



# Introduction to the Corporate Sustainability Reporting Directive (CSRD) and Draft European Sustainability Reporting Standards (ESRS)



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# Understanding the Corporate Sustainability Reporting Directive (CSRD)



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# The current ESG landscape

## **A change in policy**

Following the EU Green Deal aimed at transforming the region into a “modern, resource-efficient and competitive economy” and the ‘Fit for 55’ package that translates the EU’s Green Deal ambitions into law to cut GHG emissions by 55% over 1990 levels by 2030, a host of new policies and regulations have been introduced in order to help meet these commitments.

## **A change in stakeholder expectations**

Investors, consumers, and other stakeholders have become increasingly interested in the sustainability impacts of businesses. The recently published Corporate Sustainability Reporting Directive (CSRD) is aimed at closing the sustainability information gap. It will require large or listed companies to include disclosures on material environmental, social and governance (ESG) issues, on top of existing financial reporting requirements.

The CSRD will require large or listed companies to prepare comprehensive, granular disclosures on ESG issues affecting a company’s business, and detail the socio-environmental impact of their business activities. This Directive will affect around 50,000 companies in the EU and their supply chains.

As gatekeepers of a company’s information, accountants’ contributions to this initiative are vital to achieving globally consistent disclosures that are relevant, verifiable, and comparable. As accounting professionals, we have a long history of multi-disciplinary work to ensure delivery of timely and high-quality information. ESG upskilling will be crucial so that all professional accountants gain a thorough understanding of this new Directive and be prepared when these new reporting requirements come into effect.

# An overview of CSRD reporting

## 1. Increased reporting requirements

The CSRD reporting requirements are set out in European Sustainability Reporting Standards (ESRS) published by EFRAG.

There are three layers to consider:

- a) Sector-agnostic standards: Consisting of twelve draft ESRSs that will apply to all companies (for maximum comparability).
- b) Sector-specific standards: Will consist of requirements that apply to companies of a specific sector (for maximum relevance).
- c) Company specific reporting: Additional disclosures that are specific to an individual company.

## 2. Mandatory limited assurance

CSRD disclosures are required to form part of the management report.

All companies reporting under the CSRD will require limited assurance on their ESG reporting to avoid 'greenwashing' and to maintain stakeholder confidence, increased credibility and trust in financial markets.

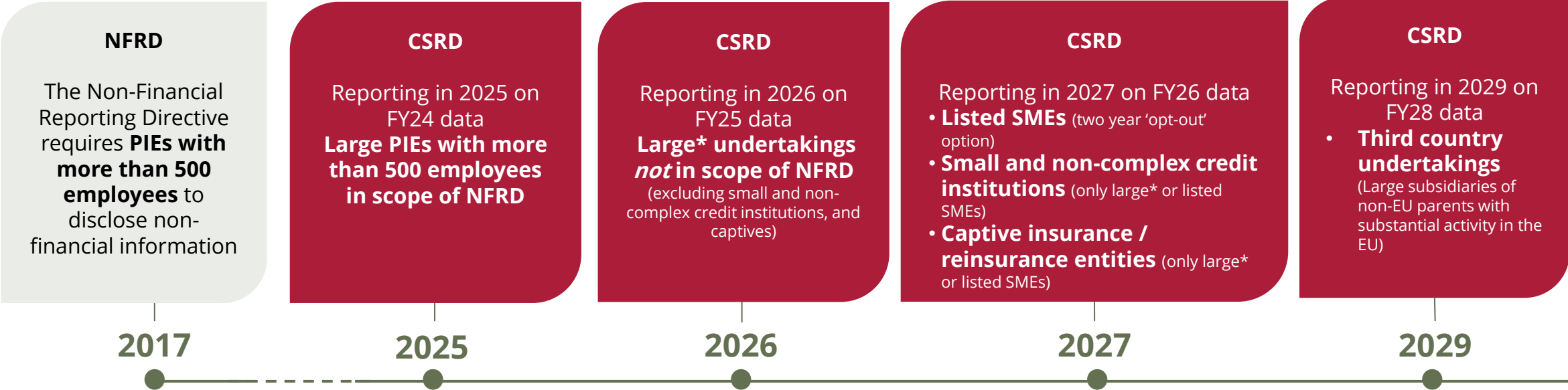
## 3. Transforming the finance function

Input from the whole organisation is required to support the ESG reporting process. Accountants will play a key role in this effort, translating inputs into material metrics and disclosures, and engaging with stakeholders.

Existing reporting processes must be reconsidered and new ones established by the CFO and financial controllers to satisfy time constraints and the level of detail required.



# CSRD reporting timeline



\*Large undertakings are defined as exceeding 2 of these 3 criteria:

Criteria	Threshold
<b>Total assets</b>	€20 million
<b>Turnover</b>	€40 million
<b>Employees</b>	250 employees

Entities in scope of CSRD may claim an **exemption** when they are a subsidiary whose sustainability information will be included in the consolidated report of a parent entity forming part of the same group.

Such an exemption cannot be claimed in the case of:

- Large, listed subsidiaries; and
- Subsidiaries of third country parents which issue a sustainability report under a different ESG reporting framework, until the EC issues any third country equivalence decision/s.



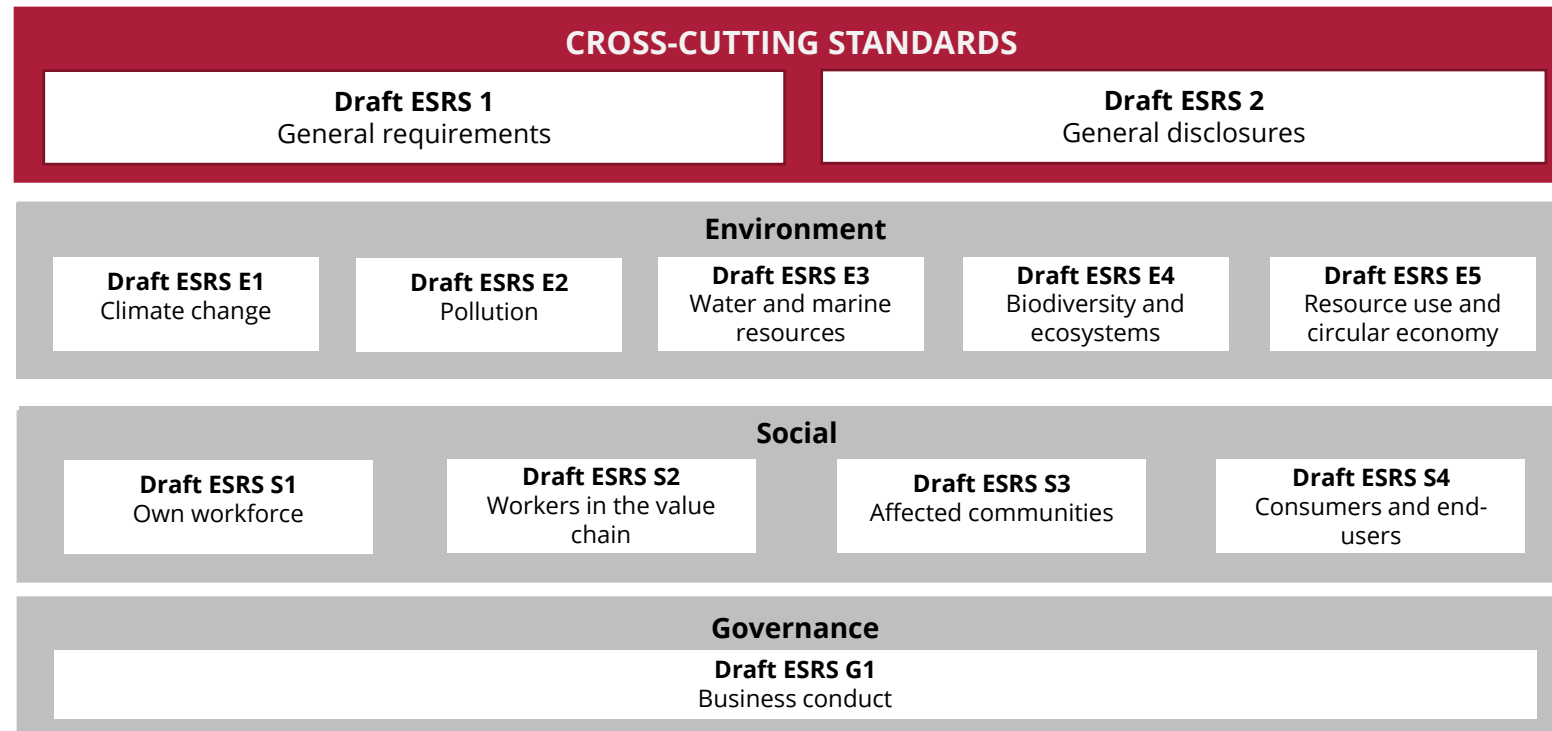


# Draft European Sustainability Reporting Standards (ESRS)



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# Overall ESRS structure





# Draft ESRS 1 General Requirements



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# Draft ESRS 1 *General Requirements*

- Draft *ESRS 1 General Requirements* is aimed at setting out general requirements that are required by undertakings to comply with in the preparation and presentation of sustainability-related information under the CSRD.
- On April 2022, the European Financial Reporting Advisory Group (EFRAG) launched a public consultation on the ESRS – including draft ESRS 1. This has since been revised, and in November 2022, the ESRS were submitted to the European Commission.
- Draft ESRS 1 explains the different categories of draft Standards and disclosures present under the draft ESRS that an undertaking will need to present within their Sustainability Reporting in order to be compliant with the draft ESRS.
- Draft ESRS 1 states that sustainability statements must include fundamental and enhancing qualitative characteristics of information such as comparability, verifiability, understandability, relevance and faithful representation. Moreover, all information is to be reported based on the double materiality principle which is defined in Chapter 3 of draft ESRS 1. This Chapter provides requirements on impact materiality and financial materiality assessments.
- Sustainability Due Diligence remains a key feature in the draft ESRS. Draft ESRS 1 provides a list of Disclosure Requirements present in the draft ESRS 2 and in the draft topical ESRS and provides a description of the process and its outcomes.
- Requirements for Sustainability Reporting and Value Chain are also included. For instance, reporting conducted for sustainability statements shall kept the same for related financial statements. Reporting will need to include information on material impacts and risks and opportunities emerging from direct and indirect business relationships in upstream and/or downstream value chain. Moreover, general requirements are provided for the use of sector averages and proxies when information cannot be acquired.



# Draft ESRS 1 *General Requirements*

- Draft ESRS 1 provides information on time horizons such as the reporting period, stating that this shall be the same as its financial statements. Undertakings will be required to present comparative information against a base year, and establish appropriate linkages between retrospective and forward-looking information. Furthermore, requirements on adopting time intervals are provided.
- Chapter 7 of draft ESRS 1 explains general requirements necessary in the preparation and presentation of sustainability information. It states that information must be comparative and if this is not the case, undertakings shall specify why this is the case. Moreover, assumptions taken must be consistent with corresponding financial data and assumptions used within the Financial Statements.
- In the case of reporting errors, draft ESRS 1 provides the types of errors that could emerge, and how these may be corrected.
- Within this Draft, details on the structure, content, linkages and presentation of Sustainability Statements is provided. Appendix G provides *Example of structure of ESRS sustainability statements* which showcases how the sustainability report should be structured. Moreover, detail about
- Lastly, transitional provisions for a number of sections within draft ESRS 1 are provided.
- The next two pages provide a list of all the Chapter and Sections present within draft ESRS 1.

# Summary of Draft ESRS 1 – General Requirements

Draft ESRS 1 – Chapters ‘Exposure Draft’ November 2022	
Categories of draft Standards and disclosures under draft European Sustainability Reporting Standards	<ul style="list-style-type: none"> <li>• Complying with draft ESRS</li> <li>• Cross- Cutting Standards and reporting areas</li> <li>• Topical ESRS</li> <li>• Entity-specific disclosures</li> <li>• Disclosure Content for policies, actions and targets</li> </ul>
Qualitative characteristics of information	<ul style="list-style-type: none"> <li>• Fundamental and enhancing qualitative characteristics of information</li> </ul>
Double materiality as the basis for sustainability disclosures	<ul style="list-style-type: none"> <li>• Stakeholders and their relevance to the materiality assessment process</li> <li>• Material matters and materiality of information</li> <li>• Double Materiality</li> <li>• Impact Materiality</li> <li>• Financial Materiality</li> <li>• Material impacts or risks arising from actions to address sustainability matters</li> <li>• Level of disaggregation</li> </ul>
Sustainability due diligence	<ul style="list-style-type: none"> <li>• Process by which undertakings identify, prevent, mitigate and account for how they address the actual and potential negative impacts on people and the environment</li> </ul>

# Summary of Draft ESRS 1 – General Requirements

	Draft ESRS 1 – Chapters ‘Exposure Draft’ November 2022
Value Chain	<ul style="list-style-type: none"> <li>• Reporting undertaking and value chain</li> <li>• Estimation using sector averages and proxies</li> </ul>
Time horizons	<ul style="list-style-type: none"> <li>• Reporting period</li> <li>• Linking past, present and future</li> <li>• Reporting progress against the base year</li> </ul>
Preparation and presentation of sustainability information;	<ul style="list-style-type: none"> <li>• Presenting competitive information</li> <li>• Sources of estimation and outcome certainty</li> <li>• Updating disclosures about events after the end of the reporting period</li> <li>• Changes in preparation or presentation of sustainability disclosure</li> <li>• Reporting errors in prior periods</li> <li>• Consolidated reporting and subsidiary exemption</li> <li>• Information on intellectual property, know-how or results of innovation</li> </ul>
Structure of sustainability statements	<ul style="list-style-type: none"> <li>• General presentation requirement</li> <li>• Content and structure of the sustainability statements</li> </ul>
Linkages with other parts of corporate reporting and connected information	<ul style="list-style-type: none"> <li>• Incorporation by reference</li> <li>• Connected information and connectivity with financial statements</li> </ul>
Transitional provisions.	<ul style="list-style-type: none"> <li>• Transitional provision related to section 1.4 Entity-specific disclosures</li> <li>• Transitional provision related to chapter 5 Value chain</li> <li>• Transitional provision related to section 7.1 Presenting comparative information</li> <li>• Transitional provision: List of Disclosure Requirements that are phased-in for draft ESRS to year 2 or subsequent years</li> </ul>



# Environment



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# Environmental disclosures overview

## Draft E1: Climate Change

How the undertaking affects the topic in terms of positive and negative material actual or potential impacts

## Draft E2: Pollution

The undertaking's past, current and future mitigation efforts

## Draft E3: Water and Marine resources

The plans and capacity of the undertaking to adapt its business model(s) and operations in line with the topic

## Draft E4: Biodiversity and ecosystems

Any other actions taken and the result of such actions to prevent, mitigate or remediate actual or potential adverse impacts

## Draft E5: Resource use and circular economy

The nature, type and extent of the material risks and opportunities related to the undertaking's impacts and dependencies on the topic and how it manages them

The effects of climate-related risks and opportunities on the undertaking's development, performance, position over the short, medium and long term and its ability to create enterprise value in the short, medium and long term

# Environmental disclosures overview

## Draft E1 Climate change

### Disclosure requirements (all mandatory)

- DR E1-1 – Transition plan for climate change mitigation
- DR E1-2 – Policies related to climate change mitigation and adaptation
- DR E1-3 – Action plans and resources in relation to climate change policies and targets
- DR E1-4 – Targets related to climate change mitigation and adaptation
- **DR E1-5 – Energy consumption and mix**
- **DR E1-6 – Gross Scopes 1, 2, 3 and Total GHG emissions**
- DR E1-7 – GHG removals and GHG mitigation projects financed through carbon credits
- DR E1-8 – Internal carbon pricing
- DR E1-9 – Potential financial effects from material physical risks, material transition risks and climate-related opportunities

### DR E1-5 Energy consumption and mix

#### Non-renewable energy consumption:

- Fuel consumption from coal and coal products, crude oil and petroleum products, natural gas
- Consumption from nuclear products
- Consumption from purchased or acquired electricity, heat, steam and cooling from non-renewable sources

#### Renewable energy consumption:

- Including biomass, biogas, non-fossil fuel waste, renewable hydrogen etc.
- Consumption from purchased or acquired electricity, heat, steam, and cooling from renewable sources
- Consumption from self-generated non-fuel renewable energy

### DR E1-6 – Gross Scopes 1, 2, 3 and Total GHG emissions

#### Scope 1 (direct emission)

- Company facilities
- Company vehicles

#### Scope 2 (indirect emission)

- Purchased electricity, steam, heating and cooling for own use

#### Scope 3 (indirect emission from value chain beyond Scope 1 and 2)

- **Upstream:** purchased goods and services; capital goods; fuel and energy related activities; transportation and distribution; waste generated in operations; business travel; employee commuting; leased assets etc.
- **Downstream:** Investments; franchises; leased assets; end-of-life treatment of sold products; use and processing of sold products; transportation and distribution etc.

# Environmental disclosures overview

## Draft E2 Pollution

### Disclosure requirements

- DR E2-1 – Policies related to pollution
- DR E2-2 – Action plans and resources related to pollution
- DR E2-3 – Targets related to pollution
- **DR E2-4 – Pollution of air, water and soil**
- DR E2-5 – Substances of concern and substances of very high concern
- DR E2-6 – Potential financial effects from pollution-related impacts, risks and opportunities

### DR E2-4 – Pollution of air, water and soil

Disclosures on below **pollutants emission generated by the undertaking on its own operations:**

- Air pollutants
- Water
- Inorganic pollutants
- Ozone-depleting substances
- Microplastics

#### **Shall also describe:**

- The changes over time
- The measurement methodologies
- The process(es) to collect data, including type of data needed and the information sources

Shall consider the **quantification approach in the following priority order:**

- a) Direct measurement through the use of recognised continuous monitoring systems
- b) Periodic measurements
- c) Calculation based on site-specific data
- d) Calculation based on published pollution factors
- e) Estimation



# Environmental disclosures overview

## Draft E3 Water and marine resources

### Disclosure requirements

- DR E3-1 – Policies related to water and marine resources
- DR E3-2 – Action plans and resources related to water and marine resources
- DR E3-3 – Targets related to water and marine resources
- **DR E3-4 – Water consumption**
- DR E3-5 – Potential financial effects from water and marine resources-related impacts, risks and opportunities

### DR E3-4 – Water consumption

Disclosures relate to **own operations** shall include:

- Total water consumption in m<sup>3</sup>
- Total water consumption in m<sup>3</sup> in areas at material water risk
- Total water recycled and reused in m<sup>3</sup>
- Total water stored and changes in storage in m<sup>3</sup>
- Water intensity: total water consumption in m<sup>3</sup> per net revenue on own operations
- Any contextual information regarding the local basins' water quality and quantity, how the data have been compiled

# Environmental disclosures overview

## Draft E4 Biodiversity and ecosystems

### Disclosure requirements

- DR E4-1 – Transition plan on biodiversity and ecosystems
- DR E4-2 – Policies related to biodiversity and ecosystems
- DR E4-3 – Actions and resources related to biodiversity and ecosystems
- DR E4-4 – Targets related to biodiversity and ecosystems
- **DR E4-5 – Impact metrics related to biodiversity and ecosystems change**
- DR E4-6 – Potential financial effects from biodiversity and ecosystem-related impacts, risks and opportunities

### DR E4-5 – Impact metrics related to biodiversity and ecosystems change

Performance measures on biodiversity and ecosystems are currently the object of much ongoing collective work thus the disclosures in this Standard are mostly **principles-based rather than proposing specific measures**.

- **Direct contributors to the impact drivers of:**
  - Land-use change, freshwater-use change and/or sea-use change over time through
    - Deforestation or mining
    - Agricultural management or forestry harvesting
    - Fragmentation of habitats etc.
  - Accidental or voluntary introduction of invasive alien species considerations
    - Management of introduction pathways
    - Risks posed by invasive alien species



# Environmental disclosures overview

## Draft E5 Resource use and circular economy

### Disclosure requirements

- DR E5-1 – Policies related to resource use and circular economy
- DR E5-2 – Actions and resources related to resource use and circular economy
- DR E5-3 – Targets related to resource use and circular economy
- **DR E5-4 – Resource inflows**
- **DR E5-5 – Resource outflows**
- DR E5-6 – Potential financial effects from resource use and circular economy-related impacts, risks and opportunities

### DR E5-4 – Resource inflows

#### Resource inflows

- Refer to **all products and materials used for production and packaging of products and services** including:
  - Materials (raw, associated process materials, and semi-manufactured goods or parts)
  - Products
  - Packaging
  - Plant, property and equipment

#### Disclose the material inflows in tonnes or kilo:

- The overall total weight of products and materials used
- The weight and percentage of renewable input materials from regenerative sources used
- The weight and percentage of reused or recycled products and materials used

### DR E5-5 – Resource outflows

#### Products and materials

- Shall disclose the total weight and percentage of **materials that come out of the undertaking's production process and that are designed along circular principles** (e.g. reusability, reparability, disassembly etc.)

#### Waste

Shall disclose the total amount of waste (in terms of hazardous and non-hazardous) on its own operations:

- The total amount of waste generated
- The weight diverted from disposal by recovery operation type (e.g. reuse/recycling) and waste treatment type (e.g. incineration/landfilling)



# Social



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# Social disclosures overview

## Draft S1: Own workforce

Requires undertakings to describe their own workforce. Own workforce includes workers who are in an employment relationship with the undertaking and non-employee workers who are either individual contractors supplying labour to the undertaking or workers provided by undertakings primarily engaged in “employment activities”.

## Draft S2: Workers in the value chain

Covers all workers in the undertaking’s upstream and downstream value chain who are or can be materially impacted by the undertaking.

## Draft S3: Affected communities

Disclosure of material impacts on affected communities caused or contributed to by the undertaking. Affected communities are a group living or working in the same area that has been or may be affected by the undertaking operations or through its value chain.

## Draft S4: Consumers and end users

Understanding of material impacts on consumers and/or end-users caused or contributed by the undertaking.

# Main Disclosure Requirements

## Draft S1: Own workforce

### Disclosure requirements

- Policies related to own workforce
- Processes for engaging with own workers and workers representatives
- Channels for own workforce/workers representatives to raise concerns
- Targets related to managing impacts and managing material risks and opportunities and approaches to mitigating risks and pursuing opportunities
- Characteristics of Undertaking Employees and non-employees in the Undertaking's own workforce
- Training and skills development indicators
- Coverage and performance of the health and safety management system
- Working hours
- Work-life balance indicators
- Fair remuneration
- Pay Gap between women and men
- Employment of persons with disabilities

## Draft S2: Workers in the value chain

### Disclosure requirements

- Policies related to value chain workers
- Processes for engaging with value chain workers about impacts
- Channels for value chain workers to raise concerns
- Targets related to managing impacts and managing material risks and opportunities and approaches to mitigating risks and pursuing opportunities
- Taking action on material impacts on value chain workers and effectiveness of those actions
- Approaches to mitigating material risks and pursuing material opportunities related to value chain workers

## Draft S3: Affected communities

### Disclosure requirements

- Policies related to affected communities
- Processes for engaging with affected communities about impacts
- Channels for affected communities to raise concerns
- Targets related to managing impacts and managing material risks and opportunities and approaches to mitigating risks and pursuing opportunities
- Taking action on material impacts on affected communities and effectiveness of those actions
- Approaches to mitigating material risks and pursuing material opportunities related to affected communities

## Draft S4: Consumers and end users

### Disclosure requirements

- Policies related to consumers and end users
- Processes for engaging with consumers and end users about impacts
- Channels for consumers and end users to raise concerns
- Targets related to managing impacts and managing material risks and opportunities and approaches to mitigating risks and pursuing opportunities
- Taking action on material impacts on consumers and end users and effectiveness of those actions
- Approaches to mitigating material risks and pursuing material opportunities related to consumers and end users.





# Governance



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# Governance disclosures overview

## Draft G1 Business conduct

### Disclosure requirements

- DR ESRS2 GOV-1 – The role and expertise of the administrative, supervisory and management bodies
- DR ESRS2 IRO-1 - Description of the processes to identify and assess material impacts, risks and opportunities
- DR G1-1 – Strategy to foster the corporate culture, its implementation and outcome, and business conduct policies
- DR G1-2 – Management of the procurement process including fair behaviour with suppliers. This should include policies to prevent late payments to SMEs.
- DR G1-3 – Key procedures to prevent and detect, and address allegations of corruption or bribery including the related training
- DR G1-4 – Confirmed incidents of corruption or bribery
- **DR G1-5 – Activities and commitments related to its political influence and lobbying activities**
- DR G1-6 – Payment practices, specially with regards to late payment to SMEs

### DR G1-5 – Political influence and lobbying activities

Shall also include disclosure of the monetary value of financial or in-kind political contributions and for in-kind contributions, how the monetary value is estimated.

Shall also include information about the appointment of any members of the administrative, management and supervisory bodies who held similar positions in public administration including regulators in the two years preceding such appointment in the current reporting period.

If you have any suggestions or queries, kindly  
send them to [technical@miamalta.org](mailto:technical@miamalta.org)



A decorative graphic consisting of several hexagons. At the top left, there are three small, hollow red hexagons arranged in a cluster. To their right is a large, solid dark red hexagon. Further to the right is a large, hollow red hexagon with rounded corners. A thick red line connects the bottom of the solid hexagon to the top of the hollow hexagon, forming a continuous shape.

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