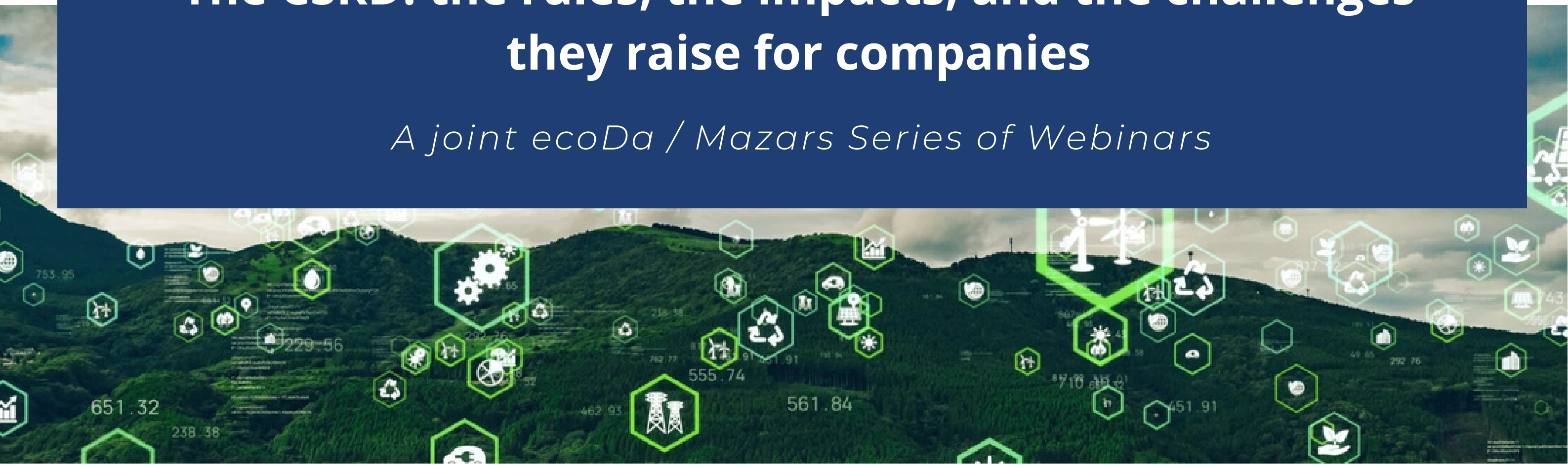
The CSRD: the rules, the impacts, and the challenges they raise for companies

A joint ecoDa / Mazars Series of Webinars



First Episode

As the Corporate Sustainability Reporting Directive (CSRD) came into force on 5 January 2023, ecoDa and Mazars have launched a series of two webinars to enlighten board members about the new requirements and resulting responsibilities.

1.EU regulatory framework and key features of the CSRD

The CSRD fits into the wider economic and social strategy of the Paris Agreement and the EU Green Deal which incentivizes the redirection of capital flows toward sustainable goals. To this end, the Non-Financial Reporting Directive (NFRD), the former version of the CSRD, was enacted in 2014 to require certain companies to disclose non-financial information and their ESG-related mitigation policies. However, the implementation of the NFRD suffers from several deficiencies (lack of comparability, reliability of the disclosed information, overlaps of legislation on sustainability reporting, and limited scope...). To address these flaws and further advance the objectives set in the Green Deal, the CSRD was adopted, suggesting additional aspects to the European non-financial reporting framework:

- an enlarged scope of application;
- European Sustainability Reporting Standards (ESRS) prescribing content and format of information to be disclosed (which are developed by the European Financial Reporting Advisory Group or EFRAG);
- a mandatory assurance of sustainability report.

2.Key features of sustainability reporting in the EU, with ESRS at the heart of it

The European Commission has mandated EFRAG to develop the ESRS to ensure the quality, relevance, and comparability of the reported information which will be structured around three layers: sector-agnostic (standards are to be adopted by June 2023 according to the CSRD), sector-specific (standards are to be adopted by June 2024 but there will probably be a delay), and entity-specific. Through a double-impact materiality assessment process, companies will have to identify where the impacts, risks, and opportunities for ESG are, not only regarding their operations but also within their upstream and downstream value chain.

Neither the CSRD nor the ESRS mandates specific behavior from companies, both are aiming at increasing transparency about what a company does or does not do. To ensure proportionality, standards against which companies will have to report will differ depending on the entity's size and profile (i.e. specific standards will be developed for listed SMEs, for non-EU groups).

The first draft of sector-agnostic standards as released by EFRAG last November comprises, in total, 82 disclosure requirements, including approximately 1 100 data points of which about one-third is mandatory. But the final texts as adopted by the European Commission by way of delegated acts may bring some changes.

Europe is not the only actor developing sustainability reporting standards. The IFRS Foundation with the International Sustainability Standards Board (ISSB) is also active in that field. To avoid dual reporting, interoperability is therefore a key pillar of EFRAG's work who is more generally building on the various existing frameworks and standards.

3.The scope of application

The first group of companies that will have to comply with the CSRD is all large entities and groups[1] even though first-time application is different depending on whether the company was already in the scope of the NFRD or not. The second group gathers all listed SMEs on an EU-regulated market, and the third deals with non-EU groups having significant activity in the EU.[2] One important element to take into consideration is that the CSRD requires producing a sustainability report at an entity level or at a consolidated level where relevant. In the latter case, an exemption is given for subsidiaries, to the extent that certain conditions set by the directive are fulfilled. However, it does not apply to large listed entities. They will therefore have to produce a report at their own level, possibly at a consolidated level if they are intermediate parent companies.

1 Exceed at least two of the three following criteria at the balance sheet date: (i) 250 for the average number of employees, (ii) 40mEUR net turnover and (iii) 20mEUR balance sheet total. These thresholds are set in the Accounting Directive as modified by the CSRD.

2 The criteria set by the CSRD relate to: 1. The turnover generated in the EU which shall exceed 150mEUR for each of the last two consecutive financial years ; AND 2. The group shall have at least 1 subsidiary (either a large entity or a listed SME) OR 1 branch in the EU, with this branch generating more than 40mEUR turnover in the UE in the preceding financial year.

4.The new role of auditors and audit committees

One major change brought by the CSRD is the mandatory assurance (first limited, then reasonable) to be given on the sustainability statements and the ensuing expected role of the audit committee.

Under the NFRD, if there was not such an obligation, three European countries decided to make limited assurance a mandatory feature of their transposition back in 2017 (Spain, Italy, and France), for others, such as Germany, this voluntary check became the norm (more than 74% of German companies had some kind of assurance on their ESG reports). Despite these national differences, the NFRD stipulates a minimum requirement which was that the auditor had to check whether non-financial information has been provided, making the absence of non-financial information an irregularity.

However, we see a gap between the CSRD implementation date (from 1 January 2024) and what the Directive foresees for the development of assurance standards at the European level (adoption of limited assurance standards in 2026 and reasonable assurance standards in 2028). Hence, until the adoption of the EU assurance standards, the auditors and the ESG assurance providers will rely on Member States standards or requirements.

5.Items for consideration by Board members and audit committee members

1.If the option is activated in the Member State, Board Members will be able to propose for the sustainability assurance provider (i) the current statutory auditor in charge of financial statements, or (ii) another auditor or (iii) an independent assurance provider;

2.If the independent assurance service provider (IASP) option is chosen, the report should be made public together, on the same date, with the company’s financial reporting;

3.The PIE Audit Regulation (Regulation (EU) No 537/2014) prohibits the provision of certain non-audit services over certain periods when the statutory auditor is carrying out the statutory audit. Services related to the preparation of sustainability reporting would be considered as services that a statutory auditor cannot deliver to its audit client. By extension, an auditor selected to provide an opinion on an entity's sustainability reporting will be submitted to the same constraints. The PIE Audit Regulation also requires statutory auditors to report irregularities to the PIE audited and, under certain circumstances, to authorities responsible for further investigation. This obligation is extended as regards their work on the assurance of sustainability reporting of PIE;

4.CSRD also requires that the IASP is subject to equivalent requirements regarding independence and reporting irregularities;

5.The Audit Directive (Directive 2006/43/EC) now specifies the tasks of theaudit committee with regard to the assurance of sustainability reporting (the obligation to monitor the assurance of the sustainability reporting, in particular its performance, and to inform the administrative/supervisory body of the outcome of the assurance of sustainability reporting, and to explain how the audit committee contributed to the integrity of the report and what the role of the committee was in that process).

Following the enlightening discussion, the experts answered the participants' questions before mentioning the second episode of this series which focused on how the CSRD impacts boards' role and responsibilities.

Speakers: Carole Masson *(Partner, Corporate Reporting Advisory, Mazars),* Patrick Parent *(Chair, Committee of European Auditing Oversight Bodies),* Emmanuel Thierry *(Partner, Mazars)*

The recording of this webinar is available here.

Contact

ecoDa

Béatrice Richez-Baum, Director General:
contact@ecoda.org , Tel: 003222315811

Manon Roehrig, Policy Adviser
policy@ecoda.eu

www.ecoda.eu

Mazars

Clémence Valleteau, Global Head of Public Affairs
clemence.valleteau@mazars.com,
Tel: +33 6 62 23 37 42

https://www.mazars.com