

The CSRD and its ESRS

Challenges and opportunities for corporates

(Keep calm and take action)

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Agenda

- Definitions
- Why the CSRD?
- What does it practically mean for corporates?
- What are the main challenges?
- How can these challenges be turned into opportunities?
- Key takeaways

Definitions

- **CSRD: Corporate Sustainability Reporting Directive**

- European Union (EU) legislation, in effect since 5 January 2023, that requires EU businesses - including qualifying EU subsidiaries of non-EU companies - to report on the environmental and social impact of their business activities, and on the business impact of their environmental, social and governance (ESG)

- **ESRS: European Sustainability Reporting Standards**

- 278-page Annex I of the CSRD, published on July 31st and officially approved last week, that specify the new ESG reporting obligations for corporates

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Why the CSRD ?

- There has been a growing recognition worldwide that the “whatever it takes” principle to maximize corporate profits is no longer a viable model for the planet and for mankind
- Corporations have acknowledged the issue, responding with ever larger sustainability teams and ever thicker sustainability reports
- Still, despite these additional resources and declarations, sustainability matters have in most cases continued to take a back seat when profitability has been on the line, eventually only marginally influencing business decisions and capital allocation
- Through the CSRD, the EU has drawn “first blood” to systematically outlaw the “whatever it takes” principle of doing business, essentially forcing companies to put sustainability matters on a par with financial matters

CSRD: NOT the latest Eurocrat flavour of the month!

“For the first time...we are putting sustainability reporting on equal footing with financial reporting. And this is hugely significant. We need accurate and reliable information to ensure investments are being made towards a more sustainable future. Companies need the information to plan their transition plans. And investors need the information to have clarity about what they’re investing in and to combat greenwashing.”

– [European Commission](#)



This agreement is excellent news for all European consumers. They will now be better informed about the impact of business on human rights and the environment. This means more transparency for citizens, consumers and investors. It also means more readability and simplicity in the information provided by companies, which must play their full part in society. Greenwashing is over. With this text, Europe is at the forefront of the international race to standards, setting high standards in line with our environmental and social ambitions.

— Bruno le Maire, Minister for economic affairs, finance and industrial and digital sovereignty

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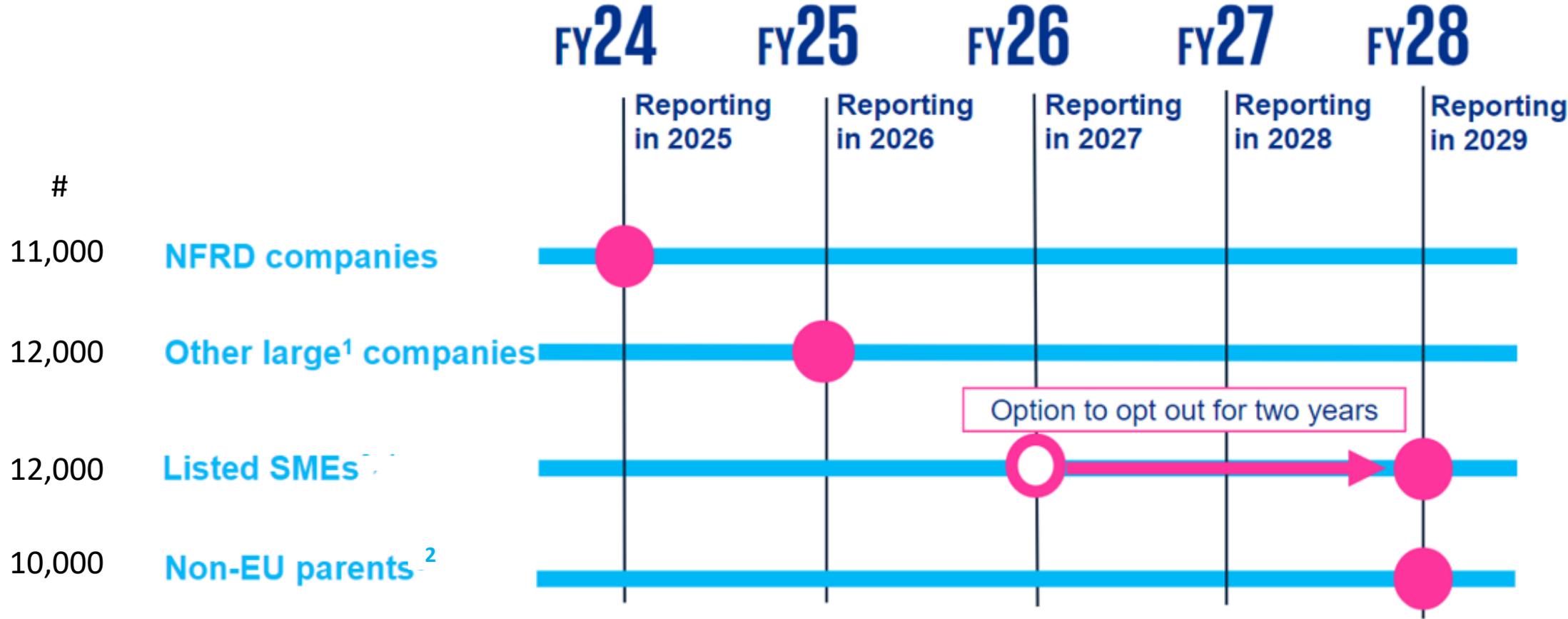


DOUBLE MATERIALITY FILTER

300 pages – 500 cross references
100 Disclosure Requirements
1,178 data points



CSRD: Compliance schedule



45,000

- 1 Two of the following thresholds: 250 employees, 50M€ annual sales, 25M€ Assets
- 2 Annual sales in the EU > 150M€



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CSRD challenges

- **A very high bar!**

15 years of sustainability reporting experience buys you... 30% ESRS compliance

Philips, July 28, 2023

- **Data challenge**
 - Required data may not exist, may be incomplete, inconsistent or needing further processing / reformatting
- **Process challenge**
 - New processes required to develop new governance rules, strategies, risk mitigation plans, target setting and monitoring, reporting standardization, etc.
- **Skills / organizational challenge**
 - Lack of internal skills in multiple areas to achieve full compliance
 - Redefinition of roles and responsibilities between Sustainability and Finance Departments required
- **“One-size-does-not-fit-all” challenge**
 - Different materiality profiles and compliance level by business units, region, operational units and jurisdictions
 - Adds another major layer of complexity

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Key recommendations to turn the CSRD challenge into a major business opportunity

1. Make the CSRD a **strategic transformational program**, fully endorsed and supported by the Board
2. **Keep full ownership** of the program (do NOT outsource)
3. Assign your best **Program Manager** to spearhead it
4. Use a **management framework** suited to handle the CSRD intrinsic, multidimensional complexity (do NOT fall into the “one-size-fits-all” trap)

Allocation of ESRS Disclosure Requirements to org. units

Standard	Code	Disclosure requirement	Corp	BU1	Site 1.1	Site 1.2	BU2	Site 2.1	Site 2.2
2 - General disclosure	BP-1	BP-1 - General basis for preparation of the sustainability statements							
2 - General disclosure	BP-2	BP-2 - Disclosures in relation to specific circumstances							
2 - General disclosure	GOV-1	GOV-1 –The role of the administrative, management and supervisory bodies							
2 - General disclosure	GOV-2	GOV-2 – Information provided to and sustainability matters addressed by the undertaking’s administrative bodies							
2 - General disclosure	GOV-3	GOV-3 - Integration of sustainability strategies and performance in incentive schemes							
2 - General disclosure	GOV-4	GOV-4 – Statement on sustainability due diligence							
2 - General disclosure	GOV-5	GOV-5 – Risk management and internal control system in relation to the sustainability reporting							
2 - General disclosure	SBM-1	SBM–1 - Market position, strategy, business model(s) and value chains							
2 - General disclosure	SBM-2	SBM-2 - Interests and expectations of stakeholders							
2 - General disclosure	SBM-3	SBM-3 - Material impacts, risks and opportunities and their interaction with strategy and business model							
2 - General disclosure	IRO-1	IRO-1 - Description of the processes to identify and assess material impacts, risks and opportunities							
2 - General disclosure	IRO-2	IRO-2 – Disclosure Requirements in ESRS covered by the undertaking’s sustainability statements							
E1 - Climate change	E1-1	E1-1 – Transition plan for climate change mitigation							
E1 - Climate change	E1-2	E1-2 – Policies related to climate change mitigation and adaptation							
E1 - Climate change	E1-3	E1-3 – Action plans and resources in relation to climate change policies and targets							
E1 - Climate change	E1-4	E1-4 – Targets related to climate change mitigation and adaptation							
E1 - Climate change	E1-5	E1-5 – Energy consumption and mix							
E1 - Climate change	E1-6	E1-6 - Gross Scopes1, 2, 3 and Total GHG emissions							
E1 - Climate change	E1-7	E1-7 – GHG removals and GHG mitigation projects financed through carbon credits							
E1 - Climate change	E1-8	E1-8 – Internal carbon pricing							
E1 - Climate change	E1-9	E1-9 – Potential financial effects from material physical risks, material transition risks and climate-related opportunities							
E2 - Pollution	E2-1	E2-1 – Policies related to pollution							
E2 - Pollution	E2-2	E2-2 – Pollution actions and resources							
E2 - Pollution	E2-3	E2-3 – Targets related to pollution							
E2 - Pollution	E2-4	E2-4 – Pollution of air, water and soil							
E2 - Pollution	E2-5	E2-5 – Substances of concern and substances of very high concern							
E2 - Pollution	E2-6	E2-6 – Potential financial effects from pollution-related impacts, risks and opportunities							
E3 - Water and marine resources	E3-1	E3-1 – Policies related to water and marine resources							
E3 - Water and marine resources	E3-2	E3-2 – Actions and resources related to water and marine resources policies and targets							
E3 - Water and marine resources	E3-3	E3-3 – Targets related to water and marine resources							
E3 - Water and marine resources	E3-4	E3-4 – Water consumption							
E3 - Water and marine resources	E3-5	E3-5 – Potential financial effects from material physical risks, material transition risks and climate-related opportunities							

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4. Use a **management framework** suited to handle the CSRD intrinsic, multidimensional complexity (do NOT fall into the “one-size-fits-all” trap)
5. Ask your own managers to **self-assess the compliance gaps** on each material Disclosure Requirement / Datapoint in each unit **and specify the resources needed to fill them**
6. Minimize the **time to CSRD compliance** by sourcing the missing subject matter expertise and maximizing synergies between units
7. Don't fear the compliance deadline provided you can **demonstrate an effective, exhaustive compliance program** under proper stewardship.

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- **Embrace the CSRD**

- The CSRD is the first major materialization of an irreversible worldwide megatrend of corporate sustainability reporting becoming a strictly regulated exercise
- Even if you are not part of waves 1 or 2, leverage the CSRD immediately to get ahead of the sustainability curve

- **Do not overlook or try to simplify the CSRD intrinsic complexity**

- Everything should be made as simple as possible, but not simpler (A. Einstein)



Thank you

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www.sustainitright.com/CSRD