



EUROPEAN SUSTAINABILITY REPORTING STANDARDS

FACTSHEET #2
DECEMBER 2022



UPDATE FROM THE REGULATOR

EFRAG NEWS

On November 22, EFRAG submitted the first set of draft ESRS to the European Commission in its role as technical adviser to the European Commission

The European Commission will now consult EU bodies and Member States on the draft standards, before adopting the final standards as delegated acts in June 2023, followed by a scrutiny period by the European Parliament and Council.

CSRD NEWS

On November 28, the Council approved the Corporate Sustainability Reporting Directive (CSRD), it will be published in the Official Journal of the EU and come into force 20 days after its publication (before the end of 2022).

UPDATE FROM THE REGULATOR: ESRS

THE REQUIRED KPIS IN
THE AREAS OF
ENVIRONMENT, SOCIAL
AFFAIRS AND
CORPORATE
GOVERNANCE ARE
DEFINED IN THE
EUROPEAN
SUSTAINABILITY
REPORTING STANDARDS
(ESRS)

THIS SET OF 12 DRAFT ESRS IS COMPOSED OF:

Cross-cutting standards:

- o Draft ESRS 1 General requirements
- o Draft ESRS 2 General disclosures

Topical standards:

o **Environment:**

- Draft ESRS E1 Climate change
- Draft ESRS E2 Pollution
- Draft ESRS E3 Water and marine resources
- Draft ESRS E4 Biodiversity and ecosystems
- Draft ESRS E5 Resources and circular economy

o **Social:**

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

o **Governance:**

- Draft ESRS G1 Business conduct



UPDATE FROM THE REGULATOR: ASSURANCE REQUIREMENTS IN CSRD

- The NFRD currently only requires a statutory auditor or audit firm to assess the inclusion of the non-financial statement in a management report, but some member states have imposed an auditing requirement on the content of the reports, such as Italy, Spain and France
- The new requirements (CSRD) include **limited assurance (first) by an accredited independent auditor or certifier**. The independent auditor or certifier must ensure that the sustainability information comply with ESRS
The aim is to move towards reasonable assurance in the short term.
Member States may open the market for sustainability assurance services to independent assurance services providers.

Member states will set out requirements ensuring the quality of the assurance carried out by independent assurance services providers. They will set out requirements for training and examination, continuing education, quality assurance systems, and other requirements.

- **Member states will apply national assurance standards and procedures if the Commission has not adopted an assurance standard covering the same subject matter.**(planned for October 2026 for the “limited assurance”)

IA must play a pivot role in the organisations, enabling the review by the independent assurance services providers.





IMPACT FOR BUSINESSES

Strategy &
Goals

Purpose &
communi-
cation

Risk
Management

Governance

Operations &
Value chain

Reporting
&
Disclosures

IMPACT FOR GOOD CORPORATE GOVERNANCE

- **New responsibilities for Boards to oversight the sustainability reporting**
Some input in ECIIA-ecoDa-Ferma guidance
The CSRD lets flexibility regarding the Committee in charge of sustainability reporting oversight:
Audit Committee or
- **Need for clear governance model in the organisation and clear accountabilities.**
NB: Sustainability reporting needs to go from CSO to CFO responsibilities
- **Need to integrate sustainability in the strategy**
- **Need for adequate risk analysis and collaboration between all parties involved in the different lines and externally**



INTERNAL AUDIT CAN BE A CHANGE AGENT

STEP 1

Sustainability maturity assessment

- where could the greatest risks arise?
- where are the greatest areas for action?
- where the company stands (ref to matrix of ecoDa-Ferma- ECIIA paper)?

STEP 2

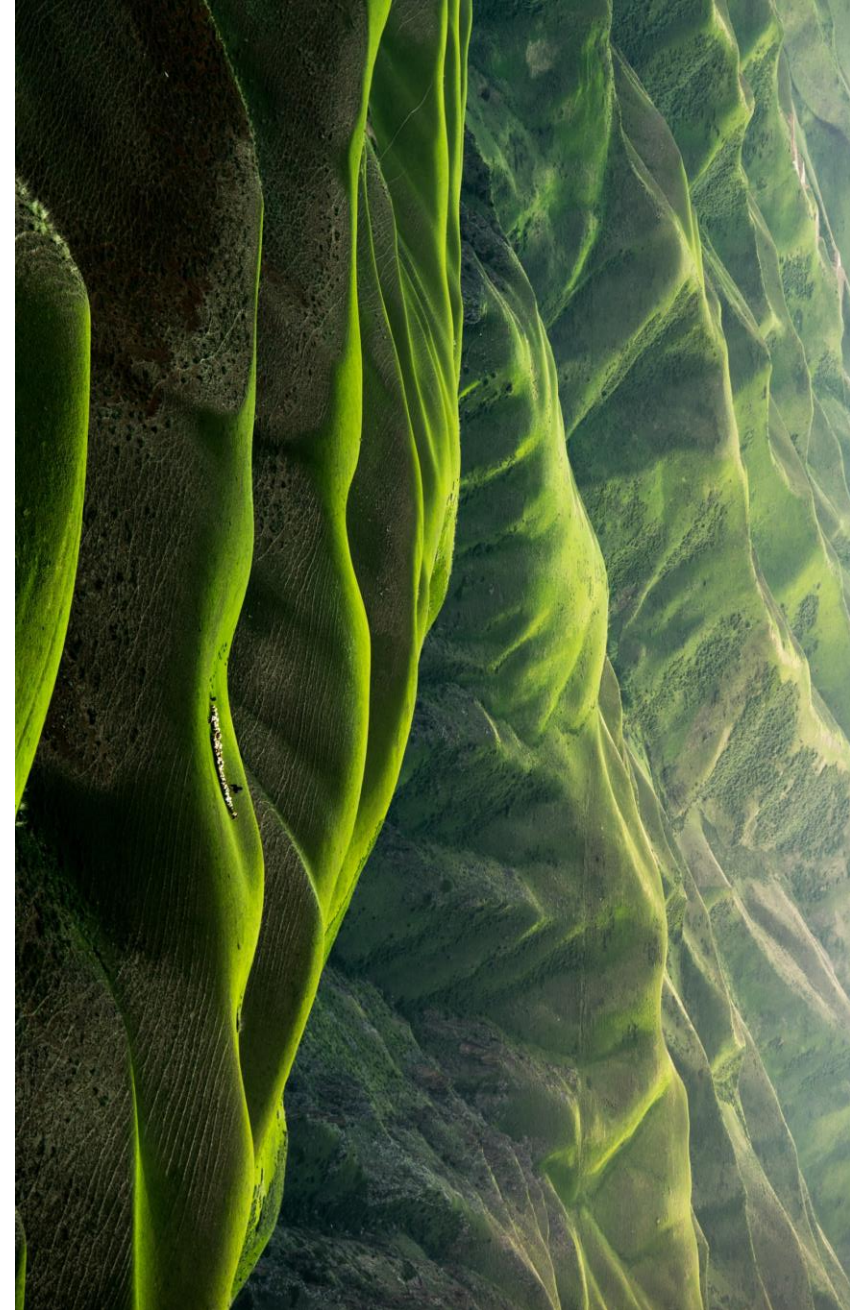
Sustainability regulatory context

- follow up on regulatory developments and requirements and anticipate what is coming

STEP 3

The change path

- what is important for the organisation?
- what needs to be done with regard to the functionality of governance, control and risk management mechanisms?





INTERNAL AUDIT CAN PLAY AN ADVISORY ROLE

IA can play an advisory role to support the organisation imbedding ESG requirements

IA can give wake up calls for Boards/Committees and organisation on the new sustainability regulatory framework: training, share best practices

Assist in the “change” management: be at the discussion table for the implementation of ESG in the organization:

- ESG risks and opportunities
- ESG stakeholders
- ESG impact
- ESG goals
- ESG governance
- ESG strategy
- ESG processes and controls
- ESG reporting
- Value chain definition
- Double materiality computation

INTERNAL AUDIT CAN GIVE ASSURANCE

IA needs to examine the design and functionality of both the company's sustainability risk management and internal control systems

IA can validate ESG goals (benchmarking), the strategy and the translation into KPIS, scenarios (forward looking)

IA gives insight on ESG implementation and embedding in the daily operations for the whole value chain

IA can validate the reliance, accuracy, completeness, comparability, timeliness of ESG disclosures, taking into consideration the double materiality and value chain concepts

IA can assess the change in culture, behaviours, governance, strategy, performance to imbed sustainability goals



NEXT STEPS

FACTSHEET #3: ESRS in a nutshell: January 2023

FACTSHEET #4: Videos: credentials by sector in 2023

Monthly FACTSHEET in 2023

- To update on the regulation discussions evolution
- To share vision of stakeholders
- To share ECIIA actions on this topic

Webinars in 2023 to present the new release of ESRS



WWW.ECIIA.EU