

## Sustainable Finance

**Focus on the Corporate  
Sustainability Reporting Directive  
(« CSRD »)**

*Impacts & challenges*

November 2022

# Corporate Sustainability Reporting Directive ‘CSRD’ is the latest European regulation to guide the climate transition

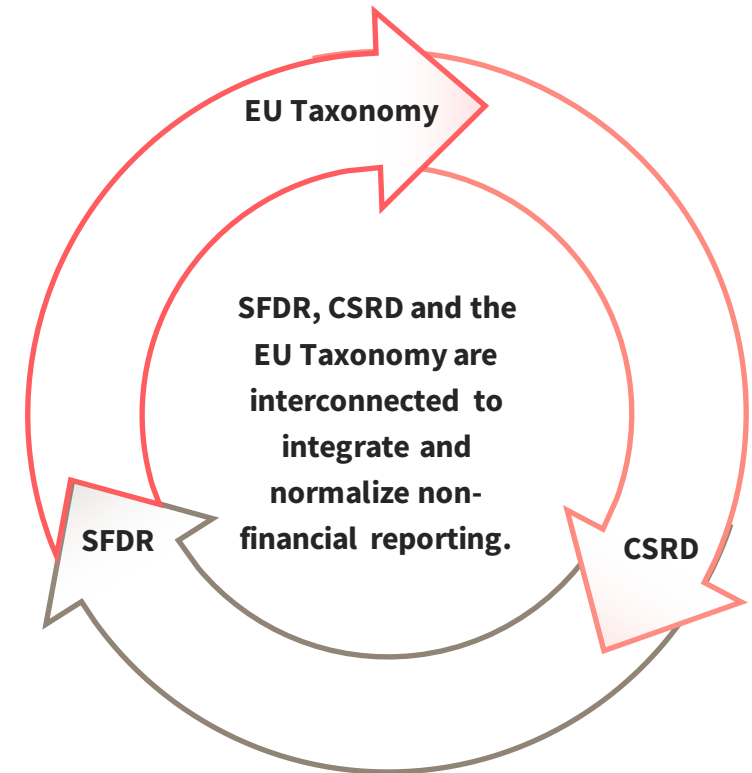
CSRD is the latest European regulation concerning **financial** and **non - financial companies**. The SFDR and the EU Taxonomy led the change for sustainability integration and corporate reporting.

## In which context CSRD will be integrated in the recent European regulatory framework?

The Sustainable Finance Disclosure Regulation (“SFDR”), which was introduced in 2019 and came into effect in March 2021, is part of a new wave of European regulation aimed at building a sustainable economy. The level I introduces the classification among Article 6, 8 and 9. Before the year-end 2022, all funds classified under the Article 6, 8 and 9 will integrate the Level II of obligations and updates disclosures.

The **EU Taxonomy** is effective since the 2021, with the first reporting obligation applicable since the 1st January 2022. Currently, the two first objectives (Climate transition and adaptation) of the environmental objectives are applicable. The four remaining objectives will enter into force before the year end 2022 with the publication of a second delegated act.

The **Corporate Sustainability Reporting Directive (“CSRD”)** is the latest step of the European regulation to harmonize and standardize non-financial reporting and obligations. This Directive reinforces the NFRD obligations, and the notion of double materiality already introduced with the revision of NFRD.



# The upcoming non-financial reporting obligations will be deeper and wider

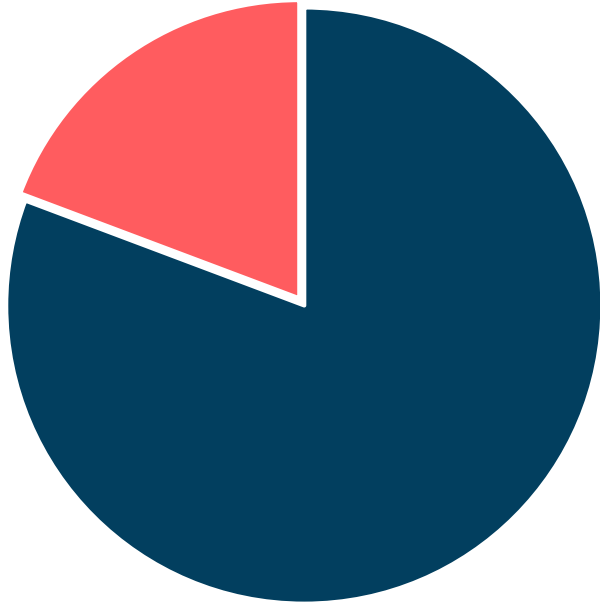
NFRD (“Non-Financial Reporting Directive”) Introduced in 2014 is amended to be replaced by CSRD (“Corporate Sustainability Reporting Directive”) to **harmonize** and **standardizes non- financial reporting** and **obligations**.

### Which entities is it applicable to ?

#### NFRD (“Non-Financial Reporting Directive”)

Large public interest entities with > 500 employees. Public interest entities include:

- Listed companies
- Banks
- Insurance companies



#### CSRD (“Corporate Sustainability Reporting Directive”)

All large companies : 250 employees and/or > €40M Turnover and/or > €20M Total Assets

Listed companies: SMEs listed on public markets, Non-EU companies with substantial activity in EU (>€150m annual turnover in EU)

Non-listed SMEs on a voluntary basis

Non-European companies with substantial activity in the EU Market concerned : (>€ 150 M annual net turnover in the EU or branch with higher > €40 M turnover). Separate EU reporting standards will not fully apply



From 11 700 companies



to 49 000 companies



# Also, the CSRD is adding additional requirements and reporting evaluation

CSRD introduces new developments such as the **assurance requirement**, the **reporting format** and **exemption for subsidiaries and non- EU Parents companies**.

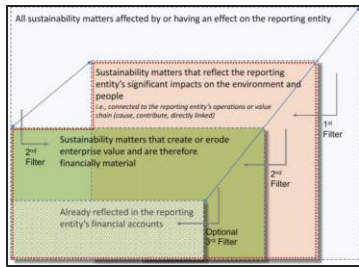
<b>Assurance</b>	<ul style="list-style-type: none"> <li>▪ <b>Mandatory assurance</b> : Limited assurance to move to reasonable in the future as the reporting framework evolves</li> <li>▪ <b>NFRD</b> : Voluntary assurance</li> </ul>
<b>Where to report</b>	<ul style="list-style-type: none"> <li>▪ Included in the <b>management report</b> which is generally included in the annual report</li> <li>▪ <b>NFRD</b> : Included in the annual report</li> </ul>
<b>Reporting format</b>	<ul style="list-style-type: none"> <li>▪ To be submitted in <b>electronic format</b> (in XHTML format in accordance with ESEF regulation)</li> <li>▪ <b>NFRD</b> : Online or pdf</li> </ul>
<b>Exemptions under CSRD</b>	<ul style="list-style-type: none"> <li>▪ Exemption for subsidiaries to publish sustainability reporting in their management report, <b>if the sustainability reporting in the parent’s consolidated management report complies</b> with EU sustainability reporting standards</li> <li>▪ For non-EU parents <b>if they publish information that is equivalent to EU standards and includes information related to the subsidiary</b> and is available when the subsidiary publishes its management report.</li> <li>▪ The CSRD would <b>not put any new reporting requirements on small companies, except for SMEs</b> with securities listed on regulated markets. The reporting requirements would also <b>not apply to SMEs with transferable securities</b> listed on SME growth markets or multilateral trading facilities (MTFs).</li> </ul>

Focus on double materiality

The CSRD proposal emphasizes the **concept of double materiality**, whereby entities need to consider both the impact of sustainability topics on the **company’s value** (financial materiality), and the **entity’s impact** on the economy, the environment, and people (impact materiality).

The double materiality implies the need to assess the interconnectivity of the two.

EFRAG (expected before the end of November 2022) will develop a **coherent and comprehensive set of reporting standards**, covering all sustainability matters from a double materiality perspective.



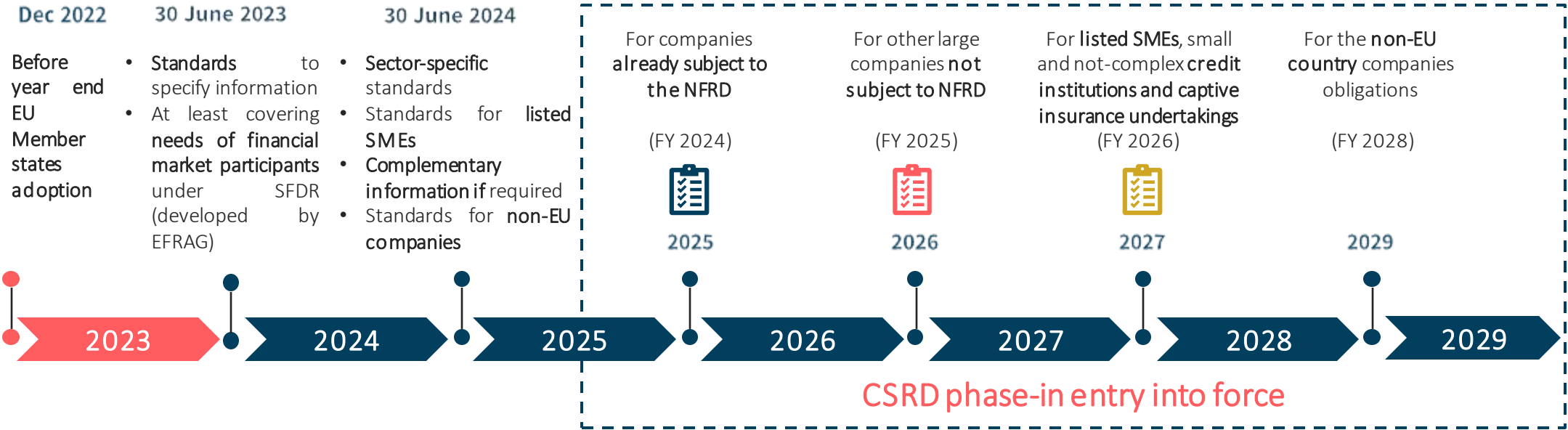
Impact Materiality

Financial Materiality

Dynamic materiality

# The CSRD introduces a gradual approach to reporting starting with companies that are in the scope of the NFRD

EFRAG is in charge of developing European climate reporting standards, with the **first set of standard expected in June 2023** and **the specific standard expected in June 2024**.



### Next steps

- While the EU Parliament voted the 10<sup>th</sup> November 2022, the EU Council is expected to adopt the proposal on 28<sup>th</sup> November.
- After the approval by the EU Council and EU Parliament, the text will be published in the EU Official Journal and enter into force 20 days after.
- Its provisions will have to be transposed into EU Member State national laws after 18 months.



Large public-interest companies (with over 500 employees) already subject to the NFRD, with reports due in 2025



+ companies with more than 250 employees and/or €40 million in turnover and/or €20 million in total assets, with reports due in 2025










+ listed SMEs and other undertakings, with reports due in 2027. SMEs can opt-out until 2028.











# EFRAF-ESRS Disclosure Requirements – 620 qualitative and quantitative data points for E, S and G dimensions

While climate is the most advanced metric across common initiatives, the ESRS exposure drafts sets out detailed requirements for corporate sustainability reporting: general, environment, social and governance.

### CLIMATE CHANGE [17 Disclosure Requirements]

- Strategy & Implementation [4]  
- Energy (consumption & mix; intensity per revenue) [2]  
- GHG emissions / removal [8]  
- Financial effects (physical / transition risks; opportunities) [3] 




### ENVIRONMENT [33 Disclosure Requirements]

- Pollution of air / soil [7]  
- Water and marine resources [7]  
- Biodiversity and ecosystems [10]  
- Resource use and circular Economy [9]  

### SOCIAL [44 Disclosure Requirements]

- Own workforce [26]  
- Workers in value chain [6]  
- Affected communities [6]  
- Consumers and end-users [6]  

### GOVERNANCE [20 Disclosure Requirements]

- Business conduct [10]  
- Governance, risk management and internal controls [10] 

 Entire value chain impacts

 Double materiality impacts

### Aurexia's sustainable finance expertise's on:

#### Benchmarking and gap analysis



- **Benchmarking** of your current disclosures against recommendations and identifying gaps in your disclosures, processes or controls and reporting
- Providing a **gap analysis** provides the basis of a roadmap to ESG disclosures

#### Design and implementing ESG frameworks



- **Designing** and **implementing** a policy and risk management framework that captures processes controls and reporting
- **Updating** policy and framework can be used to integrate CSRD requirements into business model

### Why work with Aurexia ?

- ✓ A **tailored approach**
- ✓ Expertise on **ESG Regulation and Data**
- ✓ A strong partner to deliver an end-to-end transformation project
- ✓ Centre of expertise on **sustainable finance** products
- ✓ **Communication support** (internal and external) to promote a new culture





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## Main recommendations and impact assessment What is at stake?

**Overview of the new requirements**

The new European reporting standards will be effective for 2024.

	IFRS	CSRD
<b>Timeline</b>	<ul style="list-style-type: none"> <li>August 2023: Release of endorsement and final details for public reporting on or after 1 August 2023</li> </ul>	<ul style="list-style-type: none"> <li>November 2023: CSRD Standards from EFRAG published</li> <li>December 2023: Adoption of CSRD by member states legislative</li> <li>January 2024: Issuance of European Regulators for CSRD and measures to meet that of Sustainability Reporting Services</li> </ul>
<b>Reporting requirements</b>	<ul style="list-style-type: none"> <li>Companies report on their Business Impact</li> <li>Additional requirements on other sustainability reporting, such as non-financial disclosure</li> </ul>	<ul style="list-style-type: none"> <li>Business impact and ESG reporting (sustainability related) and the impact of ESG transitions in line with EU regulations</li> <li>Targets and progress made to address these targets</li> <li>Financial performance of Management</li> <li>Company's sustainability policy including the alignment</li> <li>Material impact assessment to be done</li> <li>Description of principal risks related to sustainability matters</li> <li>Reporting in line with Sustainable Finance Disclosure Regulation (SFDR) and the EU Taxonomy Regulation</li> <li>Companies will need to provide:             <ul style="list-style-type: none"> <li>General and quantitative information</li> <li>ESG related reporting and information</li> <li>Information on company level, material and non-material risks</li> </ul> </li> </ul>

## Comparison of regulations under development (ESRS-EFRAG Vs IFRS-ISSB Vs SEC disclosures)

**Several standards are under developments to harmonize non-financial reporting**

	EFRAG (ESRS)	ISSB (IFRS)	SEC Climate disclosure
<b>ESG scope</b>	Environment, Social, Governance	Environment (Climate only)	Environment (Climate only)
<b>Core principle</b>	Double materiality	Financial materiality	Financial materiality
<b>Indicators</b>	ESRS aligned with GRI, E-ESG, E-ESG, E-ESG	ESRS aligned with GRI, E-ESG on climate risk per sector	TCD aligned to SASB, E-ESG, climate-related events impact
<b>Application scope</b>	CSRD scope covers 50,000 firms in EU and previous GRI to have the full scope	International standards with applications upon local authorities	Listed companies on US SEC regulated stock exchange + SASB registered
<b>Assurance/Audit</b>	External audit for the entire reporting	Not specified	Audibility only with regards to SASB assurance
<b>Timeline</b>	1st reporting to be published in 2024 (1st 2024 reporting)	Dependence on adoption date by local jurisdictions	1st reporting expected to be published in 2024 (1st 2024 reporting)

## Deep dive on ESRS-EFRAG reporting guidelines (KPIs and data points)

**Global initiatives outlined the necessary steps required to establish a comprehensive baseline of sustainability disclosures**

Climate change is the most advanced metric common across initiatives

	EFRAG - ESRS	ISSB - IFRS	SEC Climate disclosures	EFRAG - ESRS key figures
<b>Climate change</b>	<ul style="list-style-type: none"> <li>ESRS emissions Scope 1, 2 &amp; 3</li> <li>Energy consumption</li> <li>Water consumption</li> <li>Waste</li> <li>Greenhouse gas</li> <li>Other pollutants</li> <li>Other environmental</li> </ul>	<ul style="list-style-type: none"> <li>ESRS emissions Scope 1, 2 &amp; 3</li> <li>Energy consumption</li> <li>Water consumption</li> <li>Waste</li> <li>Greenhouse gas</li> <li>Other pollutants</li> <li>Other environmental</li> </ul>	<ul style="list-style-type: none"> <li>ESRS emissions Scope 1, 2 &amp; 3</li> <li>Energy consumption</li> <li>Water consumption</li> <li>Waste</li> <li>Greenhouse gas</li> <li>Other pollutants</li> <li>Other environmental</li> </ul>	<ul style="list-style-type: none"> <li>22 General Requirements</li> <li>137 Disclosure Requirements</li> <li>420 Data points</li> <li>440 Qualitative Data Points</li> <li>180 Quantitative Data Points</li> </ul>





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Bringing value, together