

ESG Governance and reporting: how to effectively manage risks and opportunities?

Belgium-Japan Association & Chamber of Commerce (BJA) and Linklaters LLP

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Corporate Sustainability Reporting Directive - CSRD

What is CSRD?

« It is the obligation for companies to publish detailed information about their supply chain on sustainability matters, such as climate change and the environment and on the impacts of their activities on local populations, social issues and governance. »

In a single report with financial information in a shared format (XBRL) uploaded on a single platform (ESAP)

Parlement européen

The requirement for a regular and independent audit of published information.

Why have we built and adopted the CSRD?

From : « *While the Framework recognizes the importance of a large amount of stakeholders, it focuses primarily on the interests of users, and more specifically the longer-term interests of creditors and investors and the protection of those interests.* », the Public Interest Oversight Board doctrine a

To: a world that has changed where companies must endorse a social role in the transition,

The loopholes of NFRD: fragmented and inaccurate data

We had the Green Deal and the Paris Agreement, accidents in the value chain, scandals: ORPEA, DWS -
Deutsch Bank in the United States,

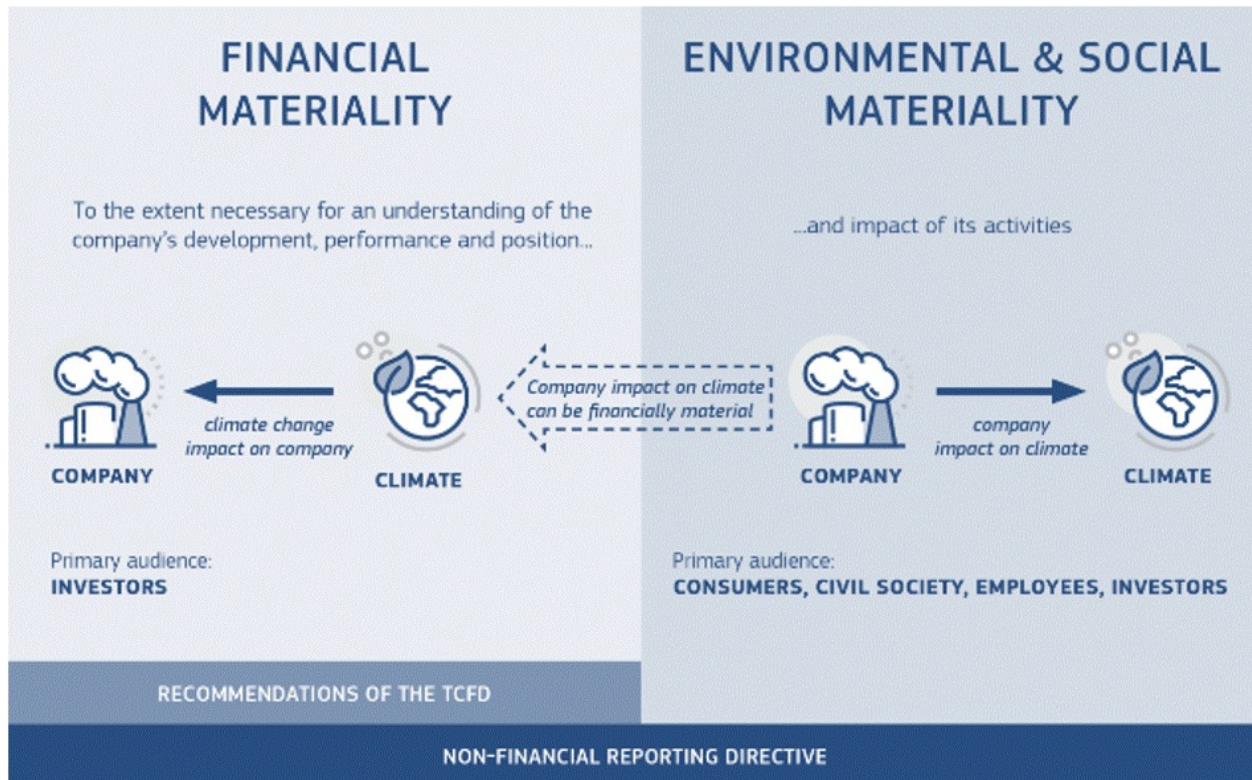
We have regulations that require detailed data (e.g. financial and banking standards),

There is a growing demand from the public, investors, civil society and consumers,

Europe as *Rule-maker*.

Double materiality

A European vision that aims to become global





- "Companies report not only on the financial risks that sustainability issues may expose them to (financial materiality), but also on the impact of their activities on people and the environment (impact materiality)", European Commission.
- Ex: If the organisation uses **cobalt extracted through child labour** in its products, the negative impact (i.e. child labour) is **directly linked to the organisation's products** through the different levels of trade relations **in its supply chain** (i.e. through the smelter and the mineral trader), to the mining company that uses child labour), even if the organisation did not cause or contribute to the negative impact itself.

A broader scope of application

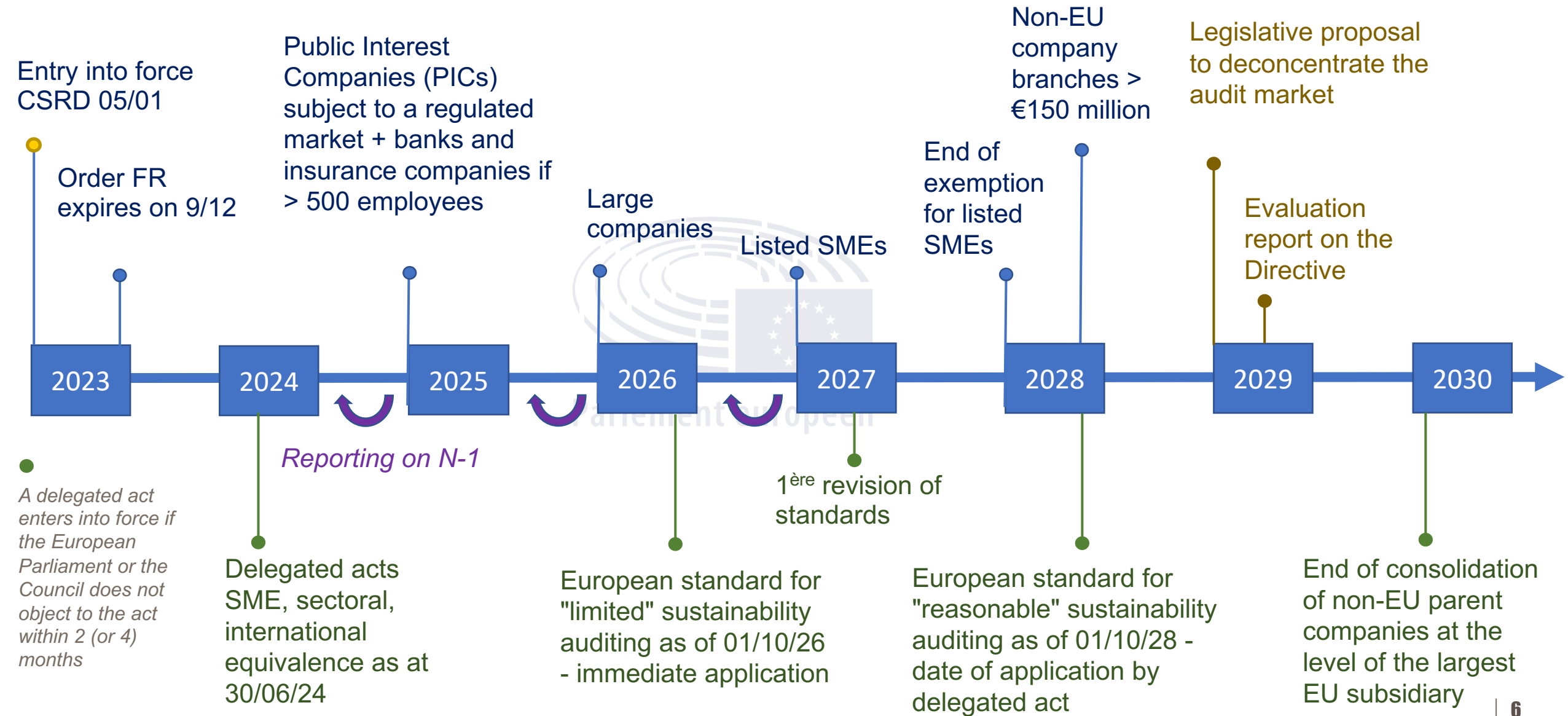
In Europe > 50,000 companies and branches concerned, including about 1,000 listed SMEs.

The Accounting Directive defines which company type is covered.

Comparison of business categories in France and according to the thresholds of the EU Accounting Directive


€	Taille	Chiffre d'affaire €	Bilan €	Salariés
France  2/3 conditions dont le seuil des salariés	TPE	< 10 millions	< 10 millions	< 2
	PME	< 50 millions	< 43 millions	< 250
	ETI	< 1,5 milliards	< 2 milliards	< 5 000
	Grande	> 1,5 milliards	> 2 milliards	> 5 000
European Union  2/3 conditions	Micro	< 700 000	< 350 000	< 10
	Petite	< 8 millions	< 4 millions	< 50
	Moyenne	< 40 millions	< 20 millions	< 250
	Grande	> 40 millions	> 20 millions	> 250

A progressive implementation



The case of third country companies

Consolidation

- Covers parent companies of large European groups that meet the thresholds on a consolidated basis
-  For third country groups:
 1. Possible consolidation at the level of the parent company outside the EU if they use ESRS or standards deemed equivalent (criteria under development),
 2. Or consolidation at the level of the subsidiary with the largest turnover using ESRS,
- **Branches** of companies with a turnover of > €150 million in Europe are covered and report on impact materiality.



European Sustainability Standards (ESRS) 1/2

EFRAG's new European Sustainability Reporting Standards

General	Environmental	Social	Governance
ESRS G1 Requirements	ESRS E1 Climate Change	ESRS S1 Own Workforce	ESRS G1 Business Conduct
ESRS G2 General Disclosures	ESRS E2 Pollution	ESRS S2 Workers in Supply Chain	
	ESRS E3 Water/ Marine Resources	ESRS S3 Affected Communities	
	ESRS E4 Biodiversity & ecosystem	ESRS S4 Consumers & End-Users	
	ESRS E5 Circular Economy		

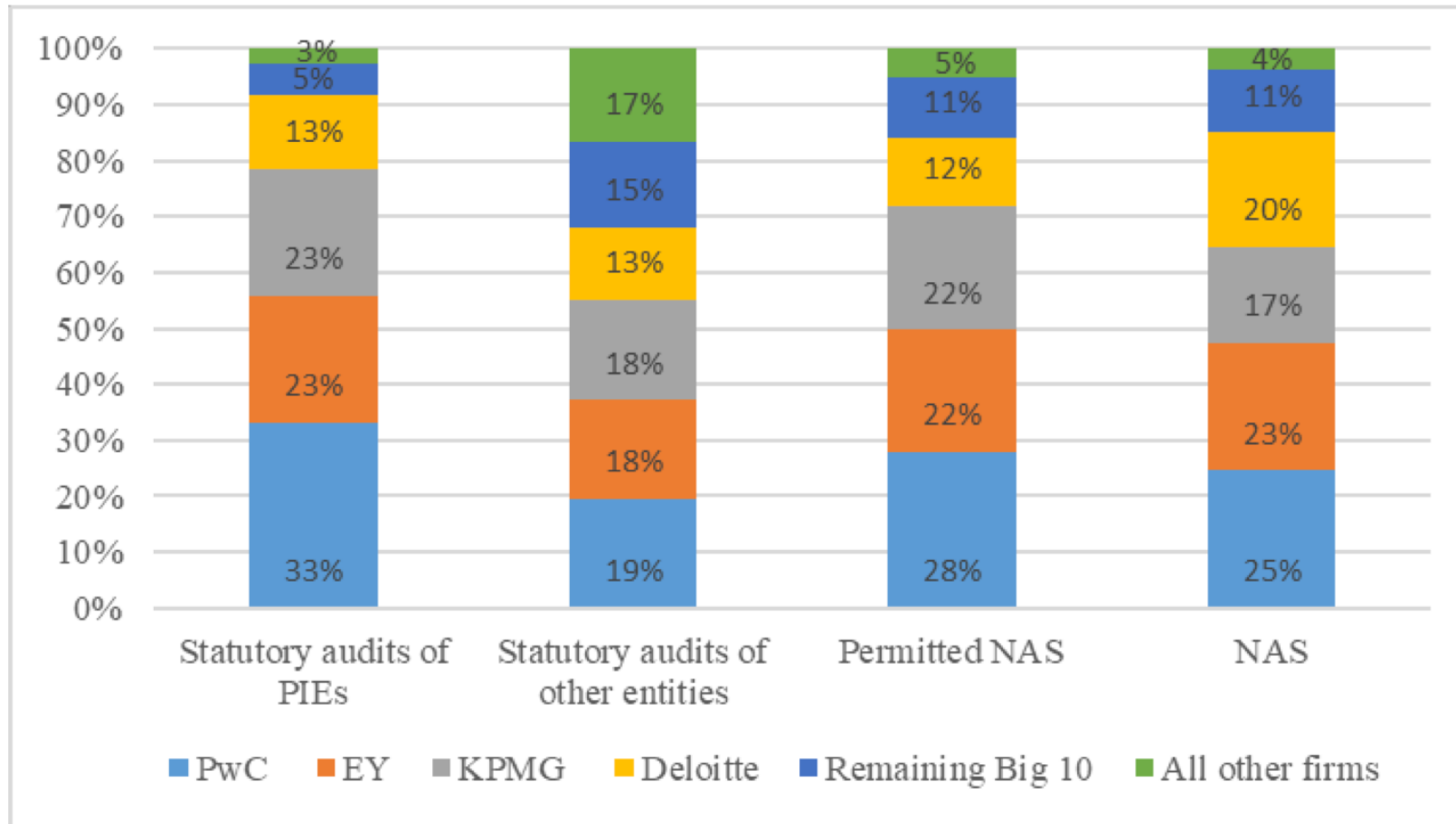
SET 1 - generic and not sector specific

- Across the entire value chain, "including its products and services, business relationships and supply chain »
- Necessary to meet the mandate of CSRD, SFDR, CSR...
- Materiality assessment is the rule and mandatory data the exception.
- 86 disclosure requirements
- 115 compulsory quantitative data points
- 60% of the data points are conditional to materiality assessment



An oligopolistic European audit market

The market share of the Big Four exceeds 90% in the PIEs and 70% in other EU companies



Source: European Commission, Report on the developments in the EU market for statutory audit services to public-interest entities pursuant to Article 27 of Regulation (EU) No 537/2014, (2018)s

CSRD amends Audit Regulations

- Requirement to audit sustainability information,
- (Optional) opening of the market to Independent Insurance Service Providers (IASPs),
- Possibility for IASPs to operate in all states that have opened their markets,
- Shareholders > 5% of the voting rights or capital of a company may request that an independent third party other than the auditor perform a public audit of sustainability information.