



ISSUE 2 – OCTOBER 2023

Sustainability SPOTLIGHT



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Foreword

This year has seen sustainability and ESG dominate many conversations, whether one is in business, government or the NGO community. So perhaps it is no surprise that organisations, no matter where they are located, are facing a watershed in terms of sustainability regulations which will have a major impact on how businesses operate and report.

Thus far, sustainability regulations have been met with a mixed response. Whilst some see them as a force for good and essential to move countries towards a common global standard, others are concerned about companies' readiness to adopt onerous reporting and assurance regulations.

In this edition of SPOTLIGHT, we delve into the complex world of sustainability regulations to give you more insight into what is required, by when and for which companies.

Enjoy the read!



ASHLEY TRUSCOTT

*Senior Manager
Global Sustainability*





Mandatory sustainability reporting

– arriving sooner than you might think



ANDREW BUCHANAN

Global Head of IFRS and Corporate Reporting
BDO

Historically, sustainability reporting has been inconsistent and fragmented, with companies being able to choose from a range of voluntary frameworks which have differing requirements and have been applied inconsistently. This has led to greenwashing, and calls from users of corporate reports, regulatory authorities and others for the development (and consistent application) of comprehensive and robust reporting requirements.

The past two years have seen significant and rapid progress in sustainability standard setting. Companies in many jurisdictions worldwide will be required to publish sustainability reports - some sooner than others. In the European Union, for example, an assurance report (initially providing limited, but ultimately reasonable, assurance) will also be required.






▶ [Read more](#) for an overview of global developments, requirements for both EU and non-EU entities, key reporting dates, and more.

New!

BDO's IFRS and Corporate Reporting team has compiled [Sustainability at a glance – European Sustainability Reporting Standards \(SAAG-ESRS\)](#) to give a high-level overview of European Sustainability Reporting Standards (ESRS). SAAG-ESRS includes all ESRSs released as of 15 September 2023. This version of the publication is based on Annexes 1 and 2 of the delegated acts for Directive 2022/2464 released on 31 July 2023 by the European Commission.

SAAG-ESRS summarises the disclosure requirements of each topical ESRS, however, the requirements (including certain definitions) have been summarised. SAAG-ESRS also does not include the majority of application requirements. Readers should refer to the full text of the standards for further information.

A summary of key changes introduced by the Corporate Sustainability Reporting Directive (CSRD) and their timing is set out below:

Requirement	Non-financial Reporting Directive	Corporate Sustainability Reporting Directive
 Companies that are required to report	<p>Large public interest entities (both single entities and consolidated groups) with more than 500 employees.</p> <p>Public interest entities are:</p> <ul style="list-style-type: none"> ▶ Companies listed on an EU regulated market (EU and non-EU companies) ▶ EU banks and insurance companies 	<p>Listed companies (except for listed micro entities).</p> <p>All large companies, defined as those meeting two out of the following three criteria:</p> <ul style="list-style-type: none"> ▶ More than 250 employees ▶ More than EUR 40m turnover ▶ More than EUR 20m total assets <p>This includes subsidiaries of non-EU groups.</p> <p>Insurance undertakings and credit institutions regardless of their legal form.</p> <p>Non-EU groups that generate more than EUR 150m turnover in the EU and have a subsidiary or branch in the EU (if a subsidiary, either a large – as defined above – or a listed entity and, if a branch, one that generates more than EUR 40m turnover).</p>
 When do the requirements apply?	<p>Year ended 31 December 2018 onwards</p>	<p>Year ending 31 December 2024</p> <ul style="list-style-type: none"> ▶ Entities currently within the scope of the NFRD and non-EU entities with listed equity or debt on an EU-regulated market and more than 500 employees <p>Year ending 31 December 2025</p> <ul style="list-style-type: none"> ▶ All other large entities <p>Year ending 31 December 2026</p> <ul style="list-style-type: none"> ▶ Listed SMEs*, small and non-complex credit institutions and captive insurance undertakings <p>Year ending 31 December 2028</p> <ul style="list-style-type: none"> ▶ Non-EU undertakings (except those currently within the scope of the NFRD)
 How many EU companies will need to comply with the requirements?	<p>11,600</p>	<p>49,000</p>
 Scope of the reporting requirements	<ul style="list-style-type: none"> ▶ Environmental protection ▶ Social responsibility and treatment of employees ▶ Human rights ▶ Anti-corruption and bribery ▶ Diversity on company boards 	<p>NFRD requirements plus:</p> <ul style="list-style-type: none"> ▶ Report in accordance with the ESRS ▶ Reporting that is consistent with the Sustainable Finance Disclosure Regulation and the EU Taxonomy ▶ Double materiality concept. This expands the consideration of sustainability beyond an entity's capital market value, to include the entity's wider effects on society and the environment.
 Assurance	<p>Not required</p>	<p>Mandatory</p> <ul style="list-style-type: none"> ▶ Initially limited assurance, to be expanded to reasonable (audit) assurance in future.

*Listed SMEs can defer application of the reporting requirements to year ending 31 December 2028 if a statement is included in their management report of why the sustainability information was not provided.

Phase-in provisions:

	FY 2024 Report in 2025	FY 2025 Report in 2026	FY 2026 Report in 2027	FY 2027 Report in 2028	FY 2028 Report in 2029
 <p>NFRD scope and non-EU dual listed with >750 employees</p>	Light phase-in	Light phase-in	Light phase-in	Full reporting	Full reporting
 <p>NFRD scope and non-EU dual listed with <750 employees</p>	Strongest phase-in	Moderate phase-in	Light phase-in	Full reporting	Full reporting
 <p>Non-NFRD scope with >750 employees</p>	No reporting	Light phase-in	Light phase-in	Light phase-in	Full reporting
 <p>Non-NFRD scope with <750 employees</p>	No reporting	Strongest phase-in	Moderate phase-in	Light phase-in	Full reporting
 <p>Listed SME</p>	No reporting	No reporting	Strongest phase-in	Strongest phase-in	Full reporting

Sustainability regulations: *shaping the future of business*

In today's continuously evolving global landscape, sustainability regulations have emerged as a critical and complex area of concern for business leaders. With the mounting challenges posed by climate change and social inequality, governments and organisations worldwide are acknowledging the urgent need to address these issues responsibly. From a global perspective, what has taken centre stage is the publication of the first [IFRS Sustainability Disclosure Standards](#) (IFRS SDS) by the recently formed [International Sustainability Standards Board](#) at the IFRS Foundation, accompanied by [IOSCO's](#) endorsement and call for its members in 130 jurisdictions worldwide (which represent over 95% of the world's capital markets) to consider how they can incorporate ISSB Standards into their respective

regulatory frameworks as a global 'baseline' of requirements. The adoption of this global baseline, potentially accompanied by additional jurisdictional requirements, is expected to start soon with multiple jurisdictions already having signalled that they intend to take this approach. These global developments have been accompanied by regional initiatives, in particular in the European Union (EU) with the [Corporate Sustainability Reporting Directive \(CSRD\)](#) and linked [European Sustainability Reporting Standards \(ESRS\)](#). Combined, the global developments and regional/jurisdictional developments are driving transformative shifts in corporate practices and setting new standards for accountability.

▶ [Read more.](#)

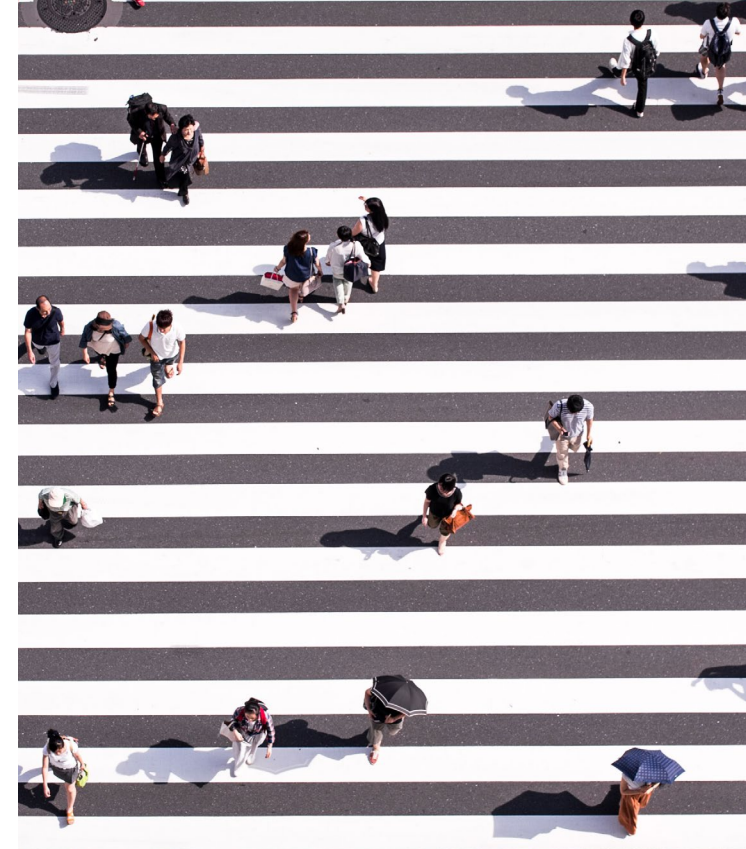
The applicability of the CSRD and ESRS: *BDO's global perspective*

For those companies that will fall within their scope, the [Corporate Sustainability Reporting Directive](#) (CSRD) and [European Sustainability Reporting Standards](#) (ESRS) are ushering in a new era of sustainability reporting worldwide. These regulations demand transparency, accountability, and a shift towards global criteria, impacting companies across the globe. As the world moves towards a more sustainable future, the importance of reliable and comprehensive sustainability reporting has never been greater. While from some perspectives there is

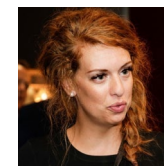
positive reaction to the introduction of the CSRD and ESRS, there is acknowledgement of the challenges many companies will face.

Both Joaquín Tribolo, ESG & Compliance Leader at [BDO in Argentina](#) and Benjamín Ayala Raineri, Sustainability Manager at [BDO in Chile](#), believe the adoption of global reporting criteria such as the CSRD in their countries will be positive.

[Read more from our global sustainability experts](#)



“Ensuring the accuracy, reliability, and consistency of data will be crucial to maintaining the integrity of sustainability reporting.”



TESSA MARTENS

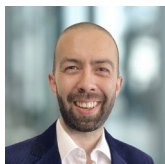
ESG Competence Centre Lead and Inclusive Diversity Manager

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The upsides of the IFRS Sustainability Disclosure Standards and the European Sustainability Reporting Standards

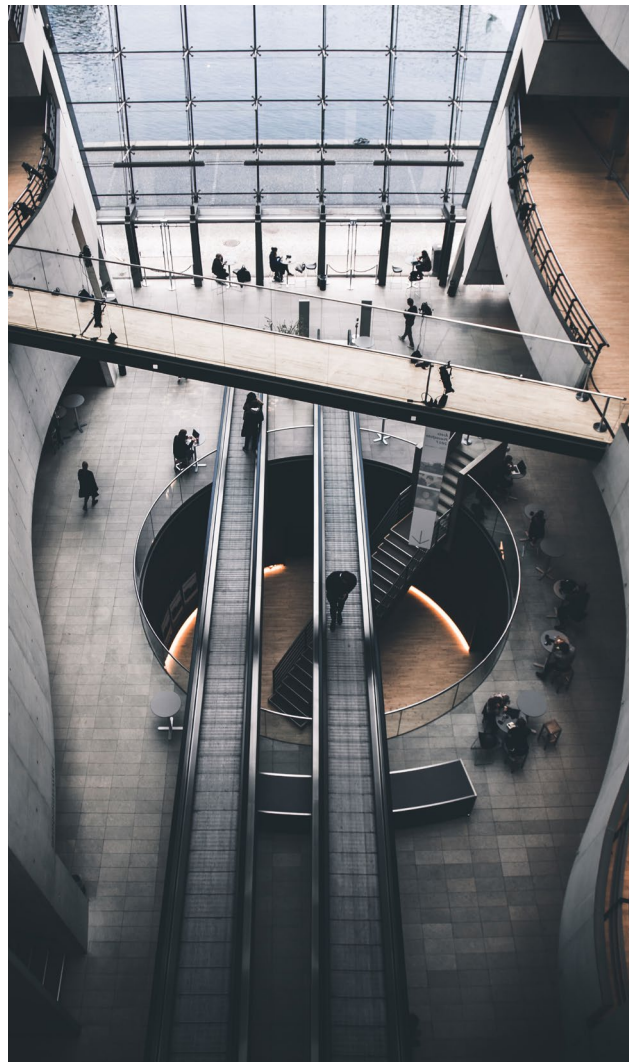
The introduction of the [IFRS Sustainability Disclosure Standards](#) (IFRS SDS) and, separately, the [European Sustainability Reporting Standards](#) (ESRS) might seem like yet more new sets of standards in the crowded sustainability reporting scene but there are opportunities that companies can harness to improve their business performance. Swift adoption, regardless of the phased timing allowed, can offer substantial benefits, for both reporting companies and their stakeholders. In addition, the IFRS SDS are based on existing frameworks and standards (including the recommendations of the [Task-force on Climate-related Financial Disclosures](#) (TCFD) the [International Integrated Reporting Framework](#) and standards issued by the [Sustainability Accounting Standards Board](#) (SASB) meaning that the structure and requirements of reporting will be familiar to many of the companies that already publish sustainability reports.

“If companies want to remain a sustainable option for investors and clients, they need to adopt ESG into their core strategy and decision-making.”



BENJAMÍN AYALA RAINERI
Sustainability Manager
[BDO in Chile](#)

[Read more](#) about how you can benefit from improved transparency and accountability, operational excellence, assessing climate change impacts, competitive advantage and a positive impact on investor perceptions.



Top tips

- 1** Get started. A lot of mid-size companies complain that they must report, and that it's too much and too difficult. Start now - the challenge is unavoidable and will be even greater if the work is left until the last minute.
- 2** Get the right people at the table. This is a cross-functional topic that must be tackled accordingly.
- 3** Identify two or three business benefits to make it easier to convince your stakeholders to join you on the journey.



VIOLA MÖLLER
Partner, Sustainability Services
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Integrating the requirements of the CSRD and the ESRS

There is general acknowledgement by those familiar with financial reporting requirements that this new era of sustainability reporting is going to be onerous. We canvassed several BDO partners around the world for their advice on how to transition to the requirements of the [Corporate Sustainability Reporting Directive](#) (CSRD) and the [European Sustainability Reporting Standards](#) (ESRS).

- 1 Understand if the CSRD applies to your business. If it does, you should perform a gap analysis to determine what metrics and disclosures you can currently report against, compared to what you need to report on. Understanding the CSRD's impact on your company is important because depending on your company size and whether it is public or private impacts the reporting implementation phase.
- 2 Assess the differences between your current reporting framework and what you need to report on - and then decide where to prioritise additional reporting efforts. The ESRS provides a good sustainability reporting framework for companies that don't currently have one. Conduct a detailed materiality assessment and measure risks and opportunities.
- 3 Develop a roadmap to start collecting the required data. Include what you currently have and draft forward-looking statements for indicators that you currently cannot report against. Forward-looking statements are acceptable where there is a reasonable chance of your business being able to report against them within the next reporting cycle.
- 4 Train teams/employees who oversee ESG reporting and compliance, as they need to understand the implications and objectives of these regulations. Training should extend

beyond compliance teams to include all people involved in data collection and reporting, because if the data collection is flawed, the report will need revision, making the process longer and more costly.

- 5 Don't underestimate the complexity of ESG data and the collection thereof. Your company will need a robust IT solution to collect and manage the data for accurate and transparent reporting.
- 6 Involve your auditor early in the process – they know your company, the upcoming requirements of CSRD and ESRS and what will be required of you in an upcoming limited assurance.
- 7 Education and communication are important. Repeat key messages and information because the more often people hear the story, the quicker they will understand and the faster you will get internal traction.

“Our most important advice would be to start early, as in many cases this will be the first sustainability related report, and it needs time and adjustments.”



ÁKOS VEISZ
Managing Partner, ESG Advisory
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Sustainability is here to stay

By introducing the [Corporate Sustainability Reporting Directive](#) (CSRD), the European Union has succeeded in advancing the topic of sustainability considerably: Its „Berichtspflicht“ (i.e. reporting obligation) forces companies to present concrete figures about their ecological, economic and social commitment. Carmen Auer and Viola Möller, both heading the sustainability services department, and Frank Wiethoff, Director Management Advisory, BDO in Germany, discuss [how auditing firms can support businesses in meeting these new challenges](#).



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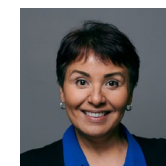
Navigating COSO's updated sustainability reporting guidance

Companies are experiencing increasing pressure from investors, regulators and other stakeholders to report sustainability-related information about their business. As companies seek to disclose this information, it is important that they develop and maintain systems and controls to safeguard the quality and accuracy of such information. In March 2023, the [Committee of Sponsoring Organisations of the Treadway Commission](#) (COSO) issued an interpretive publication, [revising its landmark framework](#) for managing internal controls over financial reporting (ICFR) to include guidance for internal controls over sustainability reporting (ICSR).

[Read more](#) from our experts in the USA.



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Tax and the CSRD

In line with global efforts, the European Union aims to achieve climate neutrality by 2050 while promoting economic growth that ensures stability, employment, and sustainable investments.

To support this goal, the European Commission introduced the [Corporate Sustainability Reporting Directive](#) (CSRD). This directive encourages investors to make sustainable investments, leading to sustainable and inclusive growth.

[Read more](#) on the intersection of tax and the CSRD.



MARTIN CALLAGHAN
Director, Tax Assurance and Risk Management
[BDO in the UK](#)

Prioritising key indicators

In sustainability reporting, where a multitude of environmental, social, and governance (ESG) factors intersect, the challenge often lies not in gathering data, but in discerning the vital threads that weave together a comprehensive narrative of a company's sustainable performance. Prioritising key indicators within this intricate landscape is akin to distilling a symphony into its most resonant notes - a task requiring both precision and artistry. As companies navigate the world of sustainability reporting, the ability to identify and prioritise these essential indicators emerges as a cornerstone of effective communication, strategic decision-making, and a genuine commitment to a more sustainable future. However, it's not a simple task.

Our global experts [share their views](#) on how and what to prioritise.

Is regulation a force for good?

With so many companies focused solely on the bottom line, with an unwavering emphasis on profit over people or the planet, many see regulations as a positive step towards reducing our impact on the planet. Increased regulation has the potential to combat climate change by speeding up the adoption of climate positive practices and requiring companies to reduce their negative impacts. However, the jury is still out on whether regulation in itself is a force for good.

[Find out why](#)

“Disclosing and reporting on a company’s activities alone will not change the behaviour of many CEOs, or combat climate change.”



MATTHIAS HRINKOW
Manager
[BDO in Austria](#)

The role of directors in driving a cultural shift

The evolution of business models is now interwoven with a broader commitment to sustainable practices, driven not only by ethical imperatives but also by a growing web of regulatory frameworks. At the heart of this transformation lies the concept of sustainability reporting, a catalyst that has ignited a profound cultural shift within companies worldwide.

In recent years, sustainability reporting regulations have emerged as a pivotal force reshaping the corporate landscape. No longer confined to mere financial metrics, these regulations compel organisations to divulge their environmental, social, and governance (ESG) performance transparently and comprehensively. The implications of such reporting requirements reverberate far beyond the confines of annual reports; they penetrate the core of organisational cultures, prompting a re-evaluation of values, priorities, and strategies. From the boardroom to the factory floor, a new paradigm is taking shape - one where sustainable practices are not just an addendum, but an integral facet of a company's DNA.

[Read more](#) about how directors can influence and drive sustainability reporting.

“The latest direction in sustainability reporting is also likely to shift the corporate culture to one in which stakeholders hold companies to the highest form of uprightness and professionalism.”



JOSEPHINE TAM

Director

[BDO in Singapore](#)



Island nations and climate change

We asked two of our island nation firms – [BDO in Hong Kong](#) and [BDO in Mauritius](#) – what the impact of climate change has been on their countries.

Hong Kong island is particularly vulnerable to the impacts of climate change, such as rising sea levels, more frequent and intense typhoons, and heatwaves. To combat the effects of climate change, the Hong Kong Special Administrative Region Government has committed to halve its carbon emissions before 2035 and to reach carbon neutrality by 2050. However, the regulations are arguably insufficient to address the scale of the problem. When the Paris Watch Project evaluated Hong Kong's performance on combatting climate change, the city was given an overall C- grade, with the comment that 'little or no progress has been made towards carbon neutrality.'

Meanwhile, to align with the international standards on climate change, the [Hong Kong Exchange and Derivatives Market \(HKEx\) issued a consultation paper](#) regarding a proposal to mandate all listed companies in Hong Kong to make climate-related disclosures in their ESG reports. While this is a positive move, disclosures alone are not going to address the issue (see Regulatory landscape in other jurisdictions on p15).

In Mauritius, material climatic risks include cyclones, flash floods/floods, landslides, water stress, sea level rise and temperature increase. Changes in weather events are already noticeable. Extreme weather events that have occurred include frequent flash floods and growing water scarcity more particularly during the summer season. Tropical depressions that eventually transform into cyclones have increased in

frequency yet remain unpredictable. Regarding pollution and carbon emissions, the country has set itself the target of reaching 60% renewable energy by 2040 through mainly solar power, hydro power, bagasse (biofuel) and other biomass. Despite its low contribution to global emissions, transition to a low carbon economy is a commitment.

However, while individual island nations may do all they can to reduce their climate impacts, their efforts will be insufficient to halt or reduce the collective impact of actions of other countries. It is imperative that we see this as a global issue which can only be addressed if we all work together towards common objectives.

“While individual island nations may do all they can to reduce their climate impacts, their efforts will be insufficient to halt or reduce the collective impact of actions of other countries.”

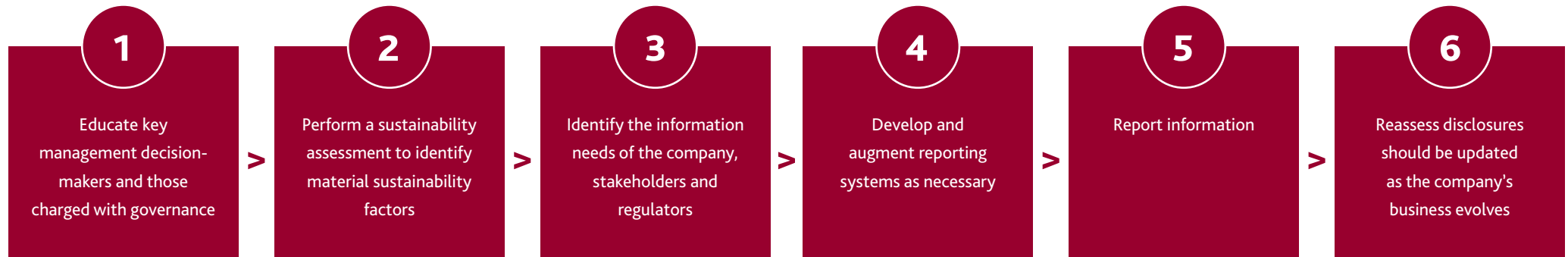


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How to get started

Sustainability regulations can be daunting, but getting started is half the battle won. At a minimum, boards should consider the following initial steps:



Sustainability disclosures are evolving as regulatory and other sustainability disclosure requirements increase and entities' business activities develop. The process described here is not a one-off project with a fixed completion date. Instead, it is a series of steps that will need to be revisited and refined over time. For example, an entity may currently have very limited information about how it identifies risks and opportunities related to climate change, as well as how it affects its strategy. This might initially result in relatively brief sustainability disclosures, with enhancements being implemented over successive future reporting periods. Entities will need to respond and develop plans to address their sustainability risks and opportunities, which are ultimately business risks and opportunities.



BDO can assist you on your sustainability reporting journey.

Contact us

Regulatory landscape in additional jurisdictions

While the CSRD and ESRS emanate from the European Union, many countries have implemented their own sustainability legislation and regulations. Click on the country for more information.



Brazil



India



Colombia



Mauritius



Hong Kong



Singapore



Additional reference articles



[The FRC publishes thematic review of climate-related metrics and targets](#)



[European commission adopts ESRS](#)



[IOSCO endorses IFRS Sustainability Disclosure Standards](#)



[EFRAG publishes assessment of interoperability between ESRS 2 & ESRS S1 and IFRS S1 & S2](#)



[IAASB issues proposed International Standard on Sustainability Assurance](#)

Contact us

Wherever you are on your sustainability journey, BDO's experts can guide you through this complex landscape and help you achieve success.

Our core sustainability services:

- ▶ Climate risk
- ▶ CSRD consulting
- ▶ ESG assurance
- ▶ ESG reporting
- ▶ ESG strategy
- ▶ Global value chain
- ▶ Human capital and the 'social' pillar of ESG
- ▶ Learning & development
- ▶ Sustainable communities
- ▶ Sustainable finance

If you have a sustainability-related query or would like help at any stage of your sustainability journey, please [contact us](#).



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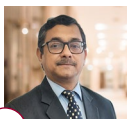
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