The ESG landscape: Corporate Sustainability Reporting Directive (CSRD)

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Fiona Hackett, Director PwC

Focus on the CSRD

Contents

First time application of CSRD

Assuming calendar fiscal year-end

FY 2024 — Effective for companies with debt or equity securities listed on an EU-regulated market with more than 500 employees (first reporting in 2025)

FY 2025 — Effective for all other "large undertakings" (first reporting in 2026)

FY 2026 — Effective for listed SMEs*, certain small and non-complex institutions and captive insurance undertakings (first reporting in 2027)

FY 2027 — **Ongoing reporting**

FY 2028 — Additional reporting for non-EU companies required to report at a global consolidated level under the €150 million criterion of the CSRD (first reporting in 2029)

* Optional deferral of first-time application by two years

CSRD scope considerations

All companies listed on EU-regulated markets

Debt or equity listed

"Large" EU companies not listed

"Large" is defined as exceeding at least two of the following on two consecutive annual balance sheet dates:

- total assets: €20 million
- net turnover (revenue): €40 million
- average number of employees during fiscal year: 250

EU companies that are a parent of a "large group"

"Large group" is defined as a group consisting of parent and subsidiary entities and which, on a consolidated basis, exceeds at least two of the following metrics on two consecutive annual balance sheet dates of the parent:

- total assets: €20 million
- net turnover (revenue): €40 million
- average number of employees during fiscal year: 250

These scope considerations may have certain exemptions and do not consider the ability to prepare combined reports in limited instances, and to satisfy subsidiary reporting requirements by reporting at a higher level within the organization. The analysis is complex and companies should review the rules carefully and assess the need for early involvement of its legal team.

CSRD scope considerations – What is turnover?

An entity's turnover is a central element in determining whether the entity is in scope of CSRD or not.

What meets the definition of turnover for some entities is not always obvious.

EU Directive defines turnover as follows;

"the amounts derived from the sale of products and the provision of services after deducting sales rebates and value added tax and other taxes directly linked to turnover".

With specific definitions for credit institutions and insurance undertakings.

What is turnover for entities such as;

Investment funds where they have fair value gains and losses.

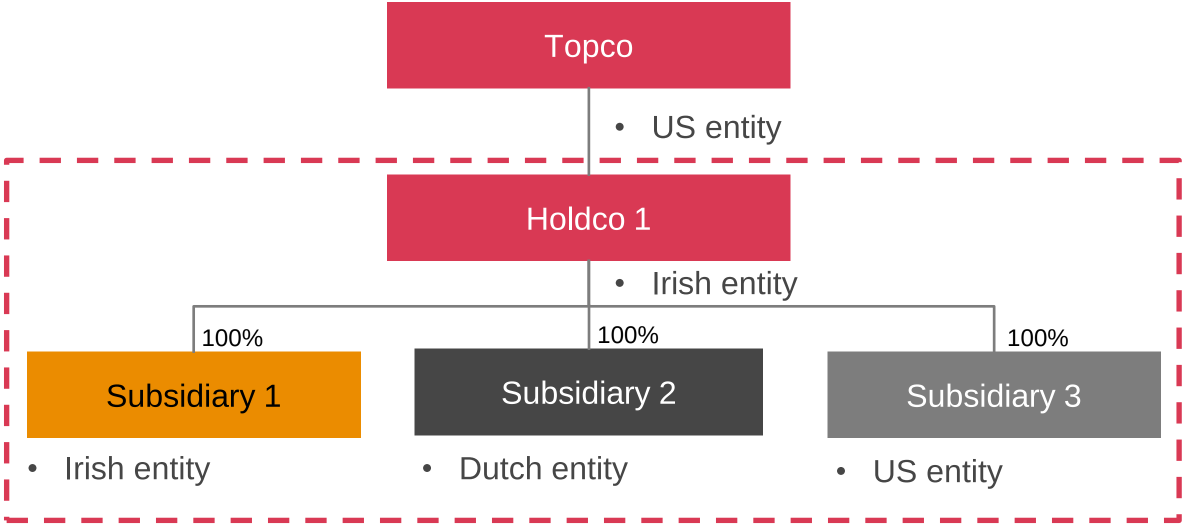
Practical Challenges

Ownership	**Who owns the process?** The annual report might have historically been owned by finance but the sustainability reporting needs cross organisation ownership.
People	Sustainability reporting will require input from **all departments** of an organisation.
Systems	How does the organisation **collate and identify all the necessary information** for the sustainability report?
Assurance/Audit	**Limited assurance;** later transition to **reasonable assurance** (timing to be determined and standards to be determined).
Timing	Sustainability report **may delay the completion** of the annual report.
Consolidation process	Organisations will be preparing **consolidated sustainability reports** that have never prepared consolidated financial statements. How do they **obtain** the necessary information **from subsidiaries**?

CSRD Consolidation

"…… the exemption regime for consolidated financial statements …. operates independently from the exemption regime for consolidated sustainability reporting. An undertaking can therefore be exempted from consolidated financial reporting requirements but not from consolidated sustainability reporting requirements …….."

Example 1 - EU subsidiaries of a US parent company



“Large undertaking,” no securities listed

Not a “large undertaking,” no securities listed

No securities listed on an EU-regulated market

The simplified fact pattern is provided to illustrate some of the factors that should be considered in evaluating the scope, applicable standards and timing of application. These examples do not consider the ability to prepare combined reports in limited instances, and to satisfy subsidiary reporting requirements by reporting at a higher level within the organisation. The actual analysis is complex and companies should review the rules carefully and assess the need for early involvement of a legal team.

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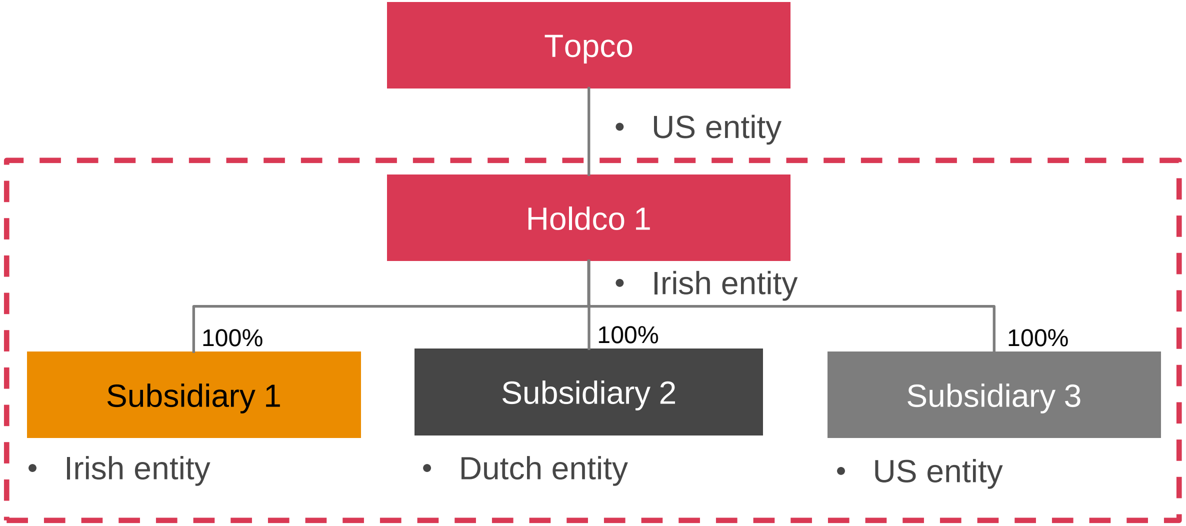

Holdco 1 would likely be exempt from preparing consolidated financial statements.

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- Not a "large undertaking," no securities listed
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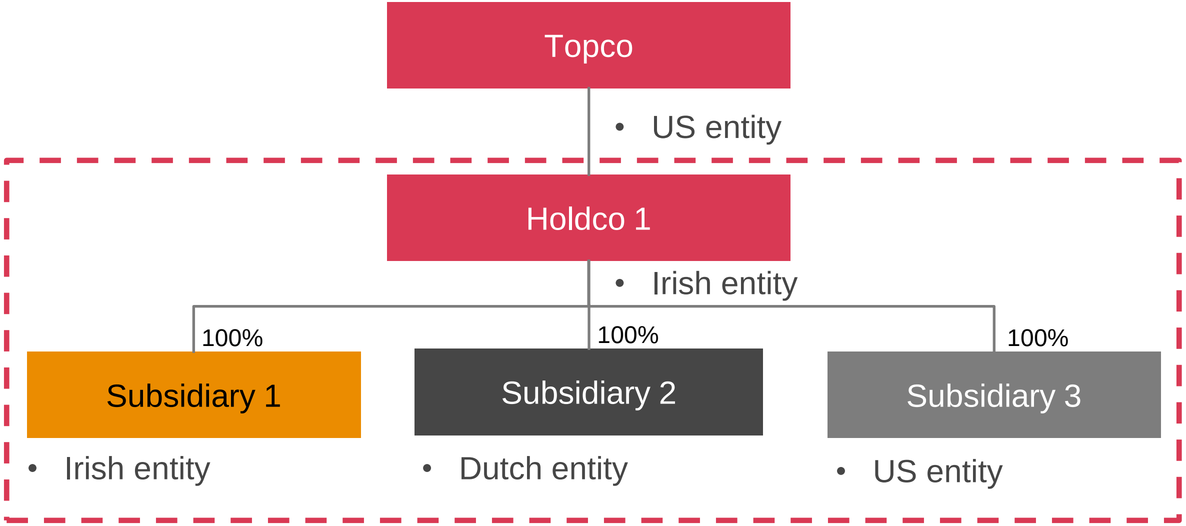

Holdco 1 would be in scope of CSRD and would be required to prepare a consolidated sustainability report for its group.

Subsidiary 1 would be in scope of CSRD but may have an exemption from preparing a sustainability report because it would be included in the Holdco 1 sustainability report.

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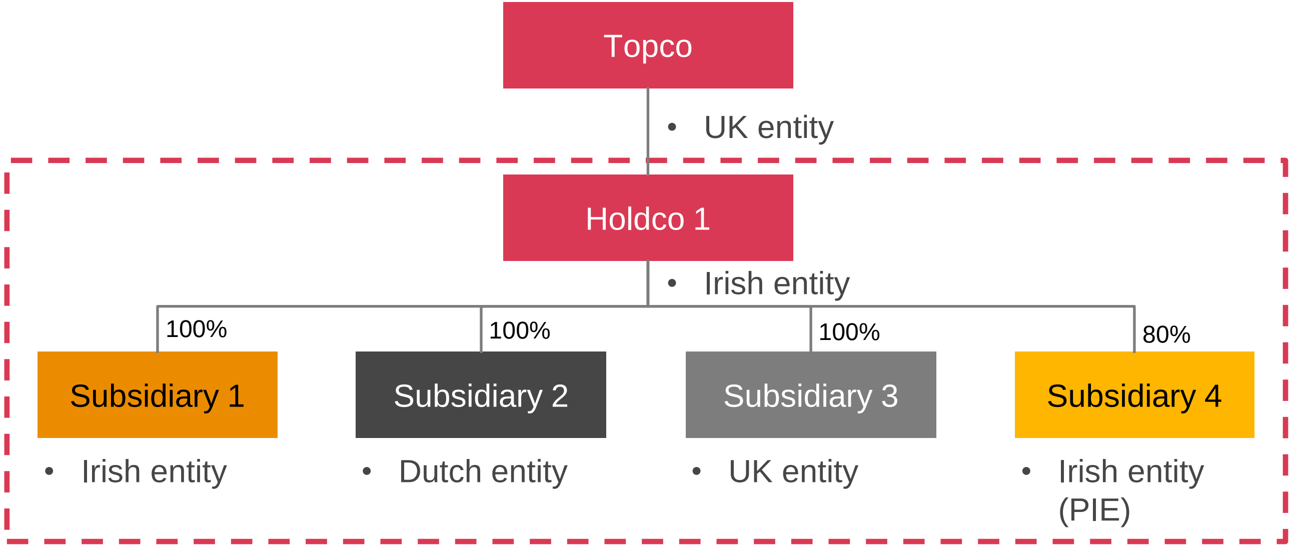
Example 2 - EU subsidiaries of a UK parent company



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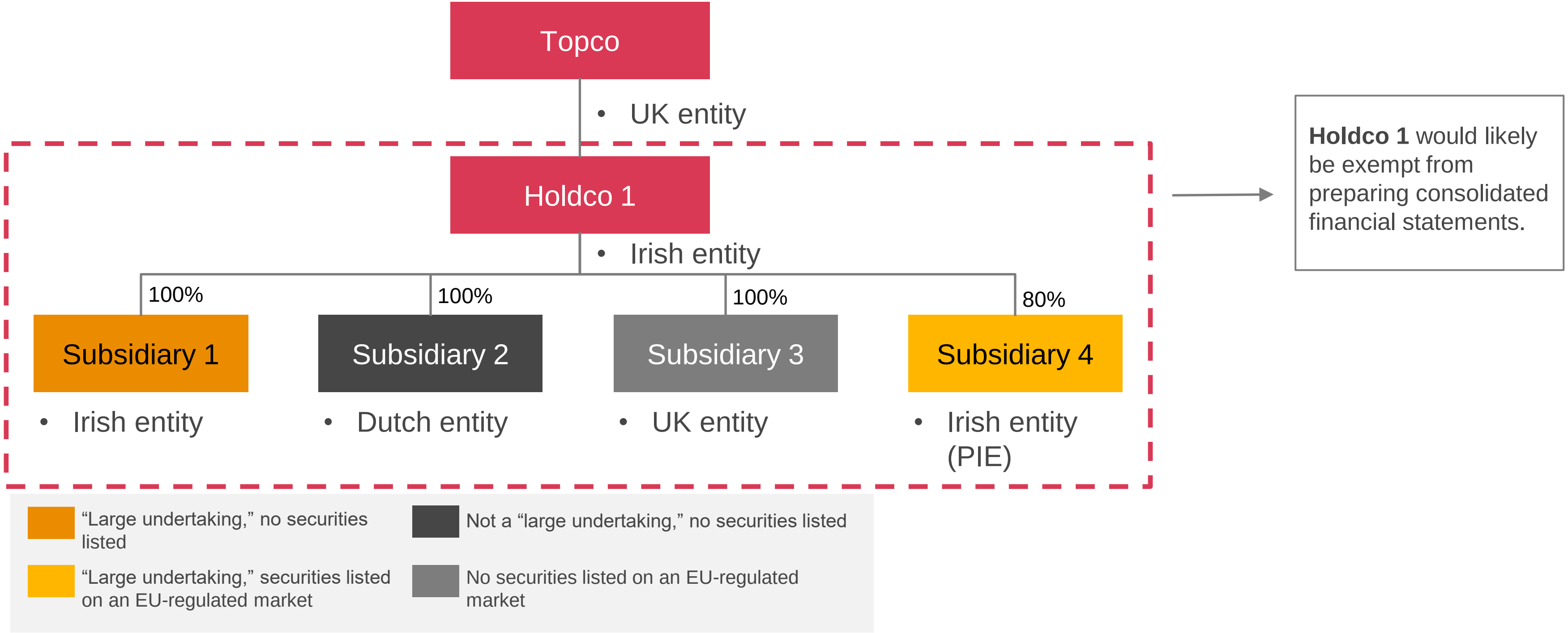

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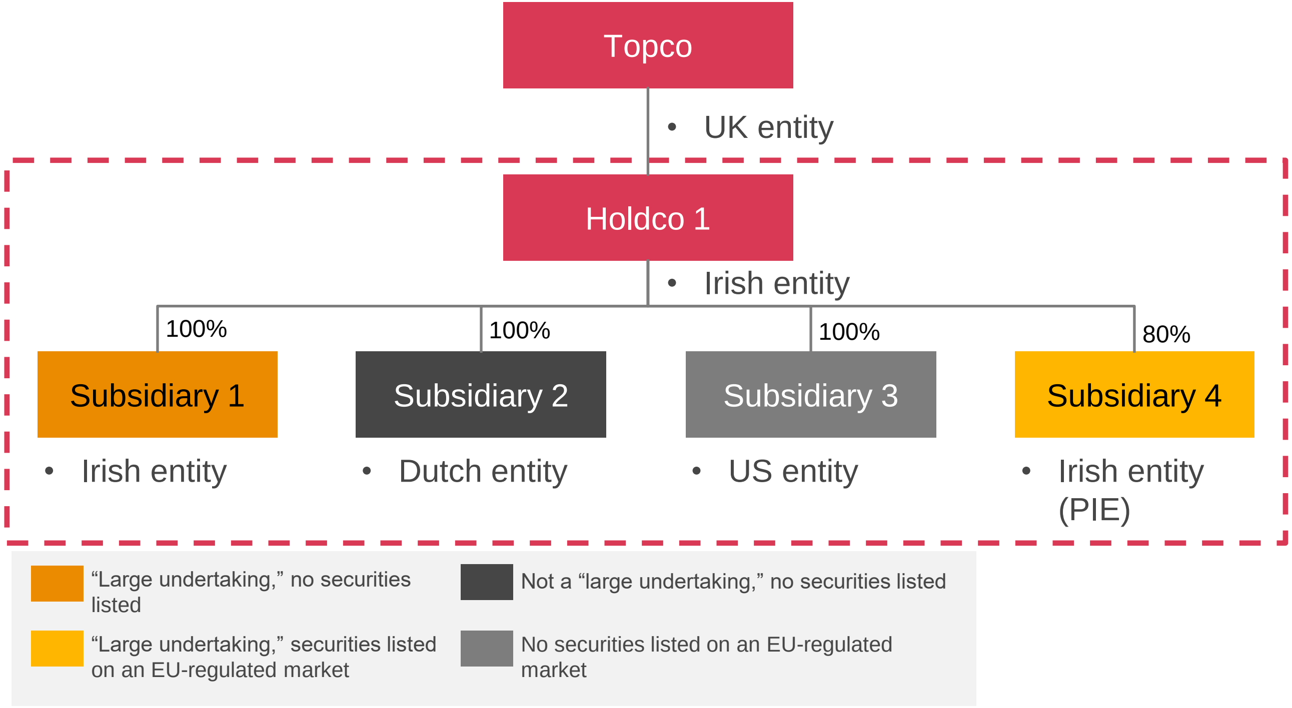

Holdco 1 would be in scope of the CSRD and would be required to report on its entire consolidated group (parent company plus subsidiaries).

Subsidiary 1 would be in scope of the CSRD but may have an exemption because it would be included in the Holdco 1 report.

Subsidiary 4 would be in the scope of the CSRD and would not be eligible for an exemption because it is a "large undertaking" and has securities listed on an EU-regulated market.

The simplified fact pattern is provided to illustrate some of the factors that should be considered in evaluating the scope, applicable standards and timing of application. These examples do not consider the ability to prepare combined reports in limited instances, and to satisfy subsidiary reporting requirements by reporting at a higher level within the organization. The actual analysis is complex and companies should review the rules carefully and assess the need for early involvement of its legal team.

Next steps

EU Timeline

1. Publication of the CSRD in the Official Journal of the EU (followed by transposition into national law) — December 2022
2. ESRS consultation with EU regulatory authorities, expert groups, and Member States — Q4 2022 through mid-2023
3. Adoption of ESRS by the European Commission (followed by review by European Parliament and Council of the EU) — mid-2023
4. Public consultation on second set of ESRS (expected to include, among others, certain sector-specific standards) — first half 2023

Next steps

Company Timeline

1. Understand your organisation’s scoping
2. Identify who owns the project, who are stakeholder and get their buy in
3. Assess and analyse existing sustainability reporting process (internal controls and governance)
4. Engage with key internal stakeholders to get an understanding of existing data management process and identify actions going forward

Thank you!