

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

Link'n Learn 2024 – 5 June 2024

# Getting Started

## Here with you today

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## Agenda

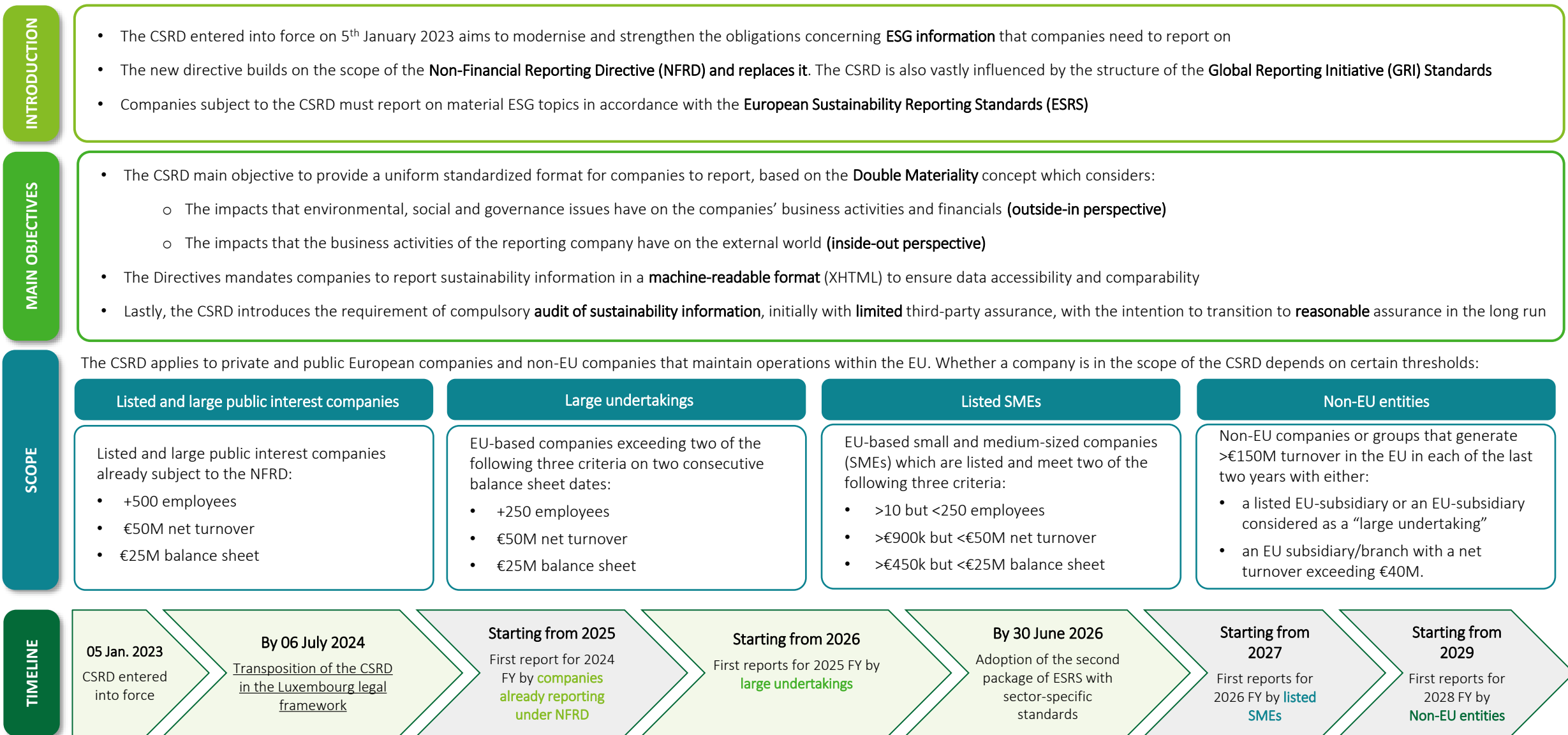
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- 1 Refresher on CSRD and ESRS: what are the key elements?
- 2 How is the CSRD being transposed in Luxembourg?
- 3 What should our audience keep in mind for CSRD assurance requirements?
- 4 CSRD... How would members in our audience be affected by the directive?
- 5 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?

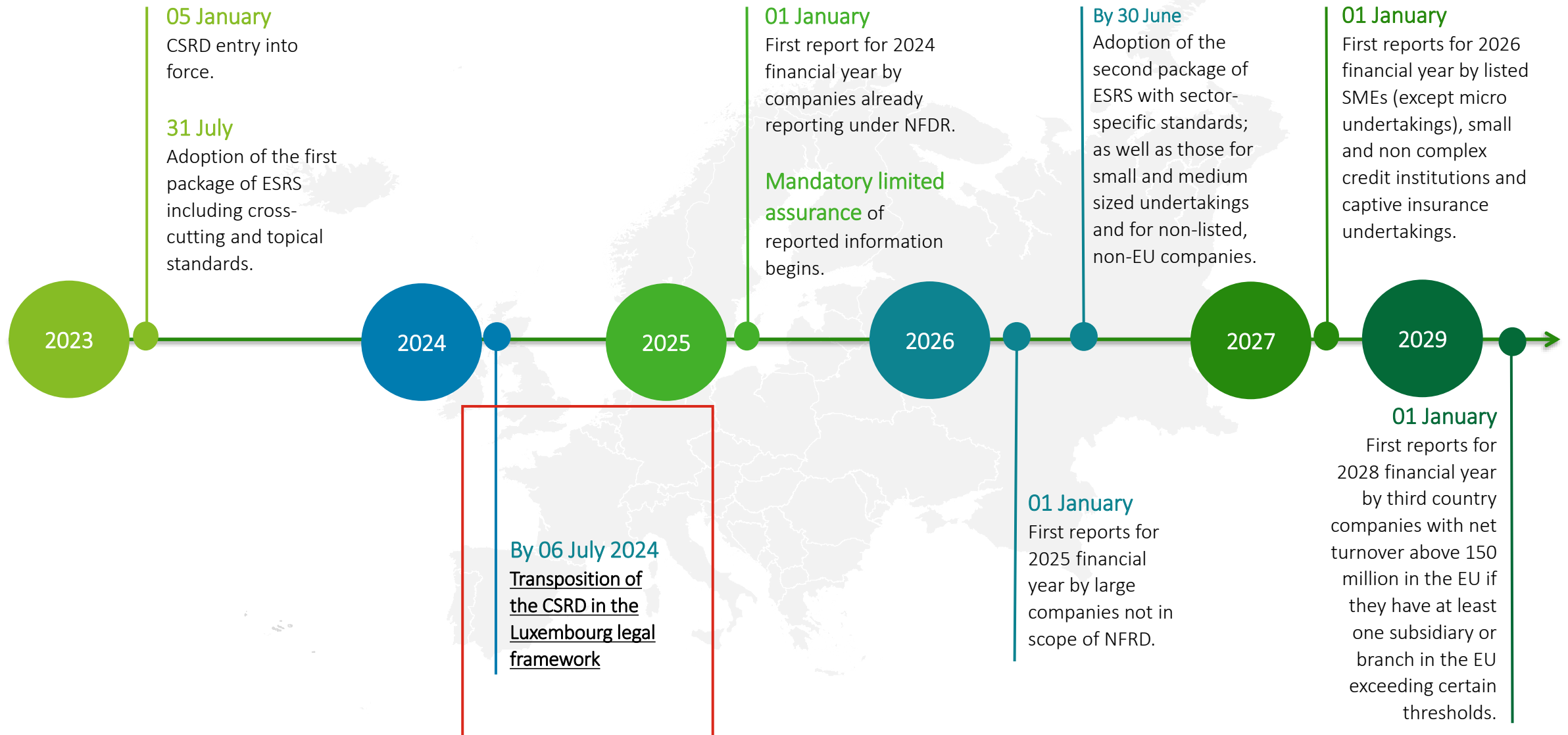
# The Corporate Sustainability Reporting Directive (CSRD)

## Overview of the Directive



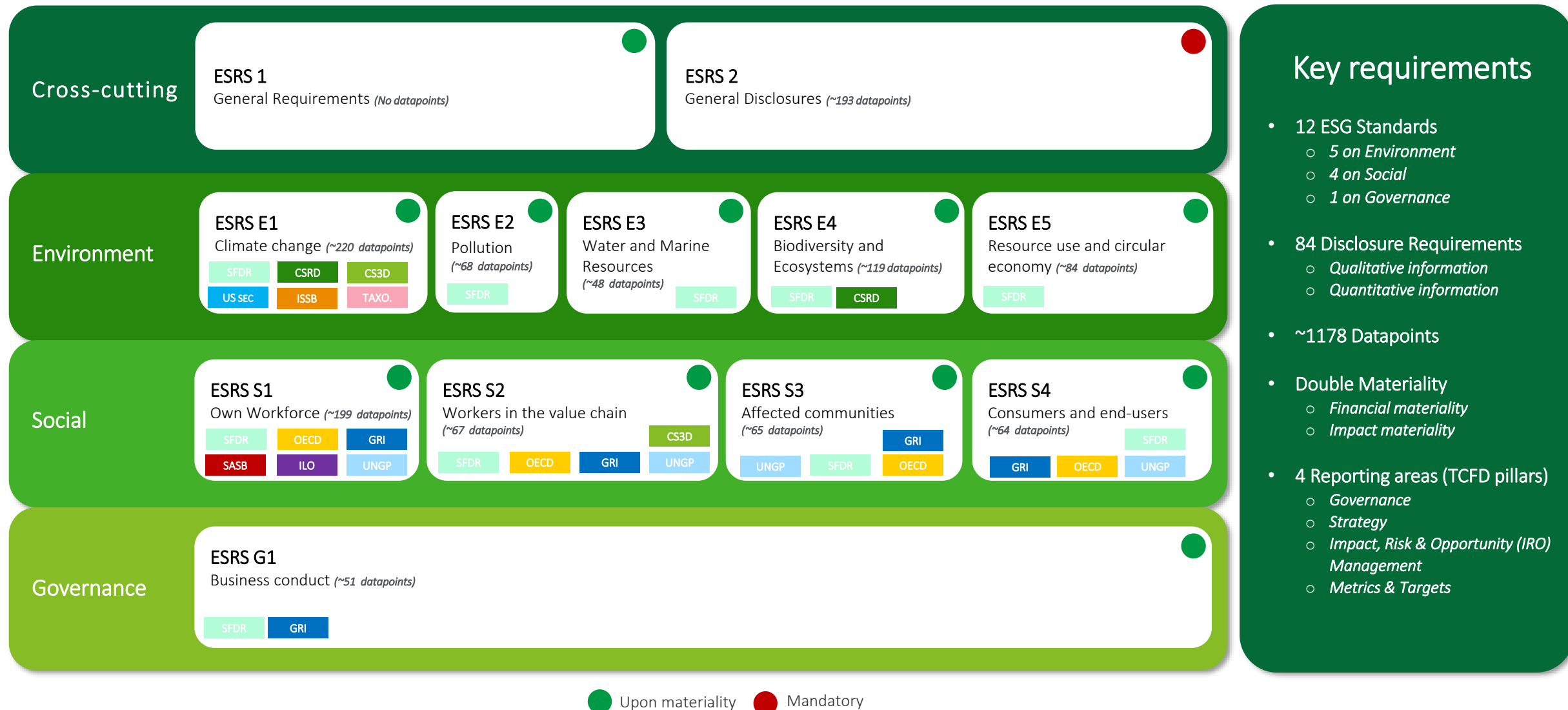
# Timeline for the CSRD / ESRS Implementation, with transposition of CSRD into Luxembourg national law

## Status and critical elements



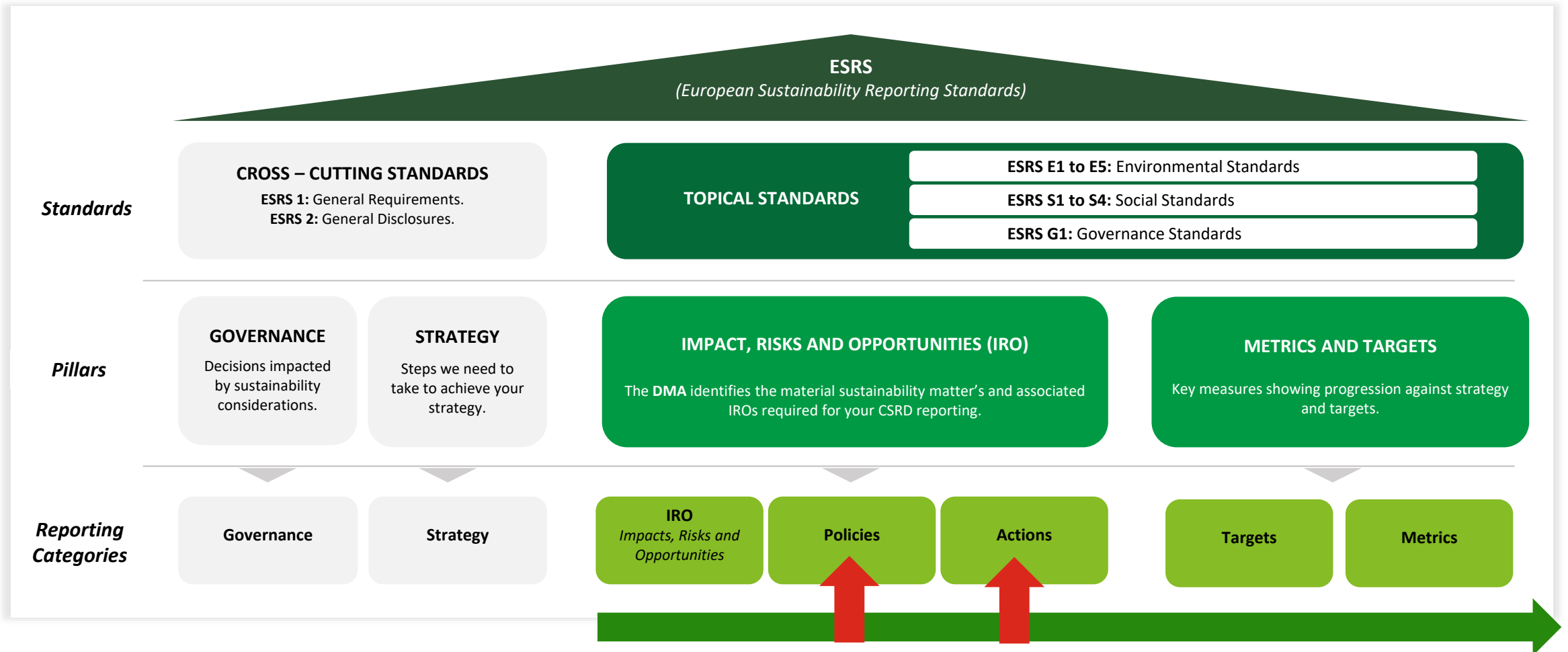
# The European Sustainability Reporting Standards (ESRS)

## 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?



# 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 does not 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 adaptation of the RCS filing platform to 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 extend the mission of the CSSF to implement a system on quality assurance for sustainability information.

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

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

# 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?

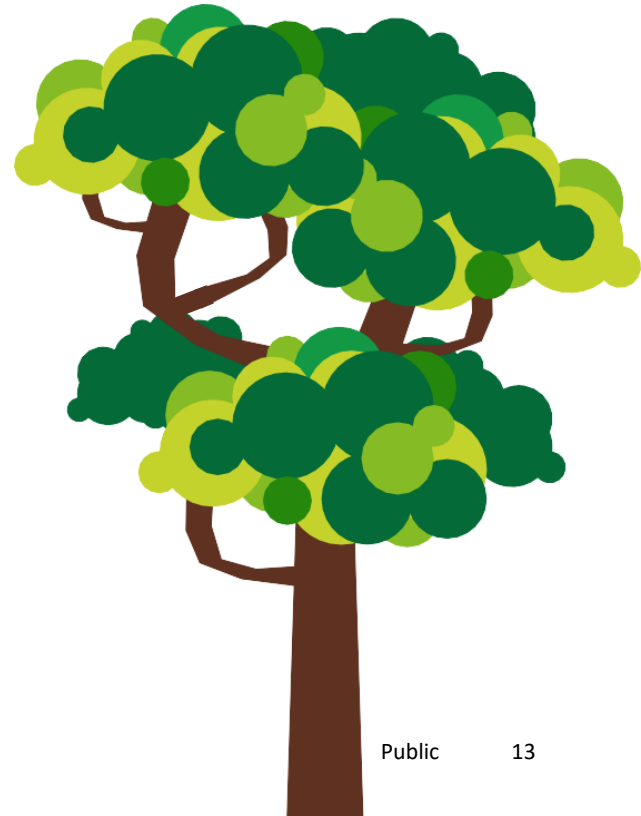
## Overview of differences

LEVEL	LIMITED ASSURANCE (REVIEW)	REASONABLE ASSURANCE
 Description	<p>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.</p> <p><b>Similar</b> level of assurance to a <b>quarterly interim review</b> of financial statements.</p>	<p>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.</p> <p><b>Reasonable assurance</b> is a high but not an <b>absolute level of assurance</b>.</p> <p><b>Similar</b> level of assurance to a <b>financial statement audit</b>.</p>
 Evidence gathering procedures	<p>The <b>nature and extent of procedures</b> performed is <b>substantially less than in an examination</b>.</p> <p>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.</p> <p>Combination of assurance procedures, which can include any that would be performed for a reasonable assurance engagement.</p>	<p>The <b>extent of procedures</b> performed is <b>substantially greater compared to a review</b>.</p> <p>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.</p>
 Controls	<p>Obtain an understanding of the control environment relevant to the subject matter.</p> <p>Communicate control deficiencies identified.</p>	<p>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.</p> <p>Evaluate design and implementation of relevant controls.</p> <p>Communicate control deficiencies identified.</p>
 Report content	<p>A <b>conclusion</b> about whether, based on the review, <b>the practitioner is aware of any material modifications that should be made to the subject matter</b>, in order for it to be <b>in accordance with the criteria</b>, or to management's assertion, in order for it to be fairly stated.</p>	<p>An <b>opinion</b> about whether the <b>subject matter is in accordance with the criteria</b>, in all material respects, or management's assertion is fairly stated, in all material respects.</p>

# What is the timing of the CSRD assurance requirements?

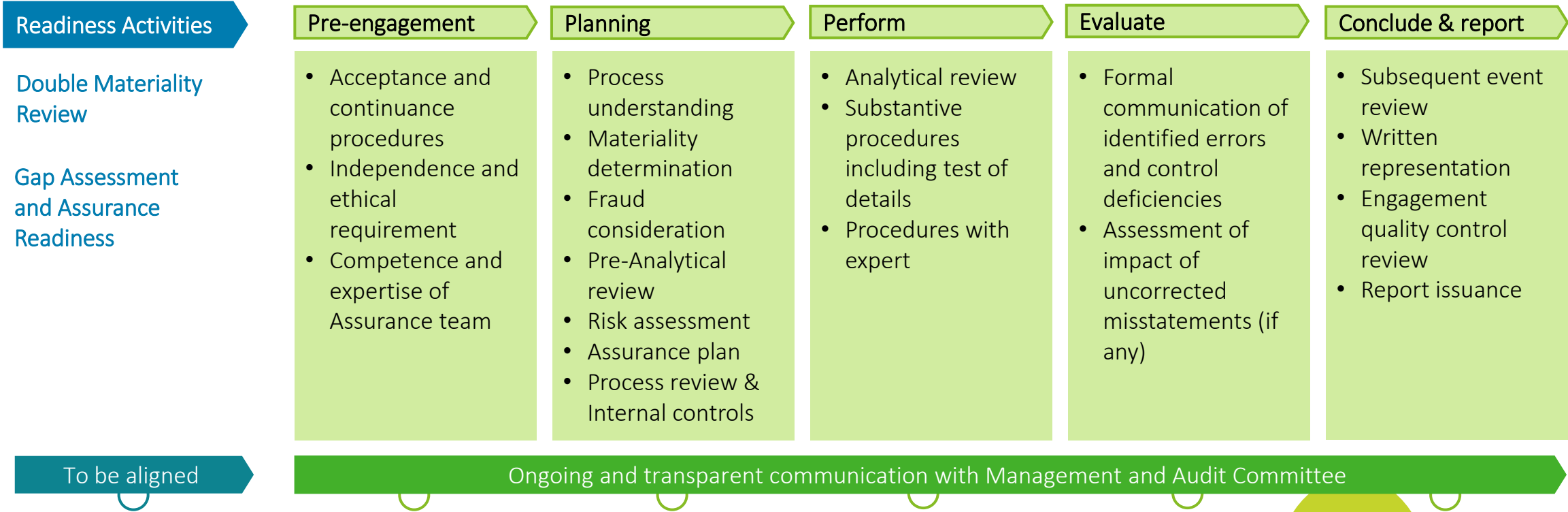
## Timing and standards

- **Limited assurance required starting in 2024** for all sustainability reporting prepared per the CSRD and will cover:
  - Compliance of sustainability reporting including EU Taxonomy reporting;
  - Review of process of identifying information to be published; and
  - Review of digitized/tagged information.
- **Reasonable assurance** will potentially be required by **1 October 2028**
- EC must develop standards for:
  - Limited assurance by 2026
  - Reasonable assurance by 2028
- International Auditing and Assurance Standards Board is developing a new International Standard for Sustainability Assurance (ISSA) 5000
  - 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

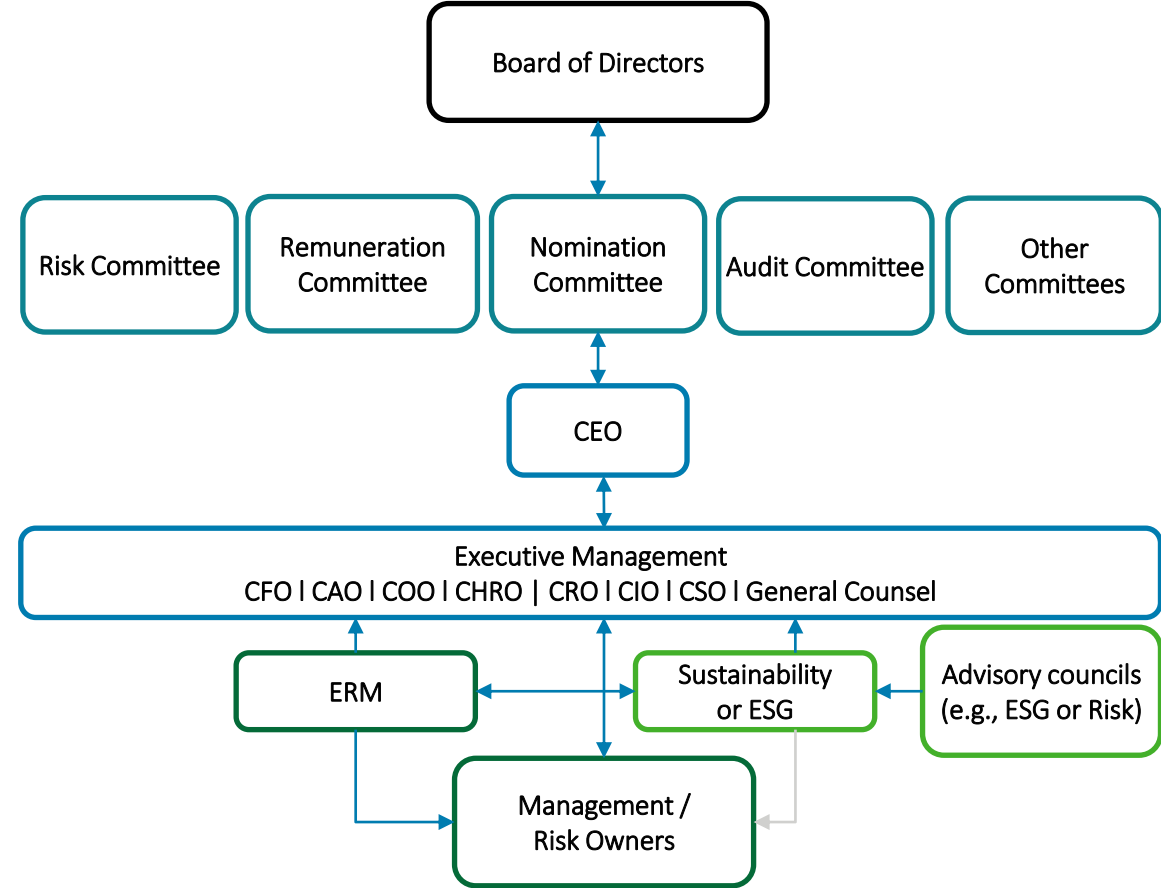


## 4. CSRD... How would members in our audience be affected by the directive?

# 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.



### 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.
- 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.
- 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.
- 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).
- 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.
- 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.
- g. The **sustainability director** provides support in coordinating ESG-related activities. This includes monitoring megatrends as well as identifying, assessing and monitoring risks.
- h. **Cross-functional or multi-stakeholder advisory councils** (either internal or external) can provide perspective on particular aspects of ESG issues or other 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.

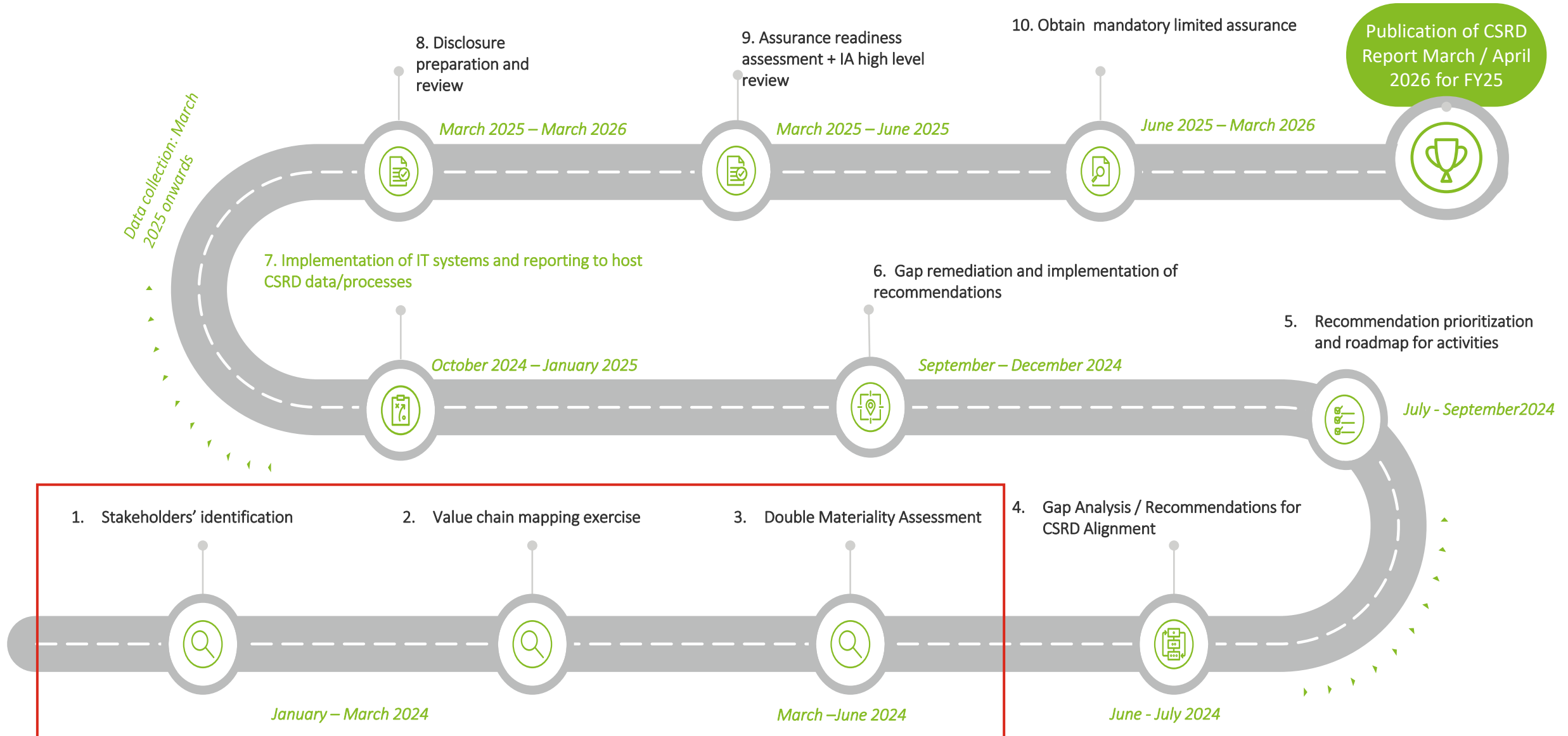


## 5. At what stage should companies be to be on track for CSRD reporting?

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

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

Stages to be focussed on right now



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

# 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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