

Sustainability/ESG reporting: Taxonomy convergence

**Presentation for XBRL Sweden
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XBRL Europe: ESG/Sustainability Working Group

- **Activities 2020-2021:**
 - **Meetings:**
 - **Monthly working group meetings**
 - Periodic external meetings and participation to work with institutions and standards setters (EFRAG, etc.), participation to various conferences or other events
 - **Open seminars:**
 - **Organization of ESG seminar** at the 25th and 28th XBRL Europe Digital Week
 - **Answer to public consultations:**
 - 2020: the public EU consultation on the revision of the Non-Financial Reporting Directive (NFRD)
 - 2020: Letter to ESMA regarding the consultation “Draft advice to European Commission under Article 8 of the Taxonomy Regulation”
 - 2021: The EU consultation on the European Single Access Point (ESAP)
 - **Knowledge building:**
 - Developing a repository to collect information on XBRL usage in Europe with IMP
 - Inventory of present and new EU legislation and standards/frameworks which have an impact on the electronic filing, exchange, publishing, and analysis of non-financial data of companies
- **Activities and work plan for 2022:**
 - Meetings:
 - Monthly working group meetings
 - Opens seminars:
 - Sustainability ESG seminars at the 30th XBRL Europe Conference (June)
 - Answer to public consultations:
 - **The IFRS request for feedback on staff draft of the IFRS Sustainability Disclosure Taxonomy (30th of September)**
 - Knowledge building:
 - Working Group communications enhancement
 - Investigation and presentation of every Europe evolution and initiative that are concerning ESG and XBRL implementation on ESG
 - **Writing a first whitepaper in a series of XBRL ESG relevant papers related to connectivity between taxonomies (march)**
 - *Writing of additional XBRL EGS relevant whitepapers (postponed)*
 - Observations to EFRAG on ESRS and ISSB digital sustainability convergence

ESG standards update: Recent draft ESG standards

Topic	ESRS (22-08-08)	ISSB (22-07-29)	SEC (22-06-17)
General Sustainability	ESRS 1, ESRS 2	Exposure Draft IFRS S1	
Climate	ESRS E1	Exposure Draft IFRS S2	Release Nos. 33-11042 and 34-94478
Environment	ESRS E2 – E5		
Social	ESRS S1 – S4		
Governance	ESRS G1 – G2		
<i>Next steps</i>	<i>Final draft to be submitted to EC in November, then approved by the EC end of December</i>	<i>Complete by end of 2022</i>	

ESG standards update: Connectivity & convergence issues

Jurisdiction	Non-financial reporting		Financial reporting
European Union	European Sustainability Reporting Standard (ESRS)		European Single Electronic Format (ESEF)
			
International (Outside EU)	International Sustainability Standards Board (ISSB)		

Convergence: Key challenges

- Fundamental divergence that will be difficult to reconcile are:
 - Key concepts in terms of **boundaries** and **value chain**:
 - ESRS consolidation scope plus up- and down-stream vs ISSB reporting entity
 - ESRS **double materiality** are not only investor focused (*financial materiality*) but also impact focused (*impact materiality*) vs ISSB requirements for disclosure of material information about significant climate related risks and opportunities (*financial materiality*)

	ESRS	ISSB
Materiality	Double materiality (financial & impact materiality)	Financial materiality
Boundaries & value chain	“Value chain” (up- & downstream activates)	Entity value

Convergence: A common ground

- Both standards are:
 - planning to use the same digital technology (Inline XBRL)
 - based on the same sustainability common practice standards/protocols such as the TCFD, GHG Protocol, ...
- Even though there are divergences, there is a will to go in the same direction, since ISSB:
 - can serve as an international baseline
 - wants to create a framework that can be easily extended to take double materiality into account
 - sustainability standards are planned to be broadened to other topics in all E, S and G matters

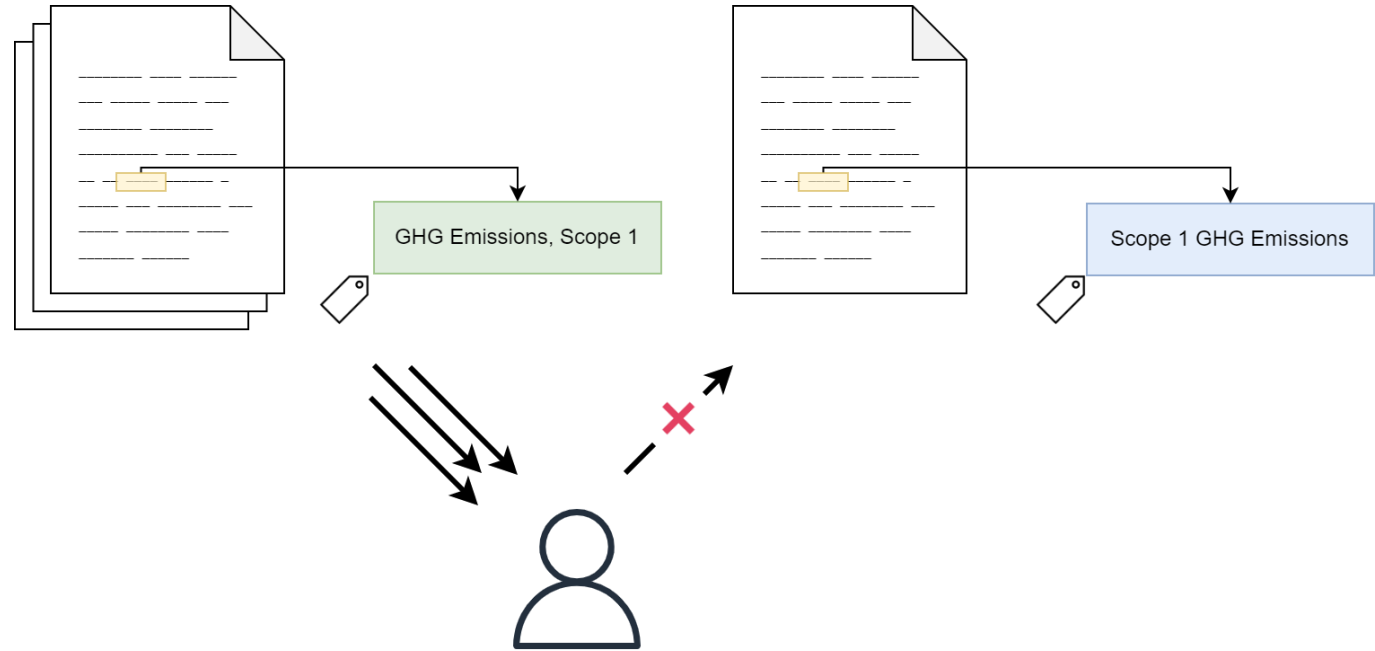
Reasons to work for convergence: Comparability

When building an electronic report based on a taxonomy it is important that:

- **facts becomes comparable for users**
- “tagging” data by issues must be easy

Users of an electronic report can read data, check identifiers of relevant data, and use such identifiers to access **comparable** data for other issuers.

However, users will not be able to access comparable data for issuers that use other, technically uncorrelated taxonomies.



To access uncorrelated taxonomies, users need to inspect multiple taxonomies and judge whether some identifiers are comparable, or not leading to **extra work and possible inconsistencies** between users.

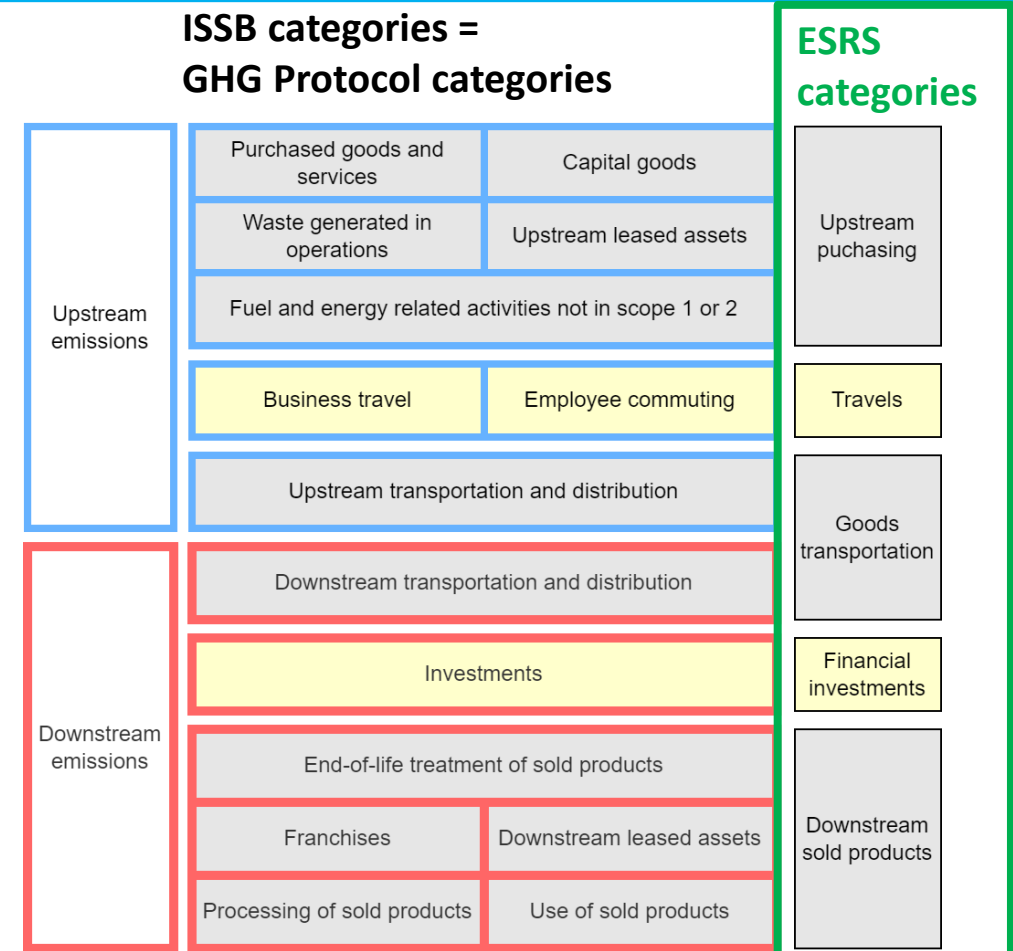
Reasons to work for convergence:

Example of divergence

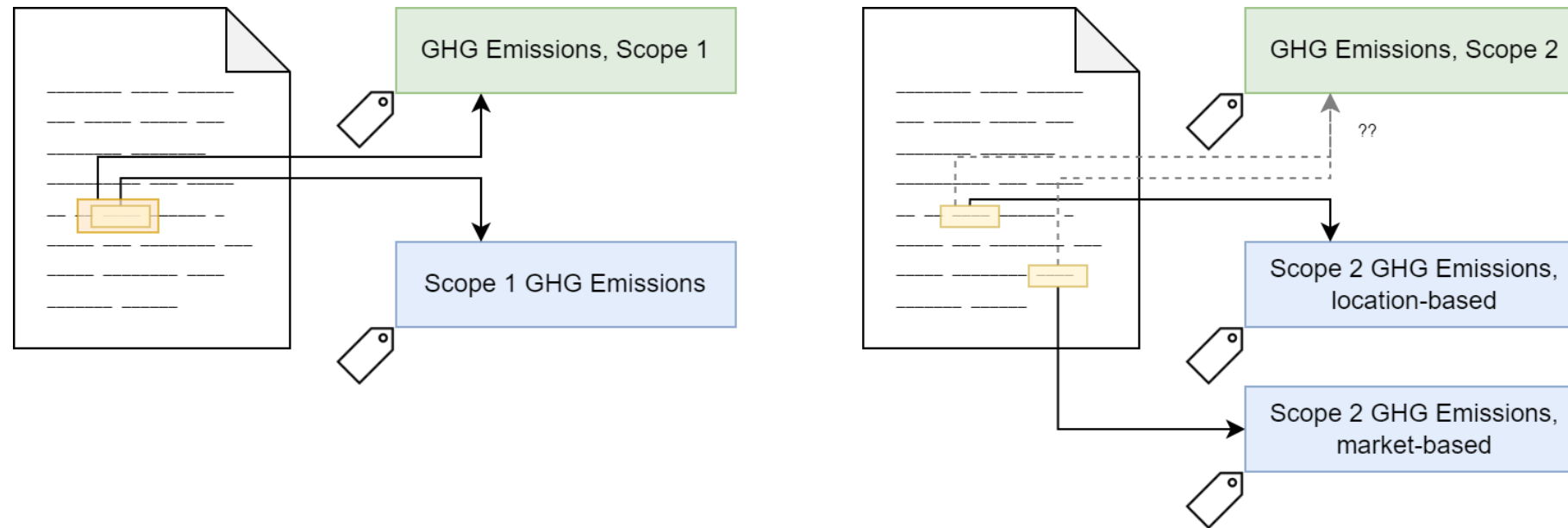
There are sustainability matters that are dealt with in both ESRS and ISSB climate standards, such as GHG Scope 3 emissions, for which it would be complex to build a report complying with both.

In that case, convergence work would be necessary to agree on these matters before even considering technical matters.

For GHG scope 3 emissions IFRS SDS and ESRS requirements for disclosure clearly have a common basis.



Reasons to work for convergence: Multiple tagging



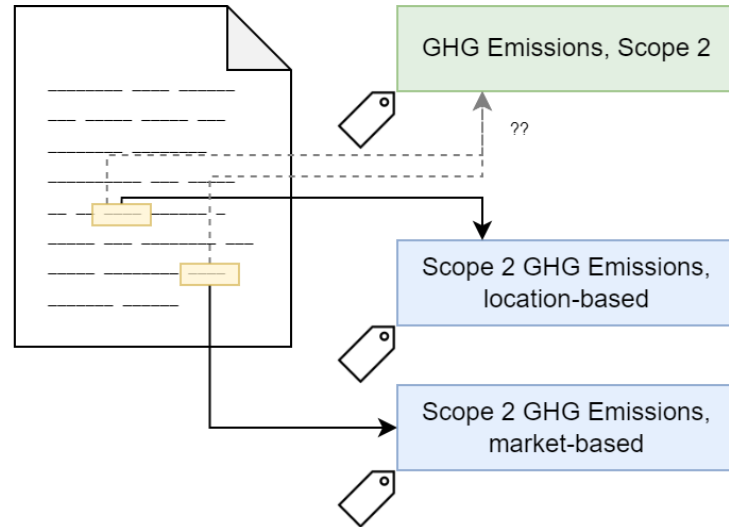
It is possible to tag a report with multiple taxonomies (“double tagging”). This makes it easy for any user to access comparable data. However, it is **at least twice as much work** for the issuer.

This is also only possible if there is a very close match between the concepts behind the identifiers. Otherwise, performing this **multiple tagging may become very complex and require judgement** from the issuer, creating inconsistencies between issuers.

Reasons to work for convergence: Compliance issues

- Potential issues for supervisors to supervise and auditors to audit compliance with a set of rules or reporting frameworks:
 - ✓ If standards at a granular level do not provide common solutions, auditors and assurers may be unable to confirm conformity and compliance with reporting frameworks
 - ✓ Potential risk of gradual standard divergence, where Supervisors would need to increase their effort to limit that divergence to a reasonable level for users.

Digitalisation can facilitate convergence: By solving inconsistencies



Solving this type of inconsistency is necessary to achieve technical convergence.

However, users of human-readable report would also face the exact same reconciliation issues when trying to use reports complying with different standards.

This is why digitization can act as a framework to reveal potential divergences and be a basis for dialogue on convergence.

Digitalisation can facilitate convergence: Benefits and requirements

At the structure level

- Benefits
 - Enables easy discovery of different implementations (e.g. Scope 3)
 - Allows for differences in modelisation of concepts
 - Reduces the risk of gradual divergence of the standards
- Requirements:
 - Requires a common governance of at least the high-level structure
 - May require double tagging for fully automated usability
 - **Requires specific requirements and/or an evolution of the XBRL standards**

At the concept level

- Benefits:
 - Very quick and simple transition
 - Enables single tagging of reports
 - Both taxonomies can still describe their own relational logic, labels, references
 - Works with the current state of the XBRL standards
- Requirements:
 - **Requires complete agreement on basic characteristics**

Thanks for your attention!

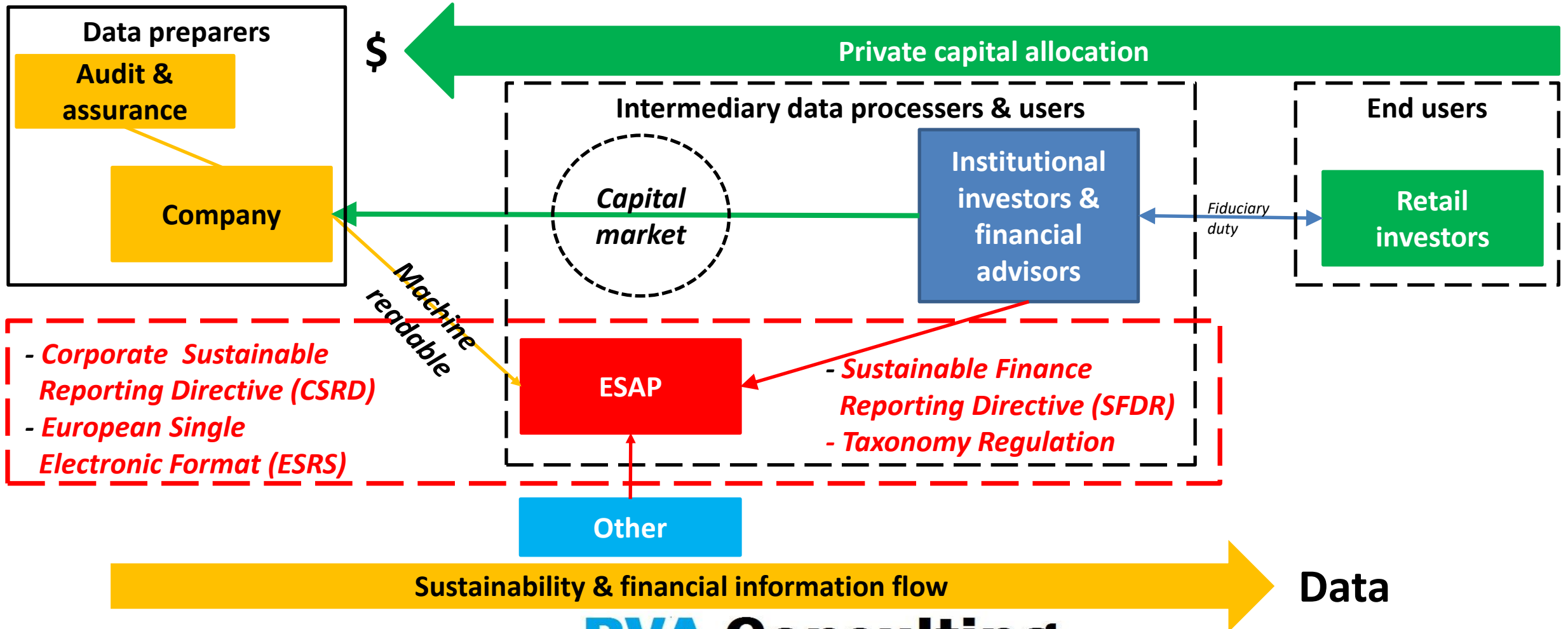
References:

- EFRAG; “Public consultation on the first set of Draft ESRS”; <https://www.efrag.org/lab3>
- IFRS: “ISSB delivers proposals that create comprehensive global baseline of sustainability disclosure”
<https://www.ifrs.org/news-and-events/news/2022/03/issb-delivers-proposals-that-create-comprehensive-global-baseline-of-sustainability-disclosures/>
- **IFRS: “Staff Request for Feedback on the staff draft of the IFRS Sustainability Disclosure Taxonomy”;**
<https://www.ifrs.org/projects/work-plan/ifrs-sustainability-disclosure-taxonomy/request-for-feedback-and-comment-letters/>
- XBRL Europe;” White paper: Interconnectivity enabled through XBRL”: https://www.xbrleurope.org/wp-content/uploads/2022/05/Interconnectivity-enabled-through-XBRL-paper1--final-PM-review-14.04.22_formatted.pdf

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Data driver (ESG) finance: The value chain for data driven finance



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