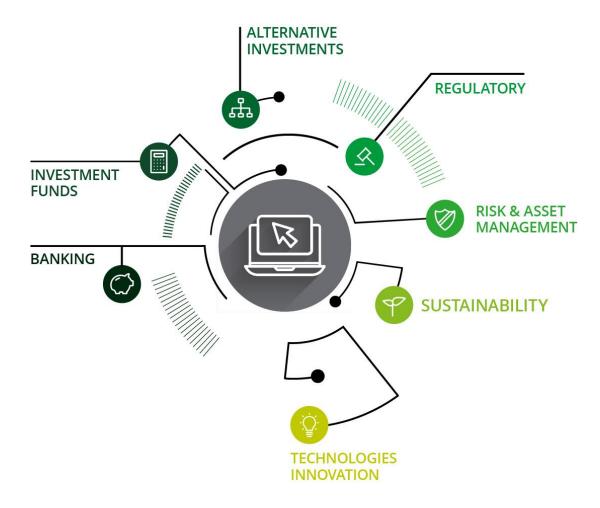
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Sustainability | Evolution in the Non-Financial Disclosure: state of play and the assurance approach

Getting Started

Here with you today



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Agenda

- 1 Refresher on CSRD and ESRS: what are the key elements?
- How is the CSRD being transposed in Luxembourg?
- 3 What should our audience keep in mind for CSRD assurance requirements?
- 4) CSRD... How would members in our audience be affected by the directive?

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- At what stage should companies be to be on track for CSRD reporting?
- 6 Any other attention points on CSRD to be kept in mind?

1. Refresher on CSRD and ESRS: what are the key elements?

The Corporate Sustainability Reporting Directive (CSRD)

Overview of the Directive

INTRODUCTION

MAIN OBJECTIVES

SCOPE

TIMELINE

CSRD entered into force

Transposition of the CSRD in the Luxembourg legal framework

By 06 July 2024

Starting from 2025

First report for 2024 FY by companies already reporting under NFRD

Starting from 2026

First reports for 2025 FY by large undertakings

By 30 June 2026

Adoption of the second package of ESRS with sector-specific standards

Starting from 2027

First reports for 2026 FY by listed **SMEs**

Starting from 2029

First reports for

• The CSRD entered into force on 5th January 2023 aims to modernise and strengthen the obligations concerning ESG information that companies need to report on

- The new directive builds on the scope of the Non-Financial Reporting Directive (NFRD) and replaces it. The CSRD is also vastly influenced by the structure of the Global Reporting Initiative (GRI) Standards
- Companies subject to the CSRD must report on material ESG topics in accordance with the European Sustainability Reporting Standards (ESRS)
- The CSRD main objective to provide a uniform standardized format for companies to report, based on the **Double Materiality** concept which considers:
 - o The impacts that environmental, social and governance issues have on the companies' business activities and financials (outside-in perspective)
 - o The impacts that the business activities of the reporting company have on the external world (inside-out perspective)
- The Directives mandates companies to report sustainability information in a machine-readable format (XHTML) to ensure data accessibility and comparability
- Lastly, the CSRD introduces the requirement of compulsory audit of sustainability information, initially with limited third-party assurance, with the intention to transition to reasonable assurance in the long run

The CSRD applies to private and public European companies and non-EU companies that maintain operations within the EU. Whether a company is in the scope of the CSRD depends on certain thresholds:

Listed and large public interest companies

Listed and large public interest companies already subject to the NFRD:

- +500 employees
- €50M net turnover
- €25M balance sheet

Large undertakings

EU-based companies exceeding two of the following three criteria on two consecutive balance sheet dates:

- +250 employees
- €50M net turnover
- €25M balance sheet

EU-based small and medium-sized companies (SMEs) which are listed and meet two of the following three criteria:

Listed SMEs

- >10 but <250 employees
- >€900k but <€50M net turnover
- >€450k but <€25M balance sheet

Non-EU entities

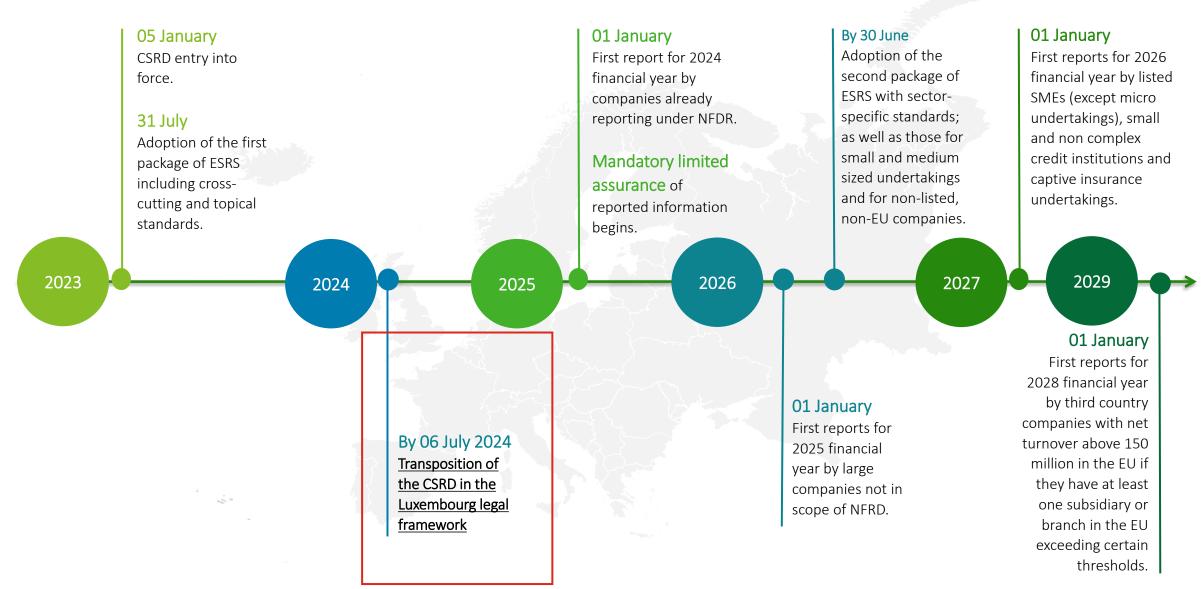
Non-EU companies or groups that generate >€150M turnover in the EU in each of the last two years with either:

- a listed EU-subsidiary or an EU-subsidiary considered as a "large undertaking"
- an EU subsidiary/branch with a net turnover exceeding €40M.

05 Jan. 2023

2028 FY by Non-EU entities

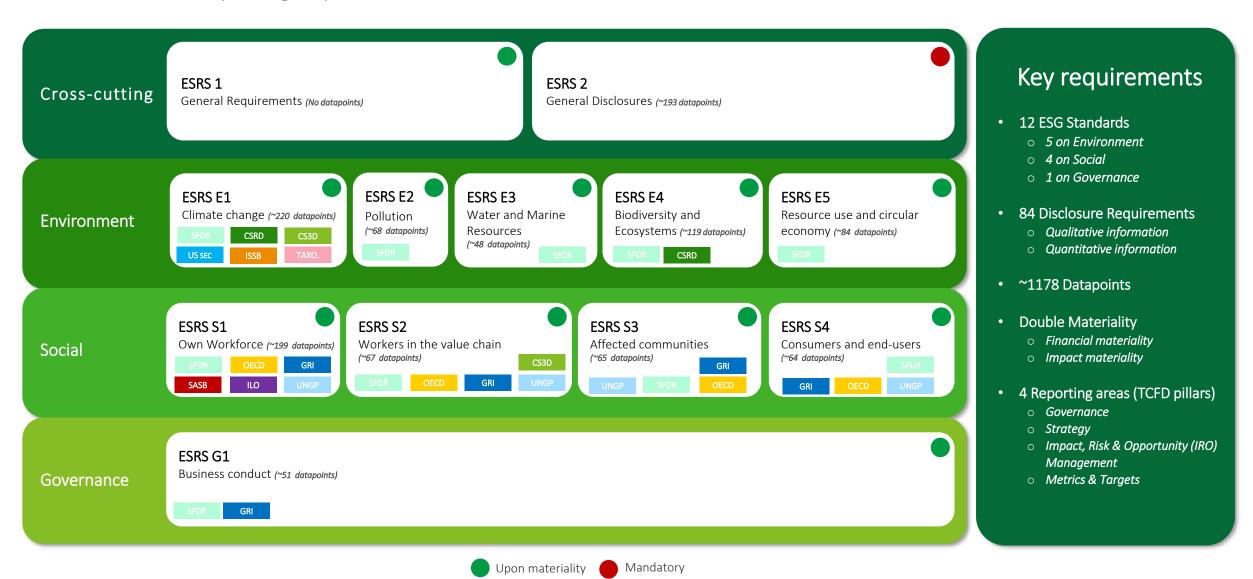
Timeline for the CSRD / ESRS Implementation, with transposition of CSRD into Luxembourg national law Status and critical elements



^{*}Listed SMEs may decide to opt out of the reporting requirements for a further two years. The last possible date for a listed SME to start reporting is financial year 2028, with first sustainability statement published in 2029.

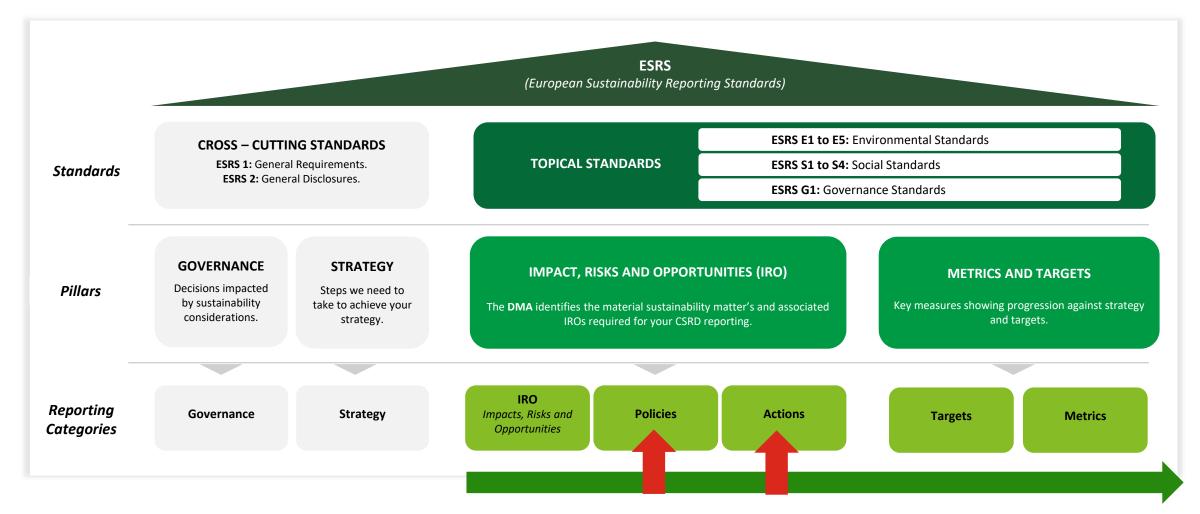
The European Sustainability Reporting Standards (ESRS)

Overview of the reporting requirements



The European Sustainability Reporting Standards (ESRS)

Metrics: qualitative (claims) and quantitative (data) —can be reported only if policies, actions and targets are adequately in place. This depends on the "IRO"s which are to be determined in materiality process.



2. How is the CSRD being transposed in Luxembourg?

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Public

Transposition of CSRD into Luxembourg national law: Status

Currently, the Directive is undergoing transposition into Luxembourg Law, expected for 6th July 2024, with oversight from the Commission de Surveillance du Secteur Financier (CSSF).

Transposition is closely aligned to the directive. **Few attention points** exist on the transposition, such as:

- The statutory auditor in charge of limited assurance on sustainability information should be a statutory auditor, such as the same one as for the company or group's financial statements.
- Luxembourg <u>does not</u> exercise the option allowing independent service providers to carry out the limited assurance mission on the (consolidated) sustainability information.

- Luxembourg transposition aiming to allow undertakings to exclude certain highly commercially sensitive information from the sustainability reporting under certain circumstances
- In Luxembourg, the annual accounts are filed with the RCS either in PDF or in XML format (for part of the accounting package).
- The submission of the (consolidated) management report and its (consolidated) sustainability information will require <u>adaptation of the RCS filing platform to</u> receive a new format of data.

Enhancing CSSF competence and responsibilities

 Modification of the Law concerning the audit profession, to include the assurance of sustainability information and thus <u>extend the mission of the CSSF</u> <u>to implement a system on quality assurance for</u> <u>sustainability information.</u>

- When the recommendations of the CSSF <u>have not been implemented</u>, or when the quality examination carried out by the CSSF <u>reveals breaches of legal and regulatory requirements</u> relating to the assurance of sustainability information.
- The <u>CSSF can</u>, depending on the aim pursued and the seriousness of the breach, <u>impose</u> <u>preventive measures falling and/or sanctions or other administrative measures.</u>
- CSSF may pronounce, alternatively or cumulatively, preventive measures. These will always be followed by a <u>case-by-case assessment considering the principle of proportionality</u>.

3. What should our audience keep in mind for CSRD assurance requirements?

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What are the CSRD Assurance requirements?

Scope of the assurance engagement

What are the CSRD assurance requirements?

CSRD amends Article 34, paragraph 1, of Directive 2013/34/EU. This includes a new requirement as follows: "where applicable, express an opinion based on a limited assurance engagement as regards the compliance of this Directive, including the compliance of the sustainability reporting with the...

Double Materiality Assessment

...the process carried out by the undertaking to identify the information reported pursuant to those sustainability reporting standards...

Metrics & disclosures

...sustainability reporting standards adopted pursuant to Article 29b or Article 29c...

EU Taxonomy

...and as regards the compliance with the reporting requirements provided for in Article 8 of Regulation (EU) 2020/852;"

Digital tagging

...and the **compliance to mark up** sustainability
reporting in accordance
with Article 29d,...



What are the main differences between limited assurance and reasonable assurance?

Overview of differences

content

LEVEL C	LIMITED ASSURANCE (REVIEW)	REASONABLE ASSURANCE
Description	An attestation engagement in which the practitioner obtains limited assurance by obtaining sufficient appropriate review evidence about the measurement or evaluation of subject matter against suitable and available criteria in order to express a conclusion about whether any material modifications should be made to the subject matter, in order for it to be in accordance with the criteria, or to management's assertion, in order for it to be fairly stated. Similar level of assurance to a quarterly interim review of financial statements.	An attestation engagement in which the practitioner obtains reasonable assurance by obtaining sufficient appropriate evidence about the measurement or evaluation of subject matter against suitable and available criteria in order to be able to draw reasonable conclusions on which to base the practitioner's opinion about whether the subject matter is in accordance with the criteria in all material respects or management's assertion is fairly stated in all material respects. Reasonable assurance is a high but not an absolute level of assurance. Similar level of assurance to a financial statement audit.
Evidence gathering procedures	The nature and extent of procedures performed is substantially less than in an examination. The nature, timing, and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner's professional judgment, meaningful. Combination of assurance procedures, which can include any that would be performed for a reasonable assurance engagement.	The extent of procedures performed is substantially greater compared to a review . The practitioner chooses a combination of assurance procedures which can include: inspection, observation, confirmation, recalculation, reperformance, analytical procedures, and inquiry to obtain sufficient appropriate evidence by designing and implementing appropriate responses to assessed risks.
Controls	Obtain an understanding of the control environment relevant to the subject matter. Communicate control deficiencies identified.	Obtain an understanding of the control environment relevant to the subject matter, including understanding the entity's risk assessment process and the control activities relevant to the engagement and monitoring of controls. Evaluate design and implementation of relevant controls. Communicate control deficiencies identified.
Report	A conclusion about whether, based on the review, the practitioner is aware of any material modifications that should be made to the subject matter, in order for it to be in accordance with the criteria, or to management's assertion, in order for it to be fairly stated.	An opinion about whether the subject matter is in accordance with the criteria, in all material respects, or management's assertion is fairly stated, in all material respects.

What is the timing of the CSRD assurance requirements?

Timing and standards

- Limited assurance required starting in 2024 for all sustainability reporting prepared per the CSRD and will cover:
 - o Compliance of sustainability reporting including EU Taxonomy reporting;
 - o Review of process of identifying information to be published; and
 - o Review of digitized/tagged information.
- Reasonable assurance will potentially be required by 1 October 2028
- EC must develop standards for:
 - o Limited assurance by 2026
 - o Reasonable assurance by 2028
- International Auditing and Assurance Standards Board is developing a new International Standard for Sustainability Assurance (ISSA) 5000
 - o Final standard expected by end of 2024
- ISAE 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information
- ISAE 3410, Assurance Engagements on Greenhouse Gas Statements



What are some of the relevant phases of CSRD assurance activities?

Phases of the assurance engagement

Readiness Activities

Double Materiality Review

Gap Assessment and Assurance Readiness

Pre-engagement

- Acceptance and continuance procedures
- Independence and ethical requirement
- Competence and expertise of Assurance team

Planning

- Process understanding
- Materiality determination
- Fraud consideration
- Pre-Analytical review
- Risk assessment
- Assurance plan
- Process review & Internal controls

Perform

- Analytical review
- Substantive procedures including test of details
- Procedures with expert

Evaluate

- Formal communication of identified errors and control deficiencies
- Assessment of impact of uncorrected misstatements (if any)

Conclude & report

- Subsequent event review
- Written representation
- Engagement quality control review
- Report issuance

To be aligned

Ongoing and transparent communication with Management and Audit Committee



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4. CSRD... How would members in our audience be affected by the directive?

Driving ESG Reporting: roles and responsibilities across the organization

The need of an evolving role for the Board in ESG oversight

Illustrative structure of ESG integration. **Board of Directors** Other Remuneration Nomination **Risk Committee** Audit Committee Committee Committee Committees CEO **Executive Management** CFO | CAO | COO | CHRO | CRO | CIO | CSO | General Counsel Sustainability Advisory councils **ERM** (e.g., ESG or Risk) or ESG Management / Risk Owners

Examples of ESG responsibilities

- a. **The Board** is responsible for overseeing ESG-related risk ownership as well as ensuring there is a program in place to identify, assess, manage and monitor ESG-related risks (and opportunities) effectively.
- c. The Audit Committee assists the Board in fulfilling its corporate governance and over-seeing responsibilities in relation to an entity's financial reporting, internal control and risk management, including ESG reporting.
- e. The **CEO** and **Executive Management** will have the responsibility to put in place the organisation, processes and technology allowing the company to achieve its targets in line with its strategy. Internal controls, policies and procedures together with training and systems will support management.
- g. The **sustainability director** provides support in coordinating ESG-related activities. This includes monitoring megatrends as well as identifying, assessing and monitoring risks.
- i. Although management collectively 'owns' the entity risks, a 'risk owner' can be the point person with accountability for ensuring specific risks are appropriately managed.

- b. The Risk Committee establishes the direct oversight of enterprise risk management. The focus of the risk committee is entity-wide in non-financial areas that go beyond the authority of the audit committee.
- d. Some companies have **additional Board Committees**, such as a sustainability committee, separate from the risk committee and the audit committee, cross-functional representatives to identify, monitor and review ESG-related risks (including also ESG metrics and targets in executive remuneration).
- f. The **ERM function** is responsible for coordinating and consolidating ERM activities and lead the process for managing enterprise-wide risks in an integrated, systematic manner.
- h. Cross-functional or multi-stakeholder advisory councils (either internal or external) can provide perspective on particular aspects of ESG issues or other risks.

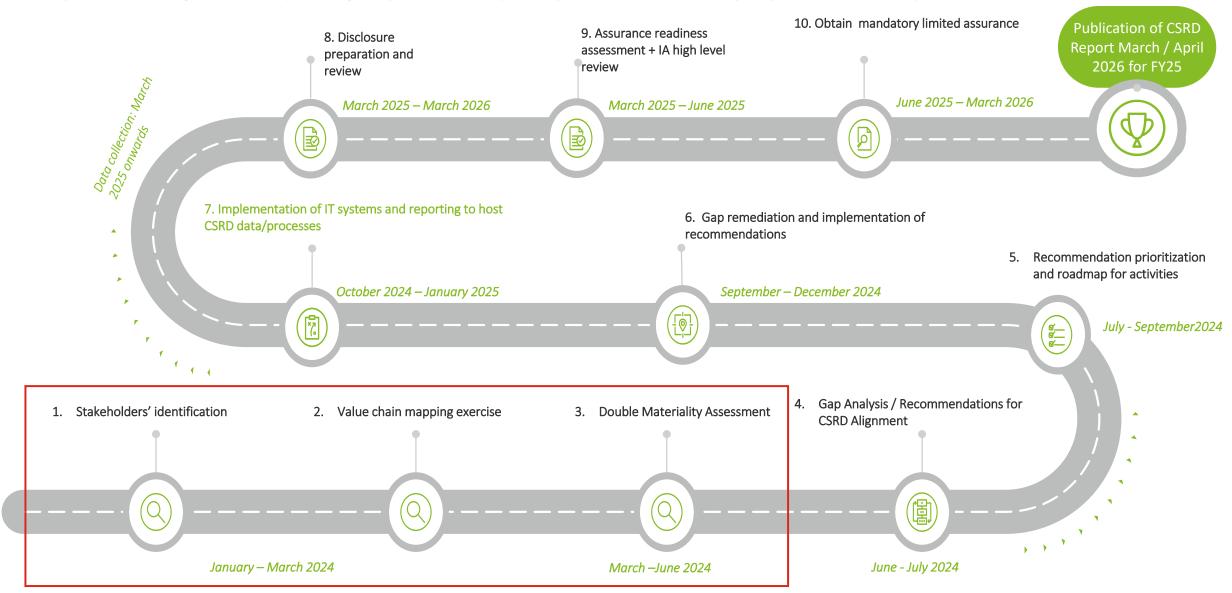
5. At what stage should companies be to be on track for CSRD reporting?

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The path to compliance: practical step-by-step example

Stages to be focussed on right now

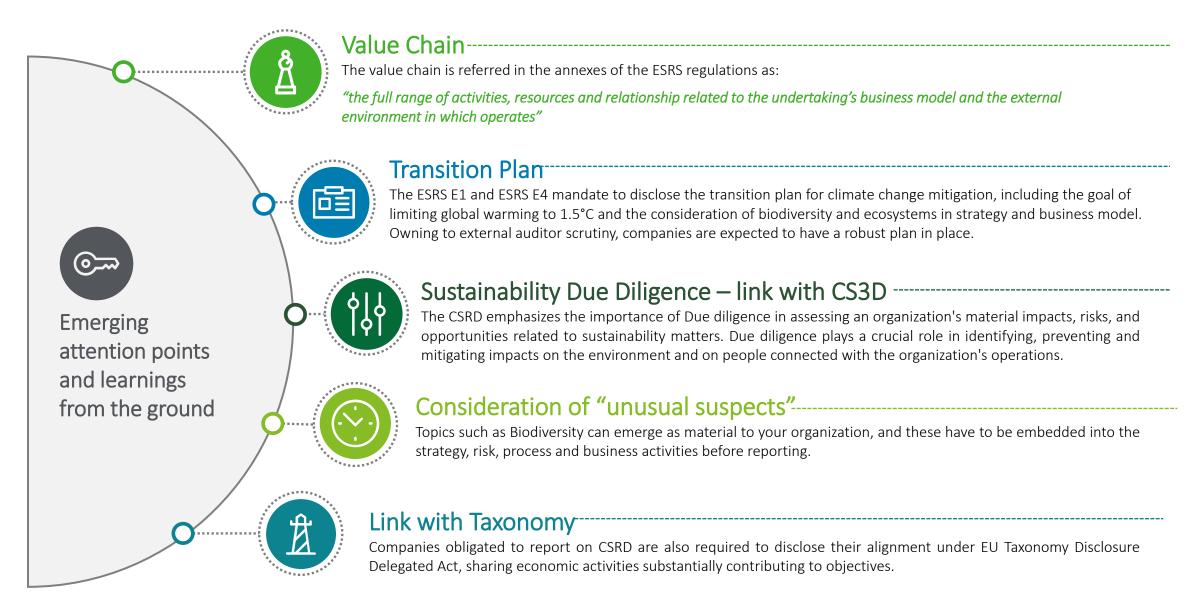
How you can navigate the reporting requirements (example with mandatory report as of FY25)



6. Any other attention points on CSRD to be kept in mind?

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CSRD: Emerging attention points and learnings from on ground experiences



Next Link'n Learn webinar

Date: 12/06/2024

Topic: Technology & Innovation | Generative AI: Application to FSI



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