GENERAL CIRCULAR:	**02/2025 [GC 2_2025]**
To:	**ALL MEMBERS OF THE INSTITUTE**
From:	**The Institute of Certified Public Accountants of Cyprus (ICPAC)**
Date:	**13 February 2025**
Subject:	**CSRD FAQs Cyprus**

This set of Frequently Asked Questions (FAQs) aims to clarify certain provisions introduced by the Corporate Sustainability Reporting Directive "CSRD" (Directive (EU) 2022/2464)) which amends the Accounting Directive (Directive 2013/34/EU), the Audit Directive (Directive 2006/43/EC), the Audit Regulation (Regulation (EU) No 537/2014 and the Transparency Directive (Directive 2004/109/EC) and provide the framework given that the CSRD is not yet transposed to national law.

Refer here to ICPAC's Technical Alert 7/2023 with subject 'Corporate Sustainability Reporting Directive: New EU requirements' for a summary of the CSRD requirements.

You may also refer to the FAQs prepared by the European Commission here.

ΣΥΝΔΕΣΜΟΣ ΕΓΚΕΚΡΙΜΕΝΩΝ ΛΟΓΙΣΤΩΝ ΚΥΠΡΟΥ

Λεωφόρος Βύρωνος 11, 1096 Λευκωσία
Τ.Θ. 24935, 1355 Λευκωσία, Κύπρος
Τ.: +357 22870030, Φ.: +357 22766360

THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF CYPRUS

11 Byron Avenue, 1096 Nicosia
P.O. Box 24935, 1355 Nicosia, Cyprus
T.: +357 22870030, F.: +357 22766360

info@icpac.org.cy
www.icpac.org.cy

About this document

This is a living document and might change from time to time, depending on the developments, therefore please ensure you access it online for the latest version.

As of the publication of these FAQs, the Parliament has begun discussions regarding the transposition of Directive 2004/109/EC into national law, with plans to initiate the process for the remaining two directives soon. Given the current circumstances, obligated companies may need to report under the CSRD for the 2024 financial reporting year if retrospective application is enforced. Should this be the case, ICPAC intends to engage further with the government and relevant authorities to discuss the implementation of the requirements and provide guidance to its members on how to proceed.

The FAQs are intended for informational purposes only and do not constitute legal advice. The content herein addresses various aspects under the CSRD, national law and related provisions, including potential exemptions. While every effort has been made to ensure accuracy, readers are advised to consult with legal professionals for specific advice related to their individual circumstances. The provisions referenced may be subject to interpretation and further regulatory guidance. The issuing body assumes no liability for actions taken based on this circular without appropriate legal consultation.

This document has been prepared by the Institute of Certified Public Accountants of Cyprus (ICPAC). Unauthorised reproduction or distribution of this material or any part of it, is strictly prohibited without prior written consent.

Contents

Frequently asked Questions and Answers

ENFORCEMENT

1. **When does the CSRD come into effect?**
   According to the CSRD, the first sustainability reporting and assurance reports will be published by the obliged entities in 2025 on 2024 data.

   As of the date these FAQs are issued, the CSRD has not been transposed into national law therefore it is not yet mandatorily applicable to entities registered in Cyprus.

2. **What does "transposition" of the CSRD mean?**
   Transposition refers to the process of incorporating EU legislation into national law by each EU member state. Without transposition, the CSRD cannot be enforced at the national level until local laws align with the directive.

   In Cyprus it is expected that, as a result of this transposition, the Companies Law, Cap. 113, the Auditor's Law of 2017 and the Transparency Requirements (Securities Admitted to Trading on a Regulated Market) Law of 2007 will be amended.

3. **What is the reporting requirement for entities that fall under the criteria to prepare a sustainability report for the financial reporting year 2024 (Wave 1 entities) since the CSRD is not yet transposed to national law?**
   Until the transposition of the CSRD comes into effect, the existing legal framework will continue to apply for the 2024 financial year. As in prior years, (parent) companies that are governed by Companies Law, Cap.113, and particularly Articles 151A (and/or 151B,) are still required to prepare a (consolidated) non-financial statement under Non-Financial Reporting Directive (NFRD) as transposed. This reporting is not subject to any mandatory assurance but rather an existence check as per the Companies Law, Cap. 113. Refer to ICPAC's Technical Circular 8/2018 'Audit reporting obligations imposed by law or regulation' for the impact on the auditor's report for the financial statements.

   The CSRD requires (parent) entities to draw up (consolidated) sustainability reports in accordance with the European Sustainability Reporting Standards (ESRS). There is no obligation for the moment to prepare the non-financial statement report in accordance with the ESRS because there is no corresponding legal basis in the national law. See also section Reporting Framework.

4. How should entities prepare for the CSRD if national transposition is still pending?

Entities should start familiarizing themselves with the CSRD's requirements and begin gathering the necessary data for sustainability reporting. Even if national laws haven't yet been updated, organizations should be proactive in ensuring they can comply once local transposition happens.

5. How can ICPAC support its members in navigating the CSRD?

Apart from the issuance of these FAQs, the publication of technical guidance along with the seminars/webinars performed in previous years, ICPAC plans to:

1. Issue a summary of the new law provisions once these come into effect.
2. Publish guidance on the assurance to be provided in a sustainability report.
3. Organize additional webinars/seminars to ensure members stay informed and are prepared for the changes.

It is worth noting that ICPAC, from the very beginning of the publication of the CSRD, has been advocating with the relevant authorities for the interests of its members, helping ensure that local laws and regulations align with this EU directive.

On a different but related note, the operational aspects of the CSRD, including auditor licensing, grandfathering provisions and continuous development requirements are expected to be addressed by the CyPAOB in collaboration with ICPAC.

SCOPE

6. Are semi-government organizations within the scope of CSRD requirements?

If a semi-government organization is incorporated as a type of undertaking listed in Annex I or II of the Accounting Directive and falls under the scope of Articles 19a and 29a of the Accounting Directive, it will have to include in its management report a sustainability statement.

If a semi-government organization does not fall under the above provisions and thus under the Companies law, Cap.113 remit, this organization is excluded from the scope of CSRD. It is however encouraged that it voluntarily reports on CSRD since this information is useful and relevant to a number of stakeholders.

7. **How is the turnover calculated for the purpose of the entity categorization under the Companies Law, Cap.113?**
According to Companies Law, Cap. 113, 'Net Turnover' means the amounts derived from the sale of products and the provision of services after deducting sales rebates and value added tax and other taxes directly linked to turnover.

It is noted that CSRD builds upon this definition and adds that:

- for insurance undertakings referred to in point (a) of the first subparagraph of Article 1(3) of the CSRD, "net turnover" shall be defined in accordance with Article 35 and point 2 of Article 66 of Council Directive 91/674/EC;
- for credit institutions referred to in point (b) of the first subparagraph of Article 1(3) of the CSRD, "net turnover" shall be defined in accordance with point (c) of Article 43(2) of Council Directive 86/635/EEC; and
- for undertakings falling under the scope of Article 40a(1) of the CSRD (i.e. third-country undertakings), "net turnover" means the revenue as defined by or within the meaning of the financial reporting framework on the basis of which the financial statements of the undertaking are prepared.

It is expected that this definition will be incorporated in Companies Law, Cap.113 following the transposition of the CSRD.

8. **If a company currently meets the CSRD criteria but is expected not to meet them in the coming years (e.g. due to its nature), does it still need to prepare a sustainability report under the CSRD when the law comes into force?**
A company remains subject to the CSRD requirements as long as it meets the qualifying criteria. The CSRD does not provide exemptions based on anticipated changes in company size; compliance is based on the company's status during the reporting period.

FEES

9. If the CSRD is voluntary for the financial reporting year of 2024, does this mean that the audit firm will need to include the relevant fees as non-audit services in the 70% cap calculation as required by Regulation 537/2014 (Article 4(2))?

The CSRD clarifies that the assurance of sustainability reporting should not count in the calculation of the limit established concerning the fees for other services that the statutory auditor can obtain.

<u>Scenario 1: Entity publishes its voluntary CSRD assured report before the CSRD is enacted into law</u>

If assurance is provided by the statutory auditor of the financial statements on a sustainability report prepared under CSRD which is published <u>before</u> the CSRD is transposed to national law, it will be classified as a non-audit service. Consequently, it must be included in the fee cap calculation. If this cap is expected to be exceeded, the audit firm is required to report it to the CyPAOB and receive written approval by CyPAOB.

<u>Scenario 2: Entity publishes its voluntary CSRD assured report after the CSRD is enacted into law</u>

If assurance is provided by the statutory auditor of the financial statements on a sustainability report prepared under CSRD which is published <u>after</u> the CSRD is transposed to national law, considering that auditors and audit committees have been operating under the assumption that compliance with the CSRD would be legally required, the related fees for CSRD services will not be classified as a non-audit service. Consequently, they should not be included in the fee cap calculation.

10. If a firm provides limited assurance report on a PIE for sustainability reporting purposes (without providing any additional assurance work to that PIE) is there a cap on other non-assurance work, can they provide? Or not?

The fee cap outlined in Regulation 537/2014/EU is directly linked to the provision of statutory audit services. If a firm only provides sustainability assurance (not statutory audit) and other non-assurance services to a PIE, the 70% cap on non-audit services would thus not generally apply.

EXEMPTIONS

11. For (parent) entities in Cyprus that fall under the first wave of CSRD disclosures and are a part of a Group that is registered in another European State that has passed the law and will prepare a consolidated CSRD report, would an exemption from the NFRD be provided as they will be reporting under the Group and under normal circumstances they would be allowed for the CSRD exemption of issuing a stand-alone report?

Companies Law, Cap.113 notes the following with regards to the NFRD:

«151A(8) Θυγατρική εταιρεία, απαλλάσσεται από τις υποχρεώσεις που ορίζονται στις διατάξεις του εδαφίου (1), εάν η εν λόγω εταιρεία περιλαμβάνεται στην ενοποιημένη έκθεση διαχείρισης ή στη χωριστή έκθεση διαχείρισης άλλης εταιρείας, η οποία συντάσσεται σύμφωνα με τις διατάξεις του άρθρου 151 και σύμφωνα με τις διατάξεις του παρόντος άρθρου.

151B (8) Μητρική εταιρεία που είναι επίσης θυγατρική εταιρεία απαλλάσσεται από την υποχρέωση που ορίζεται στις διατάξεις του εδαφίου (1), εφόσον η απαλλασσόμενη μητρική εταιρεία περιλαμβάνεται στην ενοποιημένη έκθεση διαχείρισης ή στη χωριστή έκθεση διαχείρισης άλλης εταιρείας, η οποία συντάσσεται σύμφωνα με τις διατάξεις του άρθρου 151 και του παρόντος άρθρου. »

It is noted that Article 19a(3) and Article 29a(3) of Directive 2013/34/EU, which includes the CSRD requirements, exempt all subsidiary undertakings from the obligation to report non-financial information where such undertakings and their subsidiary undertakings are included in the consolidated management report of their parent undertaking, provided that report includes non-financial information reported pursuant to that Directive.

The CSRD was created to strengthen and broaden the existing regulatory framework of the NFRD. It is therefore reasonable to assume that if a parent entity prepares a report under the CSRD, it adheres to its requirements including national law requirements (where applicable) and captures the requirements of the NFRD as stipulated in the Companies Law, Cap. 113, then the subsidiary can be exempted from the preparation of a sustainability report. Since this involves legal interpretation, it would be prudent for the reporting entity to seek formal legal advice to confirm whether Cypriot authorities will recognize the CSRD exemption before the directive is transposed or if interim NFRD obligations remain in place.

Furthermore, according to the CSRD, it is necessary to ensure those subsidiary undertakings include in their management report the name and registered office of the parent undertaking that is reporting sustainability information at group level, the weblinks to the consolidated management report of their parent undertaking and a reference in their management report to the fact that they are exempted from sustainability reporting. Although this is not a requirement under the NFRD, subsidiaries in Cyprus that opt for this exemption and fall under this question's scenario are encouraged to disclose this information in their management report.

12. Interconnection between CSRD and consolidation requirements

a. Can investment entities (exempted from consolidation under IFRS Accounting Standards) also be exempted from the CSRD requirements?

The accounting reporting framework cannot be the decisive factor. Investment entities are not automatically exempt from CSRD just because they are exempt from consolidation under IFRS Accounting Standards. The decisive factor remains whether the entity meets the size criteria or is otherwise required to report under the CSRD framework. To claim an exemption, an entity must rely on specific provisions within the CSRD or national transposition laws.

b. Can entities that are subject to, but have not complied with, the requirements of the Cyprus Companies Law, Cap. 113 and of IFRS 10 "Consolidated Financial Statements" which require the preparation and presentation of consolidated financial information of the entity and its subsidiaries be exempted from the CSRD application when this is in place?

Entities cannot use non-compliance with consolidated financial statement requirements as a basis for exemption from the CSRD. They are still subject to CSRD if they meet the applicability criteria.

ICPAC's Technical Circular 1/2022 *Illustrative auditor's report in a dual opinion format where consolidated financial statements are not prepared* continues to apply. Additionally, the auditor's report should reflect the non-compliance with CSRD requirements in such an event. <u>More information on how this should be reported will be provided by ICPAC in a separate technical circular.</u>

13. How is the equivalence between the CSRD and other frameworks assessed? (relevant in cases where a non-EU holding parent entity prepares sustainability under a framework other than the ESRS and the Cypriot subsidiary needs to assess if it is exempted from CSRD)

Directive 2004/109/EC, as amended by the CSRD, should provide appropriate mechanisms to determine the equivalence of sustainability reporting standards, and undertakings whose securities are admitted to trading on a regulated market in the Union and undertakings whose securities are not admitted to trading on a regulated market in the Union should be required to report in accordance with the same sustainability reporting standards. In this context, the implementing acts adopted by the Commission pursuant to point (i) of the first subparagraph of Article 23(4) and the fourth subparagraph of Article 23(4) of Directive 2004/109/EC establishing a mechanism for the determination of equivalence of standards should be used to determine whether to exempt subsidiary undertakings of third-country parent undertakings under the regime of Directive 2013/34/EU.

Therefore, the subsidiary undertaking should be exempted when the consolidated sustainability reporting is carried out in accordance with the sustainability reporting standards adopted by the Commission pursuant to Article 29b of Directive 2013/34/EU introduced by this amending Directive or in a manner equivalent to those sustainability reporting standards, as determined in accordance with an implementing act on the equivalence of sustainability reporting standards adopted pursuant to the third subparagraph of Article 23(4) of Directive 2004/109/EC. Such an exemption should not apply to large undertakings whose securities are admitted to trading on a regulated market in the Union for reasons of investor protection.

According to paragraph 23(4) of Directive 2004/109/EC the criteria that the Commission shall use when assessing the equivalence of sustainability reporting standards used by third-country issuers referred to in the third subparagraph shall at least ensure the following:

(a) that the sustainability reporting standards require undertakings to disclose information on environmental, social and governance factors;

(b) that the sustainability reporting standards require undertakings to disclose information necessary to understand their impacts on sustainability matters, and information necessary to understand how sustainability matters affect their development, performance and position.

REPORTING FRAMEWORK

14. If an entity voluntarily prepares a sustainability report under the CSRD, should it use the ESRS or can it use the ISSB standards or other equivalent? Does the sustainability report need to be audited?

The CSRD does not regulate sustainability reporting carried out on a voluntary basis. An undertaking carrying out sustainability reporting on a voluntary basis is expected to prepare the report under the ESRS.

A voluntary report is also not subject to assurance, although this would be preferable as it would ensure that information is reliable and that all relevant information is disclosed.

ETHICS

15. Which IESBA Code of Ethics is applicable for auditors who provide sustainability assurance services?

Although the International Ethics Standards Board for Accountants (IESBA) has issued:

- The International Ethics Standards for Sustainability Assurance (including International Independence Standards) and related amendments to the IESBA Code of Ethics,
- The framework on 'Using the Work of an External Expert' to guide professional accountants or sustainability assurance practitioners,

auditors must continue to adhere to the current IESBA Code of Ethics when providing sustainability assurance services until these new provisions come into effect[1]. This is because CyPAOB is not expected to early adopt these provisions.

16. Can a public-interest entity (PIE) auditor (physical person), during the cooling-off period, offer CSRD Assurance in that PIE?

Under paragraph 540.21(d) of the IESBA Code of Ethics, a PIE auditor who is subject to a cooling-off period is prohibited to:

[1] Certain provisions are effective for periods beginning on or after December 15, 2026, or as of 15 December, 2026.

Undertake any other role or activity not referred to above with respect to the audit client, including the provision of non-assurance services, that would result in the individual:

(i) Having significant or frequent interaction with senior management or those charged with governance; or

(ii) Exerting direct influence on the outcome of the audit engagement.

If the role of the sustainability partner under the CSRD is deemed a key audit partner position or closely associated with the statutory audit of the PIE, it is reasonable to conclude that the cooling-off period would apply. This would effectively prevent the PIE auditor from serving as the sustainability partner during the cooling-off period.

17. Can an audit firm with PIE clients, during the cooling-off period, offer CSRD Assurance in that PIE?

Although the IESBA Code of Ethics primarily discusses individuals in the context of the cooling-off period and auditor independence requirements, the firm is also subject to broader independence requirements, and the cooling-off period applies to the firm's responsibility to ensure that these individuals do not engage in roles or activities that could impair their independence. While the IESBA Code of Ethics explicitly mentions individuals in certain roles, the firm must enforce these rules to maintain overall compliance and independence.

Therefore, the PIE audit firm cannot offer CSRD assurance services in that PIE during the cooling-off period. The cooling-off period is designed to ensure auditor independence, preventing the firm from providing certain services that could impair objectivity during this time.