Corporate Sustainability Reporting Directive (CSRD)

The new EU landscape in sustainability reporting - 2023

Building a better working world

Agenda

EY

1 CSRD executive summary

1. European Green Deal

- Following the European Green Deal, the European Commission (EC) made a commitment to review the provisions concerning nonfinancial reporting of the Non-Financial Reporting Directive (NFRD).
- The Green Deal is the new growth strategy of the European Union (EU). It aims to transform the EU into a modern, resource-efficient and competitive economy with no net emissions of greenhouse gases (GHG) by 2050.
- The EC commits to ensuring that by 2050 all of the world's ecosystems are restored, resilient and adequately protected. That strategy aims to put Europe's biodiversity on a path to recovery by 2030.
- The extension of the NFRD to the Corporate Sustainability Reporting Directive (CSRD) follows the implementation of the action plan on financing sustainable growth.

2. Scope of CSRD & Timelines

- For financial years starting on or after 1 January 2024: large listed companies and parent companies of large groups exceeding on its balance sheet dates, the average number of 500 employees during the financial year.
- For financial years starting on or after 1 January 2025: large companies and parent companies of large groups exceeding on its balance sheet dates, for at least two of the following three criteria: (a) balance sheet total of EUR 20 million; (b) net turnover EUR 40 million; and (c) average number of employees during the financial year of 250.
- For financial years starting on or after 1 January 2026: small and medium-sized (SME) listed companies (excluding micro companies), small and non-complex institutions (as per Regulation (EU) No 575/2013), and captive insurance/reinsurance companies (as per Directive 2009/2009/138/EC).
- For financial years starting on or after 1 January 2028: third-country parent companies with branches, of which each has generated a net turnover of more than EUR 40 million in the preceding financial year, or large subsidiaries which in sum have generated a net turnover of more than EUR 150 million in the EU for each of the last two consecutive financial years.

3. External verification

Independent third-party limited assurance is mandatory for all sustainability reports in CSRD scope. Reasonable assurance is expected to become mandatory after the Commission assesses its feasible for auditors and companies (no later than 1 October 2028).

4. Sustainability information

Comprehensive information is necessary to understand the company's impact on sustainability matters and how they affect the company's development, performance and position related to environmental, social and governance (ESG), based on double materiality principle, and including information regarding Article 8 of the EU Taxonomy Regulation (Regulation EU 2020/852). Reported sustainability information includes short-, medium- and long-term time horizons.

5. Value chain

- Information about a company's whole value chain, including its own operations, products and services, business relationships and supply chain is required. Information relates to its value chain within the EU and information that covers third countries if the company's value chain extends outside the EU.
- For the first three years of the application of the measures to be adopted by the Member States and if not all the necessary information regarding the value chain is available, the company should explain the efforts made to obtain the information about its value chain, the reasons why that information could not be obtained, and the plans of the company to obtain such information in the future.

6. Subsidiary exemption

- Subsidiary exemptions are possible on standalone basis, consolidated basis and until 6 January 2030 via transitional provision for subsidiaries and groups which parent company is established in a third country outside the EU.
- The exempted subsidiaries must include in their management report: the name and registered office of the parent company that is reporting sustainability information at group level, the web links to the consolidated management report and a reference of this exemption in their own management report.

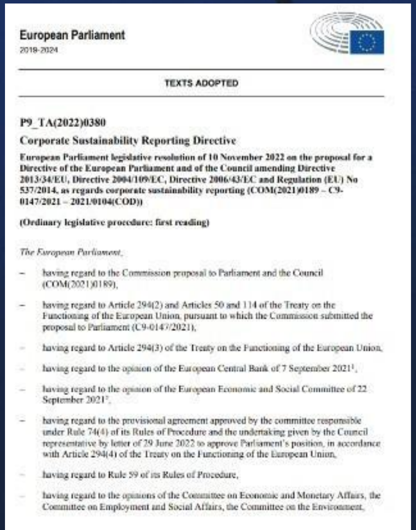
7. Reporting in a European Single Electronic Format (ESEF)

In a dedicated section of the management report identified as sustainability statements, prepared in the electronic format (ESEF) and uploaded to the upcoming European Single Access Point (ESAP).

Source: DIRECTIVE (EU) 2022/2464 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting

2 CSRD and ESRS

Level 1 – Corporate Sustainability Reporting Directive (CSRD)



European Parliament
2019-2024

TEXTS ADOPTED

P9_TA(2022)0380

Corporate Sustainability Reporting Directive

European Parliament legislative resolution of 10 November 2022 on the proposal for a Directive of the European Parliament and of the Council amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting (COM(2021)0189 – C9-0147/2021 – 2021/0104(COD))

(Ordinary legislative procedure: first reading)

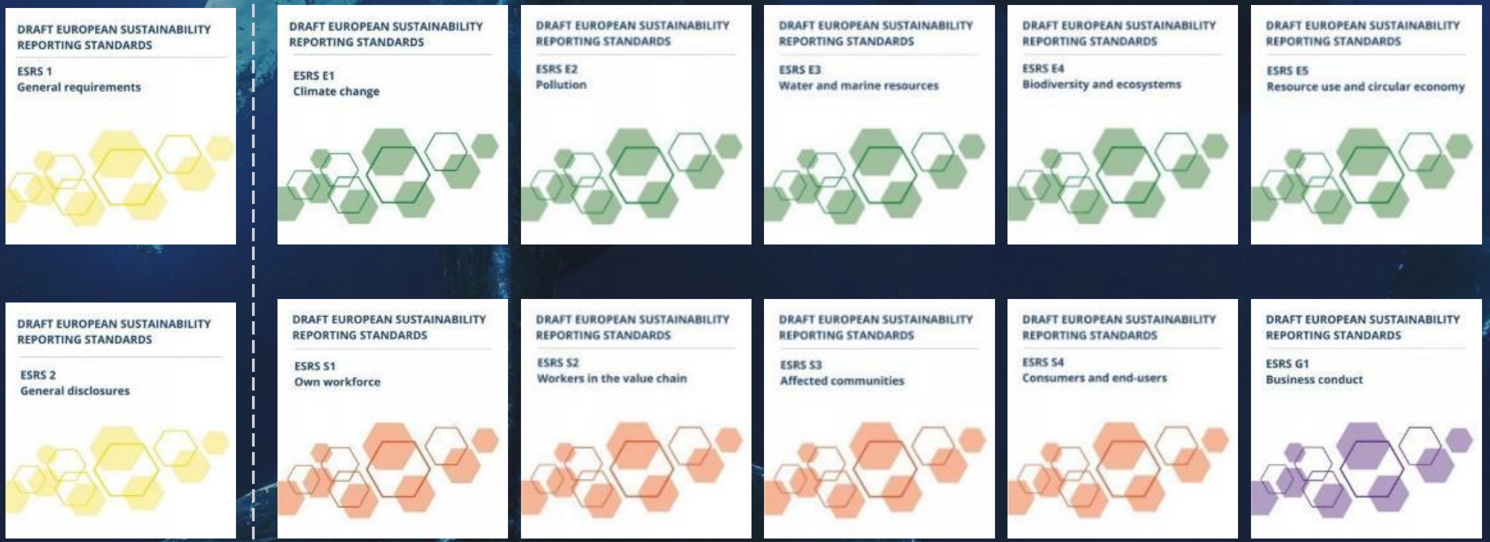
The European Parliament,

- having regard to the Commission proposal to Parliament and the Council (COM(2021)0189),
- having regard to Article 294(2) and Articles 50 and 114 of the Treaty on the Functioning of the European Union, pursuant to which the Commission submitted the proposal to Parliament (C9-0147/2021),
- having regard to Article 294(3) of the Treaty on the Functioning of the European Union,
- having regard to the opinion of the European Central Bank of 7 September 2021[1],
- having regard to the opinion of the European Economic and Social Committee of 22 September 2021[2],
- having regard to the provisional agreement approved by the committee responsible under Rule 74(4) of its Rules of Procedure and the undertaking given by the Council representative by letter of 29 June 2022 to approve Parliament's position, in accordance with Article 294(4) of the Treaty on the Functioning of the European Union,
- having regard to Rule 59 of its Rules of Procedure,
- having regard to the opinions of the Committee on Economic and Monetary Affairs, the Committee on Employment and Social Affairs, the Committee on the Environment,

- On 10 November with 525 votes in favor, 60 against and 28 abstentions, the European Parliament approved the CSRD.
- On 28 November, the European Commission (EC) gave final approval to the CSRD.
- On 16 December, the final text of the CSRD was published in the EU official journal.

Level 2 – European Sustainability Reporting Standards (ESRS)

Cross-cutting | Topical sector-agnostic | Sector-specific



DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS

Standards under development scheduled for June 2024, but postponed

Entity-specific

DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS

Embedded in ESRS: Entity-specific topics to be disclosed

Source: EFRAG

- On 22 November, the European Financial Reporting Advisory Group (EFRAG) submitted the first set of draft ESRS to the EC in its role as technical adviser to the EC.
- The 12 ESRS are: two cross-cutting standards and ten topical sector-agnostic on environmental (5x), social (4x) and governance (1x) (ESG). Sector-specific standards are in development, but delayed by (at least) one year. Hence EC adoption by June 2024 expected.
- Entity-specific topics are required to be disclosed, if deemed material and not covered by sector-agnostic or sector-specific standards
- The first set of draft ESRS consist of 339 pages, 82 disclosure requirements and 1.144 datapoints.
- The EC needs to adopt the first set of draft ESRS by delegated acts until June 2023.

EY

3 CSRD decision tree

Is your company subject to CSRD?

Entity established in European Union (EU) or securities listed at a regulated market*?

Yes →

EU

Subject to NFRD?

- Large public-interest companies (with over 500 employees) already subject to the NFRD (Directive 2014/95/EU)

Yes → Financial year starting 1 January **2024** Reports due in 2025

No →

Meeting thresholds for a large company?

- Large companies that are not presently subject to the nonfinancial reporting directive, that follow two of the following three criteria:
  - 250 employees during the financial year
  - Balance sheet total EUR 20 million
  - Net turnover EUR 40 million

Yes → Financial year starting 1 January **2025** Reports due in 2026

No →

Meeting thresholds for a small or medium enterprise (SME)?

- Listed public-interest SMEs (excluding micro-enterprises)
- Small and non-complex institutions and captive insurance and reinsurance companies

[1] possibility to opt-out until 2028

Yes → Financial year starting 1 January **2026**[1] Reports due in 2027

No → CSRD is not applicable, but can be applied on voluntary basis

No →

Non-EU

At least one EU subsidiary large or listed?

Yes →

No → **At least one EU branch that generates > EUR40 M in the EU?**

Yes → **Parent company in third-country generates more than EUR 150 million in the EU?**

Yes → Financial year starting 1 January **2028**[2] Reports due in 2029

[2] transitional provision applicable until 6 January 2030

No → CSRD is not applicable, but can be applied on voluntary basis

* If the non-EU company has issued securities at a regulated market in the EU it is in scope of the transparency directive and therefore required to prepare a sustainability report under Art. 19b or 29b of the accounting directive. The reporting periods are in line with the above, if the company fulfills two of three criteria in two consecutive years.

EY

4

CSRD and sustainability reporting: overview

	2024	2025	2026	2028
Scope	▶ For companies already subject to NFRD	▶ For other large companies not subject to NFRD	▶ For listed SMEs, small and non-complex credit institutions and captive insurance undertakings	▶ For the third-country companies obligations
Subject to sustainability reporting requirements in:	▶ Article 19a (standalone), or ▶ Article 29a (consolidated)	▶ Article 19a (standalone), or ▶ Article 29a (consolidated)	▶ Article 29c ▶ Option to opt-out until 2028	▶ Article 40a ▶ By way of derogation article 29b or in a manner equivalent
Exemption*	▶ If subsidiaries are included in the consolidated management report or a separate report of the ultimate third-country parent company which is prepared in accordance with Article 29 and 19a or 29a of the NFRD.	▶ Article 19a (9) (exempted subsidiary): if subsidiary and its subsidiaries, or ▶ Article 29a (8) (exempted parent): if parent is a subsidiary and together with its subsidiaries are included in the consolidated sustainability reporting of the third-country parent company, drawn up in accordance with article 29b or in a manner equivalent		
Transitional provision (article 48i)	Until 6 January 2030: The EU subsidiary that is subject to Article 19a or 29a and whose parent company is established in a third-country can prepare consolidated sustainability reporting, in accordance with the requirements of Article 29a, including all EU subsidiaries of the third-country parent company that are subject to Article 19a or 29a. This will be considered as reporting by a parent company at group level with respect to the EU subsidiaries included in the consolidation and therefore the same exemptions as above are applicable. The EU subsidiary that generated the greatest turnover in the EU in at least one of the preceding five financial years will prepare the consolidated sustainability reporting. The consolidated sustainability reporting shall be published in accordance with Article 30.			
Sustainability reporting standards	▶ First set of ESRS to be adopted by means of delegated acts by 30 June 2023	▶ First set of ESRS to be adopted by means of delegated acts by 30 June 2023	▶ Second set of ESRS to be adopted by means of delegated acts by 30 June 2024	▶ Second set of ESRS to be adopted by means of delegated acts by 30 June 2024

Source: DIRECTIVE (EU) 2022/2464 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting

* The exemption does not apply to large companies which are public interest entities, i.e. listed entities at a EU regulated market.

EY

4 CSRD scope: standalone basis

Article 19a CSRD

Scope

- All listed companies on the EU regulated market (including listed small- and medium-sized entities (SMEs), but no micro-enterprises)
- Small and non-complex institutions, captive insurance and reinsurance companies
- All large companies exceeding two of the three following criteria:
  I. 250 employees* during the financial year
  II. Balance sheet total EUR 20 million
  III. Net turnover** EUR 40 million
- Derogation option for SMEs, small and non-complex institutions, captive insurance and reinsurance companies to limit their sustainability reporting
- An opt-out option exists for SMEs that are public-interest entities for financial years starting before 1 January 2028. In such cases, the company shall, nevertheless, briefly state in its management report why the sustainability reporting was not provided.

Additional note

Companies in scope of CSRD will also have to comply with Article 8 of the EU Taxonomy Regulation.

* NFRD refers to 500 employees of listed companies and banks and insurance companies

** Definition of net turnover differs for insurance companies, credit institutions and companies falling under the scope of third-country (i.e., Article 40(a) accounting directive)

Exempted subsidiary

- A subsidiary is exempted to prepare a sustainability report in accordance with Articles 19 and 19a accounting directive, if such company and its subsidiaries are included in the consolidated management report of a parent company, drawn up in accordance with Articles 29 and 29a accounting directive.
- The exemption does not apply to large companies which are public-interest entities.
- Subsidiaries which are exempted from preparing a management report in accordance with Article 37 accounting directive shall not be obliged to provide the information relating to the disclosure requirements for exempted subsidiary, provided that such companies publish the consolidated management report.
- Credit institutions that are permanently affiliated to a central body which supervises them shall be treated as subsidiary companies of that central body.
- Insurance companies that are part of a group, on the basis of financial relationships, and which are subject to group supervision in shall be treated as subsidiary companies of the parent company of that group.

Sustainability information

- Include through a dedicated section of the management report information necessary to understand the company's impacts on sustainability matters, and how sustainability matters affect the company's development, performance and position.

Source: DIRECTIVE (EU) 2022/2464 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting

4 CSRD scope: consolidated level

Scope

- Parent companies of a large group exceeding two of the three following criteria as defined by Article 3 paragraph 7 accounting directive:
  - I. 250 employees during the financial year
  - II. Balance sheet total EUR 20 million
  - III. Net turnover EUR 40 million

Exempted subsidiary

- A parent company which is a subsidiary is exempted from a consolidated sustainability report in accordance with Article 29a accounting directive, if such parent company and its subsidiaries are included in the consolidated management report of another company, drawn up in accordance with Articles 29 and 29a accounting directive.
- The exemption does not apply to large companies which are public-interest entities.
- Parent companies which are exempted from preparing a management report in accordance with Article 37 accounting directive shall not be obliged to provide the information relating to the disclosure requirements for exempted parent, provided that such companies publish the consolidated management report.

Sustainability information

- Include through a dedicated section of the consolidated management report information necessary to understand the group's impacts on sustainability matters, and information necessary to understand how sustainability matters affect the group's development, performance and position.
- Where the reporting company identifies significant differences between the risks for, or impacts of, the group and the risks for, or impacts of, one or more of its subsidiaries, the company shall provide an adequate understanding of, as appropriate, the risks for, and impacts of, the subsidiary or subsidiaries concerned.
- Companies shall indicate which subsidiaries included in the consolidation are exempted from annual or consolidated sustainability reporting.

Source: DIRECTIVE (EU) 2022/2464 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting

4

CSRD scope: third-country undertakings

Article 40a CSRD

Scope

- Third-country companies (non-EU based ultimate parents) with subsidiaries or branches where the third-country company, at its group level, or, if not applicable, the individual level, generated a net turnover of more than EUR 150 million in the EU for each of the last two consecutive financial years
- Third country companies (non-EU based) need to prepare a sustainability report
- Sustainability report prepared by the ultimate parent is drawn up in accordance with a special set of ESRS as outlined in Article 40b accounting directive
- By way of derogation, the sustainability report may be drawn up in accordance with Article 29b accounting directive or in a format and with content that is deemed "equivalent" in accordance to Article 40b para 2.2 accounting directive
- Large subsidiaries and small and medium-sized subsidiaries, except micro company, which are public-interest entities, and whose ultimate parent company is governed by the law of a third country publish and make accessible a sustainability report covering specified sustainability information at the group level of that ultimate third-country parent company
- Branch of a company governed by the law of a third country, which is either not part of a group or is ultimately held by company that is formed in accordance with the law of a third country publish and make accessible a sustainability report covering specified sustainability information at the group level, or, if not applicable, the individual level, of the third-country company
- Rules only apply to a branch with a third-country company that does not have a EU subsidiary, and where the branch generated a net turnover of more than EUR40 million in the preceding financial year

Additional reporting for exempted subsidiaries

- If the parent company is established in a third country, the disclosures laid down in Article 8 of the EU Taxonomy Regulation, covering the activities carried out by the exempted subsidiary or parent and its subsidiaries, need to be included in the management report of the exempted subsidiary or parent company, or in the consolidated sustainability reporting carried out by the parent company established in a third country.

Sustainability information

- Where the information required to draw up the sustainability report is not available, the subsidiary or branch shall request the third-country company to provide them with all information necessary to enable them to meet their obligations.
- In the event that not all the required information is provided, the subsidiary or branch shall draw up, publish and make accessible the sustainability report, containing all information in its possession, obtained or acquired, and issue a statement indicating that the third-country company did not make the necessary information available.

Source: DIRECTIVE (EU) 2022/2464 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting

4

CSRD scope: EU subsidiary with ultimate parent in third country

Article 48i CSRD

Scope

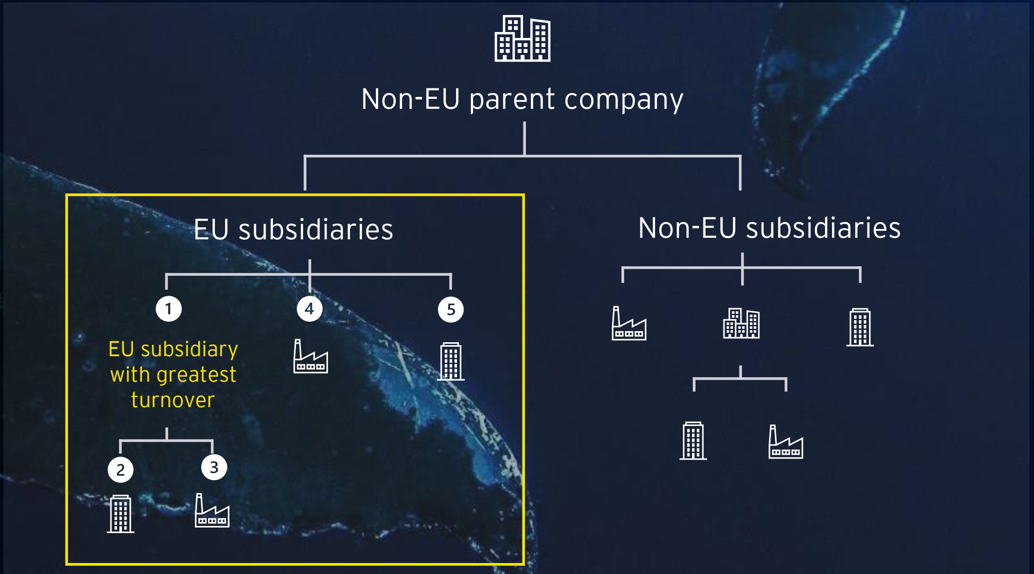
- Transitional provision is applicable to one EU subsidiary of a parent company established in a third country to exempt other EU subsidiaries from their requirement to prepare and release a sustainability reporting prepared in accordance with Article 19a and/or Article 29a accounting directive
- The EU subsidiary shall prepare the "artificial sustainability report" in accordance with Article 29a accounting directive
- The EU subsidiary that can prepare the "artificial sustainability report" shall generated the greatest turnover in the EU in at least one of the preceding five financial years, on a consolidated basis where applicable

Until 6 January 2030

- Member States shall permit an EU subsidiary which is subject to Article 19a or 29a and whose parent company is not governed by the law of a Member State to prepare consolidated sustainability reporting, in accordance with the requirements of Article 29a, that includes all EU subsidiaries of such parent company that are subject to Article 19a or 29a.
- Member States shall permit the consolidated sustainability reporting to include the disclosures laid down in Article 8 of Regulation (EU) 2020/852, covering the activities carried out by all EU subsidiaries of the parent company that are subject to Article 19a or 29a of the CSRD.
- The EU subsidiary shall be one of the EU subsidiaries of the group that generated the greatest turnover in the EU in at least one of the preceding five financial years, on a consolidated basis where applicable.
- The consolidated sustainability reporting shall be published in accordance with Article 30.

Exempted subsidiaries

- A subsidiary or a parent company which is a subsidiary of a parent company that is established in a third-country is exempted, if it is included in the "artificial sustainability report" of the EU subsidiary of the parent company established in a third-country.
- The disclosures laid down in Article 8 EU Taxonomy Regulation, covering the activities carried out by the exempted subsidiary/parent and its subsidiaries, need to be included in the management report of the exempted subsidiary/parent company, or in the artificial sustainability reporting carried out by the EU subsidiary of the parent company established in a third-country.



Subsidiary 1 may present consolidated sustainability statements until 6 January 2030 that consolidate information for subsidiaries 1, 2, 3, 4 and 5.

Source: DIRECTIVE (EU) 2022/2464 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting

5 CSRD and sustainability reporting: information required

Information disclosures

- Description of business model and strategy, including the resilience in relation to risks and opportunities to sustainability matters.[1]
- Plans to ensure that the business model and strategy are compatible with the transition to a sustainable economy and with the limiting of global warming to 1,5 °C in line with the Paris Agreement and the objective of achieving climate neutrality by 2050. If applicable, the exposure of the company to coal-, oil- and gas related activities.
- Time-bound targets (including GHG reduction targets for 2030 and 2050), progress toward achieving targets and scientific evidence statement related to environmental factors
- Role of the administrative, management and supervisory bodies with regard to sustainability matters and their expertise and skills to fulfil their role
- Policies in relation to sustainability matters and incentives schemes linked to sustainability matters offered to member of administrative, management and supervisory bodies
- Due diligence process implemented with regard to sustainability matters, and, where applicable, in line with EU requirements to conduct it.
- Company's principal actual or potential adverse impacts connected with the own operations and value chain and actions taken to identify and monitor in order to prevent, mitigate, remediate or bring an end to these impacts
- Principal risks related to sustainability matters, including principal dependencies on those matters, and how the company manage those risks.[1]

[1] information disclosures not required when reporting in accordance with article 40a

Guidelines and standards

- Mandatory application of reporting (lighter version for SMEs and adapted version for third-country companies)
- Alignment with EU Taxonomy Regulation
- Alignment with other European or international reference frameworks and standards

Double materiality

- Financial materiality ("outside-in" perspective): these are matters which trigger or may trigger material financial effects on the company. This is the case when it generates or may generate risks or opportunities that have or may have a material influence on the company's cash flows, development, performance, position, cost of capital or access to finance in the short, medium and long term.
- Impact materiality ("inside-out" perspective): company's material actual or potential, positive or negative impacts on people or the environment over the short, medium and long term

Source: DIRECTIVE (EU) 2022/2464 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting

6

CSRD and main implications for companies

Companies will need to make significant changes on how they prepare and disclose sustainability information.

Management

Provide additional disclosures

- Forward-looking and retrospective view
- Qualitative and quantitative
- Short-, medium- and long-term horizons
- Company's whole value chain

Report in accordance with the new ESRS

- Giving users an integrated view of the company's impact on sustainability matters and how they affect the company's development, performance and position related to ESG

Use digital tagging

- Inclusion of sustainability reports as a section of the management report
- Single XHTML format: European Single Electronic Format (ESEF)
- Marking up sustainability information

Board of directors and audit committees

- **Monitor**:
  - Internal quality control and risk management systems
  - Internal audit function
  - Assurance of sustainability reporting
- **Inform** of the outcome of the assurance of sustainability reporting
- **Review and monitor** the independence of auditors

Companies will be required to identify and gather sustainability-related information, set targets and KPIs (revising existing), draw up policies and manage ESG risks.

In order to ensure the reliability of the reporting and to allow a robust assurance process, companies should develop internal control systems for nonfinancial information.

Source: DIRECTIVE (EU) 2022/2464 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting

EY

7

CSRD and external verification

1. What assurance level is required?

The assurance report on the sustainability reporting should be based on a limited assurance engagement.

2. What assurance standards are expected to be used?

The EC shall be empowered to adopt, by means of delegated acts, limited assurance standards before 1 October 2026. Meanwhile, Member States may apply national assurance standards, procedures or requirements.

By 1 October 2028, the EC shall adopt assurance standards for reasonable assurance, following an assessment to determine if it is feasible for the auditors and for the companies. The EC should then specify when reasonable assurance would be required.

3. What will be the scope of assurance engagements?

CSRD

- Compliance with the CSRD reporting rules in Article 19a, including with the reporting standards adopted according to Article 29b or Article 29c accounting directive

Process

- Process carried out by the company to identify the information reported according to those reporting standards

Digitalization

- Compliance with the requirement to mark-up sustainability reporting in accordance with Article 29d accounting directive (digitalization)

Taxonomy

- Compliance with the reporting requirements of Article 8 EU Taxonomy Regulation
- (Regulation (EU) 2020/852)

Source: DIRECTIVE (EU) 2022/2464 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting

7 CSRD and external verification

4. Whom does the CSRD mandate to provide assurance of sustainability reporting?

The CSRD requires the statutory auditors and audit firms to carry out the assurance of sustainability reporting, mainly to "help ensure the connectivity between, and consistency of, financial and sustainability information".

- Member States may allow an independent assurance services provider, a statutory auditor or an audit firm other than the one(s) carrying out the statutory audit of financial statements to provide a conclusion.
- Shareholders with more than 5% voting rights or 5% capital of a company have the right to ask to involve an accredited third party to "prepare a report on some elements of the sustainability reporting".
- This accredited third party cannot belong to the same audit firm or network as the auditor carrying out the statutory audit.

5. Are there any specific educational qualifications necessary to provide assurance services?

Statutory auditors should meet specific requirements in addition to the necessary educational competences required by the Audit Directive 2006/43/EC to be allowed to carry out assurance engagements of sustainability reporting.

- This educational qualification covers matters such as:
  1. Legal requirements and reporting standards regarding sustainability reporting
  2. Sustainability analysis
  3. Sustainability due diligence processes
  4. Legal requirements and assurance standards for sustainability reporting.
- The statutory auditor must complete at least eight months of practical training in assurance of annual and consolidated sustainability reporting or other sustainability related services. The CSRD includes transitional arrangements for statutory auditors that have been qualified before 1 January 2024.

6. Independent assurance services providers

- Members States may allow an independent assurance services provider (IASP) to express an opinion on sustainability reporting. Any assurance services provider will have to follow the standards adopted by the EC.
- If a Member State makes use of an option to allow an IASP to express an opinion on sustainability reporting, it shall also allow another statutory auditor to do so.
- IASPs are required to follow equivalent requirements as the ones included in the Audit Directive 2006/43/EC, especially on professional education, training, examination, quality assurance, ethical requirements, including independence, investigation and sanction.

Source: DIRECTIVE (EU) 2022/2464 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting

8

CSRD and publication

Management report	Web page	Digitalization

Management report

- The sustainability information should be published in a dedicated section of the management report identified as sustainability statements.
- Thus, sustainability reports will be filed with the audited financial statements.

Web page

- Companies must make their management report and thus also their sustainability report available to the public free of charge on their website.

Digitalization

- Companies will be required to prepare their management report in the European Single Electronic Format (ESEF)[1].
- Companies will also have to mark up their sustainability reporting, including the disclosures required by Article 8 of the Taxonomy Regulation.
- This will allow making the sustainability reports available in the European Single Access Point currently under development.

[1] ESEF is described in Article 3 of Commission Delegated Regulation (EU) 2019/8151

Source: DIRECTIVE (EU) 2022/2464 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting

EY

9 Timeline CSRD and ESRS

LEVEL 1 - CSRD - EU Bodies

November 2022
CSRD approval by Parliament and Council

Q4 2023
Transposition of the Directive by Member States

2024
Applicable for companies subject to the NFRD (reporting in 2025 on 2024 data)

Limited assurance

2025
Applicable for large companies not subject to NFRD (reporting in 2026 on 2025 data)

2026
Applicable for listed SMEs, small and non-complex institutions, and captive insurance companies (reporting in 2027 on 2026 data)

2028
Applicable for third-country companies (reporting in 2029 on 2028 data)

2022 – 2023 – 2024 – 2025 – 2026 – 2028

LEVEL 2 - ESRS - EFRAG

November 2022
First set of ESRS (cross-cutting and sector-agnostic standards) submitted to the EC

June 2023
Planned adoption of the first set of ESRS (cross-cutting and sector-agnostic standards)

June 2024
Expected adoption of the second set of ESRS (standards for SMEs and complementary information)

June 2025 (postponed standards)
Expected adoption of the postponed elements of the second set of ESRS (sector-specific standards, standards for non-EU companies)

Disclosures in a sustainability report
Subject to limited assurance (moving toward reasonable assurance) to be released as a single part of the management report filed with the audited financial statements

EY

Appendix:

Further elaboration brought by the final version of CSRD

Drafting standards (Article 19a and 29a)

- Reporting standards should be harmonized throughout the Union, and this should be done through delegated acts. When creating these acts, it is important to take into account the main sustainability standards used worldwide.
- Reporting standards should be drafted in accordance with the International Sustainability Standards Board (ISSB). This will further contribute to a reduction of the risk of inconsistent reporting requirements in corporations that operate globally.
- Sustainability standards that disclose social factors should take into account any gaps in EU law. When reporting on governance factors, frameworks such as the Global Reporting Initiative and the Task Force on climate-related Financial Disclosures should be taken into account.
- It is the responsibility of Member States to ensure all sustainability reporting information is done in compliance with workers rights to information and consultation. Therefore, workers representatives should be informed, and this information should be discussed.
- Member states should also ensure that auditors can easily qualify for the assurance of sustainability reporting. There will also be a maximum fee that can be charged for these services.

Sustainability reporting standards (Article 29b)

- Disclose activities and commitments related to exserting in political influence, including lobbying activities.

Qualifications required to provide assurance services (Article 8)

- For the statutory auditor to also be approved to carry out the assurance of sustainability reporting, the test of theoretical knowledge shall also cover at least the following subjects: legal requirements and reporting standards relating to the preparation of annual and consolidated sustainability reporting.
  1. Legal requirements and standards relation to preparation of annual and consolidated sustainability reporting
  2. Sustainability analysis
  3. Sustainability due diligence processes
  4. Legal requirements and assurance standards for sustainability reporting
- In addition, the statuary auditor must complete at least eight months of practical training in assurance of sustainability reporting, and at least part of the examination shall be written. The CSRD will include transitional arrangements for all those statuary auditors which qualified before 1 January 2024.
- Member States shall ensure that statutory auditors approved before 1 January 2026 who wish to carry out the assurance of sustainability reporting acquire the necessary knowledge.

Intellectual property (Article 19(a) and 29(a))

- It will not be compulsory to disclose information on intellectual property, intellectual capital, know-how or results of innovation which would class as trade secrets according to the EU Directive 2016/943

Reporting of third-country companies (Article 40a to 40d)

- Subsidiary scope:
  - Apply to large, small and medium-sized subsidiary which are public-interest entities
  - Exception of micro-companies
  - Report at the group level of that ultimate third-country parent
- Branch scope:
  - Apply to branch that does not have large, small and medium-sized subsidiary companies
  - Threshold of net turnover of more than EUR40 million in preceding financial year
  - Report at the group or individual level of the third-country company
- Both:
  - Only applies where the third-country company, at its group level, or, if not applicable, the individual level, generated a net turnover of more than EUR150 million in the Union for each of the last two consecutive financial years
  - Member States may require subsidiaries or branches to send them information about the net turnover generated in their territory and in the Union by the third-country companies.

 Source: DIRECTIVE (EU) 2022/2464 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting

EY

Climate change and ecosystems (Articles 8 and 19(a))

- Legislation:
  - Specific reference to the Communication issued on the 20 May of 2020 titled "EU Biodiversity Strategy for 2030: Bringing nature back into our lives", through which there is a commitment to ensure all the world's ecosystems are restored and adequately protected.
  - Specific mention to the communication issued on the 17 June 2019, "Guidelines on nonfinancial reporting climate-related information) to highlight benefits for companies of reporting on climate information by increasing awareness and understanding of risks and opportunities within the company. Diversity on company boards might have an influence on decision-making or resilience.
- Content:
  - It is important to become aligned with UN framework; Framework Convention on Climate Change (Paris Agreement (PA)) adopted on 12 December 2015, and the UN Convention on Biological Diversity and Union Policies.
  - Companies that have started to report on sustainability issues seem to not want to disclose information on environmental issues such as GHG emissions. It is also important to disclose plans on how to reduce negative environmental impacts.
  - Businesses should disclose any information they have on achieving climate neutrality and fulfilling the PA.
  - Climate Plans should match the latest scientific reports, such as the IPCC.
  - To avoid greenwashing and double counting, it is important to introduce a robust reporting framework and introduce effective auditing practices.
  - Users will be interested in reading about efforts to reduce GHG emissions or adaptation and mitigation strategies.

Value chain (Articles 19(a) and 29(a))

- During the first three years after the Directive is passed, if not all the information is available, it is not compulsory to report on the whole extent of the value chain. However, the sustainability report issued by a business should include an explanation for this and the plans carried out to obtain this for future years.
- Sustainability reporting standards should ensure the information required regarding value chain can also be obtained by small and medium enterprises.

Sustainable Finance (Article 28)

- Legislation:
  - The Commission should consult at least once a year with the sustainable finance Expert Groups from Member States to ensure there is transparency in reporting standards. This is reflected in Article 28 of EU Regulation 2020/852.
- Content:
  - Sustainable reporting standards should be issued after jointly consulting with sustainable finance Expert Groups from Member States.

Sustainability reporting (Article 12)

- Consistent basis for sustainability reporting in the form of sustainability reporting standards would lead to relevant and sufficient information being provided.
- The lack of sustainability information limits the ability of stakeholders to enter into dialogue with companies on sustainability matters.
- Public-interest entities should not be treated as large companies for the purposes of the application of the sustainability reporting requirements.
- Companies added to the scope of the sustainability reporting requirements will also have to comply with Article 8 of Regulation (EU) 2020/852.
- Sustainability reporting will be made accessible free of charge to the public through central, commercial or registers of the Member States, or website of the company.
- If possible, information should be disclosed based on scientific information, but information shall not endanger the commercial position of the company.
- Adoption of reporting standards by means of delegated acts would ensure harmonized sustainability reporting across the Union.
- Union standards such as the ISSB would reduce the risk of inconsistent reporting requirements.

 Source: DIRECTIVE (EU) 2022/2464 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting

Small and medium enterprises (Articles 21 and 22)

- If these types of company's trade in the Union, they should be given enough time to prepare for the application of the provisions requiring sustainability reporting, due to their smaller size and limited resources.
- Therefore, it has been accepted they will start publishing sustainability reports starting on or after 1 January 2026.
- Member states should assess the impact of their national transposition to ensure these types of enterprises do not face unnecessary burdens.
- Must also disclose information regarding employee skills or information on intangible resources.

Large company checklist:

- Balance sheet total
- Net turnover
- Average number of employees during the financial year

Shareholders:

- Shareholders of companies whose securities are admitted to trading on a regulated market in the Union, acting individually or collectively, have the right to put items on the agenda of the general meeting.

Market for sustainability information (Article 10)

- Market is rapidly growing and the role of third-party data providers is gaining importance given the new obligations that investors and asset managers need to fulfill.
- Amendments to Directive 2013/34/EU expected to increase comparability of data and harmonize standards.

EFRAG (European Financial Advisory Group)

- The EFRAG must have sufficient funding in order to ensure independence.
- Participation in their work at a technical level should be conditional on expertise in sustainability reporting and should not be conditional on any financial contribution.
- In order to ensure no prejudice is taken against any public entity, its process must be transparent.
- To increase democratic control, this body should be consulted at least once a year, as well as the European Parliament and the Member State Expert Group on Sustainable Finance.

Business ethics (Article 50)

- Information about approach to business ethics needs to be disclosed as they are elements of authoritative frameworks on corporate governance, such as the Global Governance Principles of the International Corporate Governance Network.

Sector-specific reporting standards (Article 53)

- Sector-specific reporting standards are especially important in the case of sectors associated with high sustainability risks for or impacts on the environment, human rights and governance.
- Commission must ensure information specified by those sustainability standards is proportionate to the scale of the risks and impacts related to sustainability matters specific to each sector.

Statuary auditors

- Statuary auditors are key when providing assurance of sustainability reporting.
- Commission has announced it will further enhance audit quality to create a more diversified audit market.
- Member States should be given the option of allowing a statutory auditor, other than the one(s) carrying out the statutory audit of the financial statements, to express an assurance opinion on sustainability reporting.

 Source: DIRECTIVE (EU) 2022/2464 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting

EY

Review and reporting (article 6)

- By 31 December 2028, the Commission shall review and report to the European Parliament and the Council on the level of concentration of the sustainability assurance market and they shall assess possible legal measures to ensure sufficient diversification of the sustainability assurance market and appropriate sustainability reporting quality.

Transposition (article 5)

- Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with Articles 1 to 3 of this Directive by 6 July 2024.

 Source: DIRECTIVE (EU) 2022/2464 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting

EY contacts

Christian Orth
Europe, Middle East,
India and Africa (EMEIA)

christian.orth@de.ey.com

Kiara Konti
Central, Eastern and Southeastern
Europe and Central Asia

kiara.konti@gr.ey.com

Alberto Castilla Vida
Europe West

alberto.castillavida@es.ey.com

Hanne Christine Thornam
Nordics

hanne.thornam@no.ey.com

Emer Keaveny
United Kingdom and Ireland

emer.keaveny@ie.ey.com

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EYG no. 000197-23Gbl
ED None

ey.com