

How well are companies in Iceland prepared for the upcoming requirements under the Corporate Sustainability Directive?

Jeff Sussman, CFA



Tuesday, 14 March 2023

About me

CFA charterholder; studied economics at Brown (BA) and LSE (MSc).

Worked extensively:

- ▶ With **investor stakeholders**, including long-term bond investors (EMTN and USMTN), distressed debt investors, banks, credit funds and trading desks including at Fitch Ratings and Landsbanki Íslands.
- ▶ On **implementing EU Directives** (namely 2014/59/EU “BRRD”) both as part of Deloitte’s bank structural reform platform and assisting Arion Bank with initial Recovery Plan.
- ▶ Working closely with **CF Report** in NL.
- ▶ Work on **corporate reporting** based on research project with Sigurjón Geirsson, Ásgeir Brynjar Torfason.*



Félag löggiltra
endurskoðenda



Will be talking about the future of corporate reporting, transparency and governance requirements.

* Rannsóknarverkefni um reikningsskil, endurskoðun og virkni fjármagnsmarkaða, “REF”²



How well are companies in Iceland prepared for the upcoming requirements under the Corporate Sustainability Reporting Directive?



How well are companies fulfilling the current requirements that CSRD is amending?

CURRENT REQUIREMENTS

▶ **Lög um ársreikninga 3/2006***

Breytingar

– **Lög 73/2016 (ESG upplýsingar)**

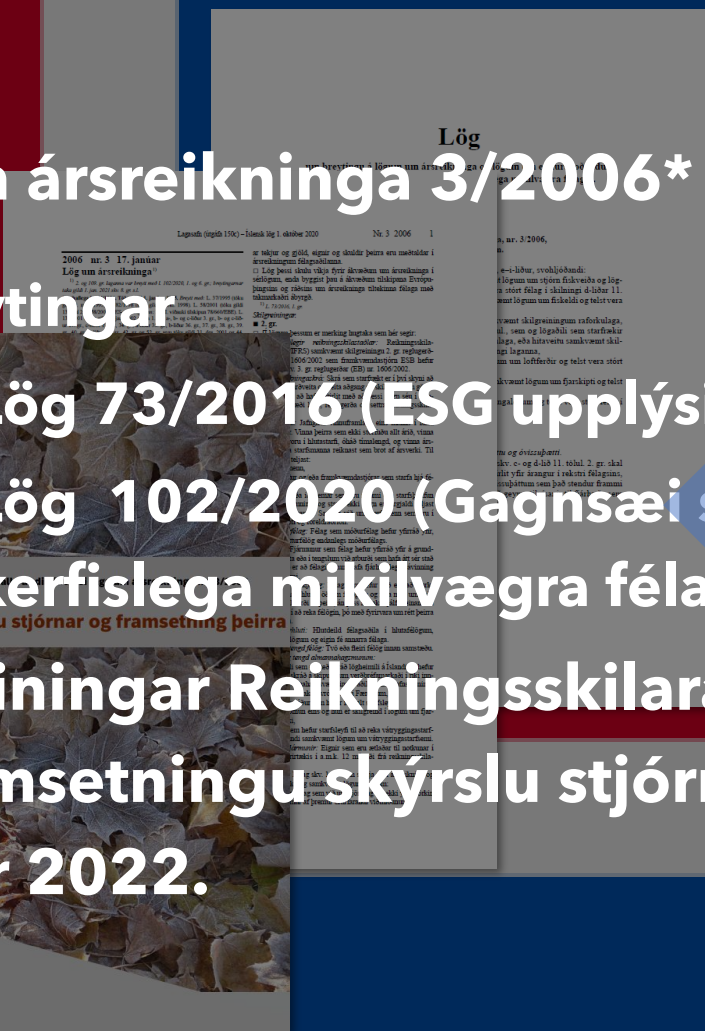
– **Lög 102/2020 (Gagnsæi stærri kerfislega mikilvægra félaga)**

▶ **Leiðbeiningar Reiknings-skilaráðs um framsetningu skýrslu stjórnar - febrúar 2022.**

▶ **Directive 2013/34/EU on the annual financial statements, and related reports**

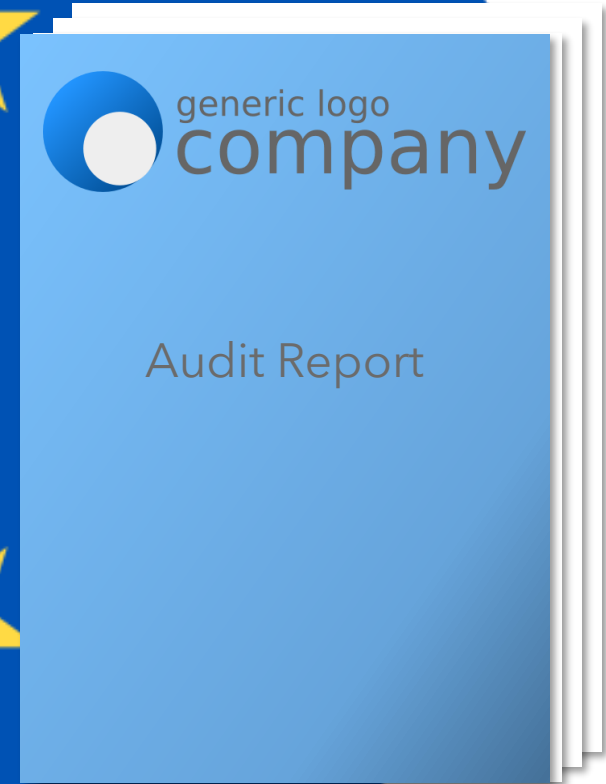
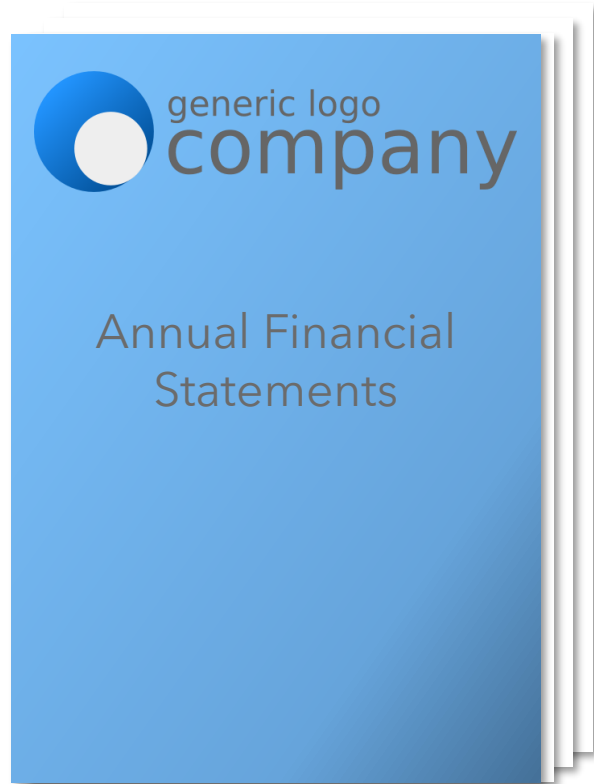
▶ **Directive 2014/95/EU as regards disclosure of non-financial and diversity information**

▶ **Directive 2004/109/EC on the harmonisation of transparency requirements**

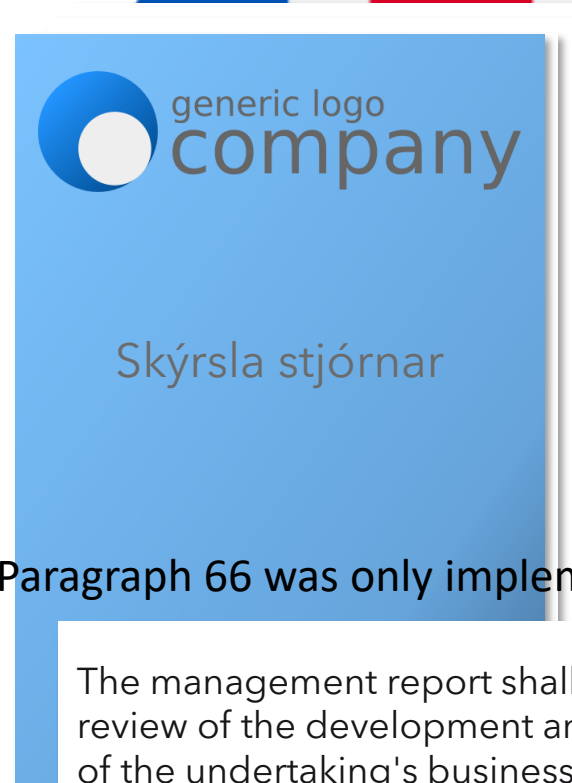


* Lög um opinber fjármál 123/2015 for municipalities and public companies

Directive 2013/34/EU



Lög um ársreikninga 3/2006



Paragraph 66 was only implemented in 2020 in Iceland.

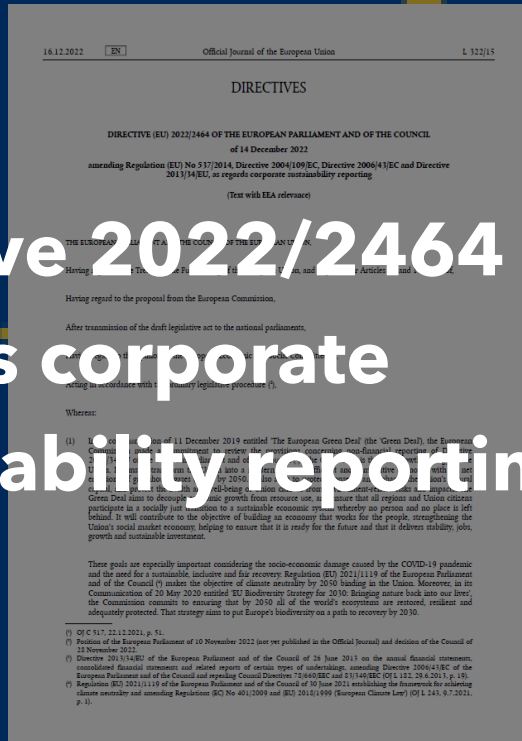
The management report shall include a fair review of the development and performance of the undertaking's business and of its position, together with a description of the principal risks and uncertainties that it faces.



What are the upcoming requirements?

UPCOMING REQUIREMENTS

Directive 2022/2464 as regards corporate sustainability reporting



European Sustainability Reporting Standards



UPCOMING REQUIREMENTS

Core Changes

- ▶ Focus on **stakeholders** and information they need
- ▶ New concept introduced “**key intangible resources**” derived from the **business model** in the Management Report.
- ▶ The term “Non-financial statement” replaced by **Sustainability Reporting**



STAKEHOLDER ANALYSIS

stakeholders

“those who can affect or be affected by the undertakings decisions and actions”



information materiality

“[... information's] capacity to meet the need of the **stakeholders**”

Information materiality

43. Materiality is to be understood as the criterion for the inclusion of specific information in sustainability reports. It reflects (i) the significance of the information in relation to the phenomenon it purports to depict or explain, as well as (ii) its capacity to meet the needs of the stakeholders of the undertaking, allowing for proper decision-making, and more generally (iii) the needs for transparency corresponding to the European public good. The implementation of materiality implies the use of thresholds and/or criteria.

Stakeholders

44. Stakeholders are those who can affect or be affected by the undertaking's decisions and actions. The undertaking shall identify its two main groups of stakeholders:
- (a) affected stakeholders: individuals or groups that have interests that are affected or could be affected – positively or negatively – by the undertaking's activities and through its value chain; and
 - (b) users of sustainability reporting: stakeholders with an interest in the undertaking:
 - i. existing and potential investors, lenders and other creditors (including asset managers, credit institutions, insurance u
 - ii. business partners of the undertakings, tr society organisations and non-governme
45. Some, but not all, stakeholders may belong to both ; process should ensure that impact on all affected stake the needs of users.

DRAFT EUROPEAN SUSTAINABILITY REPORTING STANDARDS

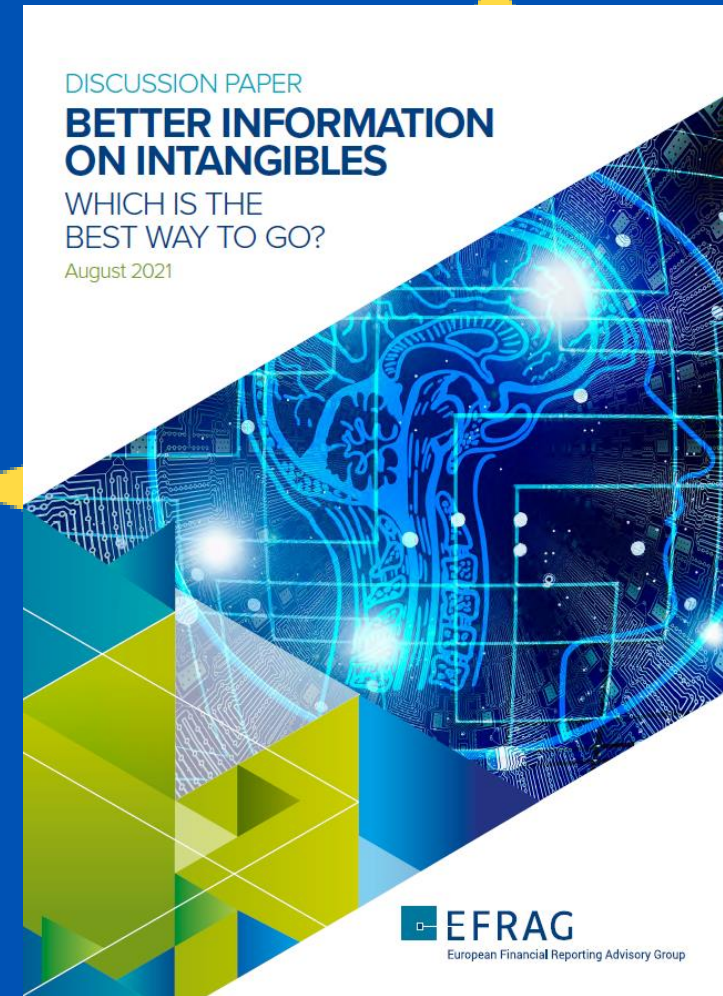
ESRS 1 General requirements

November 2022

KEY INTANGIBLE RESOURCES

means resources without physical substance on which the **business model** of the undertaking fundamentally depends and which are a source of value creation for the undertaking

... in the **Management Report**



KEY INTANGIBLE RESOURCES

key intangible resources



interconnectivity

connection between financial and non-financial information is important



NON-FINANCIAL STATEMENT REPLACED BY SUSTAINABILITY REPORTING

sustainability reporting

means reporting information related to **sustainability matters**, but the reporting also needs to cover **key intangible resources**

sustainability matters

means environmental, social and human rights, and governance factors



'sustainability factors' mean environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.



NON-FINANCIAL STATEMENT REPLACED BY SUSTAINABILITY REPORTING



The management report shall include a fair review of the development and performance of the undertaking's business and of its position, together with a description of the principal risks and uncertainties that it faces.

CHAPTER 5
MANAGEMENT REPORT

2013/34/EU

NON-FINANCIAL STATEMENT REPLACED BY SUSTAINABILITY REPORTING



CHAPTER 5
MANAGEMENT REPORT

2013/34/EU



Article 19a

2014/95/EU

NON-FINANCIAL STATEMENT REPLACED BY SUSTAINABILITY REPORTING



CHAPTER 5
MANAGEMENT REPORT

2013/34/EU



Article 1(4)

2022/2464

NON-FINANCIAL STATEMENT REPLACED BY SUSTAINABILITY REPORTING



CHAPTER 5
MANAGEMENT REPORT

2013/34/EU



Article 1(4)

2022/2464

NON-FINANCIAL STATEMENT REPLACED BY SUSTAINABILITY REPORTING



CHAPTER 5 MANAGEMENT REPORT

2013/34/EU



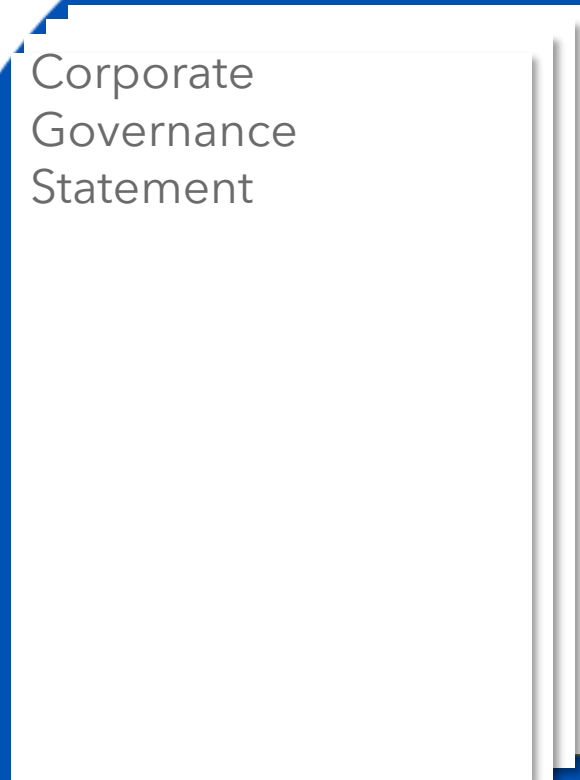
CHAPTER 6a SUSTAINABILITY REPORTING STANDARDS

NON-FINANCIAL STATEMENT REPLACED BY SUSTAINABILITY REPORTING



CHAPTER 5
MANAGEMENT REPORT

2013/34/EU



Article 20

2013/34/EU

HOW WELL ARE COMPANIES IN ICELAND PREPARED FOR THE UPCOMING REQUIREMENTS UNDER THE CORPORATE SUSTAINABILITY DIRECTIVE?

Not well

- ▶ Not fulfilling the core of the current requirements
- ▶ Have not based the content of the Management Report on an illustration of the **business model**.
- ▶ Have not based their reporting on **stakeholder analysis**.
- ▶ **Not integrating** financial information with information in the Management Report.

WORK TO BE DONE!

- ▶ The changes to reporting for Icelandic companies from the upcoming requirements are **fundamental**.
- ▶ Require a **major rethink** to how companies approach the Management Report.

The screenshot shows a digital checklist interface with the following structure:

- Integration/Connectivity** (orange header)
- Stakeholder Analysis (Materiality)** (blue header)
- Business Model Checklist** (grey header)

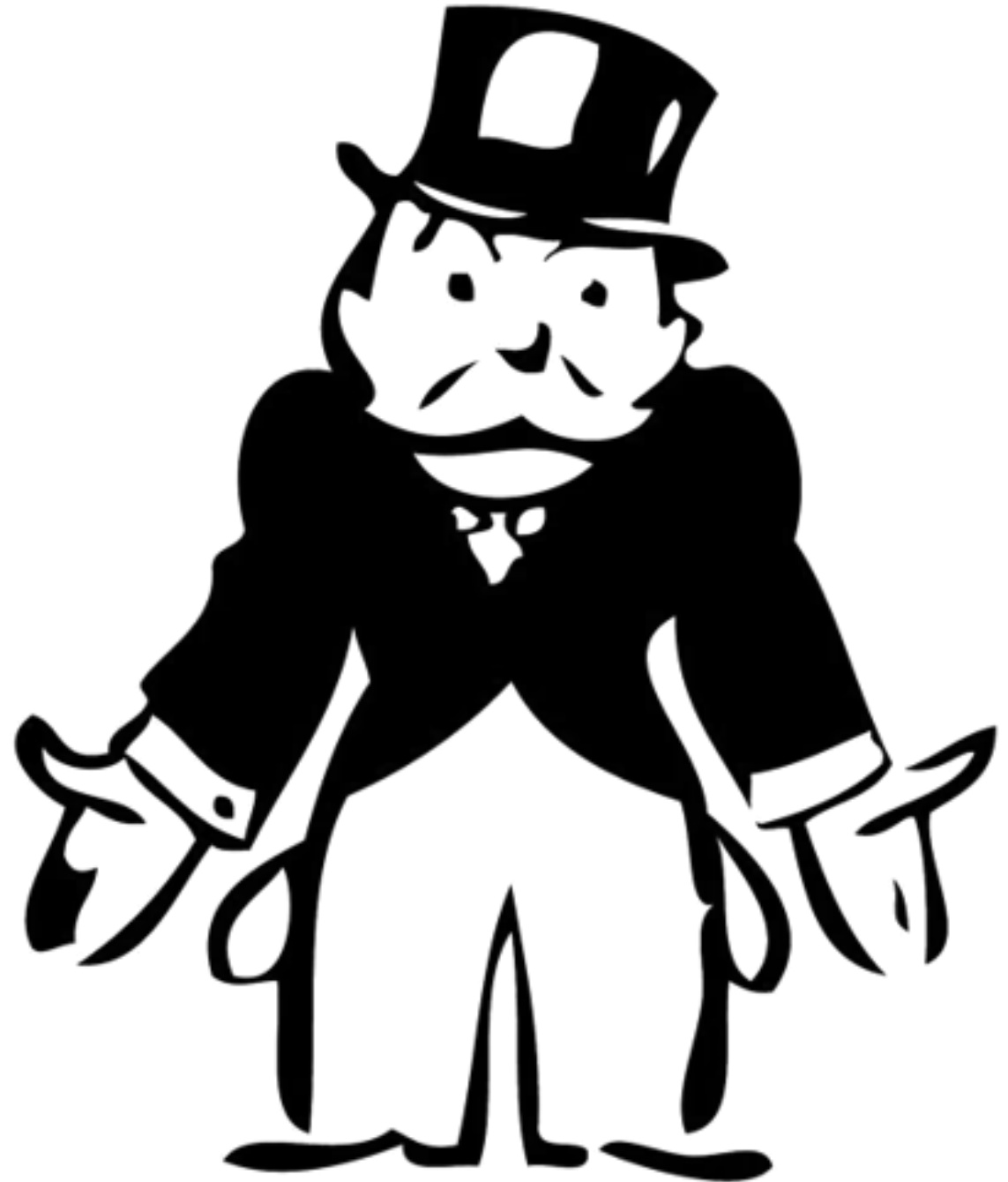
Describing your business model	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
How your business model depends key intangible resources	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
How the key intangible resources are a source of value creation for the undertaking	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Describe your companies value creation model	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Your business model's impact on sustainability matters	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Your business model's resilience in relation to risks related to sustainability matters.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Opportunities for your business related to sustainability matters;	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Assurance that financial and investment plans relating to your business model are compatible with the transition to a sustainable economy	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
How your business model takes into account the interests of stakeholders	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Navigation icons are visible at the bottom of the interface.

WHAT TO DO?

For the market and regulatory framework:

- ▶ Update terminology in the law (Lög um ársreikninga).
- ▶ Update Viðskiptaráð Íslands leiðbeiningar um goða stjórnahætti (transparency).

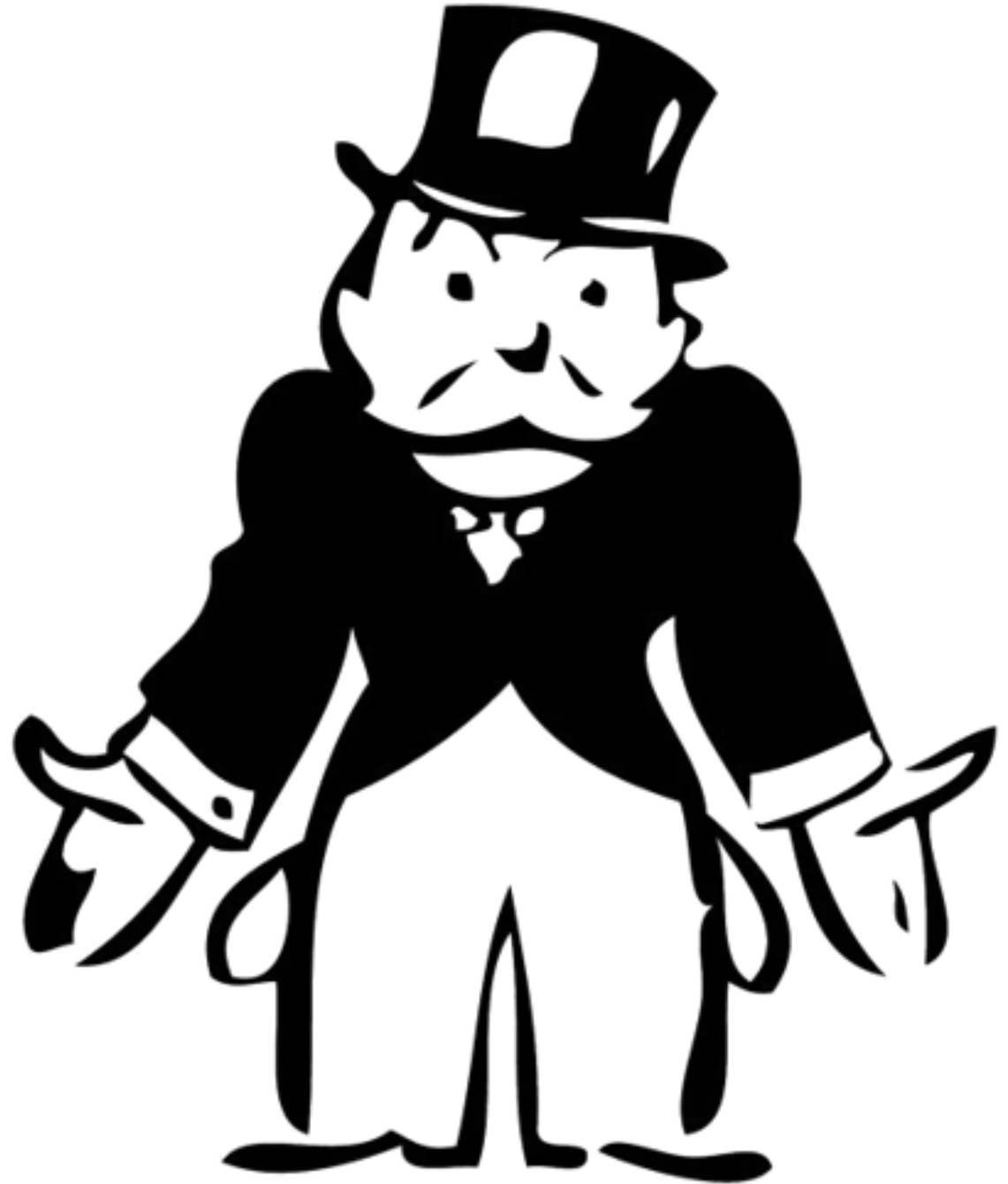


WHAT TO DO?



For companies:

- ▶ Get compliant!



WHAT TO DO?



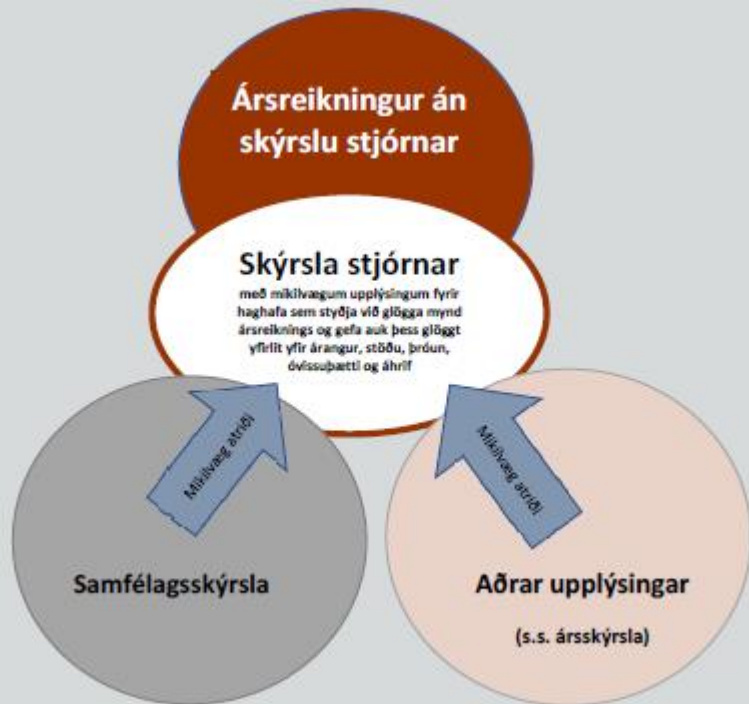
For companies:

- ▶ Get compliant!
 - In February 2022 reikningskilaráð issued comprehensive guidelines.
 - No excuse!



THE CORE OF THE NEW REQUIREMENTS ARE ALREADY NOW IN THE GUIDELINES.

i.e. information based on business model and connectivity

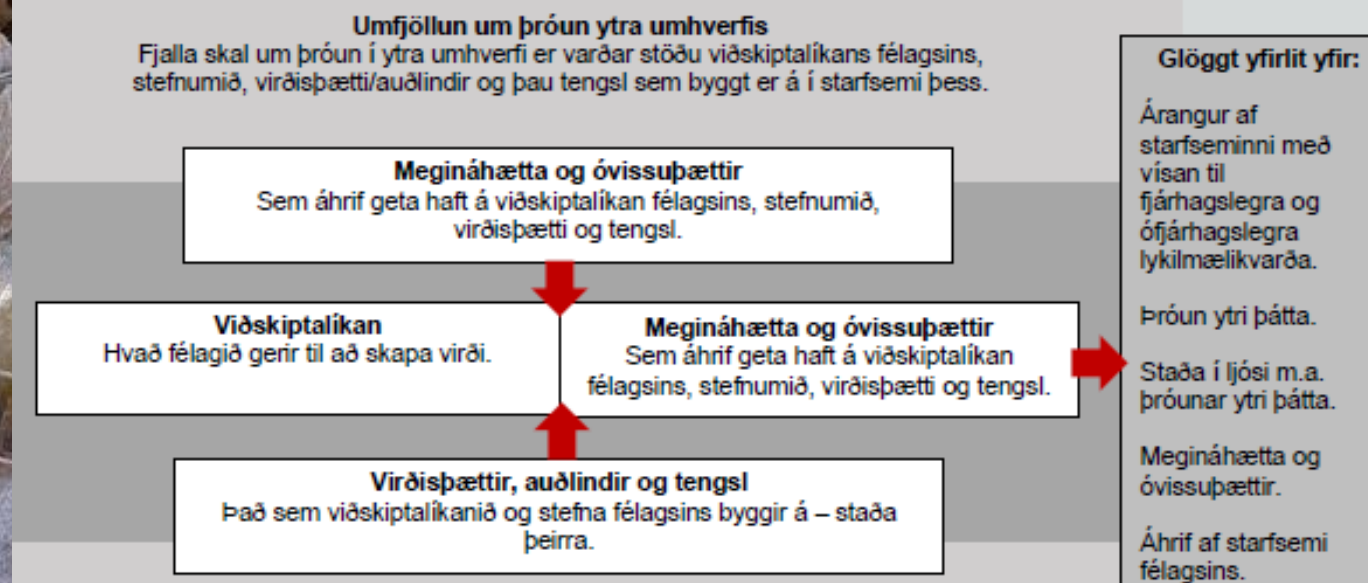


Fjölvirðisnálgun (e. Multi Capital Approach): Fjölvirðisnálgun er framsetning á stöðu félags og árangri af starfsemi þess með áherslu á þróun og stöðu þeirra ólíku virðisþátta (auðlinda) sem starfsemi fyrirtækja byggir almennt á.

REIKNINGSSKILARÁÐ

Leiðbeiningar fyrir félög sem falla undir ákvæði laga um ársreikninga nr. 3/2006

Upplýsingar í skýrslu stjórnar og framsetning þeirra

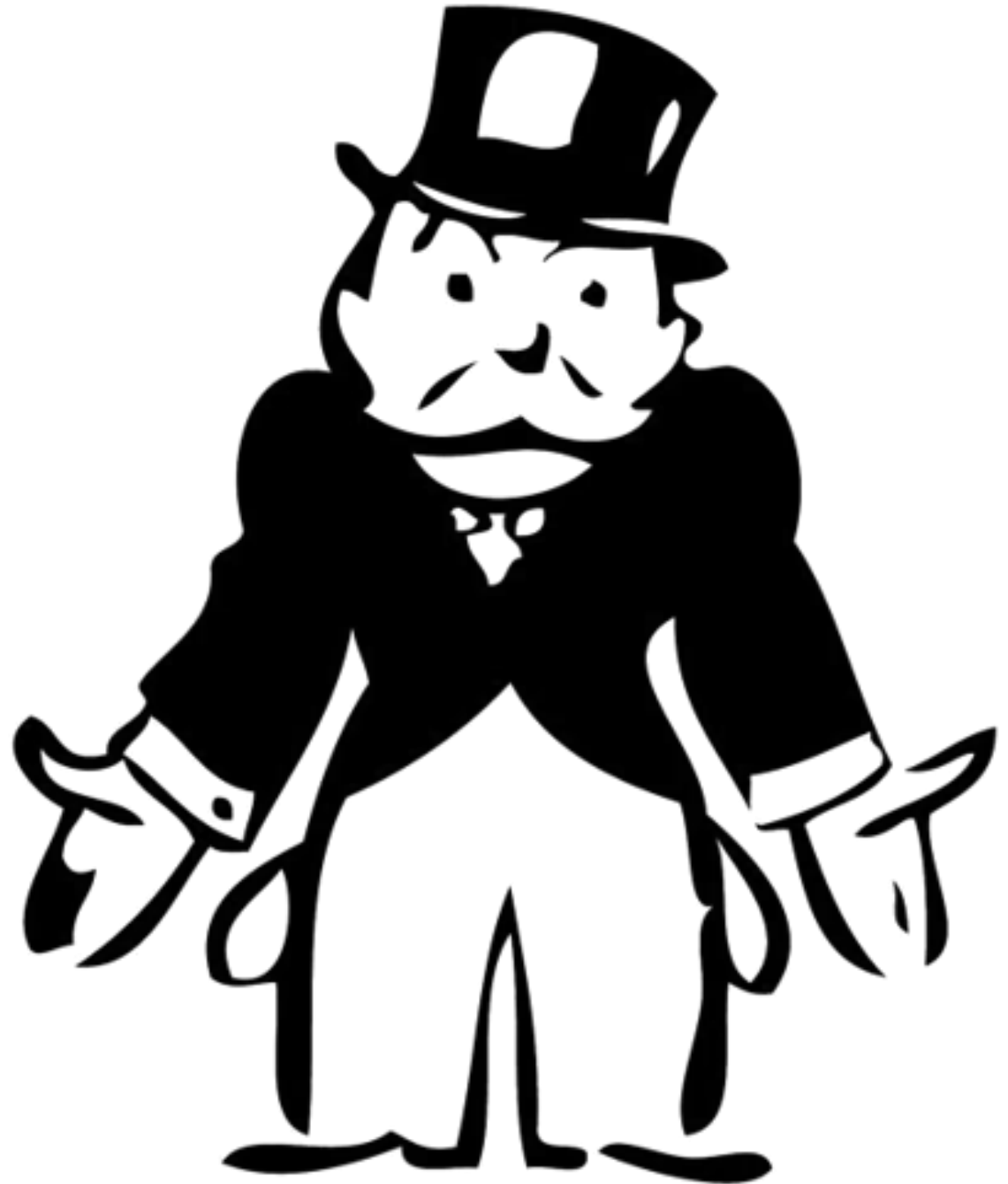


WHAT TO DO?

2

For companies:

- ▶ Focus on analysing its **business model** and present as the fundamental basis for **connectivity** and integration, determining **key intangible resources**, and **stakeholder analysis**.
- ▶ The **business model** is also fundamental for analysis regarding ESG double materiality and EU Taxonomy.

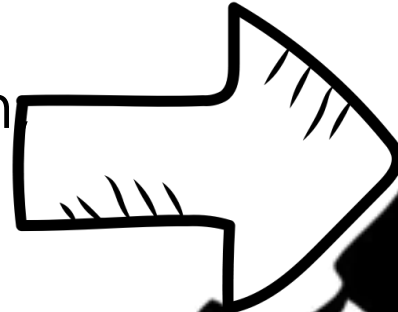


WHAT TO DO?

2

For companies:

- ▶ Focus on analysing its **business model** and present as the fundamental basis for **connectivity** and integration determining **key intangible resources**, and **stakeholder analysis**.
- ▶ The **business model** is also fundamental for analysis regarding ESG double materiality and EU Taxonomy.



BUSINESS MODEL FOCUS

EXPLANATORY MEMORANDUM

There is therefore a widening gap between the sustainability information companies report and the needs of the intended users of that information. On the one hand, this means that investors are unable to take sufficient account of sustainability-related risks in their investment decisions. This in turn has the potential to create systemic risks that threaten financial stability. On the other hand, the gap means that investors cannot channel financial resources to companies with sustainable business models and activities. This in turn undermines the achievement of the objectives of the European Green Deal. It also hampers stakeholders' ability to hold undertakings accountable for the impact they have on people and the environment, creating an accountability deficit liable to undermine the efficient functioning of the social market economy.

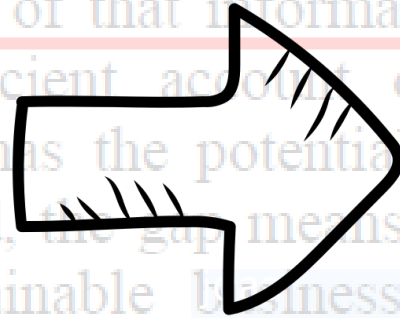
BUSINESS MODEL FOCUS

EXPLANATORY MEMORANDUM

Intended users:



Capital providers



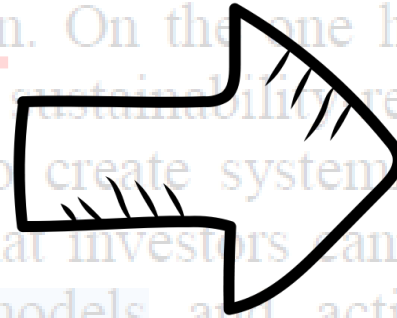
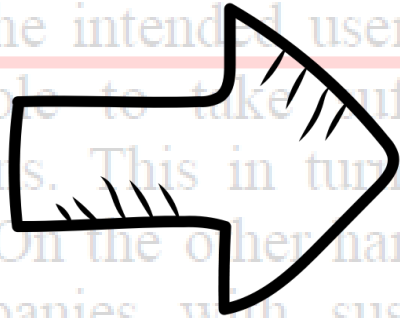
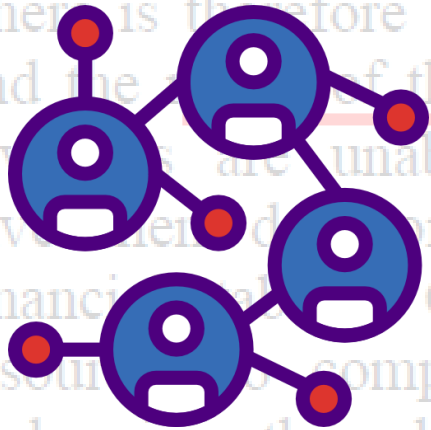
“channel financial resources to companies with **sustainable business models**”

BUSINESS MODEL FOCUS

focus on business is also the key to understand the company

EXPLANATORY MEMORANDUM

Intended users:



SOCIAL MARKET ECONOMY



Stakeholders ability to hold companies accountable....

... for their **impact** on people and the environment

(connectivity and input/output)

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