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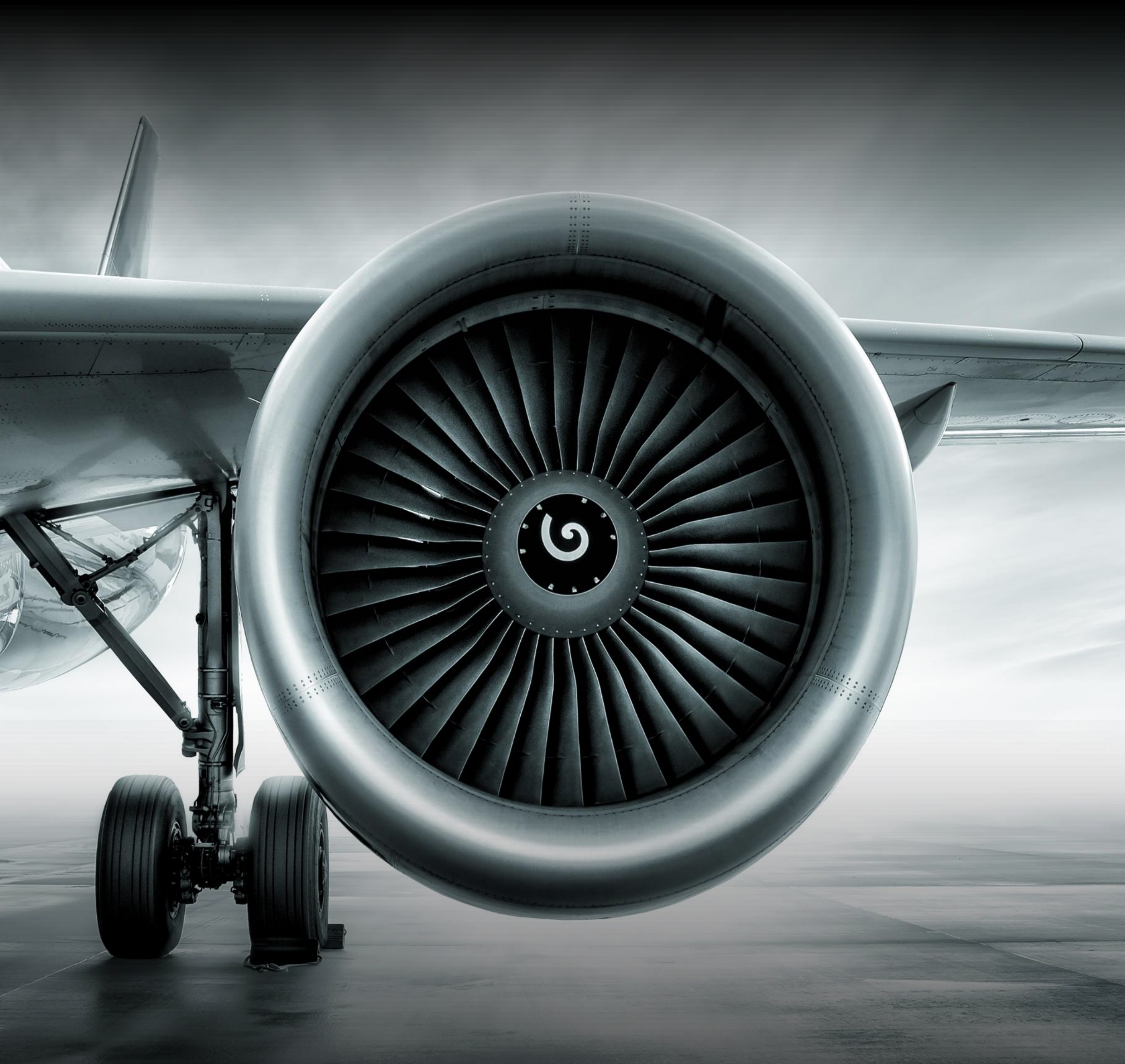

Starting Your CSRD Journey: Aviation Finance and Leasing Insights

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Contents

Introduction

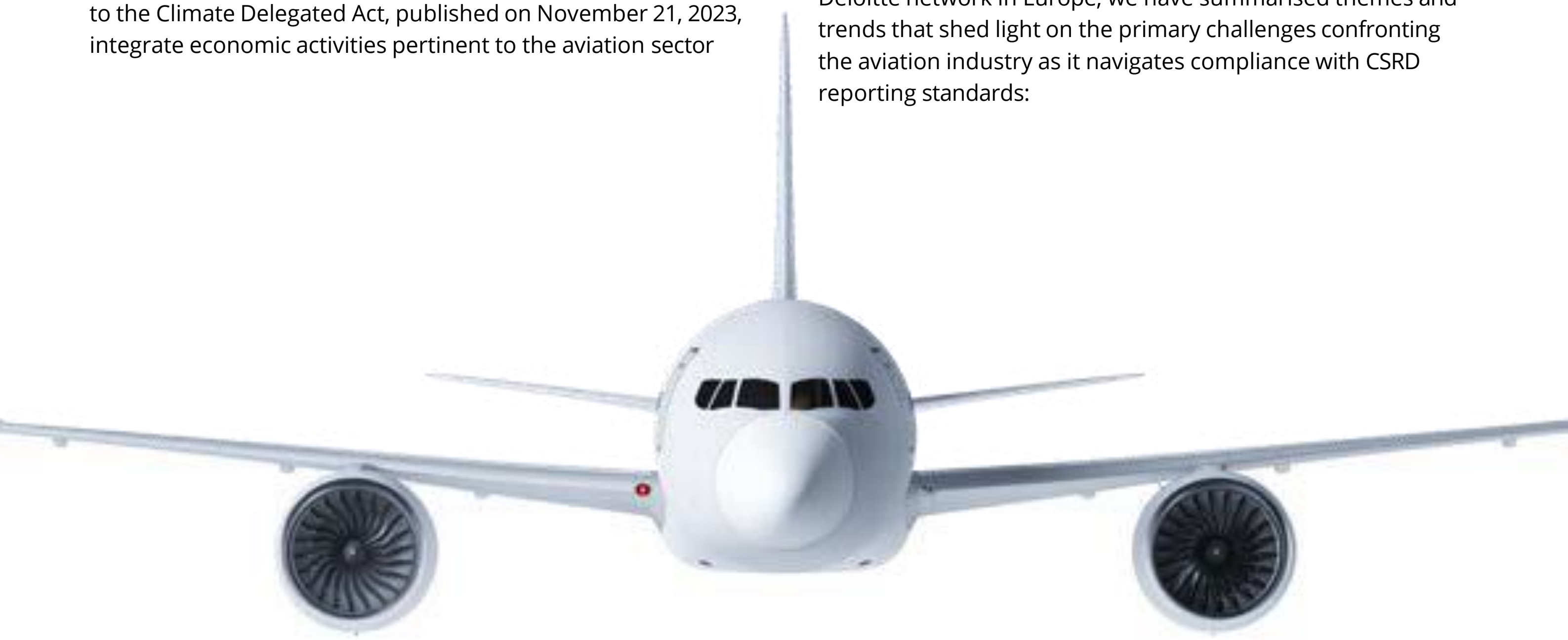
The aviation industry finds itself at a pivotal juncture with the introduction of the Corporate Sustainability Reporting Directive (CSRD), a significant development within the broader Environmental, Social, and Governance (ESG) landscape. This is an important development for the aviation industry and one which is top of mind of all organisations. The introduction of the CSRD will shed a light on the ESG landscape of the industry and ensuring that there is consistency and alignment on the interpretations of standards will be key.

CSRD, replaces its predecessor, the Non-Financial Reporting Directive (NFRD), the CSRD expands the scope of ESG reporting obligations for undertakings. For context, the NFRD covered approximately 12,000 entities, the CSRD now extends this mandate to encompass around 50,000 undertakings in the EU. The inaugural wave of entities subject to CSRD reporting, slated for as early as 2025, will need to disclose 2024 information, including economic activities aligned with the EU Taxonomy. The second wave of CSRD reporting will impact companies who meet the large company criteria having to report on 2025 information in 2026.

This taxonomy serves as a vital tool for identifying environmentally sustainable economic activities, facilitating informed investment decisions. Notably, recent amendments to the Climate Delegated Act, published on November 21, 2023, integrate economic activities pertinent to the aviation sector within the EU Taxonomy framework. These amendments, delineated in the Official Journal, include Technical Screening Criteria (TSC) tailored to aviation industry entities subject to CSRD reporting, marking a significant step towards enhancing sustainability transparency within aviation finance and leasing sector.

Concurrently, the Irish government has indicated its commitment to meeting the deadline of July 6, 2024, for the transposal of the legislation into Irish law. This proactive stance underscores the urgency and significance of aligning national regulatory frameworks with the evolving mandates of the CSRD.

Through our extensive engagement with clients and the wider Deloitte network in Europe, we have summarised themes and trends that shed light on the primary challenges confronting the aviation industry as it navigates compliance with CSRD reporting standards:



Scoping

The CSRD reporting process involves several key steps: defining the entities in scope, determining where reporting obligations apply, and conducting a double materiality assessment (DMA). Double materiality requires analysis of both a financial materiality on society and environment (inside-out), along with the impact and financial materiality of society and the environment on the entity (outside-in). This is especially crucial in the aviation sector due to its complexity and diverse group structures.

For example, major lessors often operate from Ireland (European-based) while their parent companies may be located in Asia or the United States, outside the CSRD reporting scope, posing challenges in aligning with other standards like the SEC Climate Rule (issued March 6, 2024) and Japan's newly proposed exposure drafts (issued April 8, 2024), which draw from the disclosure standards of the IFRS Foundation's ISSB.

Once scoping is finalized, conducting a DMA for in-scope companies is essential to identify material European Sustainability Reporting Standards (ESRS) for reporting. Subsequently, a gap analysis is necessary to assess current compliance status against reporting requirements, highlighting areas where additional efforts are needed for CSRD compliance.

The CSRD framework requires limited assurance on information disclosed from the first year of reporting.

Effective dates for reporting and scoping thresholds:

#	Category	Criteria	Reporting timeline
1	**Large EU undertakings or large EU groups** with over 500 employees that are public interest entities who previously reporting on NFRD, and **Large non-EU undertakings or large non-EU groups** with over 500 employees that are listed on an EU regulated market.	Must exceed two of the following (either as a single entity or on a consolidated group basis): • Balance sheet total of **€20 million***; • Net turnover of **€40 million***; and/or • An average of **250 employees** during the financial year.	For financial years starting on or after **1 January 2024** i.e., reporting due from 2025
2	**All other large EU undertakings or large EU groups,** and **All other non-EU large undertakings or large groups** listed on an EU regulated market.	Must exceed two of the following (either as a single entity or on a consolidated group basis): • Balance sheet total of **€20 million**; • Net turnover of **€40 million**; and/or • An average of **250 employees** during the financial year.	For financial years starting on or after **1 January 2025** i.e., reporting due from 2026
3	**EU and non-EU small and medium-sized undertakings ("SMEs")** that are listed on an EU regulated market (and which are not micro-entities)	Small is defined as entities that do not exceed two of the following: • More than **€4 million** balance sheet total • More than **€8 million** net turnover, and • More than **50 employees** Medium is defined as entities that do not exceed two of the following: • More than **€20 million** balance sheet total • More than **€40 million** net turnover, and • More than **250 employees**.	For financial years starting on or after **1 January 2026** i.e., reporting due from 2027 (possible delay)
4	**Non-EU parent company not listed in an EU regulated market** with: (i) an EU large subsidiary or ii) an EU branch	Must meet the following criteria: • At the consolidated or individual level, the non-EU ultimate parent generates net turnover > **€150m in EU for last two years**; and • The non-EU ultimate parent has an EU subsidiary undertaking that is large, or small or medium-sized and listed on an EU regulated market; or • The non-EU ultimate parent has a branch in the EU generating net turnover > **€40M** in its previous financial year	For financial years starting on or after **1 January 2028** i.e., reporting due from 2029

** The European Commission proposed in Sep 2023 an increase of 25% for financial thresholds to account for inflation*

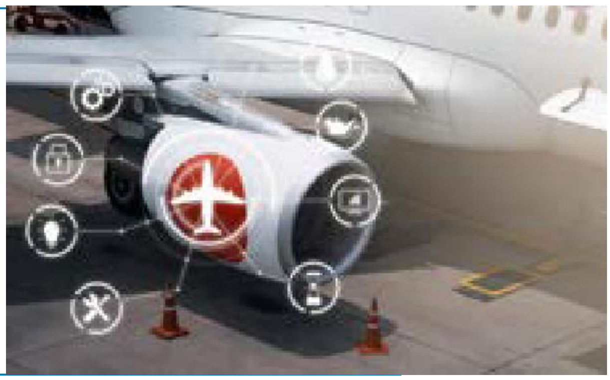
The aviation industry, including original equipment manufacturers (OEMs), airlines, and aircraft lessors, face significant challenges in interpreting and implementing these regulations, highlighting the need for further consultations and guidance which is underway across the industry. They key challenges are highlighted for the industry:

EU Taxonomy reporting

CSRD reporting mandates entities to disclose their economic activities aligned with the EU Taxonomy. Notably, the Delegated Regulation (EU) 2023/2485, published on November 21, 2023, amends the Climate Delegated Act, integrating aviation as a transitional activity within the EU Taxonomy Regulation effective January 1, 2024.

Interpretation of standards

After overcoming the scoping specifications and the double materiality assessment, there remain uncertainties regarding reporting on the requirements of the standards. Each organization must interpret and adapt the standards to its unique operations, as no two companies will operate alike. This increases the risk on various deviations and challenges in compliance among reporting leaders. Over time we would expect best practice and convergence on disclosure and approach to occur. Within the CSRD framework, Environmental standards (5 in total) are complemented by 4 Social standards and 1 Governance standard, ensuring a balanced approach to sustainability reporting.



Data collection

CSRD mandates undertakings to report on their entire value chain, encompassing both upstream and downstream operations. In the aviation industry, this entails complexities ranging from component manufacturers to passengers. Each component of the value chain must begin tracking their ESG data and be prepared to fulfil reporting obligations, whether they are lessors, airlines, or OEMs. A key consideration is ensuring the data meets the evidence threshold of those providing internal and external assurance.

Reputational risk

Non-compliance with CSRD reporting requirements could lead to fines, reputational damage, and legal action. Embracing CSRD offers a chance for the sector to demonstrate sustainability leadership, enhance stakeholder trust, and access financial markets. Prioritising adherence and accurate reporting can drive sustainability and accountability, advancing the industry's agenda globally. Every part of the value chain, whether lessors, airlines, or OEMs, must track their ESG data and be ready to meet reporting requirements. While the aviation industry faces challenges in reducing CO_2 emissions, it's vital to acknowledge advancements in addressing the Social and Governance aspects of ESG.

Conclusion

Based on our market insights, we are clear that the aviation industry should focus on these key steps to initiate CSRD reporting:

- **Define scope: Identify entities to be included and decide whether group companies will report CSRD on a consolidated basis in the EU or outside.**
- **Conduct a gap analysis: Complete detailed gap analysis against ESRS reporting standards and develop a prioritized CSRD disclosure roadmap.**
- **Establish a project plan: Leveraging output from gap analysis develop a project plan to engage with affected departments to create a structured plan and timelines.**
- **Involve the Board of Directors: Ensure their participation in the CSRD implementation process and bringing them up to speed with progress.**
- **Early engagement with internal and external auditors: Avoid surprises by involving internal and external auditors as soon as possible.**

Our team

At Deloitte we offer a wide range of services which would enable, assist and accelerate clients on their ESG reporting journey. If you have any further questions, please feel free to reach out to our team of experts.

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