GUIDANCE ON THE ROLE OF THE REGISTERED AUDITOR IN RELATION TO SUSTAINABILITY INFORMATION

HOW TO PREPARE

December 2023

Non-financial or sustainability information or ESG

Our society is evolving worldwide into an ecosystem where new values determine your business' survival. There is no escape: a new ESG focus is elementary. Europe shows the business perseverance to set out these new rules and goals. Every stakeholder should be made aware that the former way of doing business is no longer acceptable. New ESG goals are the key focus.

Capital markets play a crucial role in achieving the climate goals set out in the EU Green Deal and the Paris Agreement by 2050. The European climate law makes reaching the EU's climate goal of reducing EU emissions by at least 55% by 2030 a legal obligation. EU countries are working on new legislation to achieve this goal and make the EU climate neutral by 2050.The success of the EU's sustainable funding program depends on the availability of relevant, comparable and reliable data. In addition, stakeholders' demands for information, both financial and non-financial or sustainability-related, are increasing significantly. Non-financial reporting requirements are part of the broader area of corporate social responsibility.

This new evolution is paired by the way in which organizations report on their role in society. A growing number of organizations have understood this and are using their non-financial and sustainable development reports to fulfil this role.

Rules and obligations are becoming increasingly stringent. Bear with us. We are trying to summarize the new situation.

Organizations prepare these reports based on regulations or on voluntary basis:

— In November 2022, the European Council and Parliament adopted the Corporate Sustainability Reporting Directive (CSRD). According to the CSRD, which entered into force on January 5, 2023 after it was published in the EU Official Journal on December 16, 2022, the European Sustainability Reporting Standards (ESRS) specify the content of the **corporate sustainability reporting requirements in the EU**. Member States have until 6 July 2024 to transpose the CSRD into their national law.

— Organizations prepare sustainability reports **on a voluntary basis**, using various recognised frameworks or standards for the preparation of such reports, such as those developed by the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), the UN Global compact (Sustainable Development Goals, or 'SDGs') or the Task Force on Climate-related Financial Disclosures (TCFD).

In addition, organizations must report in compliance with the **EU Taxonomy Regulation** that came into force in July 2020, establishing a classification system for sustainable economic activities. The article 8 of the EU Taxonomy Regulation requires organizations to publish information on eligibility and alignment of its economic activities with the EU Taxonomy and Technical Screening Criteria (see Section "on Taxonomy" below).

The **Environmental, Social and Governance (ESG) criteria**, which constitute the three pillars of extra-financial analysis, are considered in socially responsible management. Through ESG criteria, it is possible to assess how companies are exercising their responsibility for the environment and their stakeholders (such as employees, partners, subcontractors and customers).

The environmental criterion

It considers the management of waste, the reduction of greenhouse gas emissions and the prevention of environmental risks.

This criterion includes in particular the Sustainable Development Goals (SDGs) 3, 6, 7, 9, 11, 12, 13, 14 and 15.

The social criterion

It considers elements such as accident prevention, staff training, respect for employees' rights, the supply chain and social dialogue.

This criterion is related to SDGs 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12 and 16.

The governance criterion

It checks the independence of the board of directors, the management structure and the presence of an audit committee as well as their expertise in ESG matters and aspects relating to ethics and anti-corruption.

This criterion is related to SDGs 4, 5, 8, 10, 12, 13, 16 and 17.

Reliability enhanced by the registered auditor‘s assurance

The reliability or credibility of financial and non-financial information can only be enhanced if the conclusion of the registered auditor’s report is based on a qualitative standard and has been formulated by an independent and recognised assurance practitioner, such as a registered auditor. His assurance report will help to enhance the confidence of stakeholders in the quality of the information reported to them. Internal or external stakeholders will thus be able to assess and to take informed decisions and actions.

The registered auditor has developed expertise in the use of internationally recognised methodologies (in particular in the context of his audit of financial information) to provide assurance on information which enhances the quality of the information, for the benefit of an organization or undertaking. This promotes quality as to the work accomplished and allows users of the information to understand in a transparent way the work conducted and the assurance provided, across borders. He is also subject to strict ethical rules requiring his independence and to an external control of the profession (public oversight). The registered auditor’s report can thus contribute to improving the business value. It also allows organizations to excel in their ESG positioning towards stakeholders and investors.

The registered auditor’s knowledge of the organization and his expert role facilitates the process of reporting on financial or non- financial (or sustainability) information.

Directive relating to Corporate Sustainability Reporting (CSRD)

From current Non-Financial Reporting Directive (NFRD) as implemented in Belgium

Currently, only large public interest entities have a legal obligation to report on their non- financial information, following the application of the non-financial reporting directive (NFRD) which entered into force by law of 2017.

In Belgium, public interest entities are targeted provided they meet the following criteria:
— having an average workforce of at least 500 workers (annual average in full-time equivalent); and
— having a balance sheet total of more than EUR 17,000,000 or a turnover of more than EUR 34,000,000 (excluding VAT).

The companies which must be considered as public interest entities are:
— companies whose securities are admitted to trading on a regulated market within the European Economic Area;
— credit institutions;
— insurance and reinsurance undertakings;
— securities settlement institutions as well as organizations assimilated to settlement institutions.

Currently (still under the NFRD), there is no legal obligation to have assurance on a company's non- financial information. The statutory auditor is only required to confirm that the entity's non-financial statement contains the required information and that it is consistent with the information presented in the annual accounts for the same financial year.

It is always possible for any company which wishes to do so, to report on sustainability and to voluntarily request assurance over the non-financial information. Many companies do understand today the importance to provide comfort to their stakeholders by increasing the credibility of the reported sustainability information and are as such requesting assurance on (selected) ESG KPI's or compliance with reporting frameworks. For accounting year 2021, 65% of the BEL 20 companies have obtained assurance on a selection of their ESG information on a voluntary basis, mostly performed by the statutory auditor.

To upcoming Corporate Sustainability Reporting Directive (CSRD)

With the Corporate Sustainability Reporting Directive, which will become applicable as from 2024 after implementation in Belgium, an assurance on the non-financial information (renamed 'sustainability information' in the new directive) will become mandatory. The sustainability reporting shall be included in the management report and clearly identified in a dedicated section of the

Scope in view of the type of companies in Belgium?

The companies under the scope of the CSRD, as under the actual directive (NFRD), are in Belgium the companies falling under the Company and Association Code. In principle, this does not apply to associations or the public sector, as they are not covered by the directive.

The companies that will be in scope of the CSRD are the following

2024

As from 2024 *(information to be published in 2025):*

- all companies that were already in scope of the NFRD (see above for application criteria)

2025

As from 2025 *(information to be published in 2026):*

- all large companies (both listed and private). A company is considered a large company if it exceeds two of the following criteria:
  - Turnover > 40 Mio EUR
  - Total assets > 20 Mio EUR [1]
  - > 250 employees

2026

As from 2026 *(information to be published in 2027):*

- all listed small and medium sized entities with an option to opt out for 2 years

2028

As from 2028 *(information to be published in 2029):*

- all non-EU groups with operations in the EU, considering the following:
  - At least 150 Mio EUR of turnover generated in the EU during the last 2 accounting years; and
  - Have at least a subsidiary which meets the criteria of a large undertaking or branch in the EU with > 40 Mio EUR
- These non-EU groups will need to prepare consolidated sustainability information in accordance with separate non-EU parent company standards (standards still to be developed)

management report. The scope will include companies not established in the EU that are listed on EU regulated markets, and the European subsidiaries of non-European companies.

Note that there is also an **exemption possibility for subsidiaries** if the sustainability information is already reported at the consolidated level of the parent company. However, if the subsidiary is a large listed company, no exemption is applicable.

As regards the type of assurance, the directive provides for the **obligation to obtain 'limited assurance'** on sustainability information. It is also foreseen that this assurance is provided by the (statutory) auditor on the basis of national or international standards relating to the assurance of sustainability information as long as no new assurance standard is developed. Member states have the option to also involve independent assurance providers when transposing the directive into member state legislation. (see below section *"Assurance obligation for sustainability information under CSRD: limited assurance"*)

The companies will need to report their sustainability information based on the European Sustainability Reporting Standards (ESRS), which is being highlighted in the next chapter. The key starting point is of course the **materiality assessment**, which drives the content of the reported sustainability information. The directive introduces a requirement for companies to report both on how sustainability issues affect their performance, position and development (the 'outside-in' perspective), and on their impact on people and the environment (the 'inside-out' perspective). This is known as the concept of **'double materiality'**.

1 According to the Commission Delegated Directive (EU) 2023/2775 of 17 October 2023 amending Directive 2013/34/EU of the European Parliament and of the Council as regards the adjustments of the size criteria for micro, small, medium-sized and large undertakings or groups, the following new thresholds will have to be applied for financial years beginning on or after 1 January 2024, by the Member States:
- Turnover > 50 Mio EUR
- Total assets > 25 Mio EUR.

EU Commission Delegated Regulation adopting the Sustainability Reporting Standards: ESRS

In conjunction with the introduction of the CSRD, the European Financial Reporting Advisory Group (EFRAG) has been appointed to prepare a set of sustainability standards that companies will be required to apply when they are in the scope of the CSRD obligations.

After a public consultation, the final draft sector-agnostic ESRS have been released by EFRAG in November 2022. These standards have been modified again before being adopted by the EU Commission on 31st July 2023, and approved by the European Parliament in October 2023[2]. They apply from 1st January 2024 for financial years beginning on or after 1st January 2024 and are structured in the following manner:

— 2 Cross-cutting standards
— 10 topical standards.

Cross-Cutting standards

ESRS 1: General requirements	ESRS 1 defines the mandatory concepts and principles to apply for preparation of sustainability reporting under the CSRD
ESRS 2: General disclosures	ESRS 2 covers the disclosure requirements on the strategy and business model of the company, on its governance in relation to sustainability and on its materiality assessment, on the company's impact, risk and opportunity management as well as on metrics & targets

Environmental standards (ESRS E1 to E5)

Climate change	ESRS E1 includes information disclosures about: — How the company affects climate change — Mitigation efforts in line with the Paris Agreement and limiting global warming to 1.5°C — The plans and capacity of the undertaking to adapt its business model(s) and operations — The material risks and opportunities related to climate change and how they are managed — The effects of climate-related risks and opportunities on the company'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 — Calculation of carbon footprint (scope 1, 2 and 3)

2 Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards.

Pollution	ESRS E2 covers how the company affects pollution of different natures, its actions to reduce this impact, the related risks and opportunities
Water and Marine resources	ESRS E3 covers how the company affects water use and marine resources, its actions to reduce this impact, the related risks and opportunities
Biodiversity and ecosystems	ESRS E4 covers how the company affects biodiversity and ecosystems, its actions to reduce this impact, the related risks and opportunities
Resource use and circular economy	ESRS E5 covers resources use and actions taken and plans to operate in line with circular economy principles

Social Standards (ESRS S1 to S4)

Own workforce	ESRS S1 covers: — Information on how the entity engages with its employees and their representatives, — Quantitative and qualitative information to describe the composition of the company's workforce, the working conditions, social dialogue, & respect of human rights
Workers in the value chain	ESRS S2 requires disclosures about how workers In the value chain are taken into account but only for the aspects of procedures, objectives, action plans and resources. The performance measurement indicators will be defined in a future set of ESRS standards
Affected communities	ESRS S3 requires disclosures about how the company affects communities as a whole but only for the aspects of procedures, objectives, action plans and resources. The performance measurement indicators will be defined in a future set of ESRS standards
Consumers and end-users	ESRS S4 requires disclosures about how the company engages with consumers and end users but only for the aspects of procedures, objectives, action plans and resources. The performance measurement indicators will be defined in a future set of ESRS standards

Governance standards (ESRS G1)

Business conduct	ESRS G1 includes elements about: — the business ethics and corporate culture, including anti-corruption and anti-bribery; — political engagements of the undertaking, including its lobbying activities; — the management and quality of relationships with business partners, including payment practices

Category	No	Sub-topics	Disclosure requirements	KPIs
Cross-cutting	ESRS1	General requirements	0	0
	ESRS2	General disclosures	12	4
		Subtotal	**12**	**4**
Environmental	ESRS E1	Climate change	9	29
	ESRS E2	Pollution	6	8
	ESRS E3	Water & marine resources	5	6
	ESRS E4	Biodiversity & Ecosystems	6	13
	ESRS E5	Resource use & Circular Economy	6	11
		Subtotal	**32**	**67**
Social	ESRS S1	Own workforce	17	32
	ESRS S2	Workers in the value chain	5	0
	ESRS S3	Affected communities	5	0
	ESRS S4	Consumer & end-users	5	0
		Subtotal	**32**	**32**
Governance	ESRS G1	Business conduct	6	10
		Subtotal	**6**	**10**
		Total	**82**	**113**

The different sector-agnostic standards provide for various reporting requirements for companies to adhere to. These entail several granular disclosure requirements and metrics, as set out in the different standards adopted by the EU Commission.

These standards are based on the concept of **double materiality** (which means that to define if a topic is material, both impact materiality and financial materiality are to be considered) and **stakeholder engagement** to define the content of the sustainability information to be published. Nevertheless, ESRS 2 is applicable to all companies in scope of the CSRD. Companies that consider that E1 Climate Change is not a material topic should justify their assessment.

The ESRS are built on the EU Taxonomy, the Sustainability Finance Disclosure Regulation (SFDR), the EMAS regulation, the Global Reporting Initiative (GRI), the Task Force on Climate Related Financial Disclosures (TCFD), etc. They also make links with the ISSB draft IFRS-S[3]. Additional standards will be developed by EFRAG in the future, starting with sector-specific standards. However, the EU Commission has requested EFRAG to prioritize its efforts on capacity building and providing guidance for the implementation of the first set of sector-agnostic ESRS over the preparatory work for the draft sector-specific standards.

3 See following chapter for details

International Sustainability Standards Board (ISSB): IFRS-S standards

IFRS-S draft standards are prepared by the International Sustainability Standards Board (ISSB) which has been created within the IFRS Foundation. The ISSB also consolidates the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (VRF) and builds on SASB standards and TCFD.

In June 2023, the ISSB published two standards, IFRS S1 on General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 on Climate-related Disclosures. They are effective as of 1 January 2024, subject to adoption by local jurisdictions.

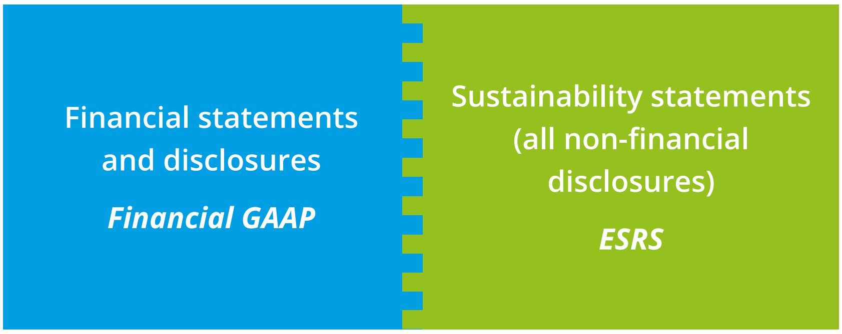
The European Union has not yet endorsed these two IFRS-S and for the moment, these would only be applicable on a voluntary basis.

As currently only two standards have been developed, and only the topic of climate change has been covered by the IFRS-S, reference is made to other frameworks – such as the SASB Standards, the GRI Standards as well as the ESRS – that shall or may be considered in addressing other ESG topics and identifying information to report in the absence of specific IFRS Sustainability Disclosure Standards.

The ISSB, however, decided to provide companies with a relief of one additional year that would allow them to adopt a climate-first approach. Companies would be given the option to report only on climate-related risks and opportunities in their first year of application, providing them with an additional year to report on sustainability-related risks and opportunities in relation to other ESG matters beyond climate.

Contrary to the ESRS approach, IFRS-S focus on the financial impact of non-financial topics (financial materiality based).

At this moment, the annual report thus covers financial information according to applicable GAAP and non-financial information based on ESRS and on a voluntary basis, information based on IFRS-S:



If the company wants to publish IFRS-S information on a voluntary basis, the annual report will include.

Companies that want to apply IFRS-S standards and ESRS will thus need to organize their reporting content slightly differently than other entities and will potentially need to provide more details in some areas. Nevertheless, the link between standards should ensure that there is no double work needed to comply with both standards.

EU Taxonomy: already an obligation

Subject and scope

EU taxonomy is a classification system for sustainable economic activities. The European Taxonomy Regulation (*Regulation 2020/852*) establishes the criteria for determining whether an economic activity qualifies as environmentally sustainable - for the purposes of establishing the degree to which an investment is environmentally sustainable. This regulation currently applies to:

— financial market participants that make available financial products;

— entities that already have to publish a (consolidated) non-financial statement under the Non-Financial Reporting Directive (NFRD);

— the EU and Member States, when setting public measures, standards or labels for green financial products or green (corporate) bonds.

Criteria

An economic activity shall qualify as environmentally sustainable where the economic activity:

— **contributes substantially** to at least one of the **6 environmental objectives**

— **does not significantly harm (DNSH)** any of the other environmental objectives

— is carried out in compliance with **minimum safeguards**

— complies with **technical screening criteria**

The 6 environmental objectives are:

1. climate change mitigation;
2. climate change adaptation;
3. sustainable use and protection of water and marine resources;
4. transition to a circular economy;
5. pollution prevention and control;
6. protection and restoration of biodiversity and ecosystems.

Technical screening criteria

Technical screening criteria are or will be established for

— determining the conditions under which a specific economic activity qualifies as contributing substantially to the environmental objective; and

— determining whether that economic activity causes no significant harm to any of the other environmental objectives.

As of today only technical screening criteria are determined for climate change mitigation and for climate change adaptation (delegated regulation 2021/2139). On April 5, 2023, the EU Commission has released the draft Delegated Act in relation to the technical screening criteria for the other four environmental objectives as well as a draft Delegated Act amending the existing Taxonomy Climate Delegated Act and a draft Environmental Delegated Act including proposed changes to the Disclosures Delegated Act. These draft acts are still subject to a consultation period, after which the adoption will take place. The Delegated Acts should then be applicable from 1 January 2024.

Transparency

An entity that has to publish a (consolidated) non-financial statement shall include in its (consolidated) non-financial statement information on how and to what extent the entities' activities are associated with economic activities that qualify as environmentally sustainable.
Following KPI 's have to be disclosed:

— proportion of **turnover** derived from products or services associated with economic activities that qualify as environmentally sustainable
— proportion of **capital expenditure** related to assets or processes associated with economic activities that qualify as environmentally sustainable
— proportion of **operating expenditure** related to assets or processes associated with economic activities that qualify as environmentally sustainable
— disclosures accompanying the KPIs: accounting policy / assessment of compliance with taxonomy regulation / contextual information

For the calculation of the required KPIs, a good understanding of 3 categories of economic activities is important:
— taxonomy-**aligned** economic activities
— taxonomy-**eligible** economic activities
— taxonomy-**non-eligible** economic activities

If non-financial information is published in a separate report, then the information mentioned above shall be disclosed in that separate report.

Content / presentation /methodology

A delegated regulation *(2021/2178)* specifies the content and presentation of information to be disclosed concerning environmentally sustainable economic activities, and the methodology to comply with that disclosure obligation.

Disclosure rules:
— include all additional disclosures accompanying the key performance indicators in the same parts of the non-financial statement that contains those indicators, or provide cross-references to the parts of the non-financial statements that contain those indicators;
— information disclosed: covers annual reporting period;
— provide in the non-financial statement the key performance indicators covering the previous annual reporting period. First annual reporting period covers the year 2023.
— key performance indicators: at this stage only the objectives of climate change mitigation and climate change adaptation
— specific disclosures for economic activities in certain energy sectors

On April 5, 2023, the EU Commission proposed a new timeline for the regulatory disclosures. The Regulation would become effective on the following dates:

Entry into force for non-financial entities:

2024

Reporting in 2024
(over financial year 2023):

Eligibility and alignment of economic activities in relation to the objectives climate change mitigation and adaptation, as well as eligibility of economic activities in relation to the other four environmental objectives (water, circular economy, pollution prevention and biodiversity)

2025

Reporting in 2025
(over financial year 2024):

Eligibility and alignment of the economic activities in relation to all six environmental objectives

Entry into force for financial entities:

2024

Reporting in 2024
(over financial year 2023):

Eligibility and alignment of economic activities in relation to the objectives climate change mitigation and adaptation, as well as eligibility of economic activities in relation to the other four environmental objectives (water, circular economy, pollution prevention and biodiversity)

2026

Reporting in 2026
(over financial year 2025):

Eligibility and alignment of the economic activities in relation to all six environmental objectives

Assurance obligation for sustainability information under CSRD: limited assurance

An assurance engagement is a professional service within the framework of which an independent and competent practitioner will obtain sufficient appropriate information to express a conclusion, with a reasonable or limited level of assurance. The conclusion is designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against criteria).

As mentioned above, the CSRD initially requires **'limited assurance' of sustainability information**.

Such an assurance will therefore not be as extensive as an audit of the annual accounts. Indeed, the nature, timing and extent of the procedures performed within the framework of a limited assurance engagement are **less detailed** than within the framework of an audit of the annual accounts, but aim to obtain an assurance level which, according to the registered auditor's professional judgement, is meaningful.

To be meaningful, the limited assurance level obtained by the practitioner must make it possible to increase the user's confidence in the subject matter's sustainability information to a level which is not insignificant. This limited assurance level is obtained through an assessment of the sustainability information according to defined criteria used in the report. The registered auditor's conclusion shall be formulated in such a way as to express, based upon the procedures performed and the evidence obtained, that there is no reason to believe that the subject matter's sustainability information contains one or more material misstatements. The registered auditor will formulate a conclusion on the reliability of the information. To this end, he will use negative wording ("We have not noted any facts which suggest that…").

The conclusion aims to increase the level of confidence of the intended users in the subject matter's sustainability information. The CSRD can only reinforce this by creating a harmonised framework for sustainability reporting which will put undertakings on the same level and improve the comparability of sustainability information.

Within the framework of the CSRD, when performing a limited assurance engagement on sustainability information, the registered auditor will provide a conclusion on

1. the compliance of the sustainability report with the CSRD, including the reporting standards (the ESRS mentioned above),
2. the process carried out by the undertaking to identify the information reported pursuant to those ESRS (material topics),
3. the preparation of the sustainability report in compliance with the requirement to mark up sustainability reporting in accordance with electronic reporting format-ESEF (tagging sustainability information,), and
4. the key performance indicators used in the report, including with regard to the Taxonomy Regulation.

Further information on the content of this assurance engagement will be provided by the European Commission as it has been empowered by the CSRD to adopt, by means of delegated acts, limited assurance standards before 1 October 2026. Meanwhile, Member States may apply national assurance standards, procedures or requirements.

However, such a national standard does not exist in Belgium where auditors are using the International Standard on Assurance Engagements, and in particular ISAE 3000 on assurance engagements other than audits or reviews of historical financial information.

How is the limited assurance engagement on sustainability information conducted?

Having satisfied himself that he complies with the ethical and independence requirements, the registered auditor in charge of the engagement shall assign a team that has the necessary competence and capabilities to perform the engagement. Depending on the subject matter information (for example for the review of the CO_2 emissions), subject matter experts may need to be involved in the assurance team. Generally, for this type of engagements, a multi-disciplinary team is put in place, comprising assurance personnel and subject matter experts.

The registered auditor need to put in place procedures to deal with the work required by the CSRD. Compliance of the sustainability report with CSRD and ESRS, with electronic reporting format-ESEF (tagging sustainability information), process to identify material topics according to the ESRS and validation of performance indicators.

In the planning phase, the registered auditor will have to carry out investigations in order to understand the sustainability information related to the engagement and determine the materiality[4] that will need to be considered when performing the engagement and when evaluating whether the information is free from material misstatements.

Based on this, the engagement team shall identify the areas where a material misstatement is likely to occur and design and perform procedures to address the identified areas of attention. The registered auditor will use this concept of materiality to determine the nature, timing and extent of the procedures to be performed in order to obtain 'appropriate evidence'. The type of evidence to be obtained depends on the subject matter information, but mainly consists of investigations and analytical procedures, combined, for example, with inspection, observation or recalculation procedures if deemed necessary by the registered auditor.

The registered auditor is well positioned to address this type of work in relation to sustainability information and inform stakeholders, given that he is used to understanding and reviewing processes (and internal controls) within the framework of preparing financial information and to providing assurance on financial information, by applying his professional judgement, with a guarantee of independence and quality.

4 Information is material when it can reasonably be expected that its omission or inaccuracy may influence the decisions users make on the basis of the company's financial statements.

How to prepare for the introduction of the legal obligation to provide limited assurance of sustainability information

✓	Define the ESG strategy and goals.
✓	Define if the company needs to comply only with ESRS or also wants to report according to IFRS-S.
✓	Define the company's reporting scope and boundaries, taking into account its group structure and (group) entities in scope of the reporting requirements.
✓	Analyse the content of the ESRS[5] and on this basis the topics that are relevant and material for the company. In case of decision to use IFRS-S on a voluntary basis, define the topics that are material from a financial perspective.
✓	Define the stakeholders[6] and rank them according to their importance.
✓	Identify impacts, risks and opportunities and assess their materiality, as the basis for determining sustainability matters relevant to the company.
✓	Organise a dialogue with the stakeholders in order to obtain insight into their expectations and the topics relevant to them, which, in conjunction with the sustainability matters relevant to the company, will make it possible to define a materiality matrix from which the content of the report will be derived, based on the application of the double materiality principle and taking into account IFRS requirements, if applicable.
✓	Define the internal team which will be responsible for organising this reporting and the integration of ESG issues into the governance structure (responsibilities, monitoring, etc.).
✓	Based on the relevant topics selected and the requirements of the ESRS (and IFRS if applicable), define the sustainability information and disclosures relevant to the company according to its environment, its activities and the sustainable development goals with regard to which it wishes to take action.
✓	In line with ESRS (and IFRS if applicable), define the relevant key performance indicators (KPIs) to be included in the sustainability statement and set short-, medium- and long-term goals for these KPIs.

5 European Sustainability Reporting Standards

6 Stakeholders can be the users of the sustainability statements and/or the people, group and entities that are impacted by the activities of the company.

✓	Organise the collection of required information and data points to be reported (taking into account reporting systems, tools, processes, internal control circuits) to ensure that the company is able to collect the relevant information (preferably over several years to allow comparisons) and that it is able to ensure its quality and punctuality.
✓	Draft the sustainability statement taking into consideration the integration of financial and non-financial information in the annual report.
✓	Start preparing now, for example, by involving a registered auditor already in 2023 to assess the robustness and maturity of the company's processes and sustainability reporting. As the CSRD and ESRS will impose extensive reporting requirements and assurance, an assessment to verify whether the company is on track to meet these demanding requirements and is ready to pass the test of assurance is key.

The time and effort required to set up high-quality sustainability reporting should not be underestimated.

As regards the preparation for obtaining limited assurance, it will be necessary to be able to explain to the independent registered auditor how the reported information has been defined, compiled, verified and organised through the processes put in place internally. If the information is compiled using a reporting tool, the registered auditor will need to be able to assess the reliability of this tool. It is also useful to provide insight in and access to the different sources of information to facilitate the registered auditor's understanding of the data collection and information gathering. Finally, key personnel involved in the reporting processes will need to make themselves available for inquiries made by the registered auditor.

Key concepts and timeline

Assurance standard: from ISAE 3000 to ISSA 5000

In order to perform a limited assurance engagement on sustainability information, the registered auditor will assess this information compared to predefined criteria. This assessment has to be performed based upon an audit standard. For the moment, the only existing standards in this area for carrying out this assessment are international auditing standards, more specifically the **International Standards on Assurance Engagements**, and in particular ISAE 3000 on assurance engagements other than audits or reviews of historical financial information. To date, there is no other standard, either at national or European level. However, the International Auditing and Assurance Standards Board (IAASB) is currently working on a project to develop an overarching standard for assurance on sustainability reporting, building upon existing IAASB Standards and guidance (the International Standard on Sustainability Assurance **ISSA 5000**, ***General Requirements for Sustainability Assurance Engagements*** (ISSA 5000)). Also, the CSRD envisages the development of assurance standards in the foreseeable future. These standard setting projects could replace the existing assurance standard in time.

Limited assurance under ISAE 3000, towards reasonable assurance in the future

ISAE 3000 foresees in standards for carrying out both reasonable assurance and limited assurance engagements. Initially, the CSRD requires companies to obtain limited assurance on the sustainability information reported. There is a clear ambition, however, to move towards reasonable assurance in the future. The CSRD foresees in the adoption of reasonable assurance standards by 1 October 2028, following an assessment to determine if reasonable assurance is feasible for auditors and undertakings.

The Standard provides for a risk based approach, also for limited assurance, whereby the **criteria** to be used (in the case of the CSRD, that will be the requirements as included in European Sustainability Reporting Standards or "ESRS's") are important, as well as the **subject matter** to be reported in compliance with the criteria (which will be the actual disclosures in the sustainability part of the financial statements or in the sustainability report, i.e. the "sustainability statements"). The ESRS's are deemed as suitable criteria allowing for reasonably consistent measurement and allowing evaluation of the underlying subject matter within the context of professional judgment. As the CSRD has been published into the Official Journal of the European Union on 16 December 2022, the Directive has entered into force in January 2023, and Belgium has 18 months (so basically until June 2024) to transpose the CSRD into Belgian Law. ESRS have been adapted through a Delegated Regulation and therefore directly apply from 1st January 2024 for financial years beginning on or after 1st January 2024.

An increasing number of companies impacted by CSRD

As indicated earlier in this document, the CSRD will first apply to the group of companies which currently fall under the Non-Financial Reporting Directive ("NFRD") and this for fiscal year 2024.

This means that for 2023, companies in scope are advised to prepare themselves thoroughly and request their statutory auditor to perform readiness assessments to evaluate the maturity and robustness of the company's reporting processes and data quality. The same applies for the entities that will become in scope as from fiscal year 2025. As the number of entities in scope will significantly increase as from 2025 onwards, and as these companies so far have not been subject to any requirements in terms of sustainability information and reporting, we also recommend for these entities to begin planning for the respective requirements in a timely manner, as both evaluating which topics and information are material, and organizing and gathering the actual support to provide for the required disclosures and KPI data, will require time and additional resources, and likely changes to the internal control environment and supporting IT applications. Even entities that will not be in scope of the CSRD, being companies not meeting the thresholds as mentioned on page 7, will likely be impacted by the new regulation. This is due to the fact that entities in scope will need to disclose in the general basis of preparation of their sustainability statements, amongst others, to what extent the disclosures they provide, cover the upstream and downstream value chain. This will result in the provision of additional transparency and disclosures in relation to stakeholders within the company's value chain, implying that many companies in Belgium, also the smaller ones, will likely be impacted by the changes and the new reporting practices introduced by the CSRD, as the companies in scope will need to obtain and will request for relevant value chain information from their suppliers, customers and other stakeholders. As such it is important that all statutory auditors in Belgium are ready to assist companies in their sustainability journey.

For information purposes, a time line of the respective developments is provided below.

CSRD and EU Taxonomy requirements will be made effective in a staggered way during the following years

CSRD

November 2022
- CSRD approval by European Parliament and Council;
- First set of ESRS's published by EFRAG and submission to the EC.

June 2023
- Expected adoption of the first set of ESRS's (cross-cutting and sector-agnostic standards).

June 2024
- Transposition of the Directive by Member States by June 2024;
- Expected adoption of the second set of ESRS's (sector-specific standards, standards for listed SMEs and for non-EU parent undertakings). The development of this is likely to be spread over a 3-year period depending on the priority of the sector.

2025
(reporting on 2024 data)
- Applicable to large EU undertakings and parent undertakings of large groups which are (i) public interest entity, (ii) have more than 500 employees and (iii) have a balance sheet total of EUR 20 million or net turnover of EUR 40 million in a financial year. So the entities subject to NFRD;
- Limited assurance.

2022 **2023** **2024** **2025**

EU Taxonomy

2022
- Applicable to companies that fall under the non-financial reporting directive (NFRD);
- Disclosing eligibility KPIs on 2 climate objectives.

January 2023
- Applicable to companies that fall under the NFRD;
- Non-Financial entities report eligibility and alignment for the fiscal year ending 2023;
- Financial entities report Taxonomy eligibility.

January 2024
- Applicable to companies that fall under the NFRD;
- Non-Financial entities report eligibility and alignment for the Fiscal Year ending 2024;
- Financial entities report Taxonomy eligibility and alignment.

January 2025
- Applicable to companies that fall under the NFRD;
- Financial entities may include estimates on Taxonomy alignment for non-CSRD investments (Delegated Act will be reviewed by 30 June 2024 in this respect).

Limited assurance under the ISAE 3000 standard

Limited assurance under the ISAE 3000 standard presumes that the audit professional performs primarily (i) inquiries with the data owners of the non-financial information, and (ii) analytical procedures on such information. A limited assurance engagement requires that the audit professionals do a risk assessment, using the knowledge of their client, and which includes evaluating inherent risks associated with specific disclosures or KPI's, for example inconsistent use of the methodology in calculating and reporting Green House Gas ("GHG") emissions. The ESRS's specifically provide for a need for entities to disclose, and therefore auditors to evaluate using their knowledge of the entity in scope, the following reporting aspects: (i) Governance, i.e. the governance processes, controls and procedures used to monitor and manage sustainability related impact, risks, and opportunities ("IRO's"), (ii) Strategy, i.e. how an entity's strategy and business model(s) interact with its material IRO's, including the strategy for addressing these, (iii) Impact, risk and opportunity management, i.e. the process(es) by which impacts, risks and opportunities are identified, assessed and managed through policies and action, and (iv) Disclosure Content Metrics and Tracking, i.e. how an entity measures its performance, including progress towards the targets it has set.

Understanding these reporting aspects will facilitate the auditor's understanding and identification of the financial effects of the material sustainability related risks, and opportunities.

2026
(reporting on 2025 data)

- Applicable to large companies (not subject to NFRD) which exceed 2 of the following 3 criteria:
  - 250 employees during the financial year
  - Balance sheet total of € 20 million
  - Net turnover of € 40 million

2027
(reporting on 2026 data)

- Applicable to listed SMEs (less than 250 employees), that exceed 2 of the following 3 criteria:
  - 50 employees during the financial year
  - Balance sheet total of € 4 million
  - Net turnover of € 8 million

2028
(reporting on 2027 data)

- Applicable to listed SMEs (same criteria as 2027).

2029
(reporting on 2028 data)

- Applicable to thirdcountry companies with net turnover of > € 150 million in the EU (at least 1 large subsidiary or SME subsidiary which is of public interest), or one EU branch that generates > € 40 million of revenues in the EU;
- Reasonable assurance: feasibility and drafting of standards by Octobre 2028 (6-year timeline has been abolished).

2026 | **2027** | **2028** | **2029***

January 2026

- Applicable to large companies (same criteria as CSRD in 2026);
- Credit institutions include Taxonomy alignment of their trading book and fees and commissions for non-banking activities.

January 2027

- Applicable to listed SMEs (same criteria as CSRD in 2027).

2028

- Applicable to listed SMEs (same criteria as 2027).

2029

- Applicable for thirdcountry companies (see criteria CSRD above).

** The EU Commission adopts assurance standards for reasonable assurance of sustainability reporting by means of delegated acts no later than 1 October 2028, following an assessment to determine if reasonable assurance is feasible for auditors and undertakings.*

This document will be updated as information becomes available and as standards and legislation evolve.

So get prepared

Until then, companies in scope of the CSRD are strongly advised to prepare themselves now to be ready in time, by involving a registered auditor already in 2023 to perform an assessment of the robustness and maturity of the company's processes and sustainability reporting. Remember to contact a registered auditor now to guide you through this journey.

Find a registered auditor: Registre public (ibr-ire.be)

Questions?
Please consult the IBR website (www.ibr-ire.be)
or contact us at tech@ibr-ire.be.

Publisher responsible: Marc Bihain, Boulevard Emile Jacqmain 135/1, 1000 Brussels - Belgium