ESG

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ISAE 3000 - Materiality – Timeline

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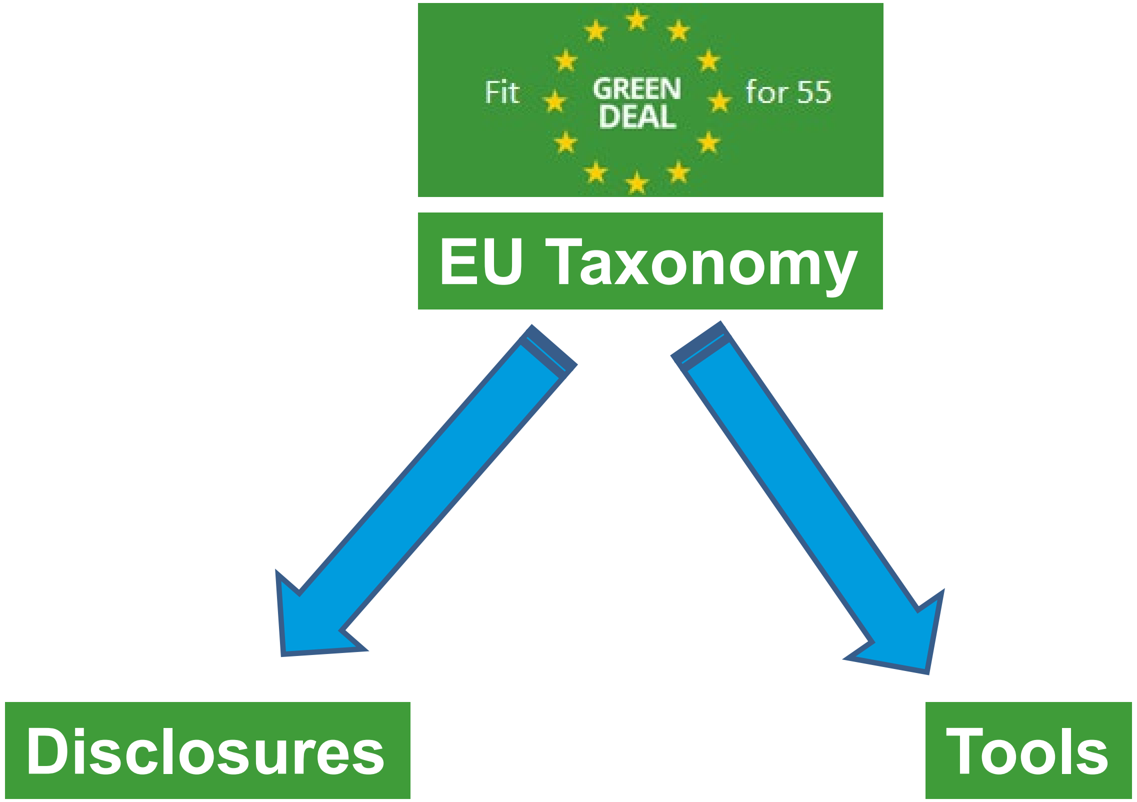
Global context



Corporate sustainability reporting directive (CSRD)
And ESRS reporting standards
Sustainable Finance Disclosure Regulation (SFDR)
…

EU Climate benchmark Regulation
…

Environmental, Social, Governance (ESG)

E

Environmental

Climate change is the main priority

S

Social

Delivering to all stakeholders

G

Governance

The guiding force

What is ESG information?

Sustainability information (also called ESG information) publicly disclosed, often in the context of an annual report

Non-exhaustive list of typical ESG topics

Environmental

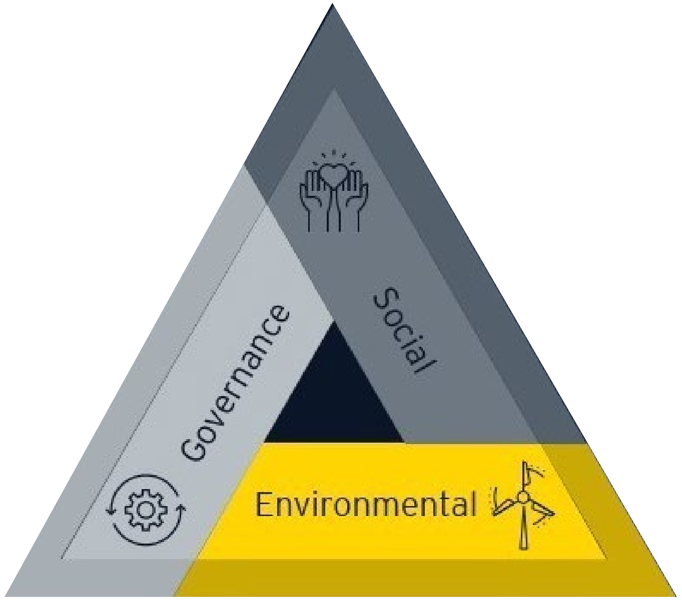
- Waste management
- Emissions impact
- Energy efficiency
- Air and water pollution
- Environmental protection
- Biodiversity loss and restoration

Social

- Human rights
- Labour rights
- Working conditions
- Health and safety
- Employee relations
- Employment equity
- Gender diversity
- Pay gaps
- Anti-corruption

Governance

- Ownership and structural transparency
- Board of directors' oversight
- Management diversity
- Data transparency
- Business ethics (Code of Conduct)
- Executive compensation fairness
- Sustainability based remuneration



ISAE 3000

Documentation guidance

ISAE 3000 Assurance Documentation *

Documentation requirements:

- Nature, timing and extent of audit procedures performed
- Results of procedures performed and evidence obtained
- Significant matters that arose and conclusions reached on such matters (including the use of professional judgment)

Local guidance

▶ [International Standard on Assurance Engagements (ISAE) 3000 Revised]()

Limited versus reasonable assurance

Limited assurance (LA)	Reasonable assurance (RA)
Objective: to conclude that ***nothing*** came to the auditors attention that could lead to the conclusion that the non-financial information is ***not*** free from material misstatement (negatively formulated conclusion)	**Objective:** to conclude that the non-financial information is free from material misstatement (positively formulated assurance conclusion)
- Inquiry of data owners/responsible - Analytical procedures	- Testing of controls - External confirmation - Sampling - More disaggregated data in analytical procedures

- *Assurance on the topics in scope of the CSRD ("sustainability statements")*
- *The nature, timing and extent of procedures performed in a **limited assurance** engagement are limited compared with that necessary in a **reasonable assurance** engagement but are planned to obtain a level of assurance that is, in our **professional judgment**, meaningful. To be meaningful, the level of assurance we obtain is likely to **enhance the intended users' confidence** about the **subject matter information** to a degree that is clearly more than inconsequential.*

Types of procedures in limited assurance: inquiry and analytics

Continuum of procedures

Inquiry – Evaluation of information through analysis of responses to inquiries. We inquire with management and those responsible for the subject matter and assess their responses for reasonableness in light of other known information.

Analytics – Evaluation of information through analysis of plausible relationships between or among data sets. Analytical procedures are based on the expectation that relationships among data exist and continue in the absence of known conditions to the contrary.

Inquiry follow-up – Performing additional procedures to corroborate management's statements as is deemed necessary such as obtaining and inspecting documentation to support management's assertions.

Disaggregated analytics – These procedures encompass such investigation as is deemed necessary of identified fluctuations or relationships that are inconsistent with other relevant information or that differ from expected values by a significant amount. Can include root-cause analysis or further drill-down.

Test of details - The gathering of evidence to support that transactions or balances are complete, properly valued, and properly accounted for and disclosed as is deemed necessary. This includes inquiry, inspection, observation, confirmation, recalculation, reperformance. No tests of details are required in limited assurance.

Inherent risks

- Based on our **understanding** of the client and its environment
- Based on our interviews on the general processes, potential targets (pressures), bonuses (incentives), the complexity involved in the process/calculation or the use of estimates and assumptions
- Based on our own **experience** (previous years and/or with other clients) and the experience of the client to collect the data or perform calculations
- **Pervasive** inherent risks affect the relevant assertions for many KPIs and disclosures. The KPI or disclosure **specific** inherent risks only affect the relevant assertion for the KPI or disclosure for which we are making the inherent risk assessment.
- Examples:
  - Inconsistent use of methodology in calculating and reporting GHG emissions (specific)
  - The information provided in the disclosures is incomplete due to pressure/lack of experience (pervasive)

Materiality

Factors to consider when selecting a materiality threshold for a specific KPI/disclosure

- We consider materiality in the context of qualitative and quantitative factors. Materiality may be set between 5% and 10% of the appropriate base (e.g. a KPI or disclosure). The performance materiality needs to be determined as a percentage of overall materiality for the respective KPI or disclosure). Misstatements need to be evaluated as a percentage of overall materiality.

Qualitative

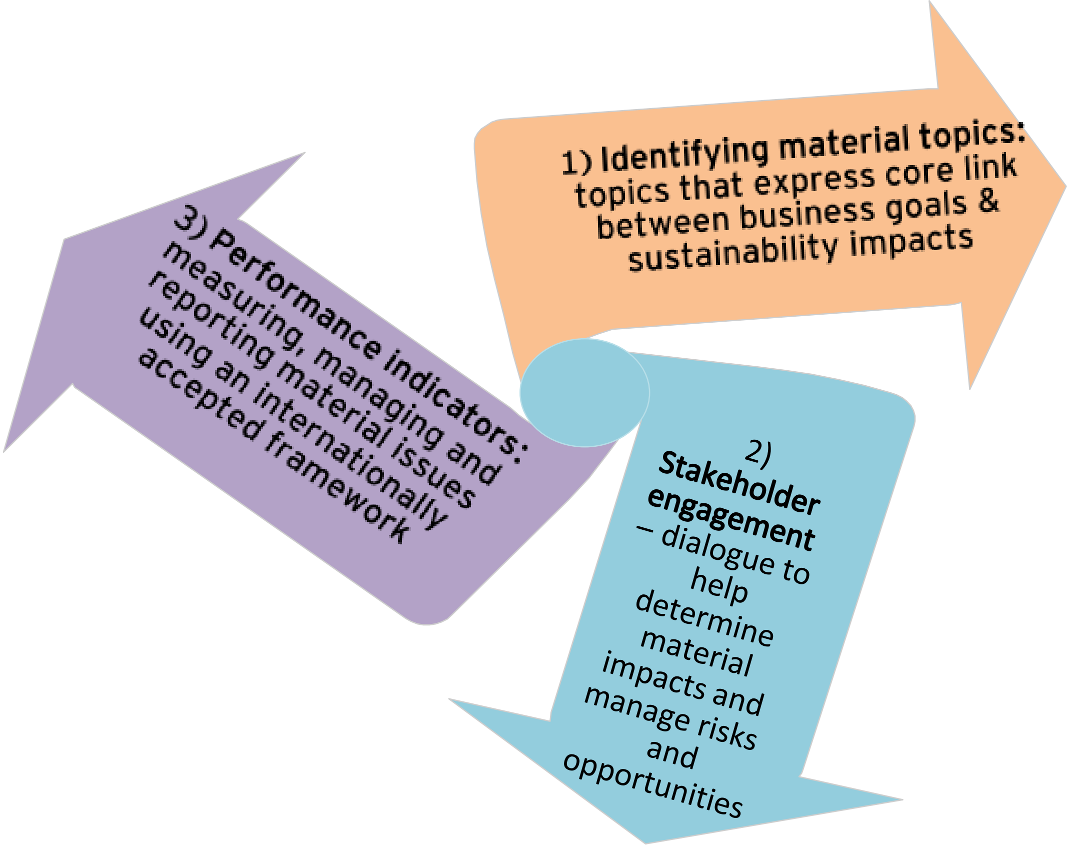
- The regulatory environment
- The reporting framework used (certain reporting frameworks may provide guidelines for determining materiality)
- The extent to which performance presented relates to whether a **target** is achieved
- The level of influence of the affected stakeholders
- The influence of the (financial) performance of the entity
- The **media attention** directed at certain information
- The entity's industry sector
- **Consequences** of reported information for stakeholders' decisions
- Embedded in business **strategy**

Quantitative

- The **number of stakeholders affected** by the subject matter
- **Targets** set for management
- The nature of the information: absolute number, ratio, precise calculation or estimated amount
- Relative magnitude
- Other quantitative factors (for example, absolute size of a KPI or volatility over time)
- Past history of misstatements (corrected and uncorrected)

1. Reporting criteria: materiality

How do companies prepare their *materiality selection*



1) Identification and prioritization

- Through desk research: peer reports, press review, trend analysis, customer surveys, … incl. taking into account client and stakeholder perspectives
- Through internal top management interviews and/or mid management workshop based on the magnitude of the matter’s effect and its likelihood of occurrence.

2) **Determining information to disclose**

- Workshop-based
- Performance indicator selection
- Considering different perspectives, both internal and external, to meet the information needs of providers of financial capital and others

Materiality practical examples

- Different groups of intended users can express different tolerance levels of materiality for a specific KPI.

1). Example – Water use: Reported water use 475 ktonnes. Assume materiality is set at 5% (or 23.5 ktonnes).

- Bank: This information is less relevant for the intended users of the sustainability report. Therefore our element materiality is higher. If the correct information turns out to be 523 ktonnes (+10%) this figure still may not change the decisions made by the intended users, even if the impact is above the 5% materiality.
- Brewery: information on water use is more relevant for the intended users of the sustainability report. The brewery might have targets on this information. Therefore we set our element materiality lower. A deviation of 5% (499ktonnes) might already change the decisions made by the intended users, and hence would likely need to be adjusted.

Planning materiality practical examples

2). Example - Employee accidents: 125 accidents are reported. Our assessment of materiality will depend on the type of accidents. Overall materiality for the KPI is 5% (6.25).

- Accidents without absenteeism. A deviation of 5% might be the threshold at which intended users change their decisions.
- Accidents with absenteeism: a percentage of 5% might be too high to accept considering the the decisions of the intended users.
- Fatal accidents: All errors likely need to be changed since every fatal accident is likely significant/sensitive to the intended users.

Planning materiality practical examples

3). Example – Diffuse Emissions in the environment:

- Impact on entity's reputation and potential financial impact is very significant
- Concluded as High risk → Materiality set to lowest %

ESG

Time line

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 and (ii) have more than 500 employees. So the entities subject to NFRD;
- Limited assurance.

2026 (reporting on 2025 data)

- Applicable to large companies (not subject to NFRD) which exceed 2 of the following 3 criteria (i) 250 employees during the financial year, (ii) balance sheet total € 20 million, and (iii) net turnover € 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 third-country 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 Oct. 2028 (6-year timeline has been abolished).

2022 — 2023 — 2024 — 2025 — 2026 — 2027 — 2028 — 2029*

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).

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 third-country companies (see criteria CSRD above).

*The 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.

Thank you for your attention