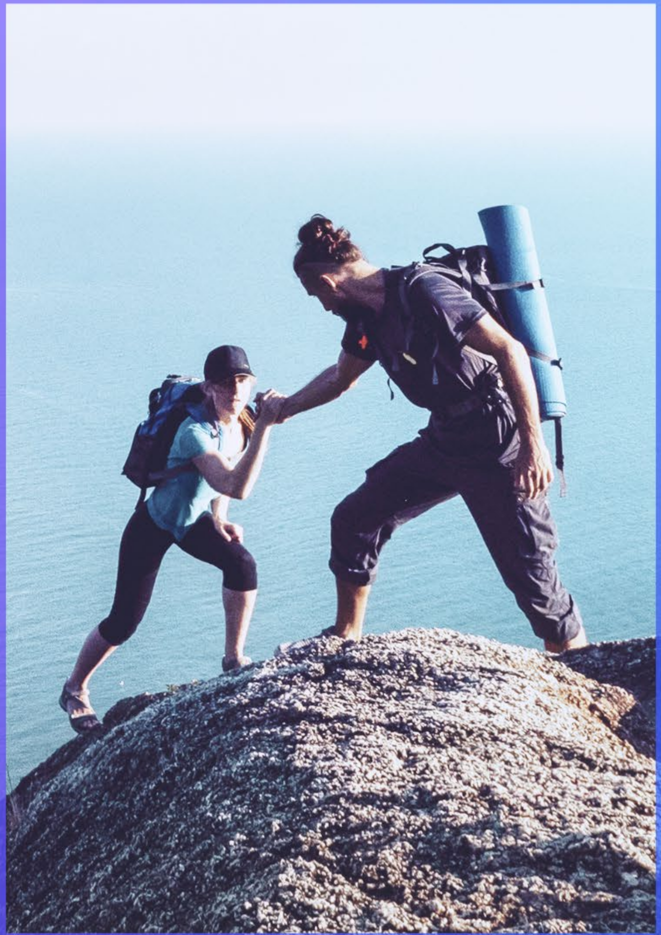
Get ready for the Corporate Sustainability Reporting Directive



Understanding the CSRD

—

April 2023

Introduction

The **Corporate Sustainability Reporting Directive (CSRD)** is ambitious both in terms of companies subject to the directive as well as with regards to reporting requirements in scope. The mandatory framework will significantly impact companies that have to report, as well as those does that do not (yet) have a reporting requirement, as they might be asked by stakeholders to communicate and/or share their sustainability information with supply chain partners.

Companies in scope are required to include sustainability information in their management report. The mandatory limited assurance by an external assurance provider puts data collection processes, controls and the resulting data quality under further scrutiny. The implementation entails significant operational changes related to governance, data and IT systems and processes. On top of that, multinational companies may need to deal with multiple applicable reporting frameworks and overcome differences in data requirements. An additional challenge for companies may be to obtain reliable information on contractual relationships with value chain entities.

As mentioned in our CSRD preparedness assessment report it is crucial for companies to start preparing for CSRD implementation as soon as possible to ensure timely compliance with reporting requirements.

The CSRD is more than a compliance. The framework is and can be used as a tool that supports companies in accelerating their sustainability programs and transforming to a more sustainable business.

We have prepared answers to the 20 most frequently asked questions about the CSRD, in order to help you manage the increasing complexity of these sustainability reporting requirements.

This document refers to the CSRD as published in the EU Official Journal on 16 December 2022.

20 questions
to start getting ready

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01

What is the CSRD? How is it introduced?

The CSRD is adopted by the European Parliament and the European Council in November 2022. It entered into force on January 6, 2023. Member states have 18 months to transpose it into national law.

What

The CSRD is a key component of the EU's sustainable finance action plan and the European Green Deal and requires companies to report on their sustainability information with the ambition to:

- provide investors and stakeholders access to necessary information for assessing investment risks related to climate change and other sustainability factors;
- establish a transparent culture regarding a company's impact on people and the environment.

Under EU law, certain large companies are already subject to disclosure requirements under the Non-Financial Reporting Directive (NFRD). The CSRD will amend the existing reporting requirements and expand the scope of companies that need to report.

How

The European Commission has mandated the European Financial Reporting Advisory Group (EFRAG) to develop standards detailing what needs to be reported under the CSRD. These standards are called the European Sustainability Reporting Standards (ESRS).

The ESRSs are a core element of the new sustainability regulation. ESRSs aim to diminish corporate greenwashing and improve accuracy, consistency and comparability of sustainability reporting within the EU to the level of financial accounting and reporting.

The latest drafts were published by the EFRAG in November 2022, which set contains detailed requirements what information should be disclosed, how and where. The first set of ESRSs is due for finalization by June 2023.

Apr 2021 — **April 21, 2021** European Commission unveils CSRD proposal

Jan 2022 — **January 2, 2022** EFRAG working groups publish first set of working papers on possible ESRS

Apr 2022 — **April 29, 2022** EFRAG opens consultation on Exposure Drafts of 13 ESRSs, including 2 Cross-cutting and 11 Topical standards

Aug 2022 — **August 8, 2022** Closing of the public consultation on the Exposure Drafts of the first set of ESRS

Nov 2022 — **November 23, 2022** EFRAG proposes first set of ESRS drafts to European Commission

Dec 2022 — **December 16, 2022** Publication of the CSRD in the EU Official Journal

Apr/May 2023 — **April/May 2023** EFRAG releases a second set of draft ESRS with a focus on standard for SMEs and some sector-specific standards

Jun 2023 — **June 2023** Adoption of first set of standards by the European Commission through Delegated Acts

Jul 2024 — **July 2024** Member states must have incorporated the CSRD into their local law

02 When and to whom do the ESRS apply?

The second set of standards – which will include standards for SMEs and non-EU parent companies – is expected to be finalized by June 2024. The standards for SMEs will be simplified and adapted to their reporting capacity. Non-listed SMEs could apply these standards on a voluntary basis.

When

ESRS would be gradually applied for years beginning on/after January 1, 2024 (reporting in 2025). Phased introduction would start with EU-large PIEs and non-EU companies[1] with securities listed on a regulated market in the EU and having more than 500 employees, and would further extend to other large companies and to listed Small and Medium-sized Enterprises (SMEs).

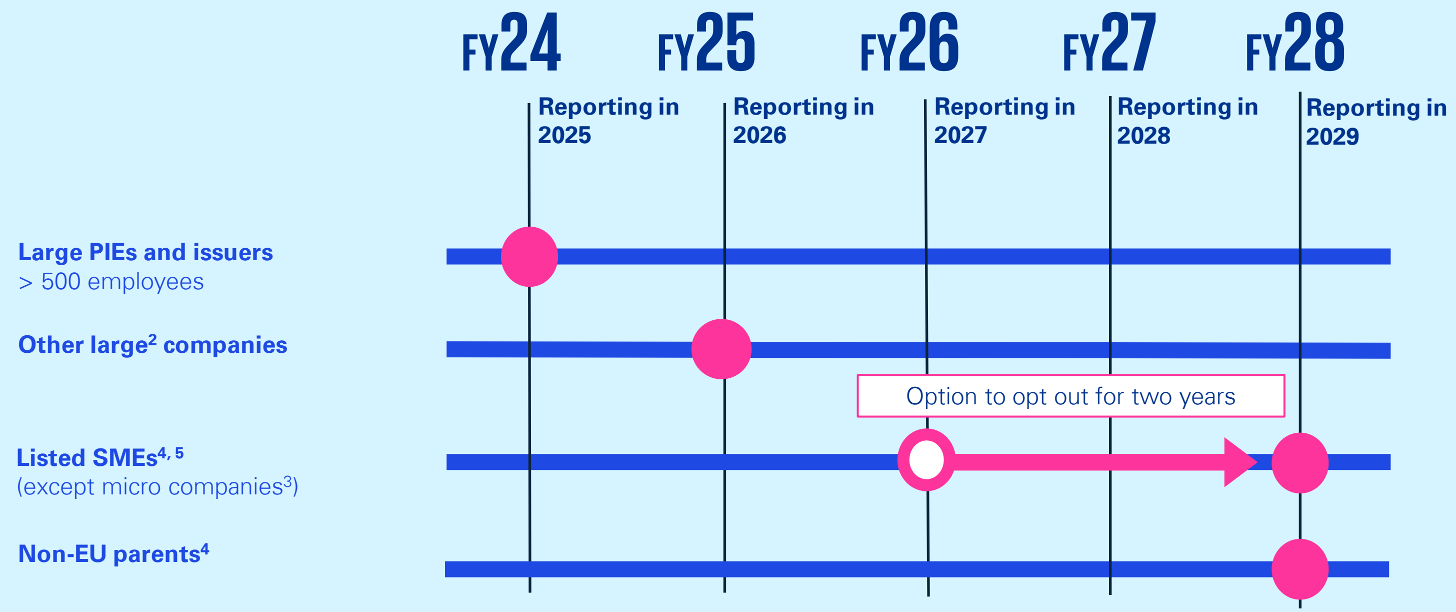
Who

Ultimately, the ESRS would be applied by (exemptions may apply):

- large EU companies[2];
- listed EU companies (except micro companies[3]);
- non-EU companies listed in the EU (except micro companies); and
- ultimate non-EU parent companies[4] that meet certain criteria.

To define the size of reporting entities, the CSRD uses the three size criteria as defined in the Accounting Directive: balance sheet total, net turnover, and average number of employees during the financial year.

Please, check questions 03 and 04 for more details on non-EU companies obligations.



According to the Accounting Directive (Annex 1 and 2), NVs, BVs and certain CVs and VOFs are in scope for the Netherlands. Foundations and associations are not in scope of the CSRD. However member states may each individually decide on extending the scope of the CSRD provisions.

1) The word 'companies' on this page refers to companies on a stand-alone basis or to parent companies with their group (including EU and non-EU subsidiaries) on a consolidated basis.
2) Large companies are companies that exceed two of the following three criteria: 250 employees, net revenue of €40M, and total assets of €20M.
3) Micro companies are companies that do not exceed two of the following three criteria: 10 employees, net revenue of €700,000, and total assets of €350,000.
4) Separate standards will be developed for SMEs and non-EU parent companies (to be adopted by the European Commission by June 30, 2024).
5) Small and non-complex institutions and captive insurers as specified in Article 5 of the CSRD are treated like listed SMEs (the opt-out option until 2028 does not apply for those entities, unless they also meet the definition of SME).

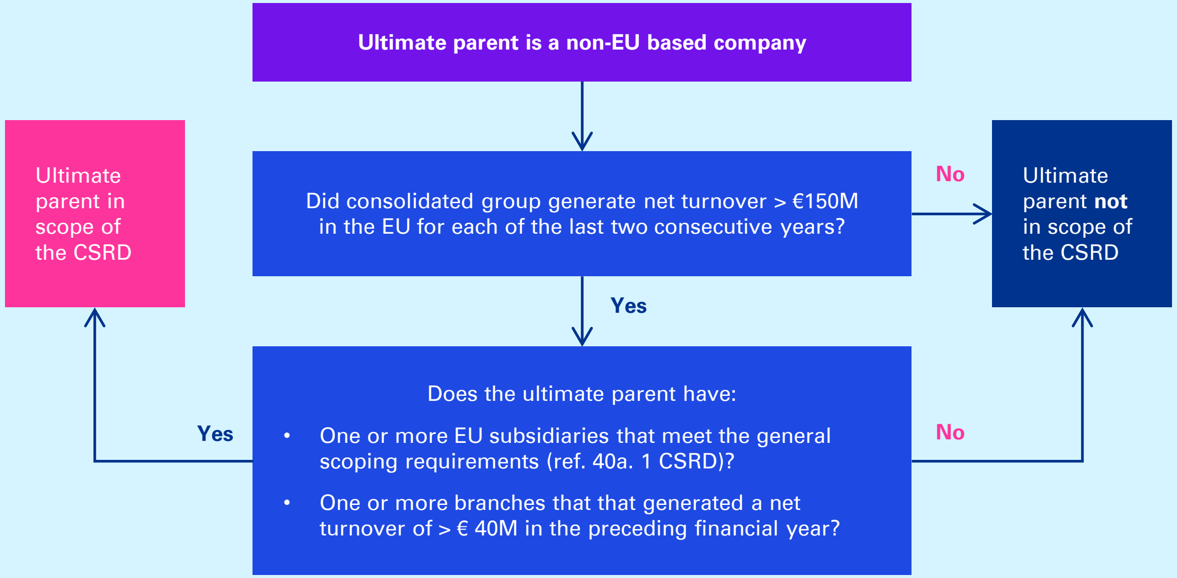
03 What are the obligations for non-EU parent companies?

Article 2 of the CSRD amends sections of Directive 2004/109/EC and includes in the scope issuers with debt or equity securities listed on an EU regulated market, including non-EU companies[1].

Non-EU companies with listed securities on a regulated market in the EU will fall under the scope of the CSRD earlier than FY28. Depending on the size criteria, they will be required to issue a CSRD compliant report at the same time as EU companies in the comparable group:

- Large companies[1] with more than 500 employees in FY24
- Other large[2] companies in FY25
- Small or medium-sized companies[4, 5] (except micro companies[3]) in FY 26 (with a possibility to opt out for two years)

For the rest of non-EU companies the following rules apply to determine if an ultimate non-EU parent company would be subject to the CSRD from FY 2028.



The disclosure requirements under the non-EU parent scoping are slightly reduced compared to those under the general scoping.

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04 Are there exemptions possible?

In case a non-EU ultimate parent is in scope of the CSRD and files a CSRD compliant sustainability report that includes the entire group, then a consolidated EU subsidiary can apply the group exemption (except if it is a large listed PIE)[3].

Reporting exemptions

Group exemption – subsidiaries could be exempted from preparing sustainability statements if the parent makes available a CSRD compliant sustainability report.

Does not apply to Large listed PIEs. These subsidiaries would still be required to prepare their own CSRD compliant report.

Ultimate non-EU parent exemption[1] – if a non-EU parent has multiple subsidiaries in the EU that need to comply with the CSRD, for the first seven years those subsidiaries would be allowed – until 6 January 2030 – to prepare a consolidated sustainability report that only includes those EU subsidiaries of the non-EU parent.

Equivalency exemption – the European Commission has the power to designate individual sustainability reporting frameworks or reporting regimes as 'equivalent' to reporting under the CSRD. It has not been determined yet what would be considered an equivalent sustainability reporting framework[2].

Reporting exemptions would reduce – but not eliminate – the reporting obligations of non-EU parent companies.

Use of other sustainability reporting frameworks

A non-EU company could fulfill its reporting requirements by applying either:

- the CSRD as drawn up (including the ESRSs); or
- a sustainability reporting framework that is considered 'equivalent' by the European Commission.

Although the Commission has not yet determined what would be considered equivalent sustainability reporting frameworks, it will likely use the following criteria:

- whether the other framework requires companies to disclose information on environmental, social and governance matters; and
- whether the other framework requires companies to disclose information necessary to understand the company's impacts on sustainability matters, and how sustainability matters affect the company's development, performance and position (so-called double materiality).

For further information please check our guidance CSRD reporting application for groups with non-EU parents

Source: Article 23, Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004

1) The ultimate non-EU parent exemption does not apply to non-EU companies with securities listed on a regulated market in the EU.
2) The equivalence exemption is only relevant for applying the group exemption by subsidiaries with non-EU parents, or for reporting by non-EU parents, and not for reporting by EU companies themselves.
3) This applies for reporting that is compliant with a full set of ESRSs or an equivalent framework. Option to apply for the group exemption for reports using sustainability reporting standards for third-country undertakings is not determined.

05

What companies need to disclose?

Three reporting layers

Sector-agnostic disclosures
Each ESRS prescribes common mandatory requirements for all reporting companies to ensure comparability

Sector-specific disclosures
40 additional standards to address sector-specific requirements will be developed for later adoption

Company-specific disclosures
When necessary, the company shall provide additional entity-specific information that depicts its unique situation

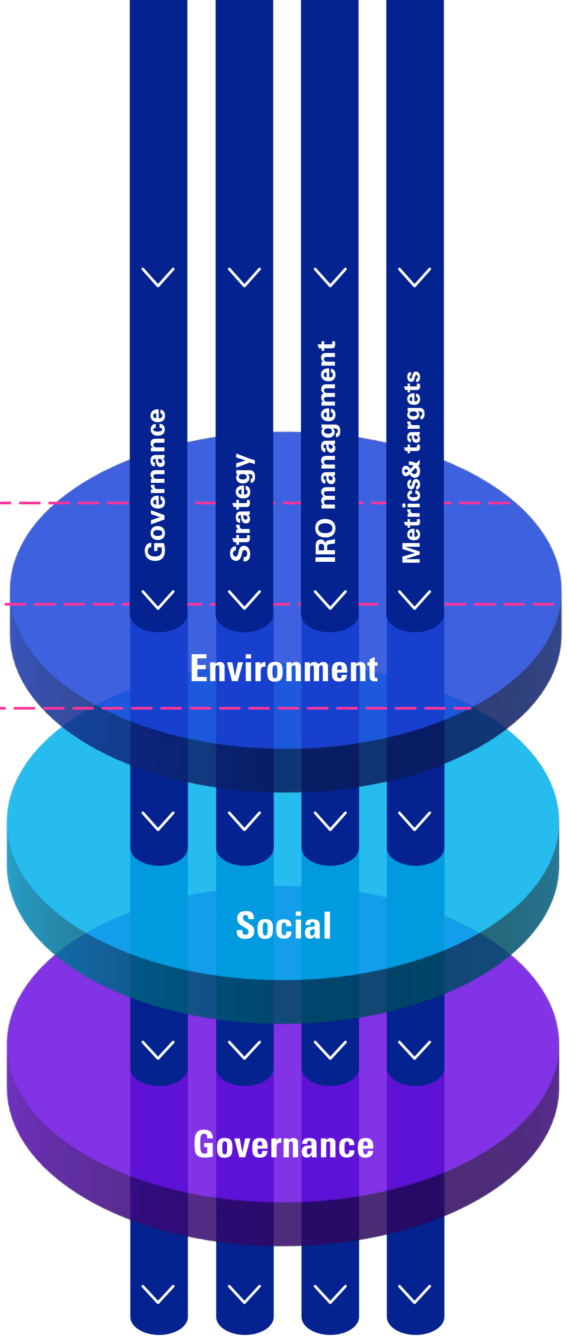
Four reporting areas

Governance – Coverage of supervisory bodies' and management's responsibilities, processes, and reporting procedures in place to manage and oversee sustainability matters

Strategy – Description of the company's strategy and business model, stakeholders and value chain, materiality assessment

Impact, risk and opportunity management – Disclosures on impacts, risks and opportunities (IRO) on sustainability matters that are assessed to be material and how the company translates its strategy into action through policies, targets, action plans and resources

Metrics and targets – Specific sets of metrics and targets in line with materiality assessment



Ten topic-specific draft standards provide a detailed application guidance on governance, strategy and IRO management and establish metrics and explain how to disclose related targets for each topic.

Twelve standards

Two cross-cutting standards

- ESRS 1: General requirements – introduces the double materiality concept
- ESRS 2: General disclosures

Three topic-specific standards sets

Environmental

- E1: Climate change
- E2: Pollution
- E3: Water and marine resources
- E4: Biodiversity and ecosystems
- E5: Resource use and circular economy

Social

- S1: Own workforce
- S2: Workers in the value chain
- S3: Affected communities
- S4: Consumers and end-users

Governance

- G1: Business conduct

06

What disclosures are mandatory/voluntary ?

ESRS allows to omit specific sensitive information about a company's strategy, plans and actions, where it is connected with intellectual property, results of innovation, and know-how.

The standards include mandatory reporting requirements for all reporting entities. Next to that information on material topics, identified in the double materiality assessment, also have to be disclosed (See question 13 and 14).

1. Sector-agnostic

Mandatory disclosures for all companies are:

- ESRS 2 General disclosures
- ESRS E1 Climate Change
- For companies with over 250 employees, disclosures S1-1 to S1-9 of S1 Own Workforce are also required
- Specific datapoints in the ESRS that emanate from other EU legislation are to be reported irrespective of the outcome of the materiality assessment.

Source: ESRS 1 General requirements paragraph 32

2. Disclosures in respect to materiality assessment

The double materiality assessment is a mandatory process that should be done to determine the full reporting scope (in addition to mandatory requirements)

If the matter is material the Company is required to disclose:

- All disclosures from the topical ESRS on policies, actions and targets related to the material matter (including datapoints)
- All material datapoints related to the metrics
- Any entity-specific disclosures if relevant

Source: ESRS 1 General requirements paragraph 33-36

3. Sector-specific disclosures

The sector-specific standards are still in the process of drafting. However, it is important to note that the requirements set forth in the sectoral standards will include mandatory disclosures for companies operating in a given sector.

07 Are there any phase-in measures ?

Companies should evaluate which information they should present in the first reporting years after ESRS have been adopted. The draft ESRSs include specific reliefs that companies could apply in the early years of adoption to support them in transitioning from existing methodologies or reporting frameworks.

Year 1 relief

- **Comparative information** would not be required. Companies do not need to present information on the previous period.
- **Potential financial effects** of material physical and transition risks and climate-related opportunities may be omitted.
- **Specific datapoints on S1 Own workforce** may be omitted.

Year 1-3 reliefs

- **Other available frameworks** could be used to develop relevant disclosures on material sustainability matters in advance of sector-specific ESRSs.
- **Information on the value chain** would not need to be estimated and could be omitted if information is not available[1].
- **Company-specific disclosures** developed prior to initial application may continue to be used.
- **Potential financial effects** of environmental IRO may cover only qualitative disclosures[2].
- **Specific datapoints on SBM-1** may be omitted.

Till January 6, 2030

- **EU subsidiaries of non-EU parents** could choose to prepare only one combined report including all those subsidiaries that would be obliged to report independently of the remaining group due to size or listing status.

Source: ESRS 1 General requirements. Appendix D: List of phased-in Disclosure Requirements

1) This phase-in is not applicable to datapoints relevant for other EU laws or based on internal information. It includes both upstream and downstream information.
2) This phase-in allows for reporting on only qualitative disclosures and applies to reporting potential financial effects from: a) material physical and transition risks and potential climate-related opportunities, if it is impracticable to prepare quantitative disclosures (disclosure E1-9); b) pollution-related IROs, except for the operating and capital expenditures that occurred in the reporting period in conjunction with major incidents and deposits (disclosure E2-6); c) water and marine resources IROs (disclosure E3-5); d) biodiversity and ecosystem IROs (disclosure E4-6); and e) circular economy-related IROs (disclosure E5-6).

08 When will sector-specific standards be published?

In February 2022, the EFRAG Project Task Force on European Sustainability Reporting Standards (PTF ESRS) published a Working Paper of ESRS SEC1 Sector Selection Standard. The classification of sectors is based on the European Classification of Economic Activities NACE together with reference to additional economic activities as described in the EU Taxonomy.

The Sector Selection Standard covers 14 sector groups, that are subdivided into 40 sectors. The 14 sector groups are:

Agriculture	Construction	Energy	Entertainment	Financial Institutions
Health Care & Services	Hospitality	Manufacturing	Mining	Real Estate
Services	Technology	Transportation	Wholesale & Retail	

In April 2023, the following Exposure Drafts are expected to be issued for public consultation:

- **Draft SEC 1 (ESRS Sector classification system)**
- **Draft ESRS on Coal and Mining**
- **Draft ESRS on Oil and Gas (upstream and downstream)**

In May 2023, the following Exposure Drafts are expected to be issued for public consultation:

- **Draft ESRS for Listed Small Medium Enterprises (LSME)**
- **Draft Agriculture, Farming and Fishing**
- **Draft Road Transport**

For each sector the Standard additionally provides indications of sustainability matters that a company should consider when performing its assessment of material impacts, risks and opportunities.

09 How to identify the reporting boundaries?

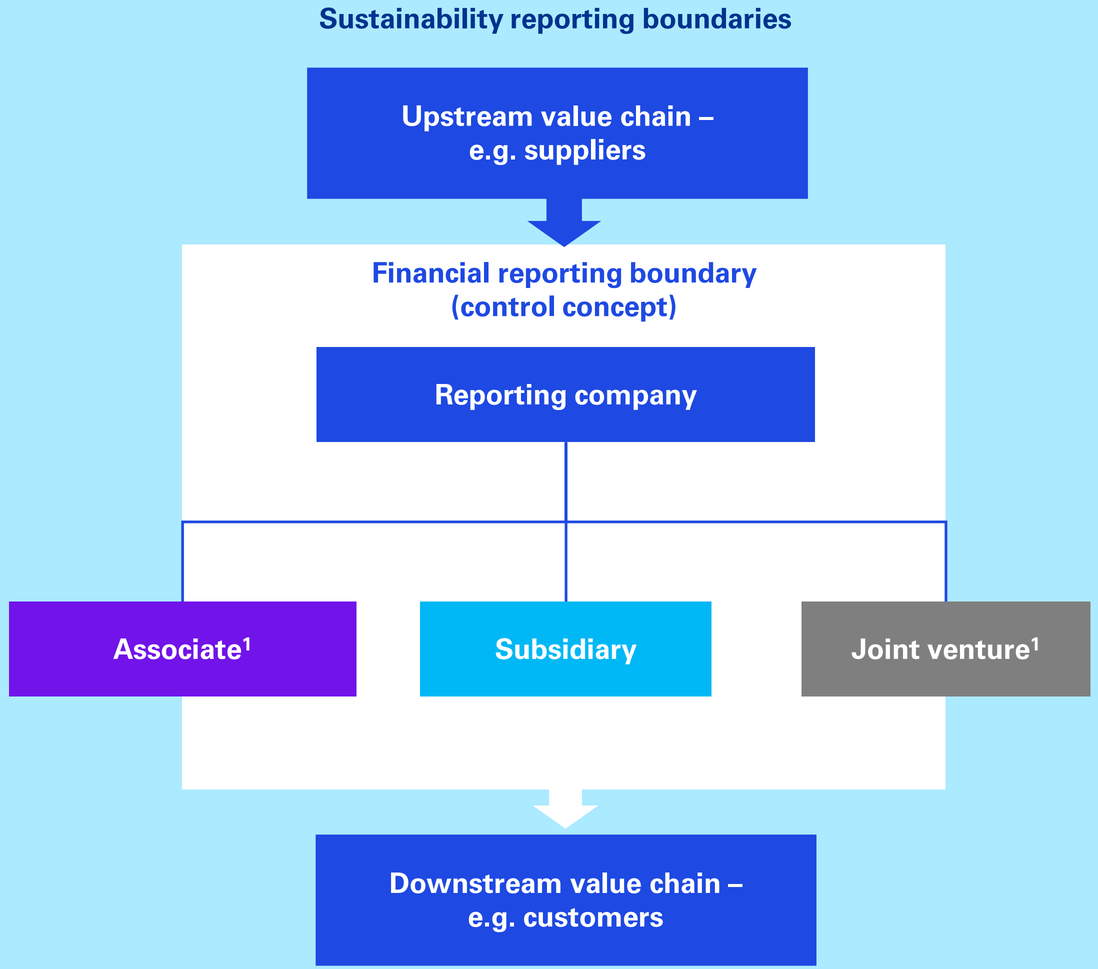
Reporting boundaries for sustainability reporting

The reporting boundaries would be based on the financial statements[2] – but expanded to cover material impacts, risks and opportunities related to the upstream and downstream value chain.

Associates or joint ventures – accounted for under the equity method or proportionally consolidated – may form part of the upstream or downstream value chain, if they are to be considered as business partners of the reporting company.

When determining impact metrics, the data of associates or joint ventures are not limited to the equity share held but should be taken into account on the basis of the impacts that are directly linked to the company's products and services through its business relationship.

Most of the metrics in the sector-agnostic standards are limited to the own operations (no value chain). If information on the value chain cannot be obtained, in the first three years of applicable the draft ESRSs would allow transitional measures.



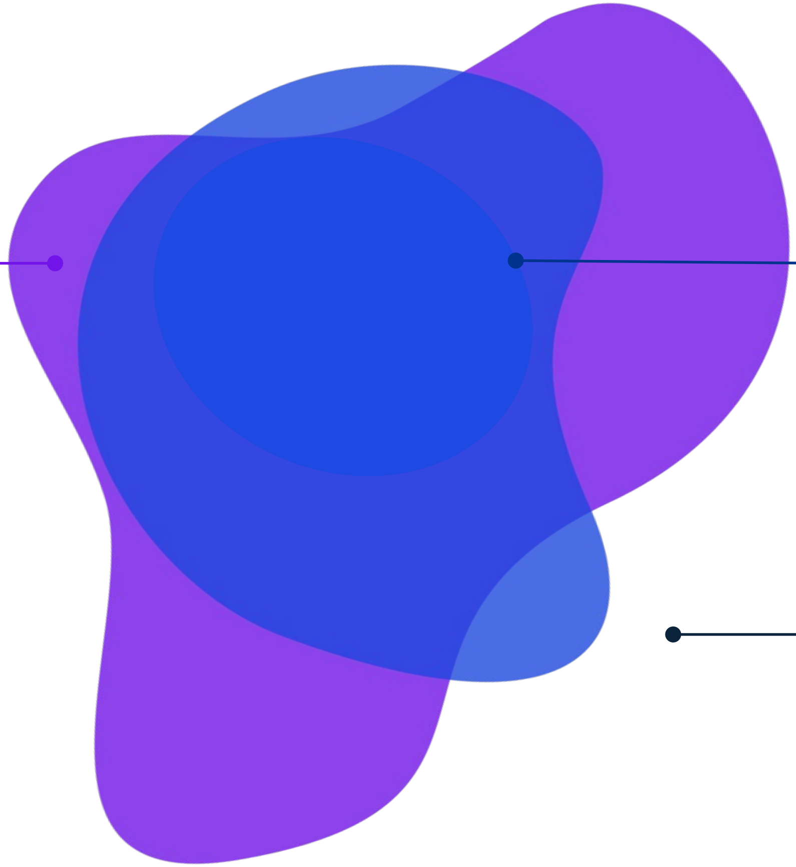
1) Equity investments and joint ventures form part of the upstream or downstream value chain if they are to be considered as business partners of the reporting company (ESRS 1, BC105).
2) For example, when reporting for a group where the parent company prepares consolidated financial statements, the consolidated financial and sustainability statements will be prepared for the parent and its subsidiaries.

10

What is double materiality?

Financial materiality (investor lens)

Information is financially material if it has a significant influence (or likely to have a significant influence) on the company's cash flows, development, performance, position, cost of capital or access to finance in the short-, medium- or long-term but is not (yet fully) captured by financial reporting.



Impact materiality (wider stakeholder lens)

Information is material from an impact perspective if the company causes significant actual or potential, positive or negative impacts on people or the environment in the short-, medium- or long-term through its own operations, products or services, including its upstream and downstream value chain.

The materiality assessment is not limited to contractual relationships of the company, but also includes other tiers of business relationships.

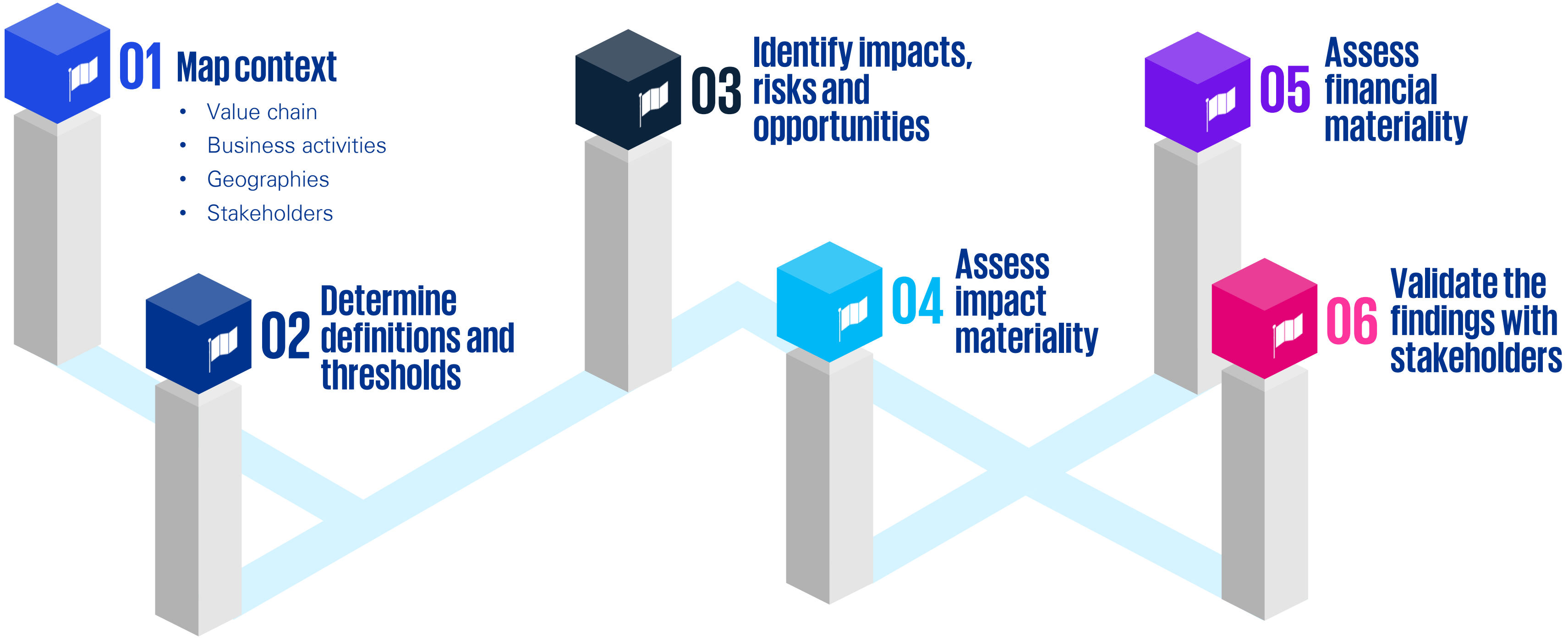
Double materiality

Double materiality refers to the totality of both financial materiality and impact materiality (not just the intersection).

Companies will need to assess not only what is material to the company (outside-in perspective) but also how the company materially impacts people and planet (inside-out perspective).

Many topics that are important to stakeholders, other than those traditionally considered for the financial statements, could also impact a company's enterprise value. However, wider stakeholders may have different information needs than investors – requiring an understanding of broader impacts of the company on society, its environment and the economy.

11 How do you determine material topics?



Document the process & outcomes

Source: ESRS 1 General requirements paragraph 58-61

Matters that are disclosed at group level may need to be disaggregated for a proper understanding of its material impacts, risks and opportunities. When defining the appropriate level of disaggregation for reporting, the company shall consider the disaggregation adopted in its materiality assessment.

Level of double materiality assessment information disaggregation

By country
when there are significant variations of material impacts, risks and opportunities across countries and when presenting the information at a higher level of aggregation would obscure material information about impacts, risks or opportunities

By site or asset
when material impacts, risks and opportunities are linked to a specific location or asset.

Depending on the facts and circumstances, disaggregation by subsidiary or sector may be necessary.

12 What information about the value chain should be included?

The CSRD indirectly affects companies in the value chain of the eligible reporters. The company should also assess its IRO through the upstream and downstream operations, explain how it manages sustainability matters in the value chain and provide certain datapoints.

The company's ability to obtain the necessary information may vary significantly depending on various factors, such as the level of control[1], contractual arrangements and its purchasing power, or whether or not the data has been collected by value chain actors. However, not all actors in a value chain fall under the CSRD scope. Contractual arrangements will remain the main incentive mechanism for these companies to provide the required data.

Nevertheless, to limit the burden for SMEs in the first three years of their sustainability reporting, SMEs are not required to include information on IROs connected with their value chain, except for the datapoints listed in ESRS 2 Appendix C.

Information about value chain should be included in following disclosures:

1. **Double materiality** In accordance with specific requirements in topical ESRS – when they exist – the company shall report material impacts, risks and opportunities connected with its value chain through its direct and indirect business relationships and as obtained through its sustainability due diligence process and materiality assessment.
2. **Policies, actions and targets** In accordance with specific requirements in topical ESRS – when they exist – the company shall describe the extent to which those policies, actions and targets do involve actors in the value chain.
3. **Metrics** Where proxies are available, the company may comply with reporting requirements without collecting data from the actors in its value chain. It could be data from indirect sources, sector-average data, sample analyses, market and peer groups data, other proxies or spend-based data.

Value chain map

Source: ESRS 1 General requirements paragraph 67, 75
1) Equity investments and joint ventures form part of the upstream or downstream value chain if they are to be considered as business partners of the reporting company (ESRS 1, BC105).

The current ESRS draft relieves the reporters from providing value chain information for the first 3 sustainability reporting years if the information cannot be obtained, except for data required by EU law. However, companies shall demonstrate a reasonable effort to obtain data, explaining why information is missing and how it will be obtained in the future.

13 Is it mandatory to disclose EU Taxonomy information?

Reporting on the EU Taxonomy becomes mandatory as part of the CSRD requirements. The disclosures pursuant to Article 8 of the EU Taxonomy regulation are part of the content and structure of the sustainability statements.

The EU Taxonomy in short

To meet the EU's 2030 climate and energy targets and realize the goals of the European Green Deal, it is essential to direct investments towards sustainable projects and activities. A common language and a clear definition of what is ‘sustainable’ are required to achieve this.

For this reason, the Action Plan on Financing Sustainable Growth requested the creation of a common classification system for sustainable economic activities, being the ‘EU Taxonomy’.

The EU Taxonomy Regulation has six Environmental Objectives:

1. Climate change mitigation
2. Climate change adaptation
3. Water and marine resources
4. Circular economy
5. Pollution prevention
6. Biodiversity and ecosystems

Functional logic of the EU Taxonomy

Eligibility in this context means potential to be sustainable. A company is required to map its own activities against the list as included in the Delegated Acts. **Alignment** means that the economic activity meets specific criteria established by the EU Taxonomy regulation and can be called ‘sustainable’.

The below image visualizes the functional logic.

This management report and the financial statements needs to be signed by the Management or Executive Board. The role of the Supervisory Board may depend on local requirements. Under Dutch law, a (mandatorily established) Supervisory Board would also need to sign the statutory reporting, next to the Management or Executive Board.

14 What structure should the sustainability statements have?

The ESRS are intended to serve as an architecture for an annual sustainability statements that will meet the needs of regulators, investors and other stakeholders within the EU. Sustainability statements should be presented in a dedicated section of the management report. Although the CSRD is included in the Accounting Directive, the EU Commission has made clear that the financial reporting can be prepared independently from the sustainability reporting.

General presentation requirements

Allow distinction between information required by ESRS and other information included in the management report	Both in human and machine-readable formats (ESEF)

Content and structure

Single section of the management report	Include EU Taxonomy disclosures
A selection of additional disclosures is allowed, i.e. laws, non-mandatory guidance of other standard setting bodies (shall be clearly identified and referenced)	Four parts: General, Environmental, Social, and Governance information
Sector-specific disclosures to be grouped by cross-cutting reporting area and topic	Entity-specific disclosures to be reported alongside most relevant reporting areas

Source: ESRS 1 General requirements. Appendix G: Example of structure of ESRS sustainability statements

Management report

Analysis of the business development and performance, it's position	Description of the principal risks and uncertainties
The company's likely future developments	Corporate governance statement

Sustainability statement

General information

ESRS 2 General disclosures
- Specific topical disclosures
- Sector-specific disclosures

Topical standards

Environment	Social	Governance

- IRO & Metrics and Targets
- Sector-specific disclosures
- Entity-specific disclosures

Disclosures in line with Article 8 of the EU Taxonomy regulation

15 When should sustainability information be assured?

Limited assurance is a level of assurance at an acceptable level that, based on professional judgment, is meaningful for the intended users. It results in a negative conclusion (i.e. 'nothing has come to our attention to indicate that the information is materially misstated').

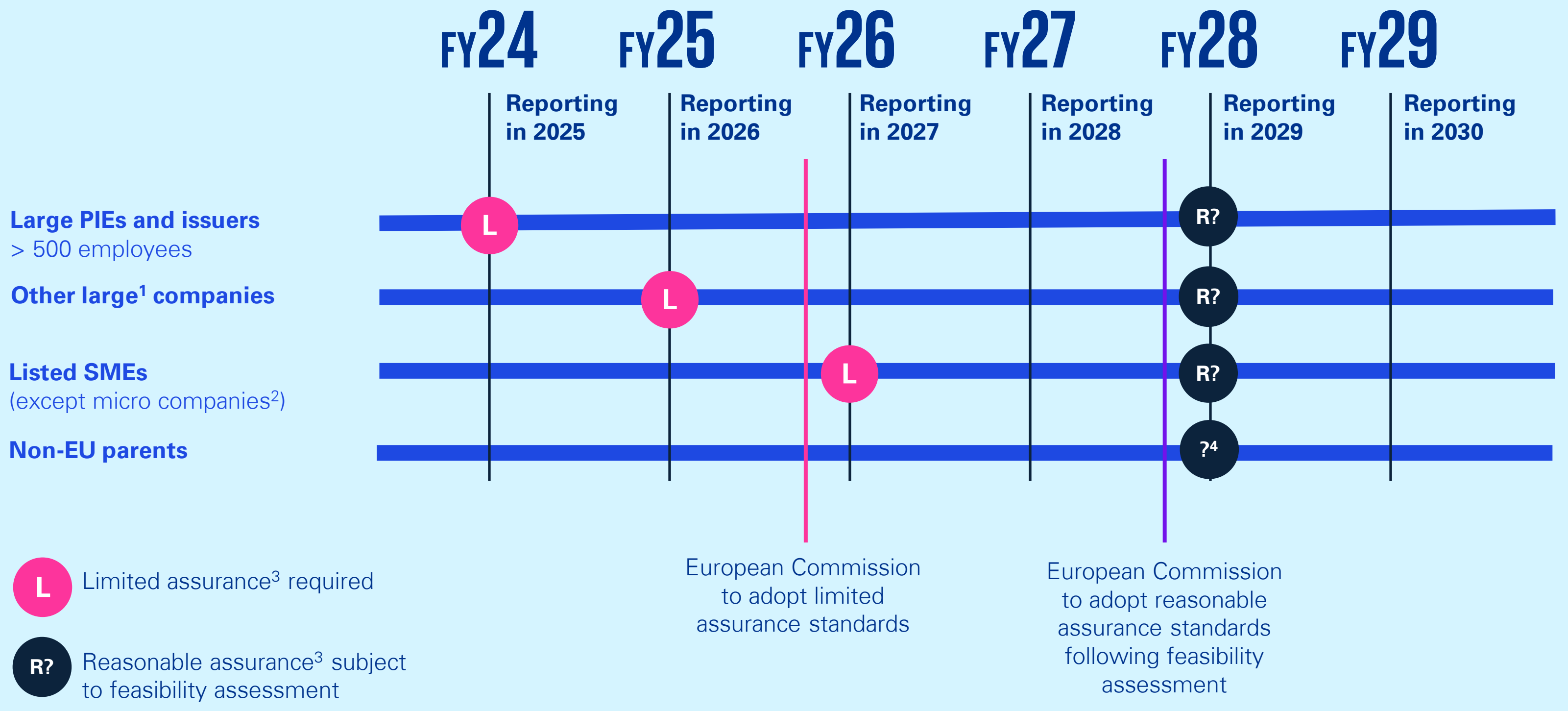
Expressing reasonable assurance requires the assurance provider to obtain sufficient appropriate evidence to conclude that the sustainability information is prepared, in all material respects, in accordance with the applicable reporting criteria (positive conclusion).

CSRD requires assurance across all topics:

- Limited assurance from the date of initial reporting.
- Ambition to move to reasonable assurance at a future date.

Member states may choose to allow assurance over sustainability reporting to be separate from the financial statement audit (i.e. by a separate auditor or independent assurance provider).

Scope to include EU Taxonomy information and materiality assessment process and general disclosure requirements on governance, processes and controls.



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3) Read more about ESG Assurance in the Audit. The assurance requirements would have no bearing on a company's responsibility to report accurate information from the first reporting year – e.g. limited assurance does not mean limited reporting.
4) Assurance would be based on jurisdictional requirements of the third country parent or that of a member state. In the absence of an assurance opinion, the company would need to issue a statement indicating this fact.

16

What if you have already adopted other frameworks?

Build and adapt

- Identify conceptual differences from existing frameworks by comparing definitions, guiding principles and the basis of preparation as well as the principles of cross-cutting requirements.
- Assess the scope of the draft ESRSs. Since the scope may be significantly broader than that of any existing sustainability reporting framework, companies that adopt other frameworks would need to identify any gaps and assess what action is needed to fill the gaps.
- Map how specific disclosure requirements in the draft ESRSs differ from those in the existing frameworks.
- Identify where additional data would be needed and whether frameworks would allow collaborative reporting or require the company to issue two separate reports.

Existing sustainability information set

Refocus and supplement as necessary

Align definitions and methodologies	Reassess materiality
Identify and assess gaps	Expand the reporting boundaries

Items to consider if previously adopted TCFD

- The scope of ESRS is broader than TCFD since ESRS applies the double materiality concept whereas TCFD applies a materiality concept focused on investors. Also, TCFD focuses on climate only, so companies would need to significantly expand their disclosures on other environmental topics as well as social- and governance-related disclosures.
- EFRAG has published a reconciliation of the requirements in the draft ESRSs and the recommendations by TCFD.

Items to consider if previously adopted GRI standards

- ESRS disclosure requirements are partly based on GRI standards and closer alignment has been achieved as a result of the public consultation.
- Under the draft ESRSs, companies could include disclosures based on GRI standards when developing their company-specific disclosures.

Sustainability reporting is developing rapidly. Along with the ESRS proposal, also the ISSB and SEC Climate Disclosure Act drafts were published in 2022. For further information, please check our report Comparing sustainability reporting proposals ISSB, EFRAG and SEC

17

How are the sustainability statements linked to financial statements?

Disclosure requirements ESRS

Companies that need to comply with the CSRD shall disclose, in accordance with the ESRS, all the material information regarding impacts, risks and opportunities in relation to sustainability matters. The information shall enable the understanding of the company's impacts on those matters and how they affect the undertaking's development, performance and position (ESRS 1 General requirements, paragraph 2).

Double materiality approach will help companies understand better what is already – or will become, over time – financially material.

There is no mandatory requirement for the company to reflect the potential effects of IRO on sustainability matters in financial statements or explain how these are managed.

However, according to ESRS 1, the company may describe the relationships between sustainability and financial data in the management report. In doing so, the company might need to explain the effect of its sustainability strategy on its financial statements or link this information to the potential or actual effect on its revenues, production costs, investments.

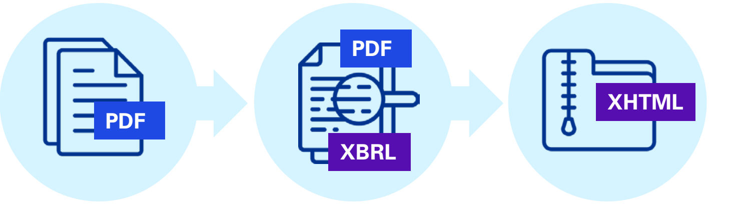
When the sustainability statements include monetary amounts that are directly or in aggregated form presented in the financial statements, the company shall include a reference to the relevant paragraph of its financial statements (ESRS 1 General requirements, section 9.2).

Direct connectivity	Indirect connectivity
Direct connectivity is described by the possible reconciliation of the non-financial data in the financial statements E.g. turnover, training costs, CapEx, OpEx	Indirect connectivity aims to identify links to financial statements that cannot be reconciled directly E.g. value creation of a company or assets or liabilities, forward-looking information

18 What does a 'digital tag' mean? How should companies implement it?

Tagging is the process of applying the company's ESRS data to an element within the XBRL taxonomy. 'Digital tagging' is already used by EU listed entities for financial data reporting.

The 'draft digital' tagging process



Prepare Report in accordance with ESRS

Ensure correct XBRL tag selection

Deliver information to the ESAP in XHTML format

The CSRD requires companies to prepare their management report in XHTML format in accordance with the European Single Electronic Format (ESEF) Regulation and to 'tag' their reported sustainability information according to a digital categorization system XBRL taxonomy. New taxonomy would be developed together with the sustainability reporting standards. This will mean that sustainability information can easily be incorporated in the European Single Access Point (ESAP) envisaged in the Capital Markets Union Action Plan.

Benefits of 'digital tagging'

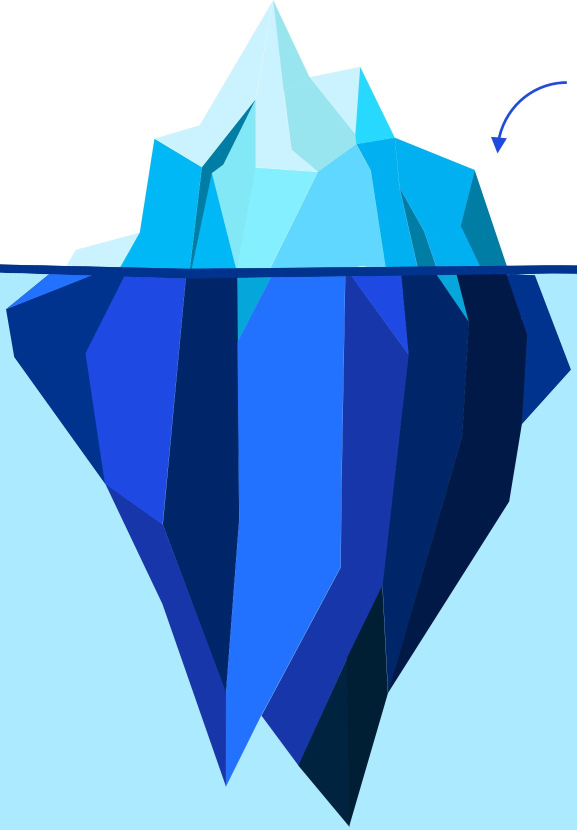
- Increase transparency for all stakeholders
- Lower reporting costs over time
- Ensure comparability for investors and stakeholders
- Easy access to financial and sustainability information

19 What impact does the CSRD have on people, processes and systems?

CSRD reporting requires the introduction of new measurement and reporting procedures, having robust systems and controls, and involving a third party to obtain an assurance report.

Potential costs could be

- Additional FTE in-house
- One-off and recurring administrative costs
- Assurance costs
- Costs to obtain information from the value chain



Sustainability reporting

People

- Maturity of current state and ambition level
- Organization and governance model (roles & ownership responsibilities)
- Communication and change management (culture & literacy)

Processes

- Central KPIs navigation (setting priorities, definitions, units, scopes)
- Sustainability reporting workflow (manuals, protocols)
- Sustainability management workflow (setting, tracking)

Systems / Solutions

- Technical system architecture, configuration and functionality
- Data / KPI governance (instructions, access management, compliance and quality control)
- Embedded specialist solutions
- Tailored analytics

Data

- Sourcing raw data from different functions, subsidiaries, suppliers
- Ensuring secure data handling
- Data identification

Source: EFRAG's Cover Letter and Cost-benefit analysis of the First Set of draft ESRSs

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How to approach the implementation?

Double materiality

Get a better overview of your organization's impact areas, including the opportunities and risks associated with sustainability.

Gap-analysis

Perform a gap analysis for identifying existing reporting and operational gaps in your organization – including those related to strategy, policies, actions and metrics – and decide how to address them.

Determine ESG data and IT solutions

Organizations are increasingly looking for improving ESG data-related processes, automation of ESG data and how that can support internal steering and external reporting.

Implementation

Implement the various actions from the gap analyses, using the selected IT and data solutions, in order to a get robust sustainability reporting set-up.

Typical path to overcome the implications

To overcome the implications when preparing for the CSRD, companies typically follow this path:

- **Setting direction and defining ambitions**
- **Assessing gaps and defining remediation**
- **Implementing changes**

Abbreviations and key terms

CSRD

The EU's Corporate Sustainability Reporting Directive (Directive (EU) 2022/2464), amends and significantly expands the existing requirements for sustainability reporting in the EU under the NFRD

EFRAG

European Financial Reporting Advisory Group, which is mandated by the European Commission responsible for developing ESRSs

ESRS

European Sustainability Reporting Standards as drafted by EFRAG and submitted to the European Commission as of November 2022

EU Taxonomy

The EU's framework to facilitate sustainable investment (Regulation (EU) 2020/852) and create an EU-wide classification system for sustainable activities.

IRO

Abbreviation for impacts, risks, opportunities

GRI

Global Reporting Initiative

ISSB

International Sustainability Standards Board

NFRD

The EU's Non-Financial Reporting Directive (Directive 2014/95/EU) establishes existing rules for sustainability reporting in the EU and remains in force till companies have to apply the CSRD

SME

Small and Medium-sized Enterprises

TCFD

Task Force on Climate-related Financial Disclosures

PTF-ESRS

EFRAG Project Task Force on European Sustainability Reporting Standards (PTF-ESRS)

ESEF

European Single Electronic Format

ESAP

European Single Access Point

DMA

Double Materiality Assessment

KPI

Key Performance Indicator

NACE

Statistical Classification of Economic Activities in the European Community

Accounting Directive

Directive 2013/34/EU on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings

Get ready with KPMG for a new level of sustainability reporting

Sustainability is vitally important for all companies. KPMG firms support organizations of any sustainability reporting level to make their sustainability transition as smooth and beneficial as possible. The CSRD will require corporations to integrate sustainability into multiple business functions. Our approach can help you embed the CSRD requirements in your organization, while – at the same time – seizing sustainability-related opportunities. We offer support on both technical as well as organizational capabilities and bring full transition support.

Our tailored, modular project approach, and KPMG professionals' extensive experience in providing advisory and assurance will help you address the CSRD challenges and get ready for a new level of sustainability reporting.

For more information, click here for our CSRD approach or contact one of our experts.

kpmg.com/nl/CSRD

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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With special thanks to Yulia Belyaeva