



Financial Reporting Newsletter Bringing you the latest information on recent IFRS and Financial Reporting topics July 2022

Dear all,

We are pleased to welcome you to the new edition of our Financial Reporting Newsletter.

Our aim is to keep you updated with all the latest news and developments on IFRS and financial reporting along with the potential impact they may have on your business.

In this issue, we discuss the Draft European Sustainability Reporting Standards (ESRS) Exposure Drafts (EDs) issued for public consultation on 29 April 2022 by the Project Task Force of ESRS (PTF-ESRS):

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We hope that you find our newsletter insightful and if you would like to discuss any of the topics covered, please do not hesitate to contact us.

Best regards,

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Background

The European Commission (EC) published a proposal for Corporate Sustainability Reporting Directive (CSRD) in April 2021. The objective of the CSRD proposal is to improve sustainability reporting and ensure it is brought into a company's management report to better leverage the potential of the European single market and to contribute to the transition to a fully sustainable and inclusive economic and financial system in line with the European Green Deal and the UN Sustainable Development Goals (SDGs).

The proposed legislation expects EU Member States to transpose the CSRD by 1 December 2022 and its provisions to apply to all large companies for financial years starting on or after 1 January 2023. The requirements for listed small and medium-sized entities (SMEs) would apply for financial years starting on or after 1 January 2026.

Proposed architecture of ESRS

The architecture of the standards is guided by the CSRD proposal, which includes a list of sustainability information to be covered by ESRS. Many elements of information contained in that list would apply to all sustainability subject matters—also identified as sustainability topics, subtopics or sub-subtopics in the EDs.

The CSRD proposal sets out the sustainability information that companies would have to include in their sustainability statements. Companies would need to provide qualitative, quantitative, forward-looking and retrospective information, including on their value chain, covering short-, medium- and long-term time horizons. The information provided is subject to double materiality, i.e. companies would be required to report both on how various sustainability matters affect the company and on the impacts of a company's activities on people and the environment. The information would be mandatory as part of the management report.

EFRAG created the following three categories of standards which complement and interact with each other:

- **Cross-cutting standards**, which cover the general provisions applying to:
 - Sustainability reporting under the CSRD, including principles for disclosures under ESRS (ESRS 1).
 - Sustainability disclosure requirements relating to compliance, strategy, governance and sustainability impacts, risks and opportunities (ESRS 2).
- **Topical standards**, which cover a specific sustainability topic or sub-topic from a sector-agnostic perspective—that is disclosure requirements relating to sustainability impacts, risks and opportunities that are considered to be material for all entities, regardless of the sectors they operate in.
- **Sector-specific standards**, which prescribe disclosure of information relating to sustainability risks, impacts and opportunities that are considered to be material for all entities operating in a given sector.

The EDs published in April 2022, include proposals for the following ESRS:

Cross-cutting standards:

- ESRS 1 *General principles*
- ESRS 2 *General, strategy, governance and materiality assessment*

Topical standards that cover environmental matters:

- ESRS E1 *Climate change*
- ESRS E2 *Pollution*
- ESRS E3 *Water and marine resources*
- ESRS E4 *Biodiversity and ecosystems*
- ESRS E5 *Resource use and circular economy*

Topical standards that cover social matters:

- ESRS S1 *Own workforce*
- ESRS S2 *Workers in the value chain*
- ESRS S3 *Affected communities*
- ESRS S4 *Consumer and end-users*

Topical standards that cover governance matters:

- ESRS G1 *Governance, risk management and internal control*
- ESRS G2 *Business conduct*

A consultation on sector specific ESRS is expected in 2023.

Reconciliation tables

The cover note to the EDs includes appendices, of which two include reconciliation tables of ESRS with TCFD recommendations and the Exposure Drafts issued by the International Sustainability Standards Board (ISSB): [draft] IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and [draft] IFRS S2 *Climate-related Disclosures*.

Consultation period

The EDs are open for public consultation until 8 August 2022. Stakeholders are invited to provide comments on the Draft ESRS by way of a consultation survey.

The consultation questions focus on the following three key aspects:

- Relevance of the proposed architecture, implementation of the principles in the CSRD proposal and overall content of each ED.
- Alternatives for prioritisation (phasing) in the implementation of the ESRS.
- Adequacy of each disclosure requirement mandated by each ED.

Where can I go for more information?

This publication highlights just some of the recent IFRS and financial reporting topics that may be of interest to entities reporting under IFRS or another accounting framework. More detailed information can be found at www.iasplus.com

Contact Us

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