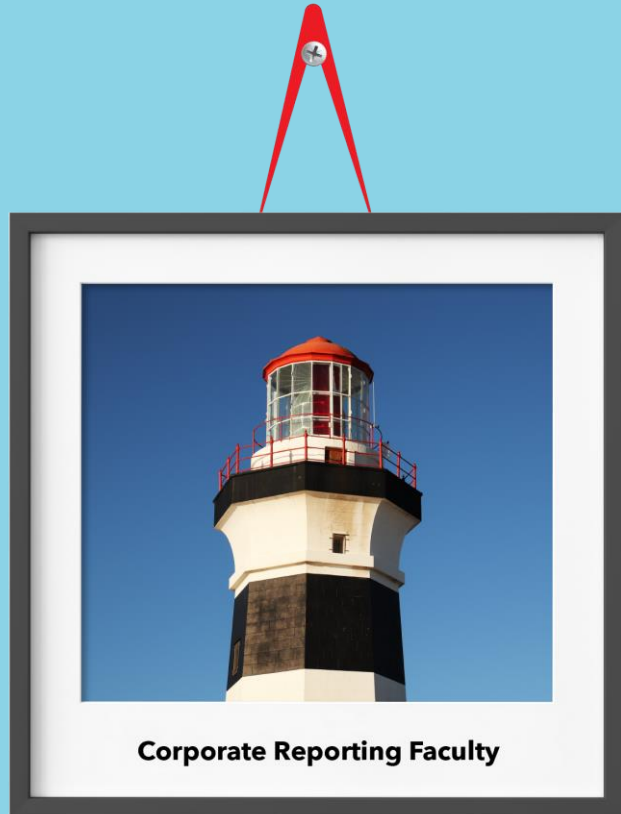




ICAEW KNOW-HOW
CORPORATE REPORTING FACULTY



European sustainability reporting: an introduction for UK companies

18 APRIL 2024

THIS WEBINAR WILL
COMMENCE SHORTLY

Introduction



Alison Bonathan

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Today's presenters

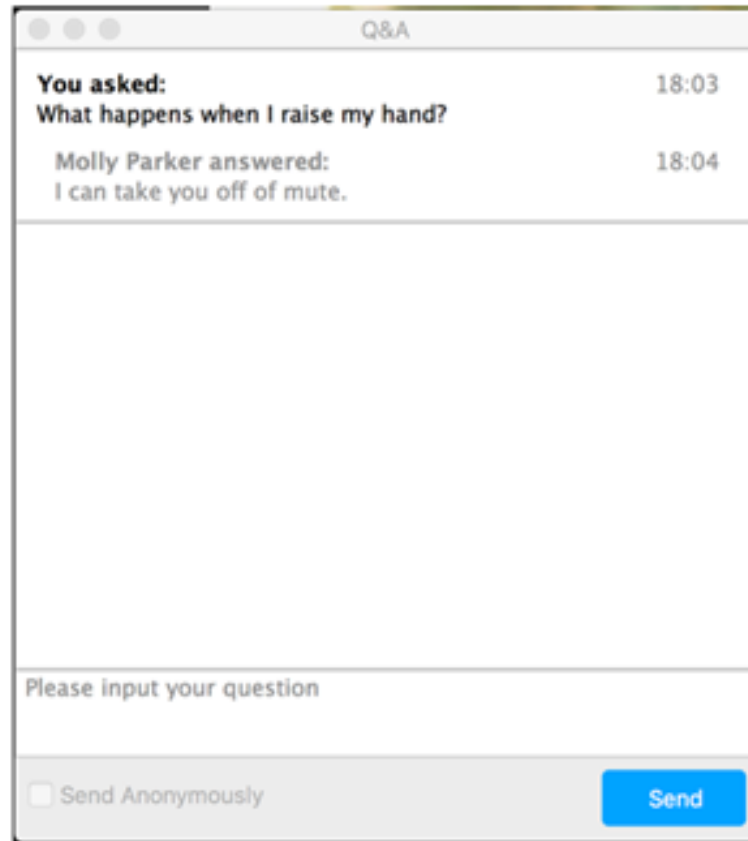


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Ask a question and access resources



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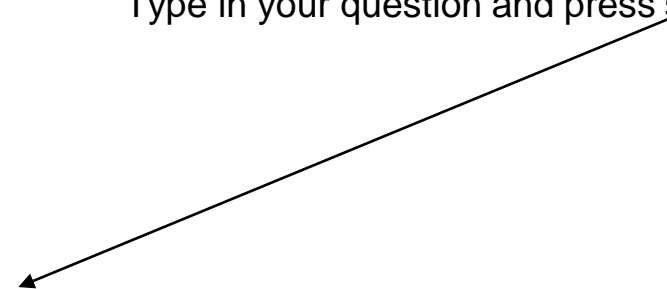
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Contents

1- Background to the Corporate Sustainability Reporting Directive (CSRD)

2- Key changes introduced by the CRSD

3- European Sustainability Reporting Standards (ESRS)

4- EU Taxonomy

5- EU legislation: some issues for non-EU entities

6- Assurance considerations

Poll question #1

Does your group/company generate more than €150m of revenue in the EU via an established subsidiary(ies), and/or operate one or several branches in the EU?*

Yes

No

Do not know

** If you are already caught by the NFRD please answer yes*



CSRD and ESRS from a UK perspective

BACKGROUND TO
THE CORPORATE SUSTAINABILITY REPORTING DIRECTIVE (CSRD)

Background to the CSRD

Non Financial Reporting Directive (NFRD) review

EU Green Deal's ambitions and the strengthening of sustainable investment foundations.

NFRD objectives

Had set the EU on course towards greater business transparency and accountability on social and environmental issues.

- To **understand impacts of companies'** actions better
- To **foster sustainable growth**, finance the green transition, and unlock the investment needed to achieve the EU's 2050 climate neutrality objective
- To **direct financial and capital flows to sustainable investment**

NFRD shortcomings

Implementation shortcomings were identified by public consultation in 2020 relating to **lack of comparability, reliability and relevance of the non-financial information**.

Background to the CSRD

Key messages outlined by the Commission

1. Quality and scope of non-financial information disclosed
 1. Several problems **for users and preparers** of non-financial information
 2. Issues with **lack of comparability, reliability and relevance** of non-financial information provided
 3. **overlaps of different pieces of legislation** on sustainability reporting
2. Very strong support for a requirement on companies to use a **common reporting standard**. In this context, most respondents were in favour of the development of **simplified standards for SMEs**.
3. Strong support for
 1. **stricter audit requirement**.
 2. **digitalisation of non-financial information**.
 3. **requirement on companies to disclose their materiality assessment process**.
4. Moderate support for **requiring all information to be disclosed in the management report**.

Background to the CSRD

Key messages outlined by the Commission (continued)

5. Strongest support for **expanding the scope of the NFRD** expressed by:
- large companies not established in the EU, but listed in EU regulated markets (72%); *
 - large companies established in the EU, but listed outside the EU (71%); *
 - large non-listed companies (70%); *
 - all large public interest entities (in effect removing the current 500 employee threshold and applying the size thresholds set out in the Accounting Directive) (62%); **
 - all EU companies with listed securities, regardless of their size (62%); **
 - all public interest entities regardless of their size (45%); **
 - companies that are subsidiaries of a parent company, currently exempt (32%); **
 - all limited liability companies regardless of their size (21%). **

** Non-public interest entities; ** Public interest entities (PIEs), i.e. entities established in the EU whose securities are admitted to trading on an EU regulated market, as well as licensed credit institutions and insurance companies having their registered office in the EU and entities designated by a Member State as such. Note that the NFRD currently only covers public-interest entities*



CSRD and ESRS from a UK perspective

KEY CHANGES INTRODUCED BY THE CSRD

Key changes introduced by the CSRD

DIRECTIVE (EU) 2022/2464 [...] amending...

Article 1: Directive 2013/34/EU [amended by Directive 2014/95/EU, NFRD] *

- on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings [...]

Article 2: Directive 2004/109/EC

- harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market [...]

Article 3: Directive 2006/43/EC

- on statutory audits of annual accounts and consolidated accounts [...]

Article 4: Regulation (EU) No 537/2014

- requirements for the carrying out of the statutory audit of annual and consolidated financial statements of PIE
- rules on the organisation and selection of statutory auditors and audit firms by PIE [...]; and
- rules on the supervision of compliance by statutory auditors and audit firms with those requirements.)

... as regards corporate sustainability reporting

* <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02013L0034-20240109>

Key changes introduced by the CSRD

Requirements	NFRD (from)	CSRD (to)
How many EU companies will need to comply with the requirements?	11,600	49,000
Companies that are required to Report	<p>Large EU PIEs (single entities and groups) with more than 500 employees.</p> <p>PIEs:</p> <ul style="list-style-type: none"> • EU companies listed on an EU regulated market • EU banks and insurance companies 	<p>All companies listed on an EU regulated market (except listed micro entities)</p> <p>All large groups (or, if not applicable, at the individual level), defined as those meeting two out of the following three criteria:</p> <ul style="list-style-type: none"> • More than 250 employees • More than € 50m turnover [initially €40m] • More than € 25m total assets [initially €20m] <p>Insurance undertakings and credit institutions regardless of their legal form (except for micro companies).</p> <p>Non-EU groups that generate net turnover of more than 150 million euros in the EU for each of the last two consecutive financial years at the consolidated level (or, if not applicable, at the individual level), AND</p> <ul style="list-style-type: none"> • have at least one EU subsidiary in scope for CSRD (as above); OR • have at least one EU branch that generates more than EUR 40m turnover

Key changes introduced by the CSRD

Requirements	NFRD (from)	CSRD (to)
Scope of requirements	<p>The 'big five' topics</p> <ul style="list-style-type: none">• Environmental protection• Social responsibility and treatment of employees• Human rights• Anti-corruption and bribery• Diversity on company boards	<p>NFRD requirements plus:</p> <ul style="list-style-type: none">• Disclosure of information about intangibles (including social, human and intellectual capital)• Additional forward-looking information• Reporting that is consistent with<ul style="list-style-type: none">• the Sustainable Finance Disclosure Regulation, and• the EU Taxonomy• Double materiality concept, which expands the consideration of sustainability beyond an entity's capital market value, to include the entity's wider effects on society and the environment <ul style="list-style-type: none">• Process to choose topics for stakeholders• Climate targets and emission aims <ul style="list-style-type: none">• Standardised, electronic and searchable reporting format

Key changes introduced by the CSRD

Requirements	Key areas of reporting
Scope of requirements	<ul style="list-style-type: none">• A brief description of the business model and strategy• A description of time bound targets related to sustainability matters, including (where appropriate) absolute greenhouse gas emission reduction targets for at least 2030 and 2050, together with a description of the progress made in achieving those targets and a statement of whether the targets related to environmental targets are based on conclusive scientific evidence• A description of the role of the administrative, management and supervisory bodies with regard to sustainability matters, and of their expertise and skills in relation to fulfilling that role or the access they have to such expertise and skills• A description of the entity's policies in relation to sustainability matters• Information about the existence of incentive schemes offered to members of the administrative, management and supervisory bodies which are linked to sustainability matters• The due diligence process implemented with regard to sustainability matters, the principal actual or potential adverse effects connected with an entity's own operations and value chain, and any actions taken (and the result of those actions) to prevent, mitigate, remediate or bring an end to actual or potential adverse effects.• Principal risks to the entity associated with sustainability matters, including dependencies, and how such risks are managed The process carried out to identify the information included in the sustainability report, including information related to short, medium and long-term time horizons as applicable• Turnover, capex and opex in accordance with the Taxonomy Regulation

Key changes introduced by the CSRD

Requirements	NFRD (from)	CSRD (to)
When do the requirements apply	Years ended 31 December 2018 onward.	<p>Year ending 31 December 2024</p> <ul style="list-style-type: none"> • Entities in NFRD scope <p>Year ending 31 December 2025</p> <ul style="list-style-type: none"> • All other large EU entities <p>Year ending 31 December 2026</p> <ul style="list-style-type: none"> • Listed SMEs (can defer to 2028) • Small and non-complex credit institutions and captive insurance undertakings <p>Year ending 31 December 2028</p> <ul style="list-style-type: none"> • Non-EU entities (EUR 150m turnover and has either a large or listed EU subsidiary (except micro entities) or an EU branch that generates EUR 40m turnover)
Assurance	Not required	<p>Mandatory</p> <ul style="list-style-type: none"> • Initially limited assurance, to be expanded to reasonable (audit) assurance in future.



CSRD and ESRS from a UK perspective

EUROPEAN SUSTAINABILITY REPORTING STANDARDS (ESRS)

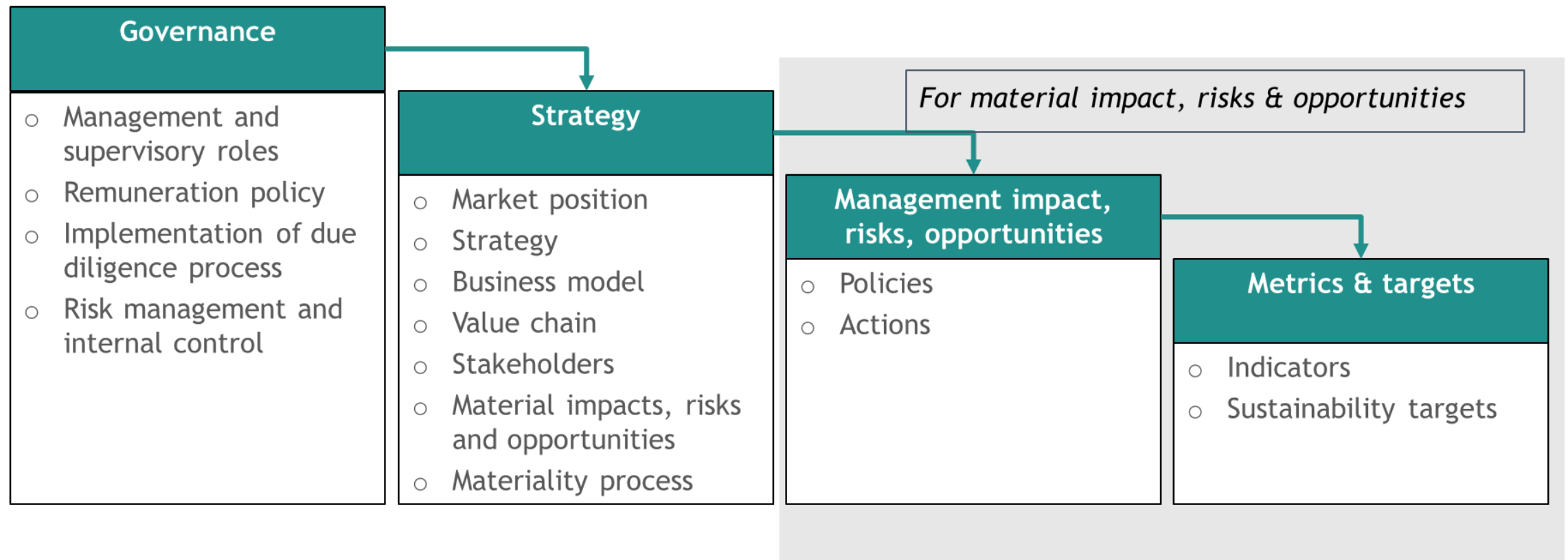
European Sustainability Reporting Standards

ESRS	(in development)		
Cross cutting <ul style="list-style-type: none"> ESRS 1 General requirements ESRS 2 General disclosures 	Sector-specific Standards	Simplified Standards for listed SMEs	Simplified Standards for non-EU companies
Environment <ul style="list-style-type: none"> ESRS E1 Climate change ESRS E2 Pollution ESRS E3 Water and marine resources ESRS E4 Biodiversity and ecosystems ESRS E5 Resource use and circular economy 			
Social <ul style="list-style-type: none"> ESRS S1 Own workforce ESRS S2 Workers in the value chain ESRS S3 Affected communities ESRS S4 Consumers and end users 			
Governance <ul style="list-style-type: none"> ESRS G1 Business conduct 			

Points of attention
Approximately 1,100 data points <ul style="list-style-type: none"> ESRS 1 and ESRS 2 disclosures always required Others either required (subject to materiality) or optional Detailed explanation if climate is not considered material
Double materiality <ul style="list-style-type: none"> Effects of sustainability-related matters on the entity Effects of the entity on society and the environment
Phase in reliefs <ul style="list-style-type: none"> Some disclosures not required in first, second and third years of reporting Availability depends on whether previously within NFRD scope, above/below 750 employees

European Sustainability Reporting Standards

Structure and content





CSRD and ESRS from a UK perspective

EU TAXONOMY

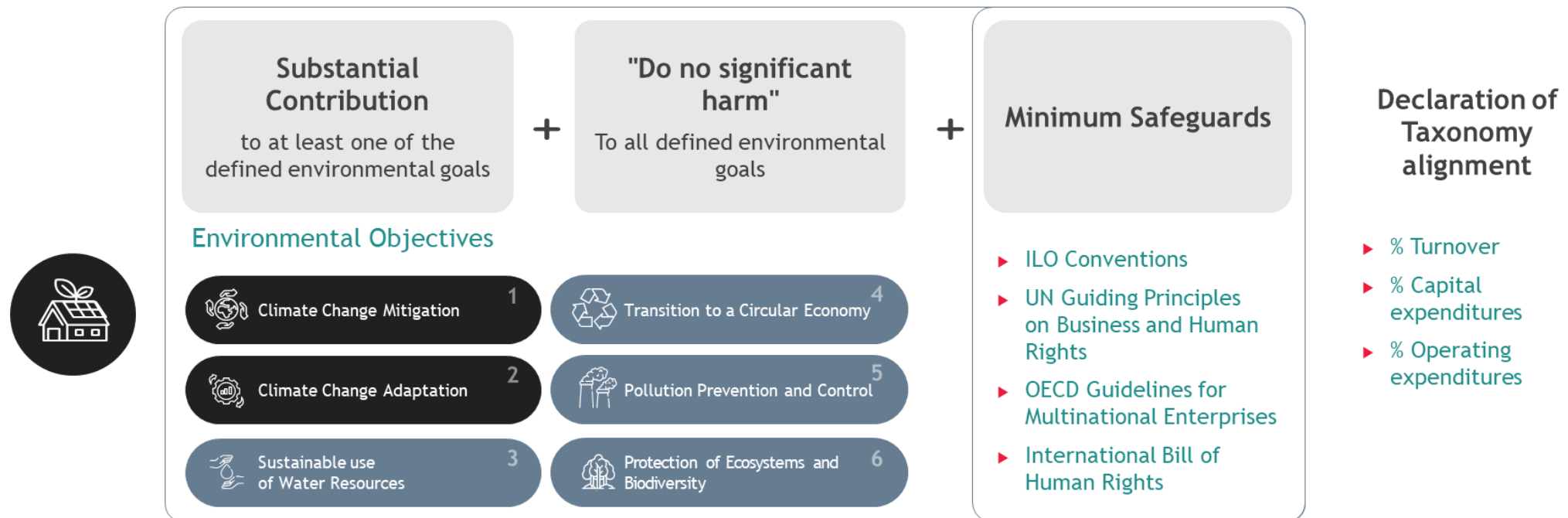
EU Taxonomy

If an [EU] entity falls within the scope of the CSRD, then it is required to report in accordance with EU Taxonomy Regulation Article 8

- increase transparency
- help prevent greenwashing
- requires disclosures about-
 - extent to which **operations are associated with environmentally sustainable economic activities**
 - **eligible / aligned % of Turnover / Capex / Opex**

EU Taxonomy

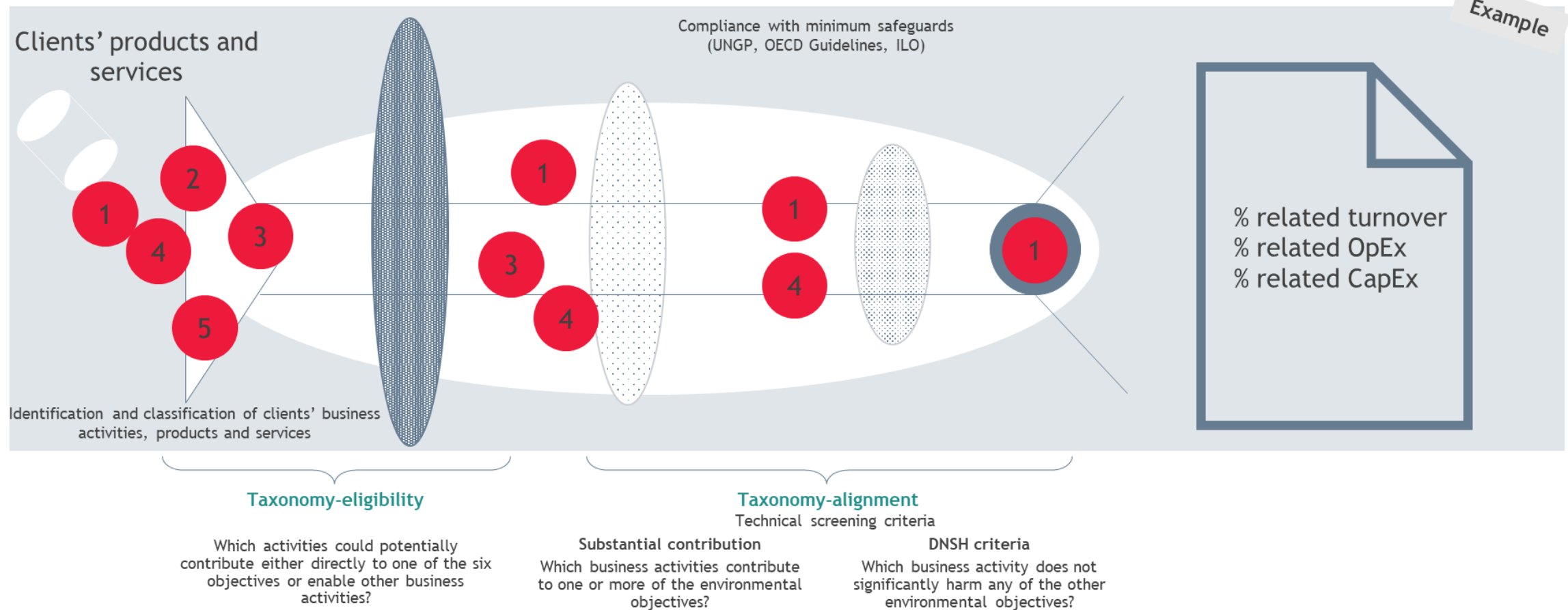
EU Taxonomy Regulation linked to non-financial reporting obligation



The EU Taxonomy is a tool designed to support investors, companies, emitters and project promoters in the transition to a low-carbon, resilient and resource-efficient economy. The classification system created by the introduction of the Taxonomy Regulation helps to promote capital flows towards sustainable investments.

EU Taxonomy

Functional logic of the EU Taxonomy





CSRD and ESRS from a UK perspective

EU LEGISLATION

SOME ISSUES FOR NON-EU ENTITIES

Some issues for non-EU entities

In-scope categories	Disclosure regulation ref.	Disclosure requirements	ESRS	Notes
Companies listed on an EU regulated market (except listed micro entities)	Art 19a Sustainability reporting	Information necessary to understand <ul style="list-style-type: none"> the undertaking's impacts on sustainability matters, how sustainability matters affect the undertaking's development, performance and position. Where applicable, include information about own operations and value chain.	As adopted pursuant to Art 29b ESRS OR In accordance with Art 29c ESRS for SMEs	Disclosure limitations / derogations available to SMEs. Conditional exemption available; including as noted below.
Large groups (2 of 250 ee, €50m T/O, €25m BS)	Art 29a Consolidated sustainability reporting	Parent undertakings of a large group shall include in the consolidated management report information <u>as above</u> .	As adopted pursuant to Art 29b ESRS	Conditional exemption available; including: <ul style="list-style-type: none"> If included in [EU] parent's report drawn up according to Art 29a (ie ESRS) If included in [non-EU] parent's report drawn up according to Art 29b ESRS <u>or equivalent</u> - does not exempt Art 8 taxonomy disclosures
Non-EU groups (€150m T/O + criteria)	Art 40a Sustainability reports concerning third-country undertakings	Information specified in certain points* of Art 29a is published and made accessible at the group [non-EU consolidated] level of that ultimate third-country parent undertaking <i>* e.g. does not include point re information about own operations and value chain</i>	As adopted pursuant to Art 40b ESRS for third-country undertakings (to be issued)	Derogation available to draw up the sustainability report according to Art 29b ESRS <u>or equivalent</u> . Conditional exemption <u>not available</u>
	Transitional provision Art 48i ['EU level 'consolidation' report'] Until 6 January 2030, Member States shall permit a Union <u>subsidiary undertaking</u> which is subject to Article 19a or 29a and whose parent undertaking is not governed by the law of a Member <u>State</u> to prepare consolidated sustainability reporting, in accordance with the requirements of Article 29a, that includes all Union subsidiary undertakings of such parent undertaking that are subject to Article 19a or 29a. Such consolidated sustainability reporting may include Article 8 Taxonomy disclosures.			

Some issues for non-EU entities

Reporting requirements - CSRD

Vary depending on how an entity is scoped in:

- Articles 19a and 29a: all entities listed on an EU regulated market and in-scope EU entities
- Article 40a: subsidiaries of non-EU entity generating >EUR 150m / branches of non-EU entity generating >EUR40m
 - ESRS for non-EU entities to be developed. Will be different from full scope ESRS requirements
- Article 48: transitional period for 31 December 2028 and 2029 reporting – EU level ‘consolidation’ report

Non-EU group preparing an Art. 40a report – implications for EU subsidiary/subsidiaries exemption

- Article 40 report is not the same as an Article 19a/29a report
- EU subsidiary / subsidiaries group reporting exemption not available

Some issues for non-EU entities

Non-EU group not listed on EU regulated market

- Considering preparing full scope 19a/29a report at consolidated group level
 - Objective: exempt EU subsidiaries from sustainability reporting
- Issue – EU Taxonomy reporting still required for the EU subsidiaries
 - Include in either the consolidated sustainability report of the parent or in the management reports of the subsidiaries
 - May be possible to publish an Article 48 type ‘artificial consolidation’ report for EU Taxonomy disclosures

EU subsidiaries of non-EU parent – use of Art. 48 ‘artificial consolidation’ – which EU entities to include?

- CSRD Art 48i: ‘....includes all Union subsidiaries.....that are subject to Article 19a or 29a.’
 - Does that mean only those subsidiaries can be included, or can all EU subsidiaries be included?
 - Answer: CSRD sets out a minimum requirement and does not prevent entities going further

Some issues for non-EU entities

Notes

The exemption for sustainability reporting has criteria that are different from those applicable to FR consolidation exemption. It is thus possible that an entity could qualify for FR consolidation exemption but not for the sustainability reporting exemption, and vice versa.

For the purpose of equivalence, mechanism to be developed for sustainability reporting standards applicable by non-EU entities, which must-

- require disclosure of ESG information
- provide information on risk, impact, performance and position based on double materiality principles



CSRD and ESRSs from a UK perspective

ASSURANCE CONSIDERATIONS

Poll question #2

Is your company ready for assurance of sustainability information?

1 - Yes

2 - No – but we have a plan

3 - No

Assurance considerations

WHAT	WHEN
WHO	HOW

Assurance considerations












Assurance considerations

CSRD assurance opinion should cover:

- 1) **Compliance with ESRS:** Whether the company has complied with the EU sustainability reporting standards
- 2) **Double materiality process:** process carried out to identify the information reported under the standards
- 3) **Digital mark up:** compliance with the requirement to mark-up sustainability reporting in accordance with Article 29d (digitalisation)
- 4) **EU Taxonomy:** compliance with the reporting requirements of Regulation (EU) 2020/852 Article 8 (Taxonomy Regulation)

Assurance considerations

WHO can provide CSRD assurance

	Statutory auditor	Other Statutory auditor	Independent Assurance Service Provider
Efficiencies			
Independence			
Accreditation			

Assurance considerations

HOW is information assured

Current practice

- ISAE 3000
- ISAE 3410
- Local jurisdictional standards

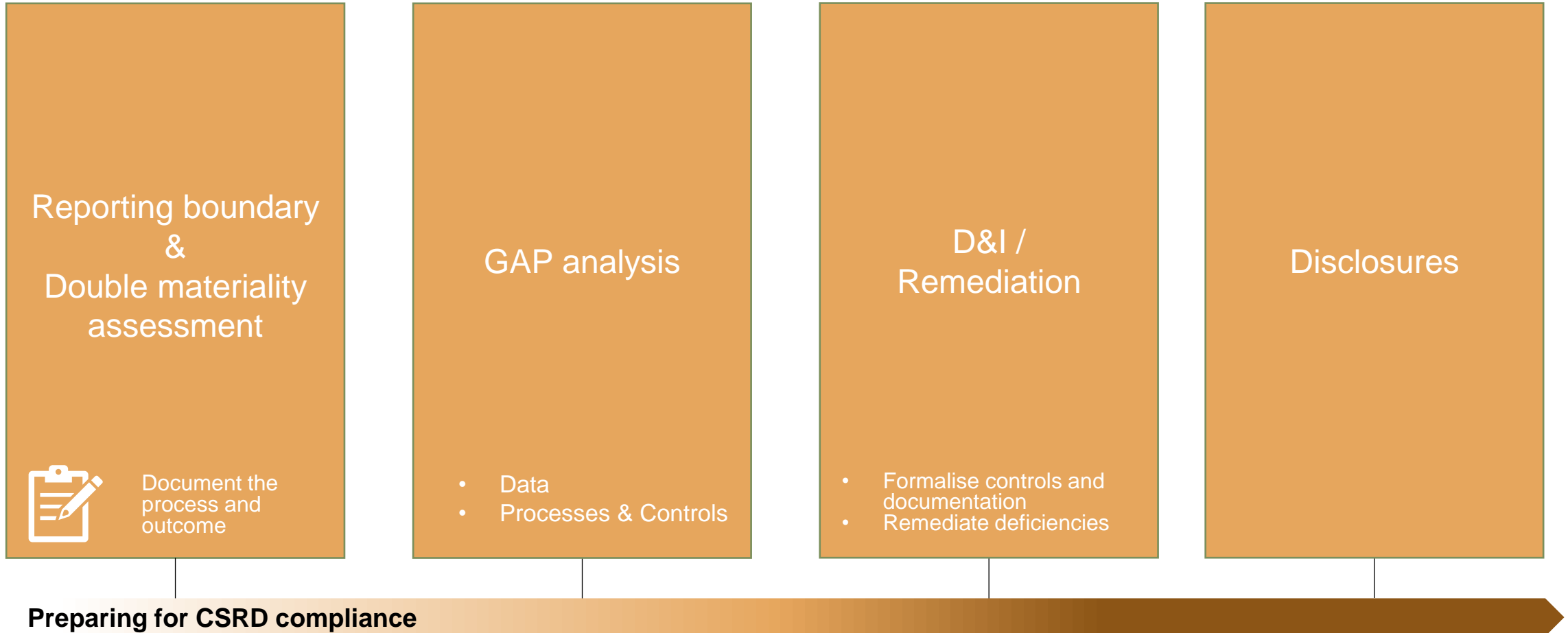
CRSD: requirements

- CSRD required assurance to be performed under the standards applying in local jurisdiction/ EU standards
- In transitional period, practice in different Member state is likely to diverge

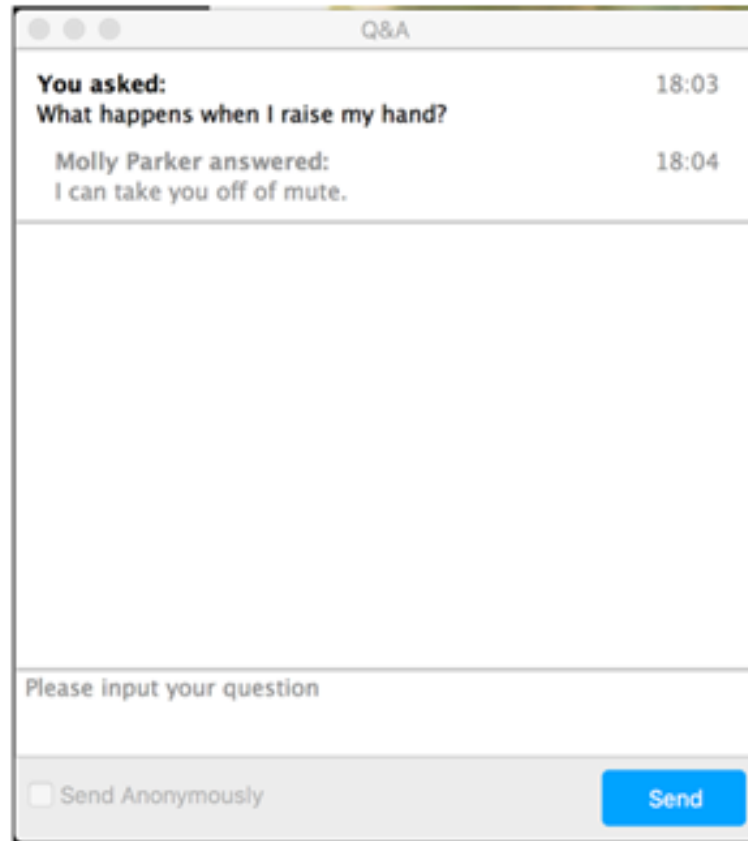
Future developments

- EU is empowered to adopt Limited assurance standards before 1 October 2026
- IAASB is finalising International Sustainability Standard
ISSA 5000 – expected September 2024:
 - Framework-agnostic
 - Designed for all service providers
 - Limited and Reasonable assurance

Assurance considerations



Ask a question and access resources



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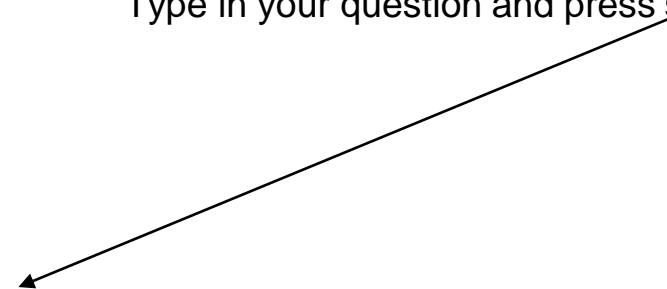
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Non-financial reporting hub

- [icaew.com/nfr](https://www.icaew.com/nfr)

[European sustainability reporting and assurance](#)

- [CSR scope and timing](#)
- [ESRS](#)
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Questions



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