



GRC Espresso Non financial reporting – CSRD

14th June 2023

Agenda

01 || CSRD overview and requirements

02 || ESG as second line function

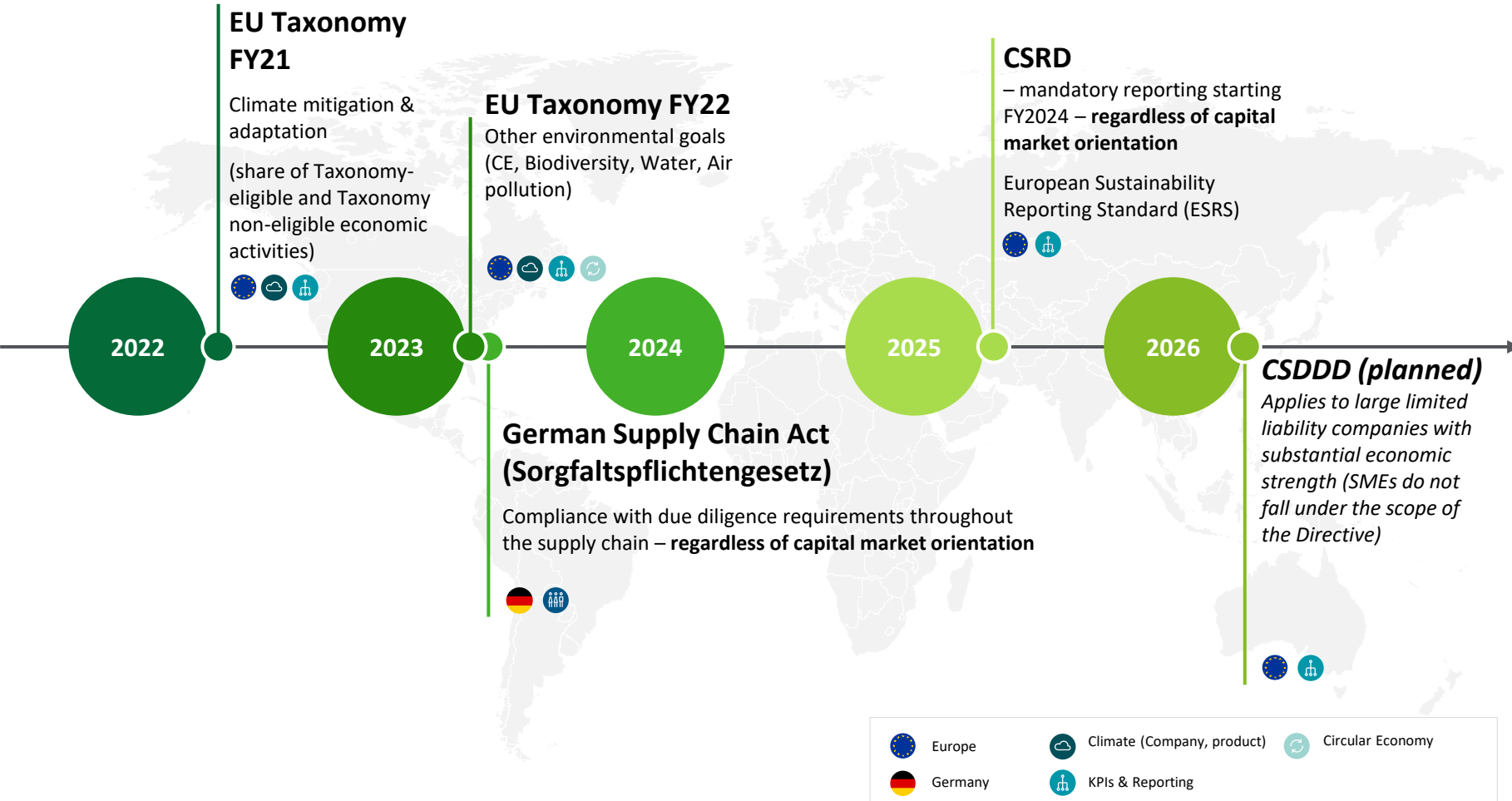
03 || Risk Management @ ESG

04 || IA @ ESG



Substantial development of reporting

As of FY2024, companies regardless of capital market orientation will have to disclose sustainability information (CSRD) and the sustainability performance of their activities in relation to revenue, CapEx and OpEx.



Impact on companies

- Growing diversity of topics** - increasing requirements for management approaches and scope of data collection
- Increasing data demands** - higher granularity and quality of disclosed data
- Increased need for integration** - in functions and processes
- Increasing investor requirements** - information needs and management quality
- Increasing audit requirements** - limited assurance by 2025 and reasonable assurance by 2028

Corporate Sustainability Reporting Directive (CSRD)

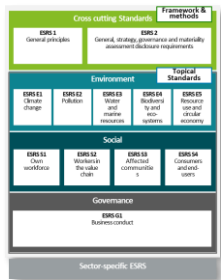
Compared to the NFRD, key changes under the CSRD include a larger number of affected companies, the specification of double materiality, more extensive reporting content, as well as increased reporting depth and assurance requirements.

Corporate Sustainability Reporting Directive (CSRD)

The Corporate Sustainability Reporting Directive (CSRD) strengthens the rules about the **social and environmental information** that companies have to report.



European Sustainability Reporting Standards (ESRS)



Influenced by GRI, SASB, TCFD...

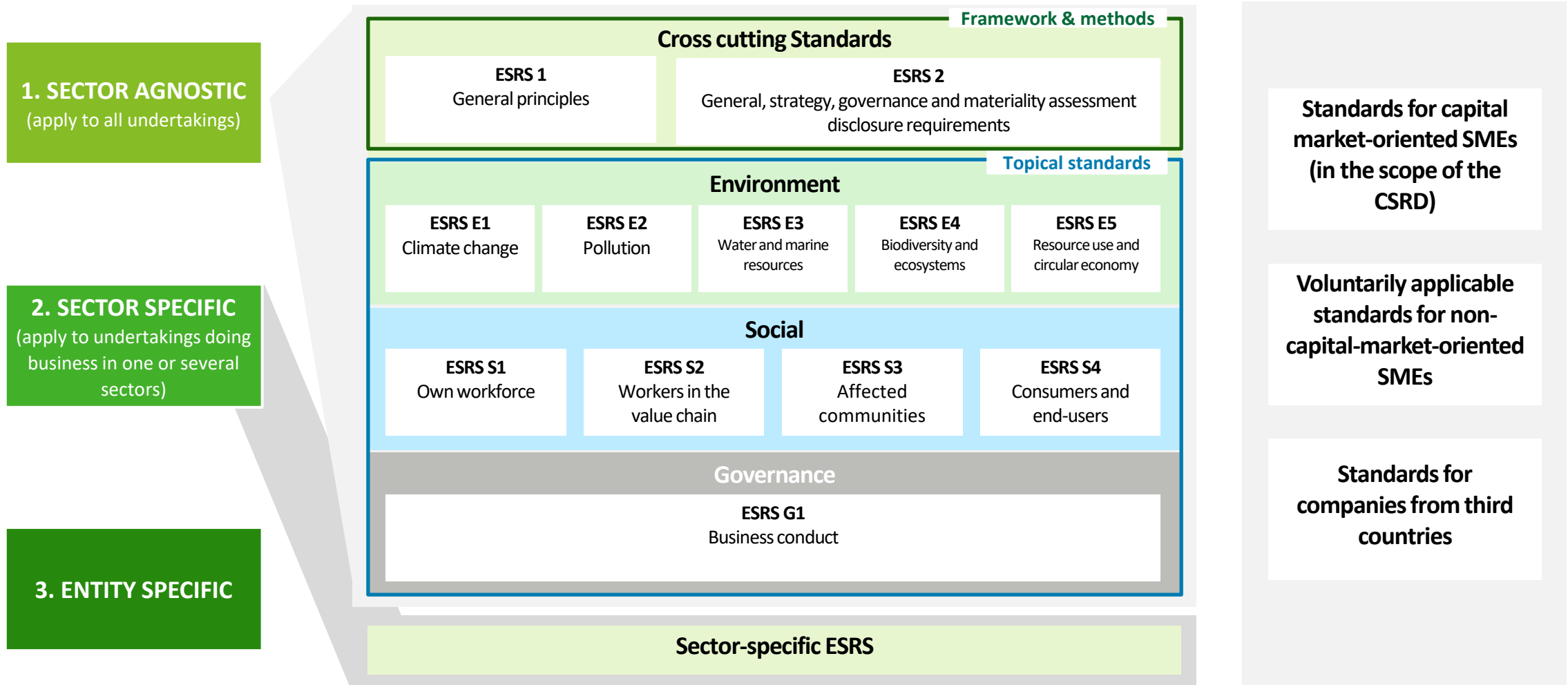
The European Sustainability Reporting Standards (ESRS) are a series of **delegated acts** prepared by the EU to **specify reporting requirements** under the CSRD.

CSRD challenges

Topic	Description
1 Affected Companies	<ul style="list-style-type: none"> Increased number of companies impacted by CSRD & ESRS 01.01.2024: companies already subject to the NFRD 01.01.2025: large companies that are not presently subject to the NFRD 01.01.2026: listed SMEs, small and non-complex credit institutions and captive insurance undertakings
2 Materiality	<ul style="list-style-type: none"> Increased complexity for the assessment of material topics based on risks, opportunities and impacts
3 Report Content	<ul style="list-style-type: none"> Increased demand on ESG data Retrospective and forward-looking Key sustainability risks and interdependencies, including risk management
4 Reporting & Audit depth	<ul style="list-style-type: none"> Within Management report Limited assurance, reasonable assurance expected 2028 ESEF: Digital tagging analogous to financial reporting

European Sustainability Reporting Standard

In addition to the content already specified in the text of the CSRD, binding reporting standards are to be created by the EFRAG. They are divided into three areas: sector agnostic, sector specific and entity specific disclosure requirements.



Draft Delegated Act for European Sustainability Reporting Standards

On 9 June the Commission published a consultation on the first set of sector-agnostic standards under the ESRS, based on advice received from EFRAG in November 2022.

The EU Commission has made key changes in comparison to the previous draft:

1. Most disclosure requirements are now subject to materiality assessment:

→ With the exception of disclosure requirements and datapoints under ESRS 2, all disclosure requirements will be subject to materiality assessments

2. Phased-in options and voluntary disclosure requirements:

→ Certain disclosure requirements will apply on a phased-in basis dependent on company size, and some mandatory disclosure requirements become voluntary

3. Interoperability:

→ Aligning ESRS with the IFRS Sustainability Standards



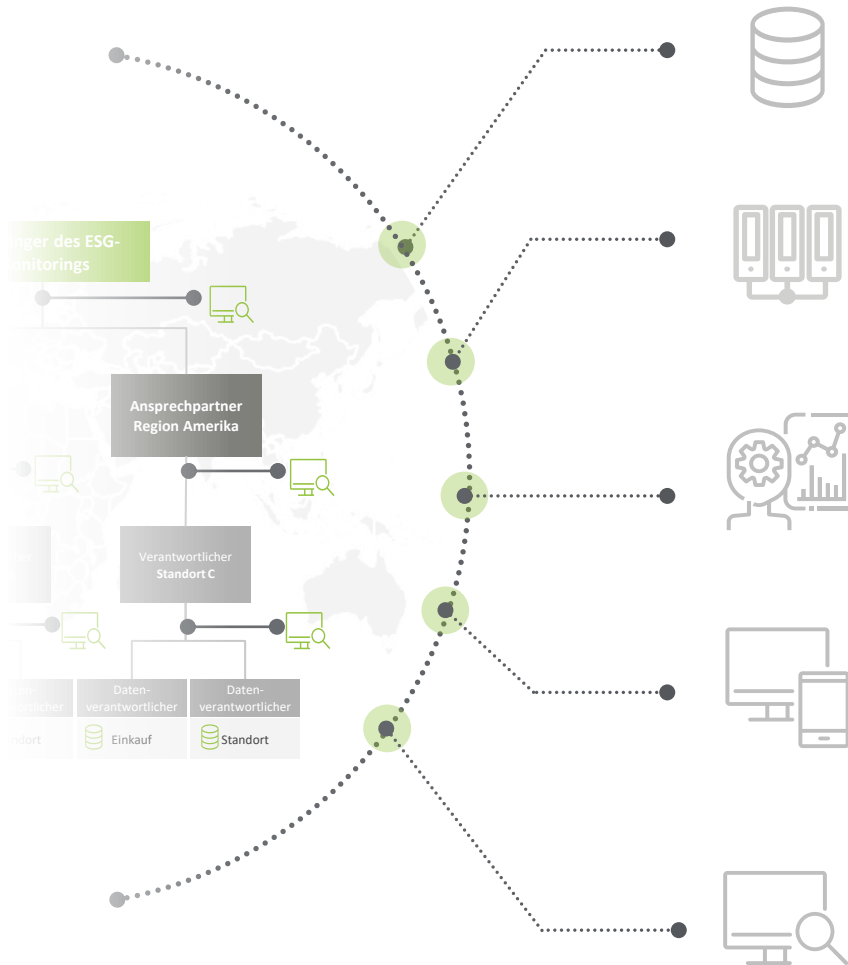
Next steps:

- A 4-week consultation period is open until 7 July. Subject to feedback received, we expect the final ESRS Delegated Act to be approved by the EU Commission by the end of July, or the end of August at the latest.
- The scrutiny period by the European Parliament and the Council will begin once the Commission approves the Delegated Act. We expect an initial scrutiny period of 2 months (which may be extended by another two months), allowing ESRS to become effective from 1 January 2024.

Source: [European Sustainability Reporting Standards | Unpacking the Commission's first draft Delegated Act](#)

Limited Assurance: auditable data & processes

The CSRD requires independent assurance. The foundations for a functioning internal control system (ICS) for non-financial key indicators must already be considered when establishing the data collection and consolidation processes.



Definition of indicators & robustness of data

- ✓ Clear and transparent indicator definition as well as global targets and measurement rules to prevent inconsistent data collection
- ✓ Ensure compliance with relevant external requirements
- ✓ Ensure consistent assumptions, extrapolations, measurement requirements and use of emission factors
- ✓ Avoid aggregation and conversion errors (American tonne vs. metric tons)

Scope of consolidation and reporting period

- ✓ Consistent scope of consolidation and reporting period with the financial indicators
- ✓ Identification of deviating scope of consolidation, e.g. when collecting environmental key indicators at only environmentally relevant locations

Responsibilities

- ✓ Clear responsibilities, sufficient competencies and position descriptions
- ✓ Deputy arrangements and formalized processes to avoid person-specific knowledge

Processes & IT

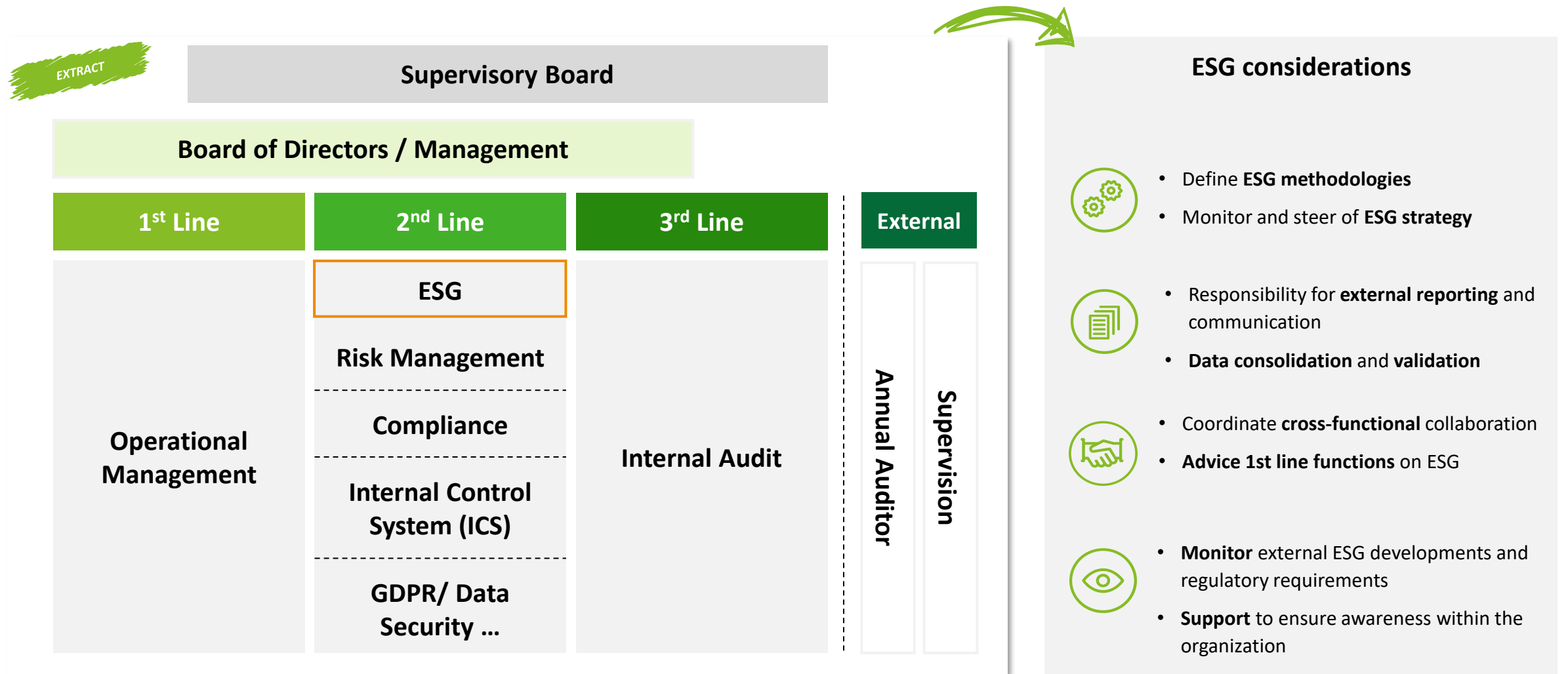
- ✓ Formalised reporting process (e.g. process description, ICS, responsibilities, substitution solutions)
- ✓ Group-wide reporting guidelines and harmonised processes at the locations
- ✓ Definition and interpretation of required data
- ✓ Use of (auditable) IT systems
- ✓ Clean interfaces between manual and automated processes

Internal Control System (ICS)

- ✓ Formalised, functional and globally implemented internal control system for non-financial key performance indicators
 - ✓ Design - Controls are documented and designed to address the risk of misstatement &
 - ✓ Implementation - ensuring that controls are actually implemented
 - ✓ Operating Effectiveness - assuring that controls are actually working

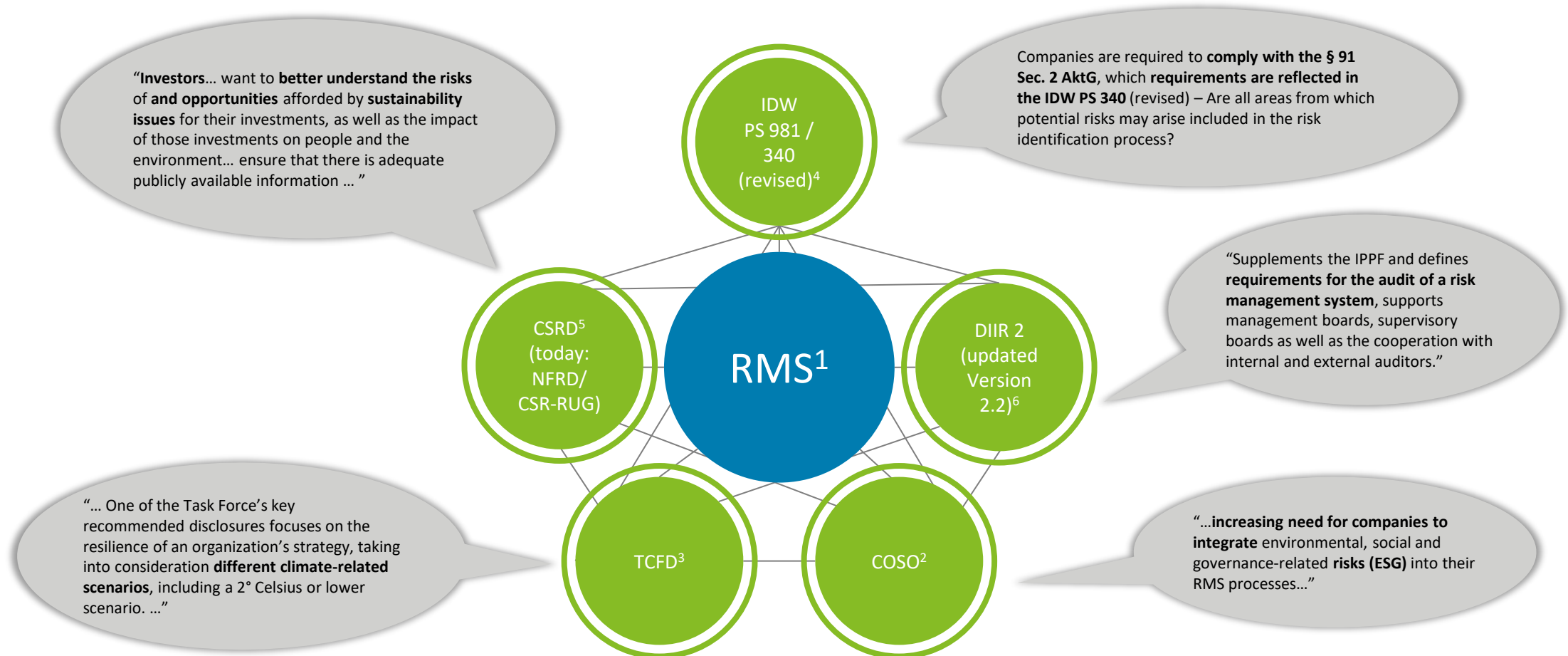
The three lines model

It is apparent that ESG is becoming a new function of the 2nd Line.



Why do we need to establish an ESG risk management system (RMS)?

Exemplary requirements in addition to § 91 and § 93 AktG.



¹ Selected requirements and recommendations/ frameworks

² Committee of Sponsoring Organizations of the Treadway Commission; COSO & WBCSD (2018): Enterprise Risk Management – Applying enterprise risk management to environmental, social and governance-related risks. Available from [COSO](#)

³ Task Force on Climate Related Financial Disclosures; TCFD (2017): Recommendations of the TCFD. Available from [TCFD](#)

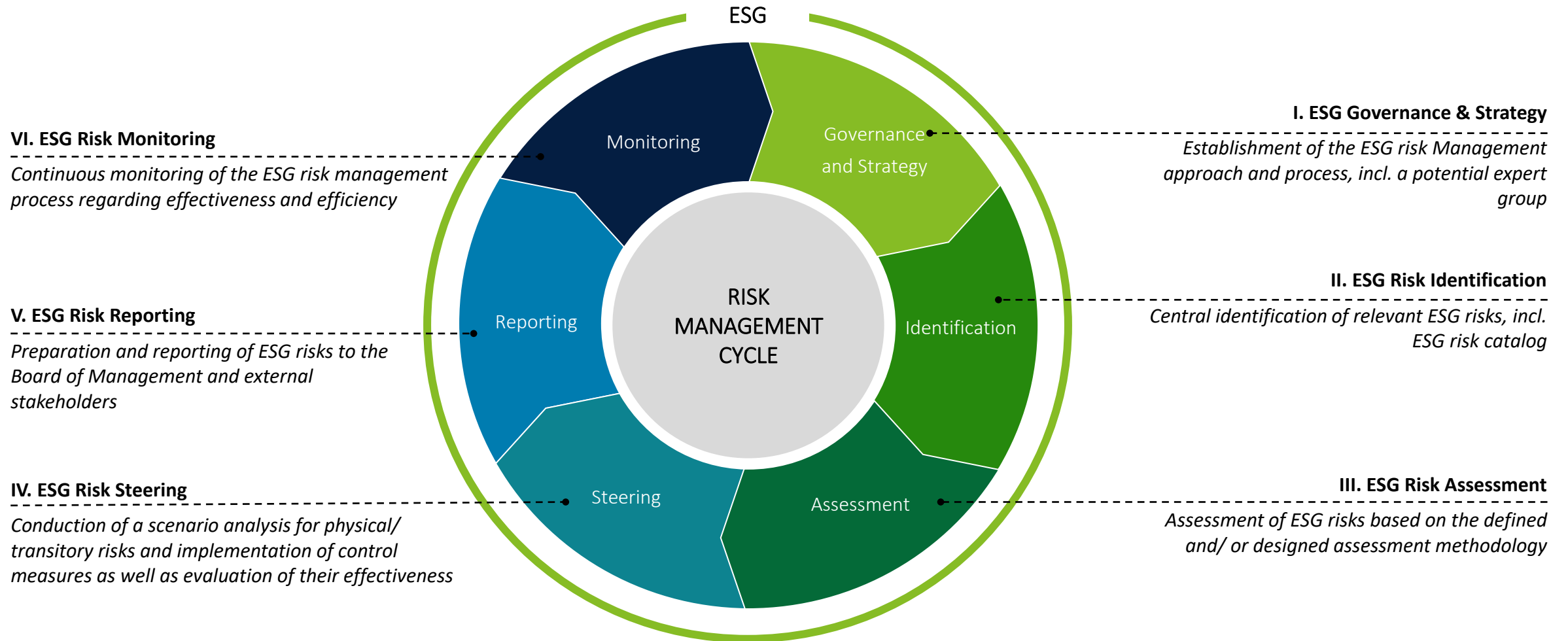
⁴ Institut der Wirtschaftsprüfer: Prüfungsstandard 981 / 340 neue Fassung. Available from [IDW](#)

⁵ Corporate Sustainability Reporting Directive ; With 2024 expected. Available from [CSRD](#)

⁶ DIIR Revisionsstandard Nr. 2: Prüfung des Risikomanagementsystems durch die Interne Revision. Available from [DIIR](#)

ESG Risk Management cycle

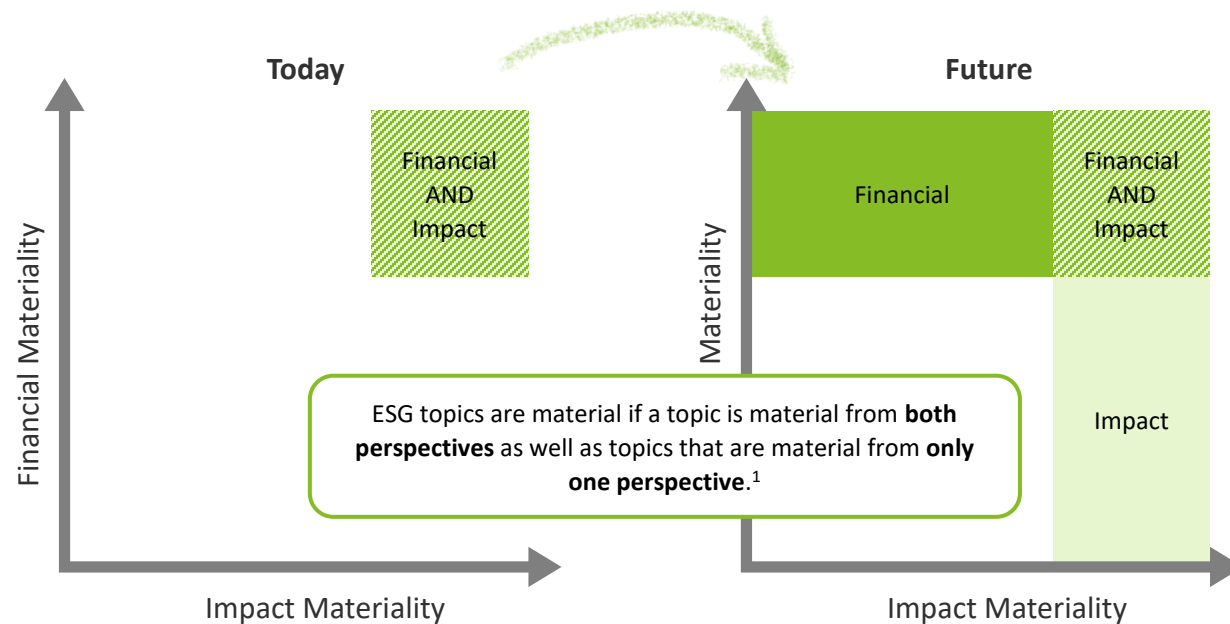
ESG risk information maximizes stakeholder value by effectively enabling long-term strategic business planning.



Materiality Analysis according to CSRD

CSRD defines "double materiality" as the union of impact materiality and financial materiality.

Comparison of the old and future Double Materiality standards



The standards shift from an **AND principle** to an **equal principle** of financial materiality and impact materiality, resulting in a much **broader scope of material topics**.

1: [Corporate Sustainability Reporting Standard](#), January 2023

Implications of the Materiality Analysis



Reporting

Framework for the structure of the report and the corresponding content



Strategy & control implications

- Review of completeness and, if necessary, addition of KPIs
- Potential identification of blind spots and adjustment of the strategy

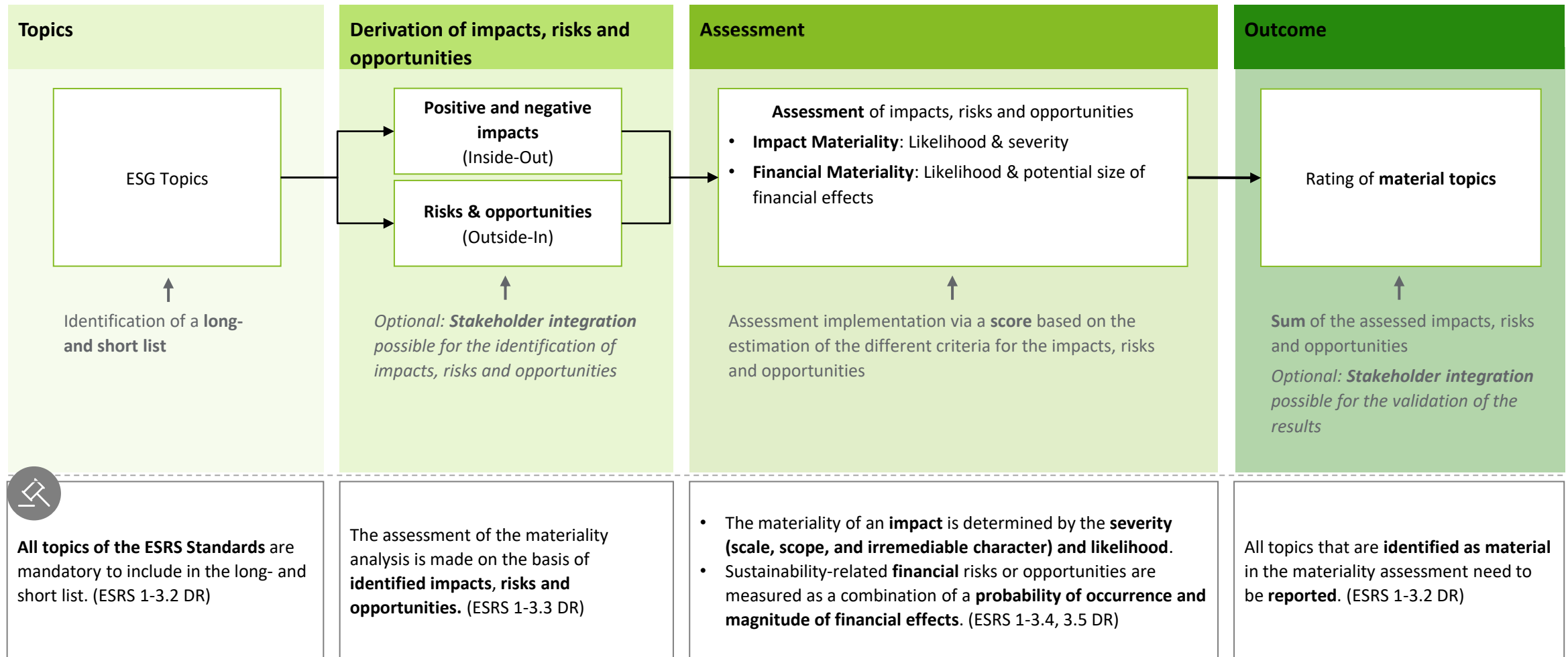


Enterprise Risk Management

- Potential addition of "impact materiality" risks to current "financial risks" risks
- Consistency of risks

Deloitte's approach to materiality assessment

Based on the legal requirements, the impacts, risks and opportunities for ESG topics are identified and evaluated within the materiality analysis.

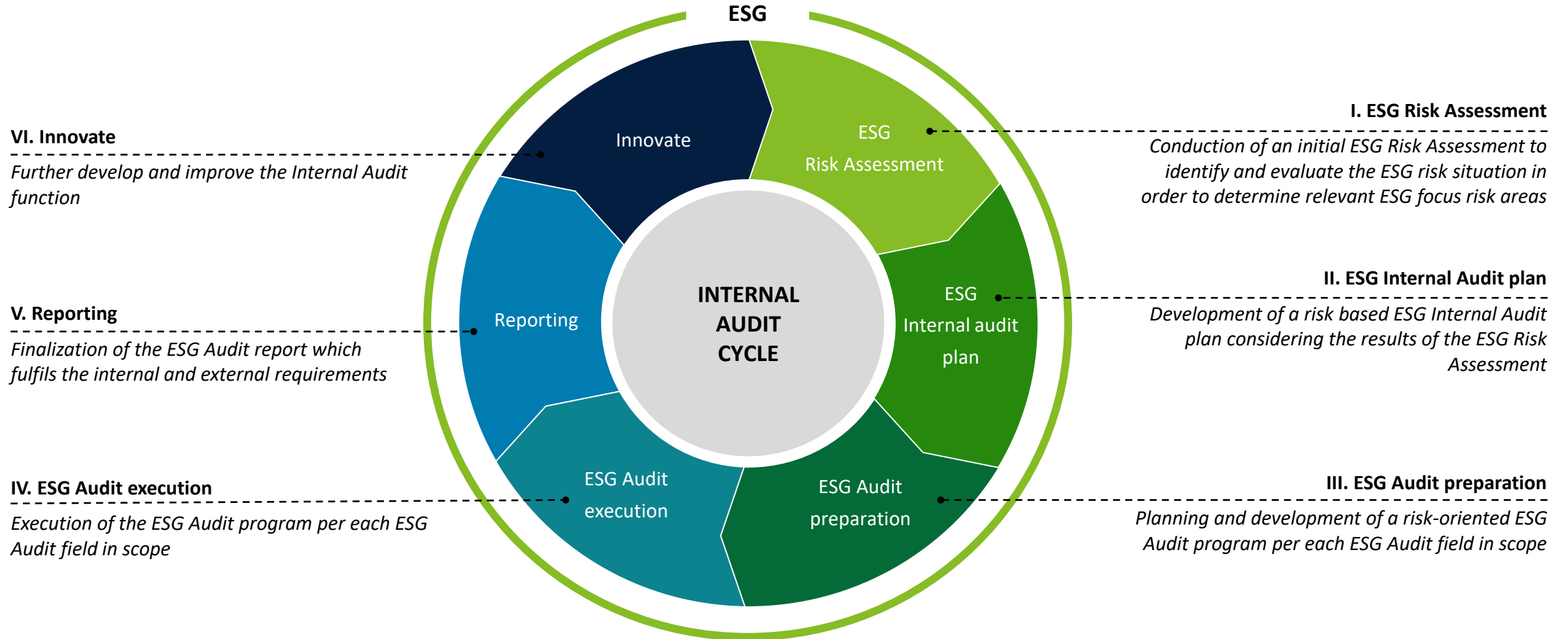


Source: [European Sustainability Reporting Standard](#)

DR Disclosure Requirement AR Application Requirement

ESG Internal Audit cycle

Our suggested ESG Internal Audit approach consists of six phases and can accompany various points of the ESG Internal Audit journey.



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