



European Confederation of
Institutes of
Internal Auditing

EU Update March 2024

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1. Corporate Sustainability Due Diligence - Provisional Deal (March 2024)

Points of agreement

- **Article 15:** obligation of means to adopt and put into effect, through best efforts, a transition plan for climate change mitigation.
- **Article 6,7,8 :** full harmonization around due diligence (value chain transparency, liability, mitigation of risks)-risk based now
- **Scope:** -Large EU companies w/ > 1000 employees a+ turnover > €450 million / High risk sector EU companies > 250 employees / Non-EU companies > €150 million net turnover generated in the EU (three years from the entry into force of the directive)
- **Sanctions:** flexible by country with a max of 5% of turnover
- **Access to justice:** limitation period of 5 years to bring a case.
- Financial sector excluded but new assessment in 2 years

High political discussion in 2024 and the new proposal reduced scope (-70%: only 5.400 companies concerned) and impact

Content impacting JA: Identify, prevent, mitigate, and minimise actual or potential adverse human rights and environmental impacts (quantitative and qualitative information).

It includes the verification by an independent third party, if necessary

- Establish and maintain a complaints procedure
- Carry out periodic assessments(at least every 12 months) of their own operations and measures, those of their subsidiaries
- Adopt a plan to be compatible with the Paris agreements on climate (business model, strategy)



1. Corporate Sustainability Due Diligence - Provisional Deal (December 2023)

European Commission	European Parliament	Council	Stakeholders' Opinion/Papers
14 September 2022: the Commission put forward a <u>legislative proposal</u> in the form of a regulation that prohibits all products made with forced labour on the EU market.	25 April 2023: JURI Committee adopted its report on the proposal 1 June 2023 : the Parliament had a plenary <u>vote</u> about the JURI report, and adopted amendments to the Commission proposals - September - December 2023: plenary votes and trilogues 14 December 2023: provisional agreement with Council	1 December 2022 : The Council adopted its general approach 14 December 2023 : Council and Parliament reached a <u>provisional agreement</u> March 2024: the Council <u>reached an agreement</u> (Coreper), followed by an in <u>favor vote</u> from the Parliament's legal affairs committee	Euractiv, Oct 2023, <u>Business Europe</u> , Dec 2023, ecoDa, January 2023: <u>Joint Position Paper</u> with other business organisations; May 2023: <u>Joint Business statement</u> on CS3D

ECIIA's Actions



In 2023
 Monitoring
 Participation to ECG Meeting on June 16
 Participation to the CG Dialogue on June 23

Planned for 2024
 Factsheet issued
 Webinar with Third Party



2. Corporate Sustainability Reporting Directive- Adopted (5 January 2023)

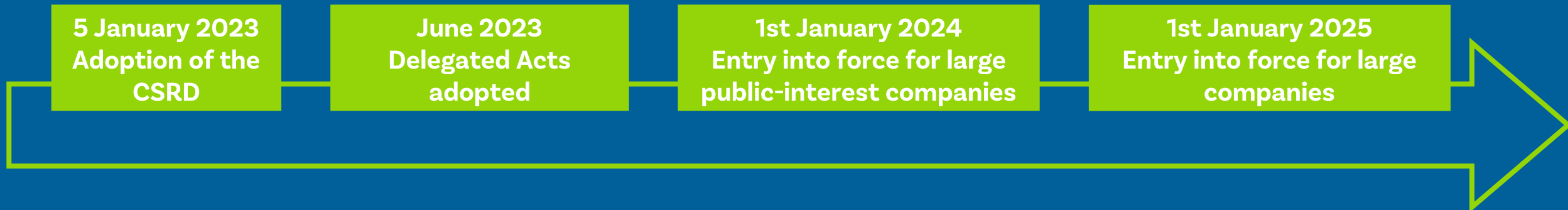
The rules introduced by the Non-Financial Reporting Directive (NFRD) remain in force until companies have to apply the new rules of the CSRD.

Delegated Act:

- Adoption of a Delegated Act to supplement the Directive

Scope:

- Companies already subject to NFRD
- Companies with Large undertakings and SMEs with public interest undertakings (article 19)
- EU-incorporated parents of large groups (article 29.a)
- Group which has its ultimate parent company outside the EU, but has a significant EU presence



2. Corporate Sustainability Reporting Directive- Adopted (5 January 2023)

EC/EP/C

Stakeholders' Opinion/Papers

Final : Council gives green light to CSRD on Nov 28, 2022
Published on 05/01/2023 and implementation by member states in 18 months

ecoDa reaction: Comment Letter to the EC related consultation
Accountancy Europe, Rationalisation of reporting requirements feedback from Accountancy Europe.pdf (accountancyeurope.eu)

ECIIA's Actions

June 2022, Corporate Sustainability Reporting Directive | ECIIA

In 2023

Jan 2023: meeting with DG Fisma (A. Delia Mehedintu and ,W. Mohlmann)

Jan 31, 2023: webinar for the members

May 8: Participation to Accountancy Europe Working Group on sustainability and priorities for IA

July 2023: participation to the new WG on assurance of ESG reporting (DG Fisma and Accountancy Europe initiatives)
IAASB consultation on PROPOSED ISSA 5000, GENERAL REQUIREMENTS FOR SUSTAINABILITY ASSURANCE ENGAGEMENTS as basis for European Assurance Standards | ECIIA reaction
ESG Governance publication with Acc Europe and ecoDa

Planned for 2024

New publication about Board priorities and webinar (April 10) with Accountancy Europe and ecoDa
Participation to FERMA publication on CSRD impact for Risk Managers



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3. European Sustainability Reporting Standards - Developed as part of the CSRD

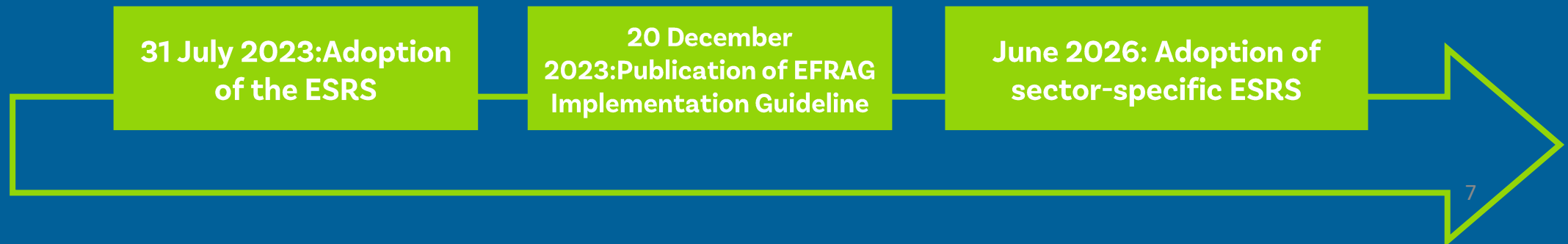
Scope of ESRS:

- From 1 January 2024 with reports due in 2025 / Any EU-incorporated company already subject to the NFRD. The first companies will have to apply the standards in financial year 2024, for reports published in 2025.
- From 1 January 2025 with reports due in 2026 / All large companies incorporated in an EU member state and EU-incorporated parents of large groups as well as small and non complex institutions
- From 1 January 2026 with reports due in 2027 / SMEs listed on an EU regulated market (cool down period of 2 years)

Main obligations for companies: respect the double materiality, address sustainability-related topics in their governance, reporting on material impacts, risks and opportunities across a broad range of ESG topics at the same time as the financial statements.

3 Implementation published Guidelines: Materiality assessment, Value chain, ESRS data point implementation
Sectorial Standards should be postponed

Assurance Standards planned for 2026 and guidance for transition period in discussion (with CEAOB)



3. European Sustainability Reporting Standards - Developed as part of the CSRD

European Commission	EFRAG's Position	Stakeholders' Opinion/Papers
31 July 2023: Adoption of <u>First set of ESRS</u> EC has <u>mandated</u> in March, the CEAOB to issue temporary guidance on the assurance of ESG reporting and identify European specificities	20 December 2023: Publication of EFRAG <u>Implementation Guideline</u>. Consultation is until 2nd February. 22 January: <u>Consultation</u> on <u>Standards for listed SMEs</u>	ecoDa, July 2023: <u>Response to consultation on draft ESRS1</u> ; December 2023: <u>response</u> to the postponement of sector-specific ESRS Business Europe: Response to the EFRAG consultation (<u>Part one / Part two</u>); ESMA: <u>Response</u> to the EFRAG consultation; Accountancy Europe: <u>Response</u> to the EFRAG consultation; ecoDa : <u>Response to EFRAG consultation</u> on the ESRS interim draft and <u>Comment Letter</u> EFRAG and GRI publish <u>joint statement</u> on interoperability Expecting a reaction regarding the Guidelines of Business Europe, ESMA, Accountancy Europe

ECIIA's Actions

In 2023

September 2023, Factsheet

December 1 2023: ESG Day conference and key messages

ECIIA reacted on various consultations on ESRS, on sectorial standards

ECIIA & ecoda video

ECIIA reaction on DG Fisma consultation

Planned for 2024

Work with Accountancy Europe on the assurance by EA

Reactions to consultations on the guidances Factsheet

Thought paper with FERMA on double materiality and ERM



4.NIS2 Directive-published as directive EU 2022/2555

Scope of the Directive:

- Entities in sectors of high criticality, with : turnover $\geq$ 10-50 Mn, employ $\geq$ 51-250 persons, annual balance sheet $\geq$ 10-43 Mn

Timing: Member State have 21 months, starting from January 2023 to transpose the directive in their national law.

Main articles:

- Article 20 / Accountability of board members, must be knowledgeable enough on cyber security risks (trainings) and can be held liable for infringements
- Article 21 & 23 / Management of cybersecurity risks + report cyberattacks within the first 24 hours



4.NIS2 Directive

EC/EP/Council	Main aspects for IA	Stakeholders' Opinion/ Complementary Directive
<u>The NIS2 Directive</u> is the EU-wide legislation on cybersecurity. It provides legal measures to boost the overall level of cybersecurity in the EU 18 September 2023 - Commission <u>Guidelines</u> about the relationship between the NIS 2 Directive and the Digital Operational Resilience Act (DORA).	- Accountability / Management Bodies and Board Members responsible for the ensuring a level of security of their systems + facing penalties for non-compliance - Reporting / Organizations must report significant cyber threats within 24 hours to competent authorities - IA / must evaluate cyber risk threat management effectiveness, as part of its quarterly review.	- Politico, 1 December 2023, <u>Europe's internet of things cyber law, explained – POLITICO</u> - Euractive, 12 December 2023 <u>How European countries are implementing new cybersecurity framework – Euractiv</u> - The NIS2 Directive is complementary with <u>the DORA Act</u>, a EU regulation that entered into force on 16 January 2023 and will apply as of 17 January 2025. It aims to strengthen the IT security of financial entities. - Transposition: <u>Belgium</u> <u>France</u> <u>Germany</u>

ECIIA's Actions



In 2023
Webinars

Planned for 2024

TBD

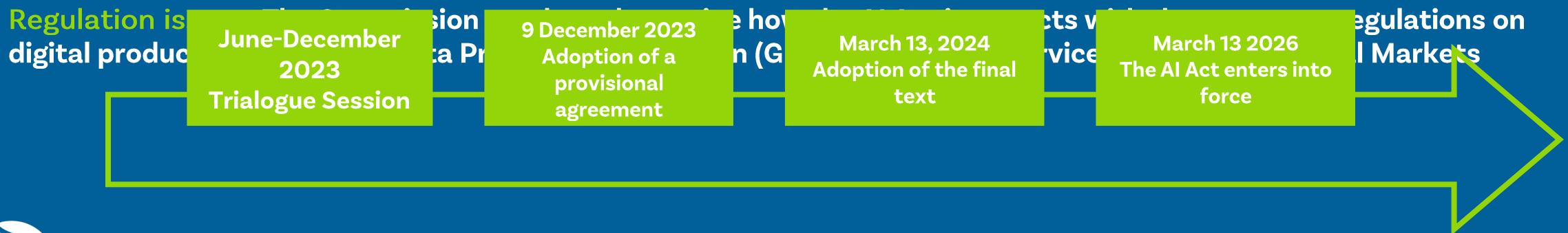


5. Artificial Intelligence Act - Agreement

Recent Update: - Extension of the list of prohibitions but with the possibility to use remote biometric identification by law enforcement authorities in public spaces, subject to safeguards - Better protection of rights through the obligation for deployers of high-risk AI systems to conduct a fundamental rights impact assessment prior to putting an AI system into use. - Obligation for users of an emotion recognition system to inform natural persons when they are being exposed to such a system.

Scope of the Act: providers, users, importers, distributors and product manufacturers / operators located in Europe + operators of AI systems located outside Europe but operating AI systems in Europe

Main inputs: classification of AI depending on their risks in 4 different categories: unacceptable risks, high risks, limited risks, minimal risks / Supporting innovation while respecting human rights / Regarding the non-compliance of the AI system, attention should be on its origin, supply chain, nature of the non-compliance alleged and the risk involved.



6. Artificial Intelligence Act - Agreement

European Commission	European Parliament	Council	Stakeholders' Opinion/Papers
• April 2021: <u>Proposal for a new Artificial Intelligence Act</u>, advocating for a technology-neutral definition of AI systems. • The <u>European AI Office</u>, established in February 2024 within the Commission, oversees the AI Act's enforcement and implementation with the member states	• June 2023: <u>Adoption of its negotiating position of the AI Act</u> advocating for a rigorous definition of high-risk systems and a ban on biometric identification. • 9th December 2023: Adoption of a provisional agreement with the Council • On Wednesday (13 March), the European Parliament passed its <u>first comprehensive regulation on artificial intelligence (AI)</u>,	• December 2022: <u>Adoption of its common position</u> advocating for a human-centric approach to AI regulation. It still hasn't negotiated a final form. • 9th December 2023: <u>Adoption of a provisional agreement</u> with the EP	• World Employment Federation, AI principles, <u>April 2023</u> • Euractiv, <u>27 Nov 2023</u>, • Business & Human Rights, <u>9 December 2023</u>

ECIIA's Actions

In 2023

June 2023 position paper
November 2023,
factsheet

Planned for 2024

Thought paper

6. Digital Operational Resilience Act

Purpose of the Act

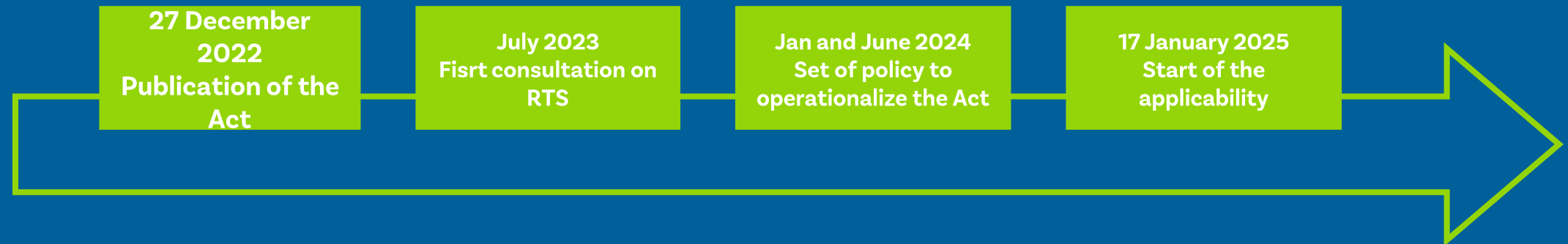
- Improve the operational resilience of financial institutions in the digital age, including that of banks, payment services, insurance companies and asset managers.

Scope of the Act

- All financial market participants - including banks, investment companies, insurance companies and intermediaries, data reporting providers, and cloud service providers based in the EU

Main input

- Set up a comprehensive ICT Risk management Framework
- Classify and report on ICT-related incidents based on novel classification and reporting framework
- Implement a proportional and risk-based digital operational resilience testing program



6. Digital Operational Resilience Act

European Parliament and Council	Main change for internal auditors	Stakeholders' Opinion/Papers
December 2022, <u>Publication of the Act</u> January 2024: The three European Supervisory Authorities published <u>the first set of final draft technical standards</u> March, EC published final set of guidance 1 delegated act	IA must review and enhance their audit plans and work programs. They also need to adequately identify concentration risks to ICT service providers.	PwC, <u>Informative purpose</u> Devevoise, <u>impact on board</u>

ECIIA's Actions

In 2023:

October 2023, paper on the role of IA
November 2023: webinar

Planned for 2024

Thought paper on the impact for the profession:
DORA implementation questionnaire and paper

Factsheet on the technical guidances

7. Sustainable Financial Disclosure Regulation

Objective of the Directive

Contribute to the objectives of the European Green Deal, in particular to creating an enabling framework for private investors and the public sector to facilitate sustainable investments.

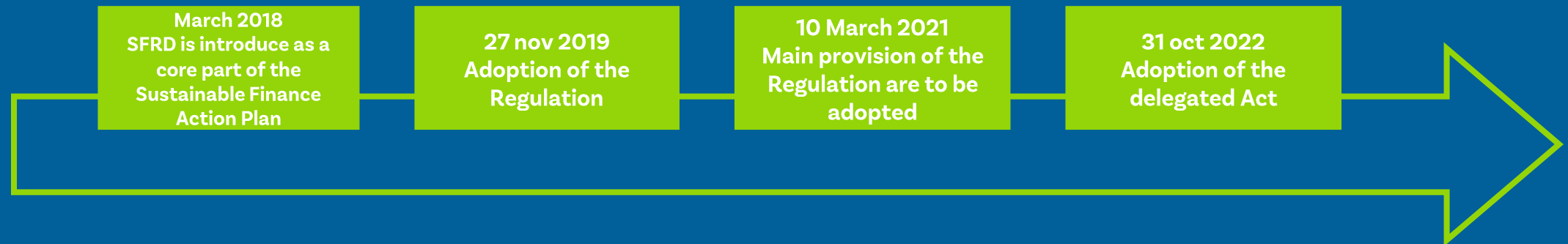
Objective of the Consultation : investigate several issues such as legal certainty, usability and the prevention of greenwashing.

Main changes of the Directive

- Increase of the contribution of the financial sector to sustainability
- Improve the inclusiveness of SMEs, and consumers, by giving them incentives access to finance

Main articles

- Article 3 / Financial market participants shall publish on their websites information about their policies on the integration of sustainability risks in their investment decision-making process.
- Article 5 / Financial market participants and financial advisers shall include in their remuneration policies information on how those policies are consistent with the integration of sustainability risks
- Article 9 / Obligation of transparency of sustainable investments in pre-contractual disclosures



7. Sustainable Financial Disclosure Regulation

European Commission	European Parliament and Council	Stakeholders' Opinion/Papers
March 2018, release of the <u>Sustainable Finance Action Plan</u> 31 oct 2022, publication of the <u>delegated Act</u> December 2023, <u>deadline consultation</u> <u>implementation of SFDR</u>	27 nov 2019, <u>adoption of the SFDR</u>	PwC, 2020, <u>sustainable-finance-disclosure-regulation.pdf</u> (pwc.ch) Accountancy Europe, Oct 2023, <u>information</u>

ECIIA's Actions



May 2022, information

Planned for 2024

Monitoring
Factsheet
Banking Forum discussion



8. Corporate reporting - improving its quality and enforcement

Objectives

- Corporate governance: ensure that companies strengthen the quality of their corporate reporting and to reinforce the responsibilities of company boards and audit committees to achieve this objective. The initiative will look at the role and responsibilities of company boards for corporate reporting, their accountability and the role that internal controls can play in achieving high-quality reporting. It will also assess how audit committee can become more effective.
- Statutory audit: enhance audit quality and audit supervision by increasing auditors' incentives to focus on their public interest role, removing (potential) conflicts of interest and ensuring effective, efficient and consistent audit supervision.
- Supervision of corporate reporting: ensure effective, efficient and consistent supervision of corporate reporting. It should also increase transparency of the work of supervisors, allowing for appropriate accountability and communication to interested stakeholders and the general public.

European Commission	Stakeholders' Opinion/Papers
Nov 2021-Feb 2022, <u>Consultation</u> on corporate reporting August-Oct 2023, <u>Call for tender</u> on the Effectiveness and Efficiency of the EU Framework on Corporate Governance Underpinning the Quality of Corporate Reporting	Better Finance, response to consultation <u>BETTER-FINANCE-answer-EC-CSES-Targeted-Consultation-Shareholder-Rights-Directives-SRDs-Dec-2023-copy.pdf</u> (betterfinance.eu) ecoDa, February 2022, <u>response to the consultation</u>

ECIIA's Actions

Monitoring
Meetings with DG
Fisma

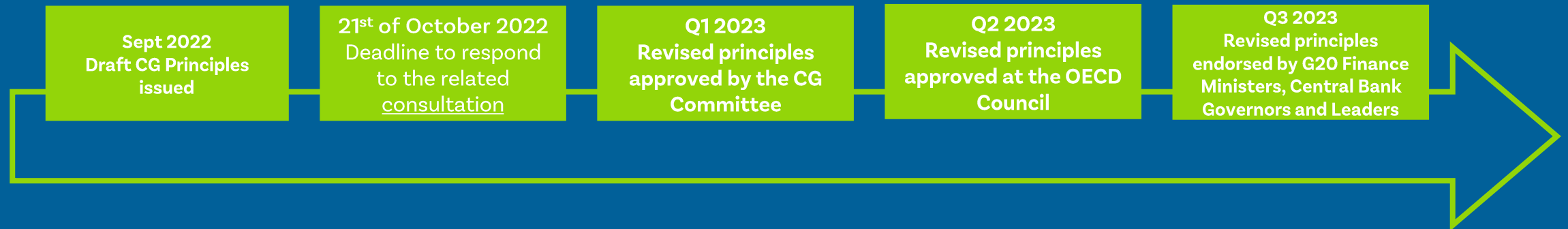
Plan for 2024

Depending on new
Commission program

9. Review of the G20/OECD Principles of Corporate Governance-Adopted

Objective

Review of the CG principle: high level principles that help policy makers evaluate and improve the legal, regulatory and institutional framework for corporate governance, with a view to supporting economic efficiency, sustainable growth.



9. Review of the G20/OECD Principles of Corporate Governance-Adopted

OECD	Stakeholders' Opinion/Papers
• September 2022: The OECD released the draft Corporate Governance Principles reviewed; • September to the 21th of October: Public consultation on the draft revisions of the OECD Principles of Corporate governance. • Launch of the new guidance: OECD has identified key topics of changes • Public Consultation on Draft Revisions to the OECD Guidelines on Corporate Governance of State-Owned Enterprises • New principles and factbook published • OECD publication on corporate governance for state owned company	• ecoDa reaction insistaing on IA: here • ecoDa answer on CG for state owned enterprises here

ECIIA's Actions



- Coordination with IIA Global and [reaction](#) to the consultation
- November 2022: Participation to the European Corporate Governance [conference](#) with rep from OECD
- January 2023: meeting OECD representatives with IIA Global
- February 9 2023: participation to panel discussion organized by Accountancy Europe and discussion with OECD representatives
- February: meeting with OECD representatives, together with IIA Global
- May 11 2023: followed [RT](#) on CG changes
- IIA Global [reaction](#)
- on owned state company consultation
- ECIIA [key messages](#)

