



INSTITUTE OF DIRECTORS
IN IRELAND



Corporate ESG Reporting and the Annual Report: What Directors Need to Know with Kevin Prendergast, Chief Executive, IAASA

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Disclaimer

The views expressed are my own and do not necessarily reflect the views of the Authority, Board or the staff of IAASA.

Background

EY Survey, 2022

99%

Almost all investors surveyed utilize companies' ESG disclosures as a part of their investment decision-making.

73%

But close to three-quarters of investors surveyed say that “organizations have largely failed to create more enhanced reporting, encompassing both financial and ESG disclosures,”

76%

Three-quarters of investors surveyed say “companies are highly selective in what information they provide to investors, raising concerns about **greenwashing**.”

European Union strategic policy

- Green deal:
 - No net emissions by 2050
 - Economic growth decoupled from resource use
 - No person and no place left behind
- Aim to direct financial and capital flows to green investment.
- Package of EU laws to achieve this (sustainable finance)
 - Sustainable Finance Disclosures Regulation – ESG disclosures for asset managers
 - Article 8 Taxonomy – classification system for companies to identify economic activities that are considered sustainable
 - Corporate Sustainability Reporting Directive

European Union strategic policy

- CSRD as a reporting directive is a misnomer
- This is part of a “nudge” on corporate strategy
- Access to capital markets will be predicated on sustainability disclosures
- No strategy, no disclosure, more limited access to capital
- Greater scope for negative publicity, with resultant business impacts

What will be different

- Management report – clearly identifiable in a dedicated section
- Report shall contain description of the processes, impacts, risks, indicators according to short, medium and long-term horizons
- Must be electronically tagged

What will be different

- **Assurance**

- Separate opinion required for the assurance of sustainability reporting
- Limited assurance (can move to reasonable)
- Assurance report

- **Who**

- Default: statutory auditor
- Or: another auditor or independent assurance service provider (depending on whether Ireland takes MSO)

What will be different

- Board need to consider the scale of these disclosures
- Initial draft disclosures were estimated to add more than 200 pages to a typical listed entity corporate report
- Revised standards reduced this but still significant
- How will sustainability disclosures integrate with and align with financial disclosures?
- What are the key messages in sustainability report?
- How to satisfy auditor(s) as to consistency?

What will be different

- Double materiality
 - Companies in scope must take into account both the impact of sustainability matters on the company and the company's impact on sustainability matters
 - A contentious issue highlighted as an area requiring significant further guidance and examples to achieve consistent application

Future developments

- 41 sectoral standards, within 14 sectoral groups
- Cover additional disclosure requirements to sector-agnostic standards
- Drafting commenced, oil and gas standard (available on EFRAG website) <https://tinyurl.com/n4tj467p>
- Almost 50 additional disclosures, each of which can contain a list of sub-disclosures
- May reduce on consultation as sector-agnostic standards did
- SME standards planned

Audit

- Sustainability assurance can be carried out by
 - Your statutory auditor if they also register as a sustainability auditor
 - Another statutory auditor if registered as a sustainability auditor
 - An independent assurance services provider (if Irish law allows)
- Statutory auditors will have option to register as sustainability auditors (additional ongoing requirements e.g. education)

Audit

- Limited assurance initially until 2028
 - the compliance of sustainability reporting with the reporting standards
 - the process carried out by the undertaking to identify the information reported pursuant to those reporting standards
 - the compliance with the requirement to mark up sustainability reporting
 - the compliance with the reporting requirements under the taxonomy regulation
- Subject to regulatory oversight
- There is no sustainability assurance standard...

For audit committees

- Your auditor will not “fix” this
- Your accounting function may be useful in assimilating data, but will not produce it
- The specific data requirements are set out at length in the standards
- Data will need to be collected from 1 January 2024 (for those in initial scope)
- Management systems and internal controls will need to be in place from 1 January 2024

For audit committees

- Do engage with your auditors
- Read up
- This should now be a standing item in board meetings
- Management should have or be preparing a plan
 - Disclosure requirements
 - Current data being generated
 - Map to new data requirements
 - Plan to record and manage data (including procurement where necessary)
 - Design of report, incorporating mandatory disclosures

- Policy – implementation – reporting, not the other way round



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