



CSRD - Sustainability reporting

The new EU landscape

February 2023

Agenda

1

Why:
CSRD and the EU Green Deal

2

Who and when:
CSRD decision tree

3

What:
ESRS disclosure requirements

4

Where:
CSRD and publication

5

CSRD and
external verification

6

CSRD and main
implications for companies

7

CSRD
executive summary

8

EY
Sustainability

1 Why - CSRD and EU Green Deal

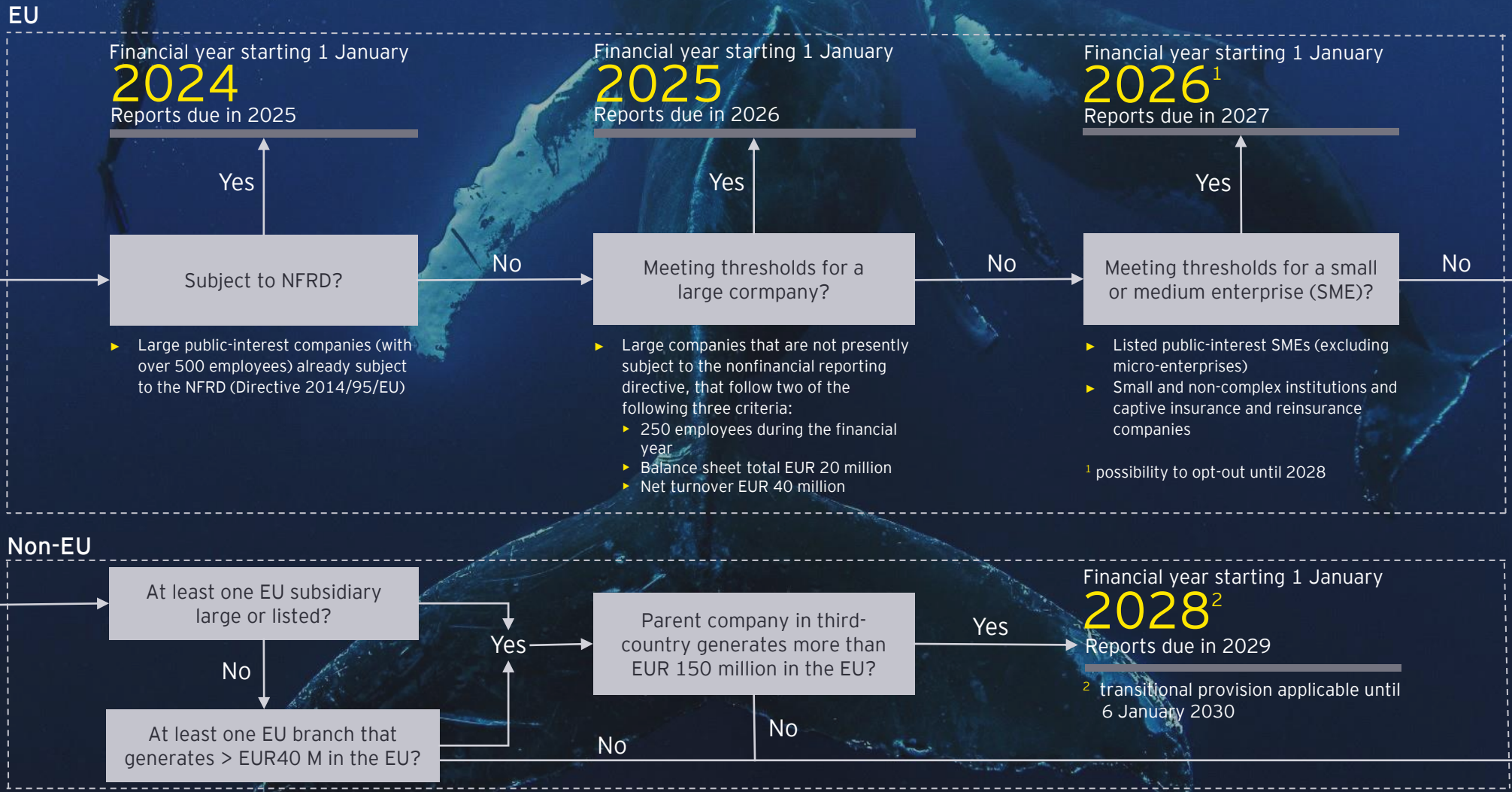


- ▶ Following the European Green Deal, the European Commission (EC) made a commitment to review the provisions concerning nonfinancial reporting of the Non-Financial Reporting Directive (NFRD).
- ▶ The extension of the NFRD to the Corporate Sustainability Reporting Directive (CSRD) follows the implementation of the action plan on financing sustainable growth

2 Who and When - CSRD decision tree

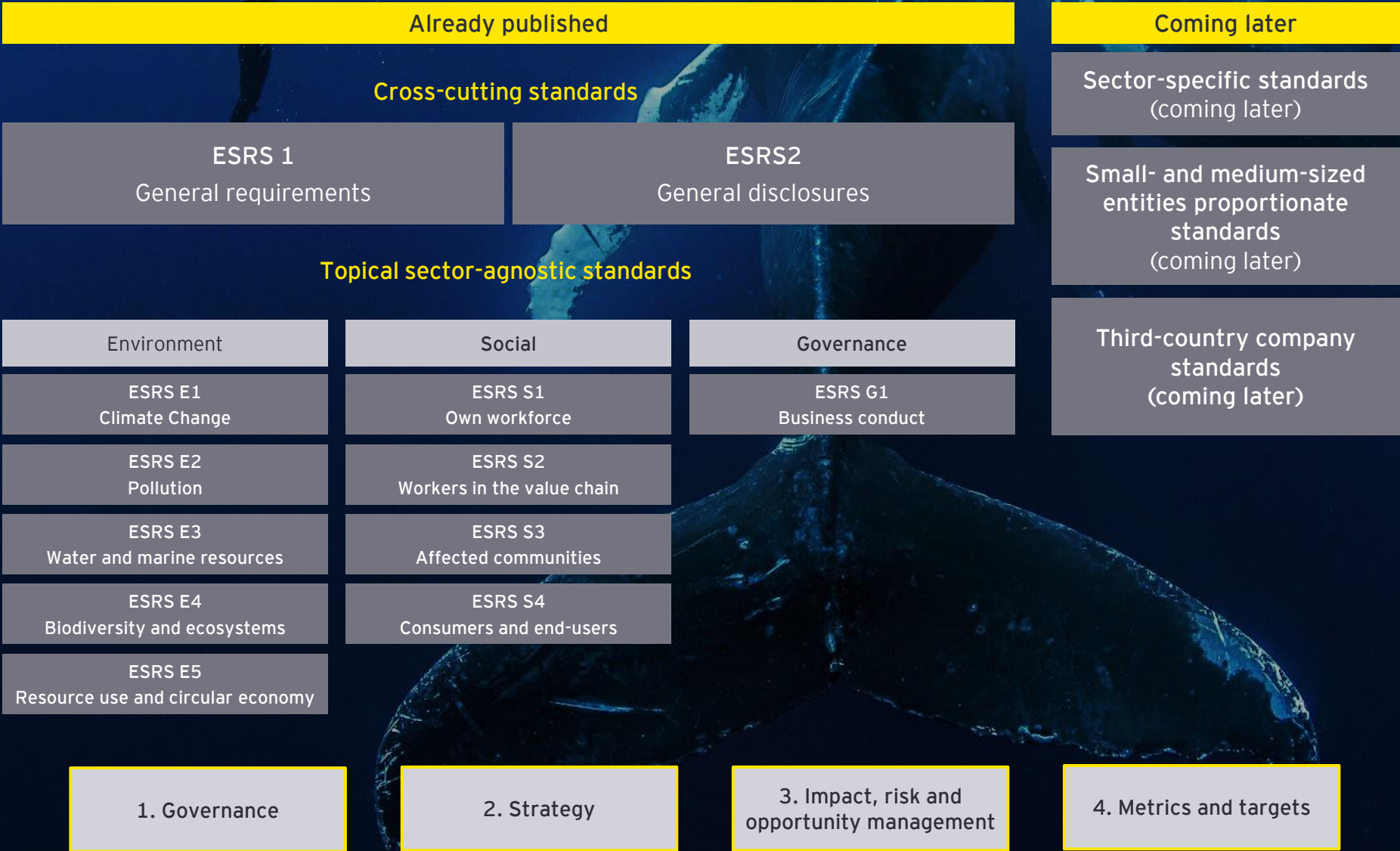
Is your company subject to CSRD?

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.

3 What - CSRD and ESRS



3 What – CSRD and ESRS

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

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

3 What – CSRD and ESRS

Cross-cutting standards

ESRS 1
General requirements

Prescribes the mandatory concepts and principles to be applied when preparing sustainability statements under the CSRD

Establishes that a company should disclose **all material information** about its sustainability-related impacts, risks, and opportunities in accordance with the applicable ESRS and after conducting a **double materiality analysis**

ESRS 1 requires companies in scope to disclose certain sustainability information irrespective of the companies' judgment of their materiality, including information on climate change.

ESRS2
General disclosures

Sets out the disclosure requirements of sustainability reporting that are **cross-cutting**

Sets out the disclosure requirements about **strategy, governance, and the materiality assessment** of sustainability impact, risks and opportunity

Related to the general characteristics of the company and an overview of the company's business

Specific disclosures on **compliance**

Estimation in relation to value chain

Estimation uncertainty, changes in preparation and presentation, and prior period errors

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
- ▶ Includes impacts caused or contributed to by the undertaking
- ▶ Directly linked to the undertaking's own operations, its products, and services through its business relationships (upstream and downstream value chain and are not limited to direct contractual relationships)

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.
- ▶ Information is considered material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that investors, lenders and other creditors make on the basis of the undertaking's sustainability statements when assessing the effects of sustainability matters on the undertaking's cash flows, financial position and financial performance
- ▶ Goes beyond the scope of financial reporting
- ▶ Appropriate thresholds are necessary to determine which impacts, risks and opportunities are identified

3 What - CSRD and ESRS



Environment standards (ESRS E1-E5)

Outline disclosure requirements for companies to report on matters related to:

- ▶ Climate change
- ▶ Pollution
- ▶ Water and marine resources
- ▶ Biodiversity and ecosystems
- ▶ Resource use and circular economy

Aim to enable users of sustainability statements to understand:

- ▶ Plans and capacity of a company to adapt its business model and operations in line with the transition to a sustainable economy
- ▶ Contribution to the various environmental objectives of the European Green Deal, as well as to other EU strategic and regulatory frameworks in this context



Social standards (ESRS S1-S4)

Provide a framework for entities to report on topics related to:

- ▶ Their own workforce
- ▶ The workers in their value chains
- ▶ The communities impacted by their operations
- ▶ The consumers and end-users of their products or services



Governance standards (ESRS G1)

Sets out disclosure requirements that seek to enhance users' understanding of:

- ▶ A company's strategy and approach, and
- ▶ The processes, procedures, and performance in relation to their business conduct

Examples of quantitative indicators

Environmental

- ▶ Emissions: gross Scope 1, Scope 2 GHG and 3 GHG emissions in mT CO₂eq
- ▶ Energy consumption and intensity: Non-renewable and renewable sources in MWh
- ▶ Total emissions to water: priority substances, nitrates, phosphates, pesticides
- ▶ Emissions of inorganic pollutants
- ▶ Emissions of ozone-depleting substances
- ▶ Microplastics produced or used
- ▶ Total water consumption in m³
- ▶ Total water consumption in areas at material water risk, including areas of high-water stress in m³
- ▶ Total water recycled and reused in m³
- ▶ The number of sites owned, leased or managed in or near protected areas or key biodiversity areas
- ▶ Total amount of waste generated in t
- ▶ % of materials that come out of the undertaking's products and services production process (including packaging) that have been designed along circular principles

Social

- ▶ Number of employees per total number of employees - female/male
- ▶ Turnover rate of own employees for the accounting period in number of employees
- ▶ Full-time/part-time employees and breakdown by gender and region;
- ▶ % of own workforce paid below a fair wage
- ▶ % of employees with disabilities
- ▶ % of employees participating in regular performance and work development reviews
- ▶ % of employees entitled to parental leave
- ▶ % gender pay gap
- ▶ Number of incidents of discrimination and harassment
- ▶ % of employees who participated in regular performance reviews and career development
- ▶ Average number of hours of training per person for employees
- ▶ The number of fatalities as a result of work-related injuries and work-related ill health
- ▶ The number of recordable work-related accidents
- ▶ % of workers not under social protection
- ▶ % of male and % of female employees at top management level

Governance

- ▶ The total number and nature of confirmed incidents of corruption or bribery
- ▶ The number of convictions for violation of anti-corruption and anti-bribery laws
- ▶ The amount of fines for violation of anti-corruption and anti-bribery laws
- ▶ The number of confirmed incidents in which own workers were dismissed or disciplined for corruption or bribery-related incidents
- ▶ The total monetary value of financial and in-kind political contributions made directly and indirectly by the undertaking
- ▶ The average time the undertaking takes to pay an invoice from the date when the contractual or statutory term of payment starts to be calculated
- ▶ The number of legal proceedings (currently outstanding) during the reporting period for late payments

4 Where - CSRD and publication

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

5 CSRD and external verification

1. What assurance level is required?

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 feasibility for auditors and companies (no later than 1 October 2028).

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.

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

6 CSRD and main implications for companies

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

Management

Board of directors and audit committees

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

▶ 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.

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7 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 companies and parent companies of large group 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 group 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) 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: Large subsidiaries and SME subsidiaries which are public-interest entities or a branch generated a net turnover of more than EUR 40 million in the preceding financial year, of a third-country parent company 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 feasibility 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

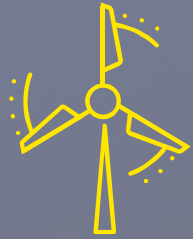
- ▶ Subsidiary exemptions are possible on standalone basis, consolidated basis and until 6 January 2030 via transitional provision for subsidiaries and groups which parent company is established in a third country outside the EU.
- ▶ The exempted subsidiaries must include in their management report: 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).

As EY, we've dedicated our firm to become carbon negative in 2021 and net zero in 2025

We became the first of the "Big Four" organisations to be carbon neutral in 2020 (globally, across our entire carbon footprint) and have now increased our ambition go further to ensure we play our part in helping protect and preserve the planet.



We are committing to a 40% reduction in our absolute emissions and then every year removing or offsetting more than the remainder. From 2021 onwards, we will be removing more carbon from the atmosphere than we emit and be carbon negative. A big statement but one that we in EY are committed to.

EY's transformation to carbon negative is coupled with a focus on supporting our clients with their ambitions for our planet.

We believe that sustainability is both good for business and good for the planet, offering opportunity to create and protect value.

EY's ambition to be carbon negative in 2021 and net zero in 2025

Taking action to protect the planet is core to our purpose of building a better working world and one of the ways we create long term value for our people, clients and society.

Our focus on becoming a more sustainable organisation includes:

1. Setting a Science Based Target and reducing our total emissions up to 40% by FY25 (across all three emission scopes)
2. Reducing business travel emissions by 35% by FY25 against an FY19 baseline
3. Including emissions created from EY people working at home in our carbon calculations
4. Using 100% renewable energy for office electricity by FY25
5. Working with our suppliers on a requirement for 75% of them to set Science Based Target for emissions reduction by 2025
6. Investing in services to help clients decarbonize and deliver on sustainability plans

EY | Building a better working world

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