requirements to conduct the due diligence process;
 - (iii) any **actions** taken by the undertaking to prevent, mitigate, remediate or bring an end to actual or potential adverse impacts, and the **result** of such actions.

Due diligence in ESRS

Alignment with international instruments: **UNGP** on Business and Human Rights and the **OECD** Guidelines for Multinational Enterprises without pre-empting draft **CSDDD**. Future amendments if required.

0. Embedding due diligence in governance, strategy and business models

- ESRS 2 GOV-2
- ESRS 2 GOV-3
- ESRS 2 SBM-3

1. Engaging with affected stakeholders

- ESRS 2 GOV-2
- ESRS 2 IRO-1 - ESRS 2 MDR-P
- ESRS 2 SBM-2 - Topical ESRS

2. Identifying and assessing negative impacts on people and the environment

- ESRS 2 IRO-1
- ESRS 2 SBM-3

3. Taking action to address negative impacts on people and the environment

- ESRS 2 MDR-A
- Topical ESRS

4. Tracking effectiveness of these efforts

- ESRS 2 MDR-M
- ESRS 2 MDR-T
- Topical ESRS



SECTOR-SPECIFIC ESRS

Sector ESRS – Background and 2024

- CSRD requires sector-specific ESRS to complement the information provided under the sector-agnostic ESRS issued in July 2023 as delegated act.
 - EFRAG has started a multi-annual standard setting program for approximately 40 draft standards, considering the SASB and GRI material as well as any relevant sector reporting guidelines and regulation.
 - In 2024, EFRAG expects to finalise and launch the consultation of the first batch of sector Exposure Drafts, including:
 - (i) the general approach to sector ESRS,
 - (ii) the ESRS Sector classification approach, based on the statistical classification of economic activities in the European Community (NACE), and
 - (iii) two ESRS ED's for high-impact sectors, respectively Oil and Gas, covering activities from upstream to downstream, and Mining, Quarrying and Coal.
- The timing for public consultation(s) in relation to those Exposure Drafts will be considered in due course. Field testing with corporates could also start before the public consultation.
- The standard setting research for the following other high-impact sectors is ongoing: Agriculture-Farming-Fishing, Road Transport, Food and Beverage, Motor Vehicles, Energy, Production-Utilities, Textile-Accessories-Footwear-Jewellery.

Sector update – 39 Exposure Drafts in the coming years

2024

- SEC 1 Sector classification (NACE)
- Mining, quarrying, coal
- Oil and Gas

2025

- Textiles, Food and beverages, Energy, Motor vehicles, Agriculture, Road Transport

2026

2027

- EFRAG Secretariat will complete the drafting of the other sector ESRS

2028

Financial institutions (banking, insurance, asset management) to address also value chain specificities

Sector standards are being developed over a period of 4/5 years and are **complementary to sector-agnostic**

Illustrative timeline – timetable to be confirmed



Transitional period (i.e., before the issuance of the relevant sector specific standards): development of sector-specific reporting best practices under characteristics of quality that will inform the standard setting process



3. ESRS for SMEs

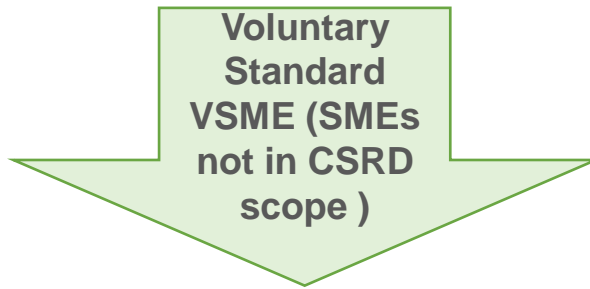
Sustainability reporting for SMEs: Q4-23/Q1-24



Listed SMEs LSME Standard (CSRD)

Legally binding Art. 29 c and Art. 19 a6

- ❖ Scope:
 - ❖ listed SMEs - about 700
 - ❖ small and non-complex banks (SNCI) - about 2.300
 - ❖ captive insurers and reinsurers - about 300.
- ❖ EFRAG expects to issue its technical advice to the EC in November 2024.
- ❖ LSME to be issued as **delegated act** and will be effective on 1 January 2026*.
- ❖ Value chain cap



Voluntary Standard VSME (SMEs not in CSRD scope)

Not legally binding but empowering tool

- ❖ Scope: SMEs not listed (*22 million* including micro) and outside the scope of the CSRD.
- ❖ Outside the CSRD mandate and will not be adopted by the Commission as a Delegated Act.
- ❖ Aim: to help SMEs in taking the first steps in ESG reporting.

*Additional two-year opt out for listed SMEs



Consistency

LSME and VSME consultation package

- **Public consultation** on the Exposure Drafts ESRS LSME ED and ESRS VSME launched on 22 January 2024. The consultation will be open until 21 May 2024.
- The call for participation in the **field test** was released on 20 December 2023 with the deadline to submit interest set to 31 January 2024. Instructions for the field test are now published.



Supporting the implementation of ESRS sector-agnostic



Non-authoritative document issued by EFRAG. No Delegated Act.

It cannot go beyond content of issued ESRS nor include new provisions. The guidance **illustrates** or explains the ESRS standards with examples. If methodologies or approaches are included, they are considered as one of the possible ways to implement the standard.



It forms part of the implementation material. Hence, when questions are received in the Q&A platform that relate to content covered in an IG docs – these are rejected (i.e. the answer makes reference to these documents).

As part of the Q&A process, supplements to IG docs may be issued.



Technical discussions in public at EFRAG SR TEG and EFRAG SRB

30 days of public feedback

ESRS Implementation Guidance – the first three documents

- Illustration of the reporting requirements on materiality assessment
 - FAQs on double materiality assessment
 - Illustration of possible steps of the process
-
- Illustration of the reporting requirements on value chain
 - FAQs on value chain reporting
 - Value chain map
-
- Detailed list of disclosure requirements in ESRS Set 1 – Delegated Act – datapoints in EXCEL

**EFRAG IG 1 –
Materiality
assessment**

**EFRAG IG 2 –
Value chain**

**EFRAG IG 3 –
List of ESRS
datapoints
in excel**

Open for public feedback until 2 February 2024

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