XBRL | EUROPE

ASSESSMENT OF THE DIGITISATION-READINESS OF EFRAG DRAFT ESRS

How XBRL technologycan be used and develop for the digitisation of the European Sustainability Reporting standards

TPFIII & IMP Workstream D

June 30, 2022

Table of Contents

Abstract:

Since the Paris Agreement in 2015, with the mounting climate crisis, the public at large in countries around the world have pushed their authorities and businesses to increase the measurement of Environmental Social and Governance impacts. It is about holding accountable those who do not respect the commitments. These measurements must be made through approved sustainability standards.

Until recently authorities or private initiatives for the last 15/20 years have developed and used various ESG standards or frameworks like CDP, TCFD or others. Companies are either mandated by authorities or pushed by funds or stock exchange to use these standards for their ESG reporting.

The European Commission in 2020/2021 decided to transform the previous NFRD (Non-Financial Reporting Directive) into a more ambitious reporting scheme, namely the CSRD (Corporate sustainability Reporting Directive) as a mandate for approximately 49,000 companies in Europe to prepare and publish their ESG disclosures. The CRSD was formally adopted by the European Union at the end of June this year (2022).

CSRD reporting standards are still under development and the digitisation of those standards, remains an open topic. The EFRAG (European Financial Reporting Advisory Group), through a temporary Project Task Force (PTF), is mandated by the European Commission to develop the European ESG standards. The ESRS (European Sustainability Reporting Standards) do so through 9 clusters, where C9 is the cluster dealing with the Format and Digitalisation of standards. EFRAG have produced 13 draft Standards, subject to public comment, as follows:
- Cross cutting standards (ESRS 1 General principles, ESRS 2 general, Strategy, governance, and materiality assessment disclosure requirements)
- Environment (ESRS E1 Climate Change, E2 Pollution, E3 Water and Marine resources, E4 Biodiversity and Climate Change, E5 Resource Use and Circular Economy)
- Social (ESRS S1 Own Workforce, S2 Workers in the Value chain, S3 Affected communities, S4 Consumers and End users)
- Governance (ESRS G1 Governance, risk management and internal control, G2 Business Conduct,

The ESRS standards are subject to public comment until the 8th of August for subsequent submission of the final proposed standards to the European Commission in November 2022.

Given this context and as time necessary for digitisation, EFRAG implemented a Taxonomy acceleration programme. This initiative was led by XBRL Europe as an ultimate beneficiary of the grant from TPFII to fund its contribution to this acceleration program.

Workstream D was established through the DSD Project hosted by Capitals Coalition and co-led by Liv Watson and David Wray, to outline our participation in the digitization-readiness assessment of the EFRAG DRAFT ESRS.

XBRL Europe, IMP/TPF, EFRAG and Workstream D

Starting in 2021, XBRL Europe collaborated with EFRAG through the XBRL Europe sustainability ESG Working Group for Cluster 9, designated as an expert group to comment on the Cluster 9 proposed standard as it relates to digitization readiness.

XBRL Europe initially collaborated with IMP/TPF to contribute to the projects (referred to as Workstreams A&B), where XBRL Europe contributed through a contract with Adviseers SAS (and in turn between Adviseers SAS and IMP and in turn TPFII) to provide technical expertise to support the successful delivery of Workstreams A &B through the end of March 2022.

Following which, around late April 2022, EFRAG launched its Taxonomy acceleration program. Adviseers SAS was awarded this contract from Capitals Coalition (and in turn TPFII), where Adviseers designated XBRL Europe as the technical expert to support the technical assessment of digitization readiness (the initiative designated as Workstream D) to support EFRAG in this acceleration program. XBRL Europe recruited both in-kind and paid members from its network to support this work.

The fund supported a total of 75 days of expert time, as noted above through both in-kind and paid membership expertise to ensure successful delivery of the digital technical assessment. EFRAG through its "Acceleration program" project manager, Andrea Giannini, worked well with the XBRL Europe designated technical team. The XBRL Europe expert team consisted of :
- Marc Houllier – XBRL France / Corporatings
- Bodo Kesselmeyer – XBRL Europe / AnuboXBRL
- Joel Vicente – XBRL UK / Corefiling
- Daniel Dracott - XBRL UK / Corefiling
- Hubert Siekierski – XBRL Europe / PwC

The XBRL Europe Sustainability working group as well as the XBRL Executive Committee were actively involved in the review and approval of the output work products of the XBRL Europe "EFRAG acceleration program" expert team.

Contracts have been set up and signed from IMP/TPF to XBRL Europe and mirroring ones from XBRL Europe to the selected members and experts.

"Workstream D" Objectives
Workstream D identified the following activities, objectives, and success factors:
1. Assessment of the digitization-readiness of EFRAG Draft ESRS
2. Definition of the scope of a taxonomy style guide and preliminary version

Organisation of work of the XBRL Europe "EFRAG acceleration program" expert team

## Assessment of the digitization-readiness of EFRAG Draft ESRS

Cluster 9 (C9) was responsible for providing guidance to other clusters to ensure that the standards would be suitable for a digital format. Unsurprisingly given the extensive scope of work in drafting ESG standards for European companies, the draft standards changed significantly throughout the PTF working period. We assisted C9 in performing an in-depth review of potential issues in individual draft ESRS, and identifying inconsistencies across the ESRS. We focused in particular with ensuring the standards were clear enough that companies wouldn't interpret them in ways that would cause them to disclose data in heterogeneous ways that would not support comparable XBRL concepts.

Definition of the scope of a taxonomy style guide and preliminary version

A small share of our task was initially planned to be the construction of a style guide which would determine at least the aspects for which a common style was required in the taxonomy. As the assessment of the readiness for digitization of the standards revealed several significant data modelling issues, Cluster 9 indicated that the greatest benefit for digital readiness would be in having XBRL Europe focus on providing more guidance on the identified issues rather than on the taxonomy style guide.

Organisation of the work

The work was allocated and divided in accordance with the EFRAG Acceleration program manager, Andrea Giannini, to reflect both the priorities and time constraints to deliver a relevant and meaningful outcome.
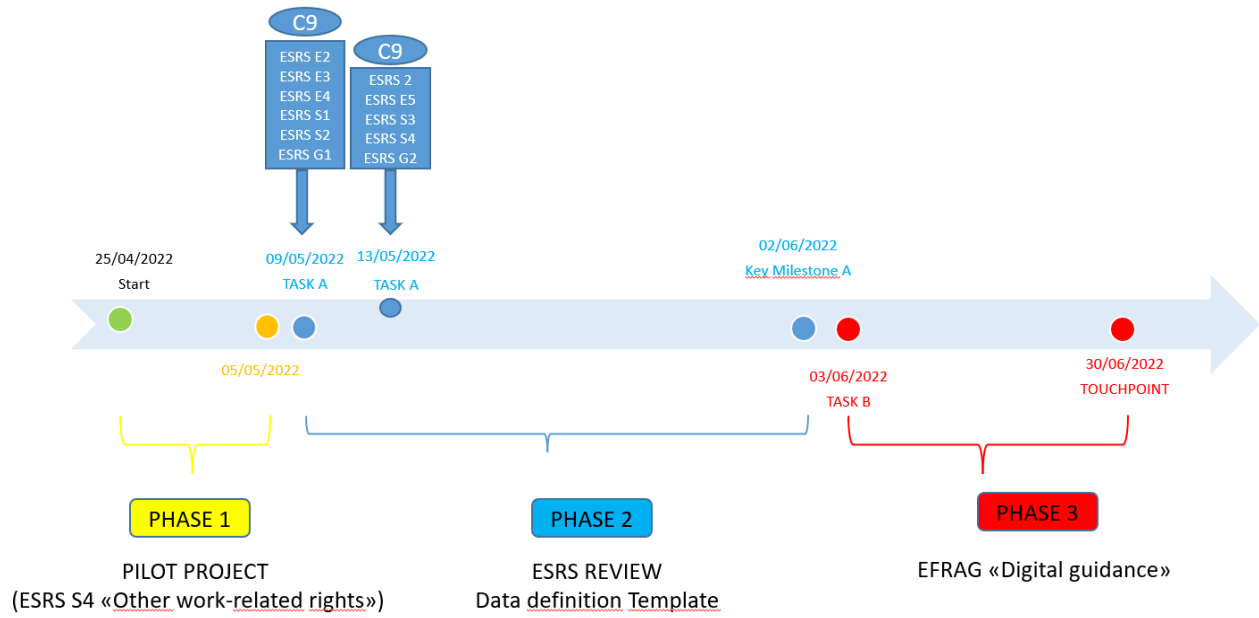
TASK A (ESRS REVIEW)						
	Marc Houllier	Daniel Dracott	Joel Vicente	Hubert Siekierski	Bodo Kesselmeyer	TOTAL
ESRS 2 - GOV+IRO (EMMANUELLE CORDANO)						
ESRS 2 - GR+SBM (EMMANUELLE CORDANO)						
ESRS E1 (RICHARD BOSSEN)						
ESRS E2 (NIKOLINA MARKOTA)						
ESRS E3 (EMMANUELLE CORDANO)						
ESRS E4 (ANDREA GIANNINI)						
ESRS E5 (NIKOLINA MARKOTA)						
ESRS S1-1 (ANDREA GIANNINI)						
ESRS S1-2 (ANDREA GIANNINI)						
ESRS S1-3 (ANDREA GIANNINI)						
ESRS S1-4 (ANDREA GIANNINI)						
ESRS S2 (ANDREA GIANNINI)						
ESRS S3 (ANDREA GIANNINI)						
ESRS S4 (ANDREA GIANNINI)						
ESRS G1 (ANDREA GIANNINI)						
ESRS G2 (ANDREA GIANNINI)						
n. DAYS	12,5	12,5	12,5	13	13	63,5

	Marc Houllier	Daniel Dracott	Joel Vicente	Hubert Siekierski	Bodo Kesselmeyer
TASK A (ESRS REVIEW)	12,5	12,5	12,5	13	13
TASK B (TAXONOMY: DIGITAL GUIDANCE)	2,5	2,5	2,5		
TASK C (ARCHITECTURE OF NARRATIVE DISCLOSURES)					2
TASK D (XBRL PM)				2	
TOTAL N. DAYS	15	15	15	15	15

Work carried out by the XBRL Europe "EFRAG acceleration program" expert team to reach the Workstream D objectives.

Review of the template used for digitization

C9 prepared an Excel template where within each row was a granular element of the ESRS. In each column we reflected the analysis of each designated element to determine whether it met one or several data points, and to further identify its characteristics. The XBRL Europe expert team provided additional feedback and suggestions for improvement on the EFRAG designed template including the usefulness of columns, extra assessment steps (columns) required, the optimal granularity for each granular element, etc. The basis for the assessment was an XBRL Europe developed example based on the Working Paper for ESRS S4, now reflected in ESRS S1 (see Attachments M1 and M2).

Supporting the dialogue with other clusters

To provide Cluster 9 with relevant explanatory points and rational to support the approach to digitization, such as the level of element granularity, XBRL Europe prepared a document explaining these concepts in a manner aligned with the objectives of the ESRS, to ensure the standards readers, who may not be very familiar with digitization concepts, understand clearly the requirements (refer to Attachment M3).

Review of ESRS E2 and ESRS E3

C9 shared with each member of the team a few of their analyses based on the previous template on specific ESRS. Marc Houllier was assigned E2 and E3 (topical).
A detailed review of the readiness for digitisation of E2 and E3 was provided and discussed with C9. Comments related to the template itself, to details of the standards that could justify rephrasing the paper standards themselves, and to overall consistency between the standards. See Attachments M4 and M5, M5b, M5c.

Review of ESRS E4 and ESRS E5

C9 provided the team with the current versions of the ESRS E4 and E5 specifications along with their initial template spreadsheets. These were assigned to XBRL Europe to review and provide feedback on the analysis and modelling. In addition to the feedback on specific paragraphs requested, more general feedback was also provided to further support EFRAG. This included observations that the Disclosure Requirements need to clearly specify the required data points, with the Application Guidance providing additional context (where needed). In other words, the application guidance should not be a necessity for a user to identify required data points.
The full feedback is located in attachments M10 and M11.

Review of ESRS S1-1, S1-2, S1-3 and S1-4

C9 provided the team with the current versions of the ESRS S1-1, S1-2, S1-3 and S1-4 specifications along with their initial proposed template. These were assigned to XBRL Europe to review and provide feedback on the analysis and modelling. The full feedback can be found in attachments J1, J2, J3 and J4.

Review of ESRS 2

ESRS 2 is a cross-cutting standard defining disclosure requirements related to several topical disclosures. This standard presented a handful of interesting modelling cases for which we helped EFRAG define the model. We also counselled the EFRAG team on ways to digitally disclose materiality and non-materiality within topics, as well as how to model policies, targets and action plans. See Attachments M6, M7, B1, B2 general architecture of narrative disclosures (task C): B3

Review of ESRS S2, S3 and S4

All three standards were identically constructed. Many paragraphs vary the use of words which are often intended to mean the same thing, and occurring between subject matters, for example, "communities" vs "value chain workers". This meant that detailed comments on individual disclosures should also be considered more widely and seen as "generic" and applicable to all three standards. Additionally, general feedback also pertained to assigning the severity level to the particular data point, rather than the disclosure itself, as the template initially suggested. A comprehensive summary of the findings can be found in Attachment H4, whereas detailed comments are in attachments H1, H2 and H3.

Review of ESRS G1 and G2

Overview of findings: see Attachment B2
Detailed findings for G1: see Attachment B4
Detailed findings for G2: see Attachment B5
general architecture of narrative disclosures (task C): B3

In summary

The XBRL Europe assembled expert team has provided review inputs in accordance with the process outlined above with focus being placed on providing more detailed guidance on the significant data modelling topics in the ESRS standards itself as requested by and agreed with EFRAG.

Given that the draft standards changed significantly throughout the working period of the PTF, we assisted C9 in performing an extensive review of any potential issues in individual ESRS as well as identifying inconsistency issues across the ESRS. We were tasked in particular with ensuring that the standards were clear enough that preparing companies wouldn't interpret them in ways that would cause them to disclose data in heterogeneous ways would not fit under comparable XBRL concepts.

To provide clear and comprehensive conclusions to the permanent standard setting body members (once appointed), C9 requested a summary of our observations into a Powerpoint (PPT) deck of slides, for which we also provided illustrations. C9 also requested a review of the EFRAG PPT slides created with their own conclusions to ensure they were accurate and reflected the nature of the work undertaken. See Attachments M8, M9, B2

Contributors to this report

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