Introduction to CSRD and SEC Climate Reporting & Assurance requirements

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CONTENT

- **ESG regulatory landscape**
- **CSRD and EU regulations**
  - **Double Materiality**
  - **ESRS**
  - **EU Taxonomy**
  - **Assurance**
  - **Digital tagging**
- **SEC Climate-related disclosures**

Hosting your session

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Slide 2

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The ESG regulatory landscape

The Global Regulatory Landscape

Below is a holistic view of regulation in various jurisdictions. Despite convergence of reporting standards, the regulatory landscape is more varied with a number of jurisdictional differences, however, it is anticipated that the ISSB will become the primary international standard.

US & Canada

- **SEC** voted in **climate change disclosure rule in March 2024**
- **SEC released two proposals** which aim to enhance disclosures on **mutual funds, exchange-traded funds and similar vehicles that account for ESG**
- In October 2023 two senate state **California climate bills** were signed requiring certain businesses in California to prepare quantitative and qualitative climate disclosures
- **Canadian** Sustainability Standards Board (CSSB) proposes **mandatory reporting** in accordance with **ISSB from 2025**

International

IFRS Foundation & VRF complete consolidation to support the work of the ISSB

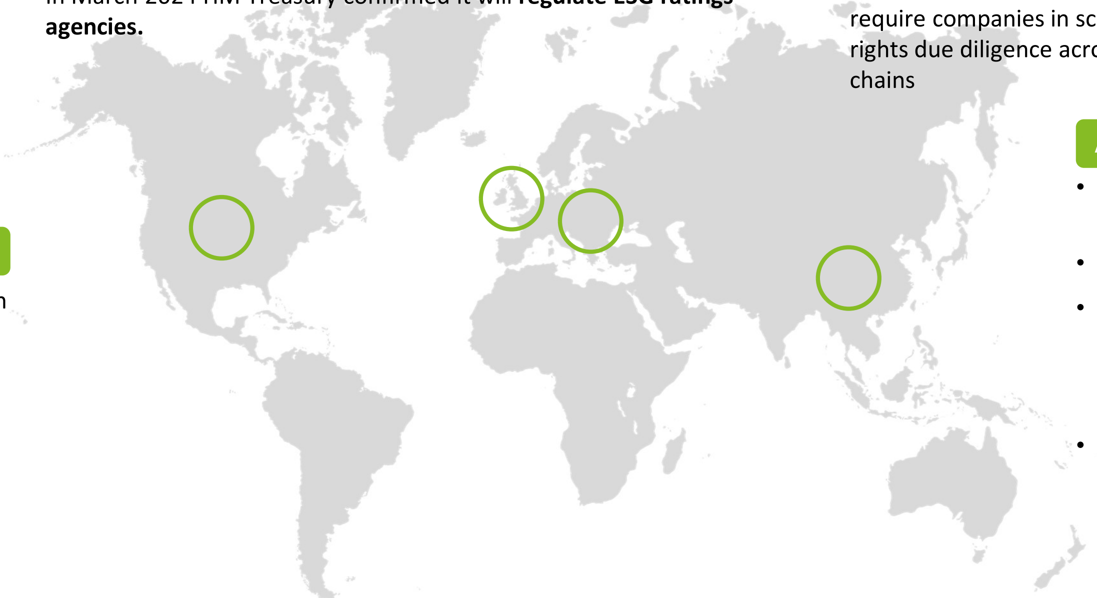
ISSB is published its final climate standard and sustainability reporting framework in June 2023

UK

- **Mandatory TCFD reporting** for listed companies since January 2021
- **UK** announced intentions to **mandate ISSB**
- **Department for Business, Energy & Industrial Strategy (BEIS)** requirements to underpin economy wide **mandatory TCFD aligned climate disclosure requirements** since April 2022
- **Transition Plan Taskforce** published in October 2023 to provide framework for credible transition plan disclosure.
- In March 2024 HM Treasury confirmed it will **regulate ESG ratings agencies.**

EU

- **The European Parliament** adopted the **Corporate Sustainability Reporting Directive (CSRD)**
- **The European Financial Reporting Advisory Group (EFRAG)** released final **European Sustainability Reporting Standards (ESRS)** on climate and sustainability disclosures
- The **EU Taxonomy enforced in July 2020**, is a classification system establishing a list of environmentally sustainable economic activities helping the EU **scale up the green deal**
- The **Corporate Sustainability Due Diligence Directive (CSDDD)** will require companies in scope to conduct environmental and human rights due diligence across their operations, subsidiaries and value chains



APAC

- **Hong Kong and Japan** announced **mandatory climate disclosures** aligned with TCFD
- **China** announced **plans to adopt ISSB**
- **Singapore** announces mandatory **climate-related disclosures aligned with ISSB,** phased in from 2025 and including **mandatory assurance** from 2027
- **Australian** Accounting Standards Board (AASB) announced **mandatory climate reporting** for large companies from 2025

Corporate Sustainability Reporting Directive (CSRD)

What is the Corporate Sustainability Reporting Directive?

CSRD is a cornerstone of the EU Green Deal that aims to create a sustainable economy in the EU. The reporting requirements are intended to drive sustainable strategies across businesses operating in the EU.

REPORTING REQUIREMENTS

- Adoption of binding **EU Sustainability reporting standards** – ESRS cover **range of E/S/G topics** for disclosure
- Report according to **double materiality**
- Materiality assessment disclosure
- Provide **qualitative** and **quantitative** information, **forward-looking** and **retrospective**
- Reporting of **green financial indicators** (*EU Taxonomy*)
- Sustainability information needs to be **reported in** the **management report**
- Reporting format needs to be **machine-readable (digital tagging)**
- Mandatory **independent assurance**

SCOPE

- **All large companies, two of the three criteria:**
    - Revenues > EUR 50 m
    - Total assets > EUR 25 m
    - > 250 employees
- **Global non-EU firms** with a **net turnover of €150 million** and at **least one significant subsidiary** or branch in the EU.
- **Exemption** for subsidiaries when **(non-) EU parent undertaking complies** with the obligation.

FY 2024 – **Applicable for companies already subject to the NFRD** (ie. Public Interest Companies)

FY 2025 – **Applicable for all large companies** (see scope above)

FY 2026 – **Applicable for listed SMEs, small and non-complex credit institutions and captive insurance companies**

FY 2028 – **Third-country undertakings that generated net turnover over EUR 150 million, and that have EU subsidiaries**

Introduction to Double Materiality

Double materiality prioritises ESG issues by both importance to business, or financial materiality, and importance to sustainable development, or impact materiality – including impact on the economy, environment, and people. Double materiality considers ESG topics from an impact perspective, risk perspective and as an opportunity to drive value creation.

Company impact on People & Environment

Impact materiality

- A sustainability matter is material from an impact perspective when it has over the short, medium or long term **actual or potential, positive or negative impacts** on people or the environment

Materiality of an impact = **Severity** + **likelihood**	**Severity** is based on: • **Scale** of the impact • **Scope** of the impact • **irremediable** character of the impact Potential negative human rights impact: severity takes precedence over likelihood.

- Material impact on sustainability matters:
  - impacts **caused or contributed** to/by the undertaking
  - impacts which are directly linked to the undertaking's own **operations**, its **products**, and **services** through its business relationships (incl. upstream/downstream value chain)

Inside-out

People & the Environment's effect on a company

Financial materiality

- A sustainability matter is material from a financial perspective when **it triggers or may trigger material financial effects** on the undertaking.

Triggers or **may trigger** material *financial* effects **ON** The undertaking's development, including **cash flows**, **financial position** and **financial performance**

Particularly when a sustainability matter **generates or may generate** risks or opportunities that significantly influence or are likely to significantly influence its future cash flows.

- The materiality of risks and opportunities is assessed based on a combination of a **likelihood of occurrence** and the **size of potential financial effects**.

Outside-in

European Sustainability Reporting Standards (ESRS)

The ESRS is a reporting framework under the CSRD. Companies subject to CSRD will have to report against this framework which was developed by the European Financial Reporting Advisory Group (EFRAG).

ESRS

- **12 standards** for all sectors
- **82 Disclosure Requirements** on the information to be provided
- Around **1100 datapoints,** of which a third are quantitative

Additional standards to come

- **SME standards:** Listed and voluntary
- **40 sector-specific standards** (timeline under review due to delays in publishing implementation guidance)
- Standards for **non-EU groups**

Cross-cutting standards	**ESRS 1** General principles*	**ESRS 2** General disclosures*			
Environment	**ESRS E1** Climate change	**ESRS E2** Pollution	**ESRS E3** Water and marine resources	**ESRS E4** Biodiversity & ecosystems	**ESRS E5** Resource use & circular economy
Social	**ESRS S1** Own workforce	**ESRS S2** Workers in value chain	**ESRS S3** Affected communities	**ESRS S4** Consumers and end-users	
Governance	**ESRS G1** Business conduct				

+ EU Taxonomy

** Only ESRS 1 and 2 are mandatory for all organisations. All other metrics listed across topical standards are subject to the outcome of materiality assessments.*

Unpacking new standards’ requirements

A closer look at the impact of ESRS 2 General Disclosures

ESRS 2 General Disclosures sets out the disclosure requirements that apply to all undertakings regardless of their sector of activity (sector agnostic) and apply across sustainability topics (i.e. cross-cutting). It follows a similar reporting structure to TCFD.

ESRS 2

General Disclosures

Governance
Disclosing material information on governance of sustainability matters

- The role of the administrative, management and supervisory bodies
- Information provided and sustainability matters addressed by the supervisory bodies
- Integration of sustainability-related performance in incentive schemes
- Statement on sustainability due diligence
- Risk management and internal controls over sustainability reporting

Strategy
Disclosing sustainability related and material impacts, risks and opportunities

- Strategy, business model(s) and value chains
- Interests and views of stakeholders
- Material impacts, risks & opportunities: their interaction with strategy & business models

Impact, risk and opportunity
Disclosing materiality assessment process

- Description of the processes to identify and assess material impacts, risks & opportunities
- Disclosure Requirements in ESRS covered by the undertaking sustainability statements
- Policies adopted to manage material sustainability matters and Actions and resources in relation to material sustainability matters

Metrics and targets
Disclosing on metrics

- Metrics in relation to material sustainability matters
- Tracking effectiveness of policies and actions through targets

Unpacking new standards' requirements

A closer look at the impact of ESRS E1 and the requirements of E1-1, disclosure of transition plan development.

ESRS E1

Climate Change Disclosure Requirements

General requirements, governance, strategy, and materiality assessment

- Integration in **incentive** schemes
- E1-1—**Transition plan** development
- Resilience of business **strategy and model**
- Description of **processes** to identify and assess climate-related **impacts, risks and opportunities**

Implementation-Management of impacts, risks and opportunities

- E1-2—**Policies** related to climate change mitigation and adaptation
- E1-3—**Action plans and resources** for climate change policies and targets

Metrics and targets

- E1-4—**Targets**
- E1-5—**Energy** consumption and mix
- E1-6—Gross Scopes 1, 2, 3 and **Total GHG emissions**
- E1-7—GHG removals and GHG mitigation projects financed through **carbon credits**
- E1-8—**Internal carbon pricing**
- E1-9—**Anticipated financial effects** from material physical, transition risks and potential climate- related opportunities

Transition Plan Requirements

- 1.5C aligned target
- Decarbonization levers and actions
- Investment and funding to support transition plan
- Locked-in GHG emissions
- E.U. Taxonomy and other regulatory alignment
- Business strategy and financial planning alignment
- Governance
- Progress in implementation

EU Taxonomy Regulation

Overview

What is the EU Taxonomy?

The EU Taxonomy Regulation is **a classification system for identifying economic activities that can be considered environmentally sustainable** with one (or more) of the six EU environmental objectives laid out by the Taxonomy Regulation

Mandatory disclosure of KPIs

Companies need to aggregate the taxonomy aligned economic activity on an entity/group level, to calculate % of taxonomy aligned:

- Turnover
- CapEX
- OpEX

Financial service companies need to calculate the **GAR** (Green Asset Ratio).

Disclosures already apply to companies in scope of the Non-Financial Reporting Directive (NFRD) and will apply to companies in scope of the CSRD, at the same time the CSRD comes into effect.

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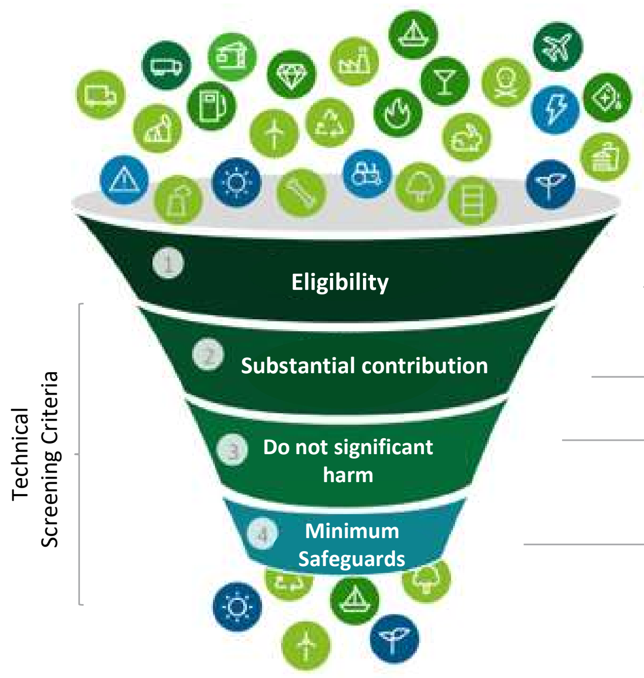
EU Taxonomy

The Taxonomy (EU Regulation 852/2020) defines the following harmonized criteria for classifying economic activities as sustainable. The methodology determines the 'greenness' of activities through the company turnover, capex and opex. The 'greenness' is determined with a four-stage process, where you have to pass through each 'gate'.



Once all gates have passed, the products and expenses across revenue, capex and opex can be disclosed as 'green' in annual reports.

Green financial KPIs

- % of green Revenue, Share % of green CapEx
- % of green OpEx
- Extensive contextual information

1. Establish the eligibility of activities

- A company can have several activities that are part of its operations
- Each activity is part of the scope of the technical screening criteria and should be assessed
- Not all economic activities that companies may perform are eligible.

2. Substantial contribution to one of the six objectives:

An activity needs to substantially contribute to at least one of the environmental objectives to be considered sustainable under the taxonomy.

- Climate change mitigation
- Climate change adaptation
- Sustainable use and protection of water and marine resources
- Transition to a circular economy
- Pollution and prevention control
- Protection and restoration of biodiversity and ecosystems

3. No Significant Harm to other environmental objectives

Do No Significant Harm (DNSH) – minimum requirements that the economic activity should meet to have no negative impact on other objectives while pursuing other climate objectives.

4. Minimum Safeguards (for human rights and employees)

Minimum safeguards in alignment with the OECD Guidelines for Multinational Enterprises and the eight ILO core conventions.

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CSRD Assurance Reporting

Assurance Requirements

What are the CSRD assurance requirements?

CSRD amends Article 34, paragraph 1, of Directive 2013/34/EU . This includes a new requirement as follows:

(aa) 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...

Metrics & disclosures

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

Double materiality

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

Digital tagging

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

EU Taxonomy

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

Slide 13

A0 Propose we remove the bottom section - so the 'possible assurance intepretation'. I tend to use the less detailed version externally.
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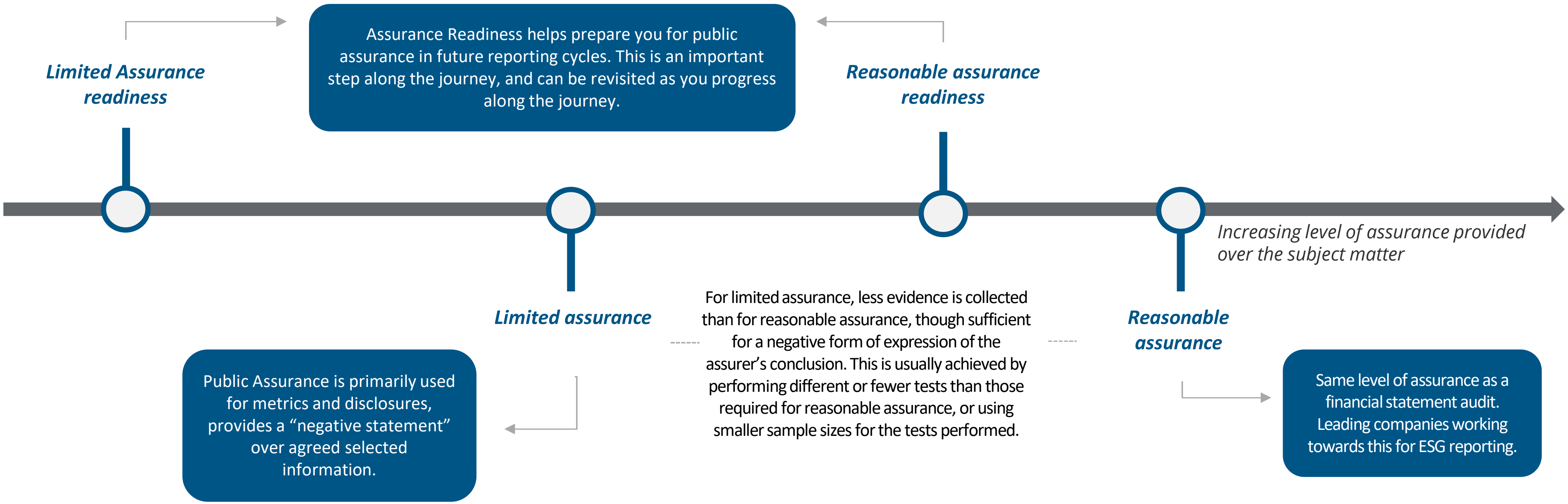
Assurance Requirements

CSRD requires limited assurance as soon as it comes into force. There is a progressive approach expected to eventually shift to reasonable assurance in future years after the CSRD comes into force. The EU objective therefore has a similar level of assurance for financial and sustainability reporting.



Progressing along the above journey requires an increasing level of maturity of control environment, data collection and management processes

Digitization

The European Single Electronic Format (ESEF) is the electronic reporting format in which issuers must prepare their annual financial reports to facilitate accessibility, analysis and comparability of annual financial reports.

Digital tagging in line with ESEF rules

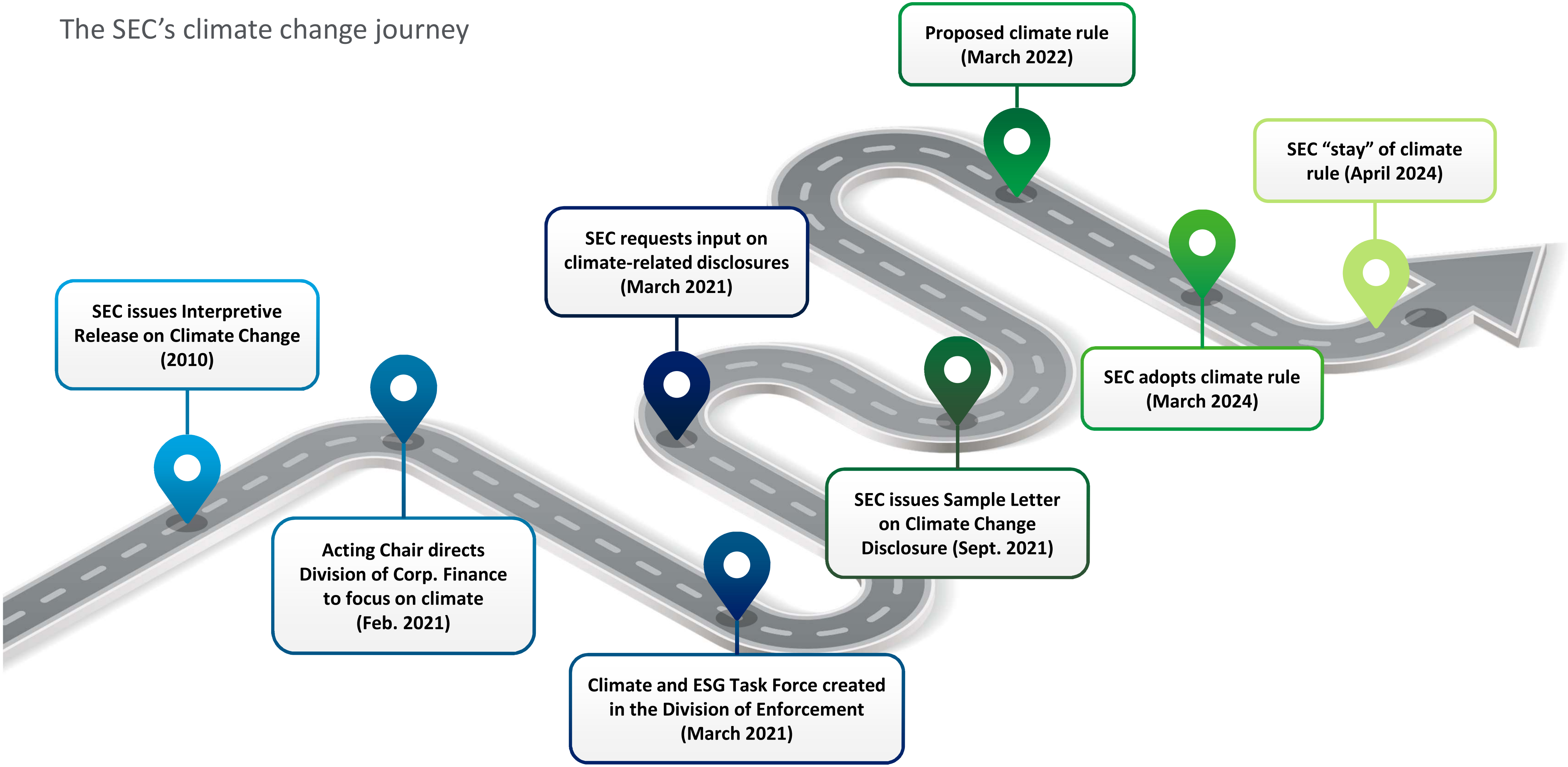
The goal is to make the information easily usable and, in the future, allow it to be published within the **EU Single Access Point**

Companies will then be required to prepare financial statements and management report in **XHTML format**

US Securities and Exchange Commission (SEC) Climate-related disclosure

SEC climate rule

The SEC's climate change journey



SEC climate rule

Overview

- Applicable to all domestic and foreign registrants (except asset-backed issuers and Form 40-F filers)
- Disclosures required in registration statements (including IPOs) and annual reports

Financial statements (Reg. S-X)

1 DISCLOSURE:

1. Financial statement effects of severe weather events and other natural conditions
2. Information about carbon offsets and renewable energy credits or certificates (RECs)
3. Material impacts on financial estimates and assumptions

2 CONTROLS: Subject to internal control over financial reporting (ICFR)

3 AUDIT: Part of financial statement and ICFR audit

Outside the financial statements (Reg. S-K)

1 DISCLOSURE:

- For large accelerated (LAFs) and accelerated filers (AFs),[1] material greenhouse gas (GHG) emissions for scopes 1 and 2
- Governance
- Strategy
- Risk management
- Targets and goals
- Material expenditures and impacts

2 CONTROLS: Subject to disclosure controls and procedures

3 ASSURANCE: Limited assurance over scopes 1 and 2 GHG emission disclosures for accelerated[1] and large accelerated filers, ramping up to reasonable assurance for large accelerated filers

1. Emerging growth companies and smaller reporting companies are excluded from the scope 1 and 2 emissions reporting requirement.

SEC climate rule

Key changes from the proposed rule

Financial statement disclosures

- Modification of the severe weather events and other natural conditions disclosure requirement to be amounts that exceed **1% of pretax income or total shareholders' equity**, subject to a de minimis threshold

GHG emissions inventory

- **No scope 3** GHG emission reporting requirement
- **Scope 1 and 2 emissions** disclosures only required for LAFs and AFs[1] **when those emissions are material**

Timing

- Extended **adoption and phase-in timelines** for both reporting and assurance
- Registrants have until their **second fiscal quarter** to report GHG emissions disclosures in their **Form 10-Q**

Organizational boundary

- **Flexibility to select an organizational boundary approach[2]**

Assurance

- **Limited assurance phase-in period extended** for AFs and LAFs for scope 1 and 2 emissions
- **Reasonable assurance** will only be required for LAFs

1. Emerging growth companies, smaller reporting companies, and non-accelerated filers are excluded from the scope 1 and 2 emissions reporting requirement.
2. Companies must also disclose the boundary method used and provide investors with information material to understanding the scope of entities and operations included in the GHG emissions calculation as compared to those included in its financial statements.

SEC climate rule

Financial statement disclosures

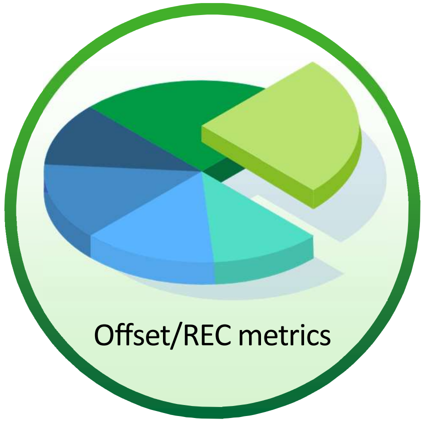
Disclosure of effects of severe weather events and other natural conditions required when aggregate amount of either category exceeds:

- **Expenditures and losses:** Threshold of 1% of the absolute value of income or loss before income tax expense or benefit or $100,000, whichever is greater
- **Capitalized costs and charges:** Threshold of 1% of the absolute value of stockholders' equity or deficit or $500,000, whichever is greater

Illustrative disclosure category	Balance sheet December 31, 2026	Income statement Year ended December 31, 2026
Capitalized costs and charges:		
Property, plant & equipment	$5	
Expenditures and losses incurred:		
Impairment expense		($6)
Cost of revenue		($8)

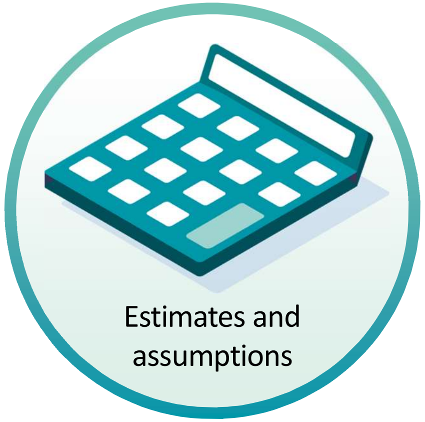
SEC climate rule

Financial statement disclosures



Footnote disclosure required for carbon offsets and renewable energy credits or certificates (RECs) if used as a material component of a registrant's plans to achieve its disclosed climate-related targets or goals.

Illustrative disclosure	
Carbon offsets and RECs as of January 1, 2026	$70 million
Capitalized carbon offsets and RECs	$25 million
Expensed carbon offsets and RECs	$(40 million)
Impairment of carbon offsets and RECs	$(5 million)
Carbon offsets and RECs as of December 31, 2026	$50 million



Disclosure required if the estimates and assumptions in financial statements were materially impacted by risks and uncertainties associated with:

- Severe weather events and other natural conditions.
- Disclosed climate-related targets.
- Disclosed transition plans.

For example, disclosure would be required if there is a material change in the useful life of assets that will be retired early to reduce emissions as a part of a plan to achieve disclosed climate targets.

SEC climate rule

GHG emissions disclosures

GHG emissions

- Scope 1 and scope 2 GHG emissions are required if material for certain registrants
- Scope 3 emissions are not required

Organizational boundary

- Registrants must disclose:
  - How boundary was determined
  - Whether and how the boundary differs from the scope of the consolidated financial statements

Materiality threshold

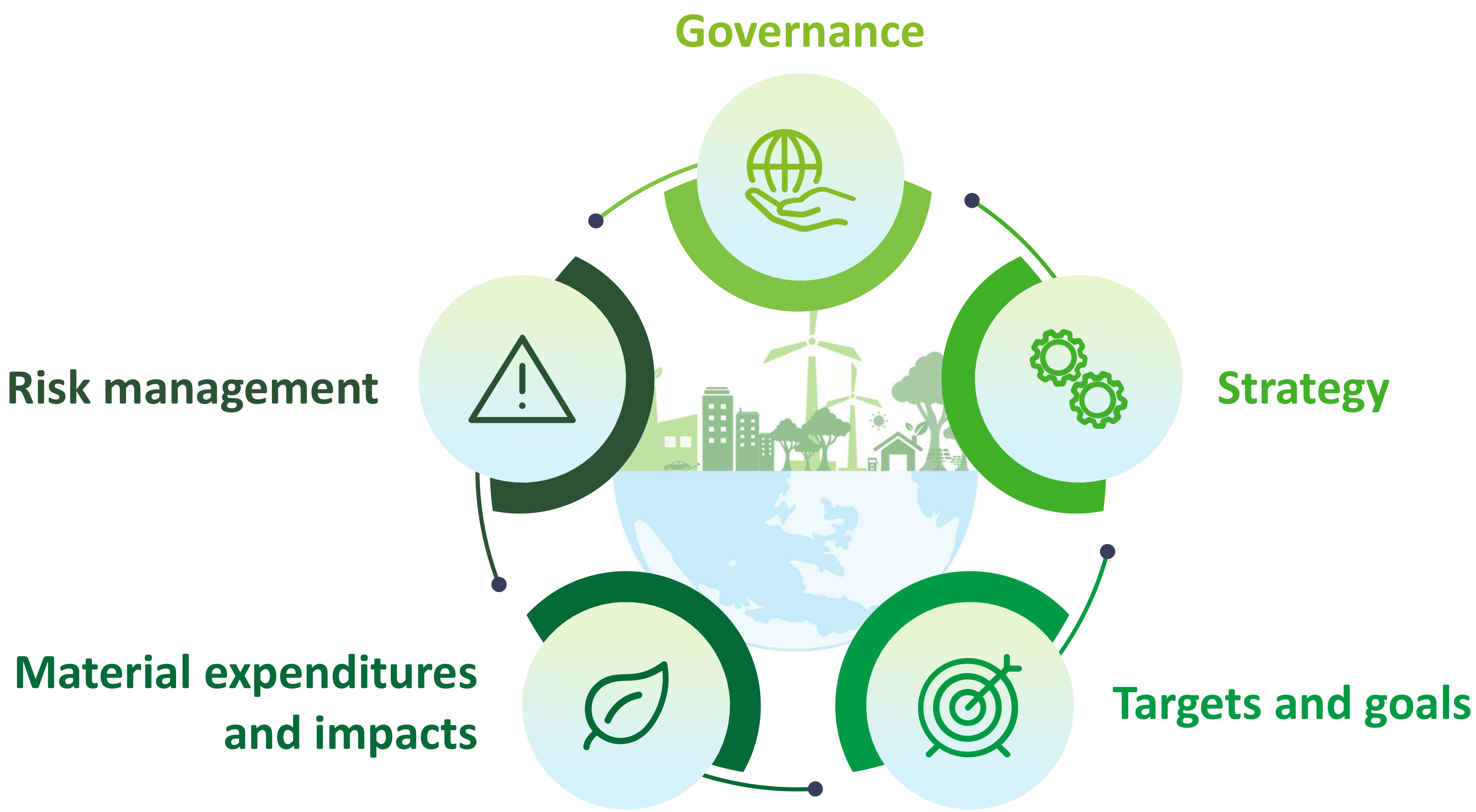
- Consistent with the US Supreme Court definition
- Considers qualitative and quantitative factors
- Not just the number

Assurance

- Assurance on scope 1 and 2 GHG emissions:
  - Large accelerated filers—limited assurance ramping up to reasonable assurance
  - Accelerated filers—limited assurance
  - Disclosure required for voluntary assurance

SEC climate rule

Other climate disclosures



SEC climate rule

Transition timeline

Registrant type	Financial statement disclosures & all other disclosures (Except material expenditures and impacts[1] and GHG emission disclosures)	Disclosures about material expenditures and impacts[1]	Scope 1 and 2 GHG emission disclosures[2]	Assurance on scope 1 and 2 GHG emission disclosures
	Annual reports or registration statements that include financial statements for the year ending December 31:			
Large accelerated filer	2025	2026	2026	Limited assurance – 2029 Reasonable assurance – 2033
Accelerated filer (excluding SRCs and EGCs)	2026	2027	2028	Limited assurance – 2031 Reasonable assurance – N/A
SRC, EGCs, nonaccelerated filer	2027	2028	Not required	Not required

1. Quantitative and qualitative information about the impacts of (1) mitigation of or adaption to climate-related risks, (2) disclosed transition plans, or (3) the disclosed targets or goals or actions taken to achieve or progress toward those targets or goals. Disclosure is required under SEC Regulation S-K.
2. Companies will not be required to provide this information before their second fiscal quarterly report for the following year would otherwise be due or, in the case of a registration statement, 225 days after the end of the fiscal year.

SEC climate rule

Comparison of climate disclosure regulations

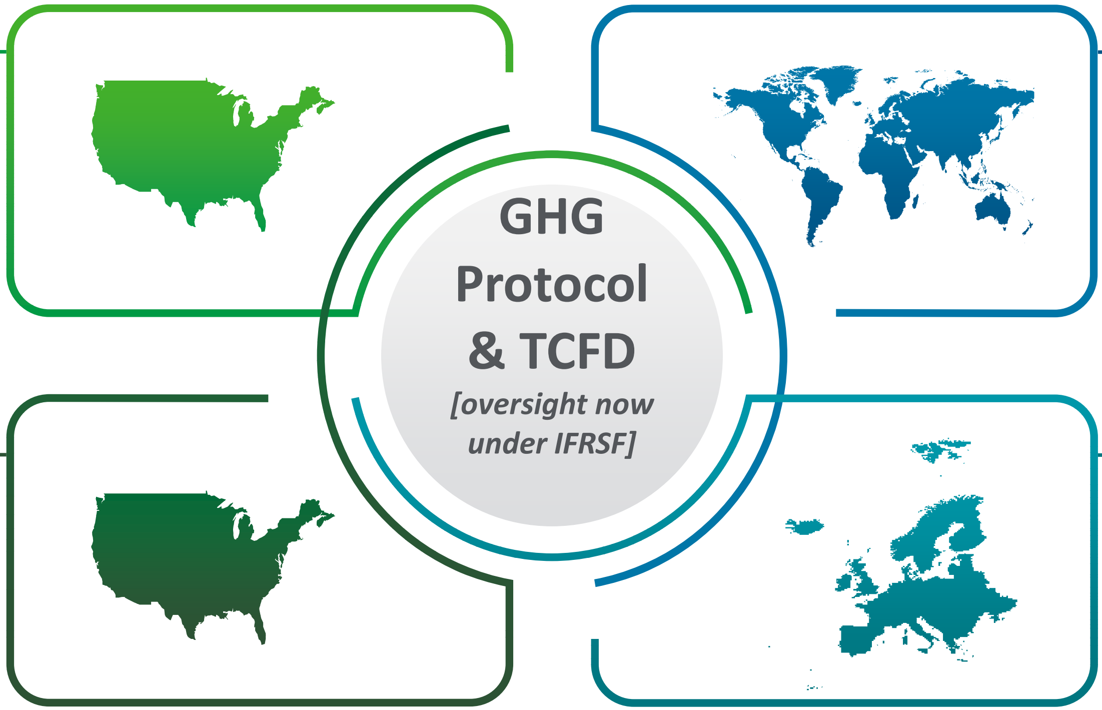
Many climate disclosure regulations leverage concepts from the GHG Protocol and TCFD for accounting and reporting standards for greenhouse gas emissions and climate-related financial risks

SEC climate rule

- **Scope 1 and 2** GHG emissions, if material
- Climate **risk management** processes; **governance** and oversight of climate-related risk; **climate-related risks** on strategy, business model, and outlook; climate **targets and goals; material expenditures** and impacts
- **Financial statement disclosures**

CA climate legislation

- Publicly disclose **scope 1, 2, and 3 emissions**
- Publicly disclose **climate-related financial risks**



IFRS S1 & S2

- **Scope 1, 2, and 3** GHG emissions required, with temporary relief from scope 3 disclosures in the first annual reporting period
- Provide information about **exposure to climate-related risks** and opportunities

CSRD & ESRS

- **Scope 1, 2, and 3** GHG emissions required, and any material change to methodology
- **Climate-related financial risks** and opportunities—governance, strategy, risk management, and metrics and targets

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