Corporate Sustainability Reporting

Building a better working world

The way toward sustainable reporting

Sustainable finance is an essential part of the European Green Deal. Major public and private investment is needed to make the EU financial system sustainable and ensure Europe is climate-neutral by 2050.

The Non-Financial Reporting Directive (NFRD), amending the Accounting Directive was adopted in 2014. Companies within the scope of the NFRD were required to report both on how sustainability issues affect their performance, position and development, and on their impact on people and the environment (this concept is referred to as “double materiality”).

The primary users of sustainability information disclosed in companies’ annual reports may be investors and non-governmental organizations, social partners and other stakeholders.

Better data from companies about the sustainability risks they are exposed to, and their own impact on people and the environment, is essential for the successful implementation of the European Green Deal and the Sustainable Finance Action Plan.

49,000

Companies will perform detailed sustainable reporting compared with the current 11,600 companies within the scope of the NFRD.

The CSRD in a nutshell

More companies covered

Extension of the scope to all large companies (the entity should meet two of the following three criteria: **>250 employees, €40m turnover, €20m total assets**), all companies listed on EU regulated markets except listed micro companies, and insurance undertakings and credit institutions regardless of their legal form.

Impact on non-EU entities

The scope would include companies not established in the EU that are listed on EU regulated markets, and **the EU subsidiaries of non-EU companies.**

Management report at the center

A company has to report sustainability information in the management report (Member States' option to allow companies to disclose sustainability information in a separate report is proposed to be removed).

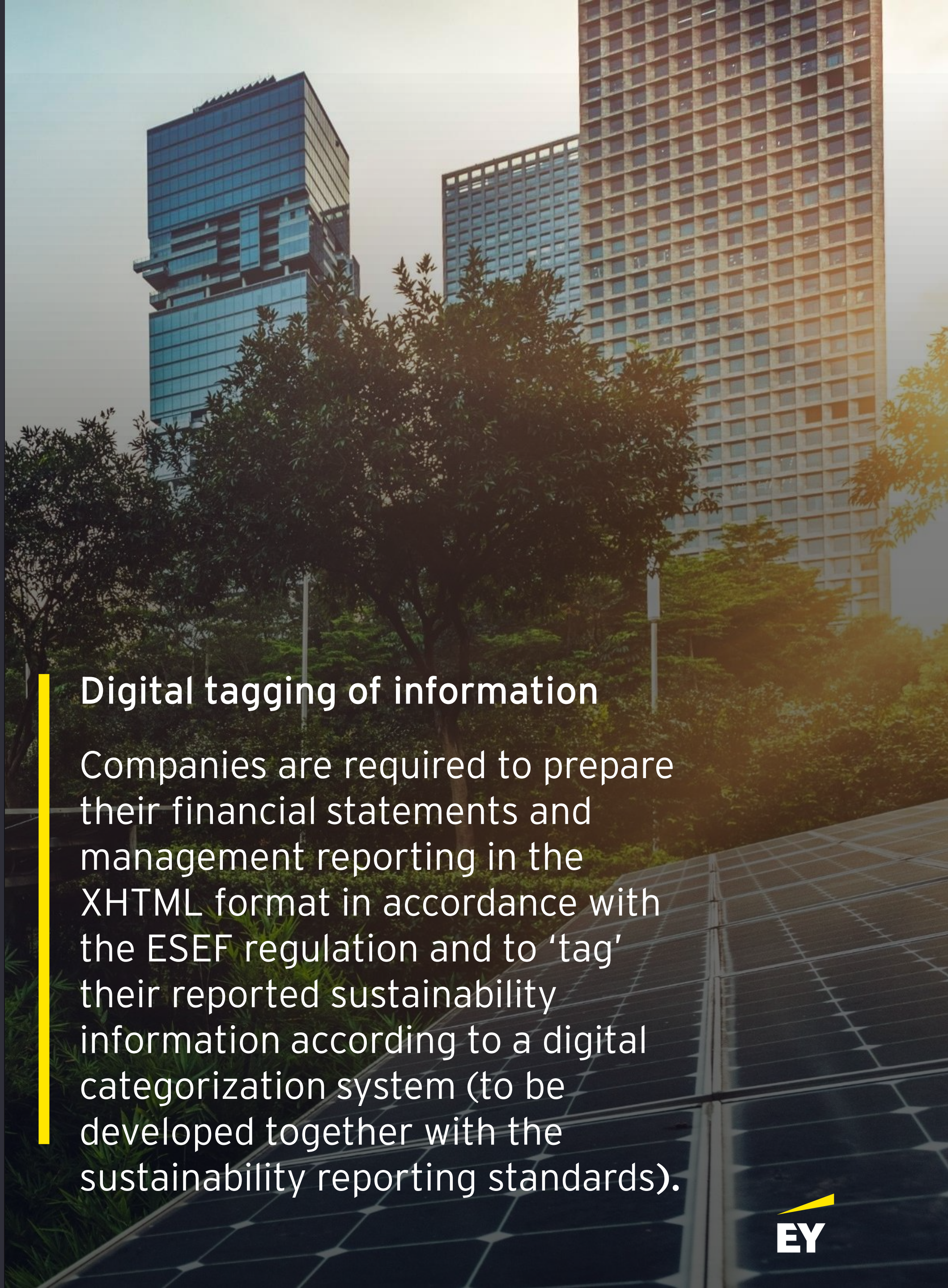
Effective oversight

Roles and responsibilities of national competent authorities are clarified when it comes to **supervision of sustainability reporting (as part of the management report).**

Sustainability reporting – main requirements

Companies shall provide the following information:

- Description of the business model and strategy (business model resilience, opportunities, business model compatibility with the transition to a sustainable economy; strategy implementation; stakeholders' interests and impact on the sustainability matters)
- Description of sustainability targets and progress
- Description of the administrative, management and supervisory bodies with regard to sustainability matters
- Description of sustainability policies
- Description of the due diligence process; principle and adverse impacts and actions taken to prevent, mitigate or remediate those impacts
- Description of principle risks
- Indicators related to all the above



Digital tagging of information

Companies are required to prepare their financial statements and management reporting in the XHTML format in accordance with the ESEF regulation and to 'tag' their reported sustainability information according to a digital categorization system (to be developed together with the sustainability reporting standards).

Timeline

2020

Consultation on the revision of the NFRD

Capital Markets Union Action Plan

2021

Publication of the proposal for a CSRD

Adoption by EU legislators

2022

31 October 2022
Adoption of first set of EU sustainability reporting standards

31 December 2022
Deadline to transpose Directive

2023

Directive applicable as of 1 January 2023

31 October 2023
Adoption of second set of EU sustainability reporting standards

2026

Directive applicable to SMEs as of 1 January 2026

Implications for companies

- The Directive marks a **step change** in corporate reporting
- It has **far-reaching implications for companies** and will require them to embark on **extensive change management exercises**
- Businesses will need to disclose more sustainability information **than ever before**, including sensitive information about their **business models, strategy and supply chains**
- Information will need to be **prepared using robust measurement and reporting processes**
- Reported sustainability information **will be assured by a third party** – very often, for the first time

Businesses will need to consider how they:

- Identify and gather sustainability-related information
- Set targets and KPIs (revising existing targets and KPIs if necessary)
- Draw up policies
- Manage social, environmental and governance risks

Other ways to prepare:

- Adapt internal quality control and risk management systems – and review their effectiveness
- Perform additional due diligence on supply chains
- Establish efficient procedures
- Ensure appropriate governance and monitoring is in place
- Review arrangements for external assurance of sustainability information

EY

How can companies prepare?

- Get familiar with the proposed directive and understand its implications at a practical level
- Consider how you can identify and gather sustainability-related information, manage social, environmental and governance risks, draw up policies, and set targets and KPIs; reassess whether targets and KPIs are still relevant or in need of revision
- Perform internal due diligence on your supply chains and review the effectiveness of the company's internal quality control and risk management systems
- Consider how to identify and value your company's main intangible assets, including reputation and human capital
- Bolster risk management by establishing efficient procedures, adapting internal controls, and ensuring appropriate governance and monitoring is in place with regard to sustainability reporting
- Review their arrangements regarding the external assurance of your company's sustainability information
- Remain abreast of any outcomes, interpretation and communications from EFRAG during the standard-setting process so that you can get early visibility of how the standards are likely to look

Key questions to consider

- How will you use **gap analysis** over the next two years to identify which systems and processes are needed for the business to comply with the new Directive?
- What matters are most likely to meet the **double materiality test** for your business? How will that change the way you manage the business, if at all?
- How will the **board and audit committee** be engaged with the company's preparations for the new directive and how will they continue to provide oversight once it has come into effect?
- How will you **engage your external auditor or a third-party assurance provider** on the assurance required?
- How will you consider whether **limited assurance** will be sufficient for the board and management in terms of the significance of material matters to the business?

Any Questions?

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