Complying with CSRD
The European Sustainability Reporting Standards

The European Commission has released 12 "near final" European Sustainability Reporting Standards (ESRS) for public feedbacks.
These 12 "near final" ESRS outline the updated sustainability reporting guidelines derived from the Corporate Sustainability Reporting Directive (CSRD), encompassing all aspects of sustainability including environmental, social, and governance considerations. Some of these standards are encompassed within mandatory disclosures (ESRS 2), while compliance with other standards, so-called "topical standards", will depend on the outcomes of the double-materiality impact assessment which will have to be conducted for the most relevant standards regarding business activities.

Mandatory disclosures:

Companies falling under the scope of CSRD will be required to report in full against the disclosure requirements and data points, which are set out in the ESRS on "general disclosures". Mandatory disclosures include:

- the role of management on sustainability matters
- the integration of sustainability-related performance incentive schemes and an explanation of the processes used to identify the company's IROs
- how materiality was assessed
- how those IROs deemed material interact with the company's strategy and business model

To find out more about the mandatory disclosures: [ESRS 2 General disclosures]

Double materiality assessment:

The materiality assessment is the starting point for reporting under the ESRS. Companies are required to assess and report on "material" sustainability-related impacts, risks and opportunities (IROs) in their value chain under each of the 10 topical standards outlined below. If, following the materiality assessment, a given sustainability matter is assessed to be material, the company must disclose against the relevant topical ESRS.

The CSRD follows the "double materiality" principle, meaning that businesses need to consider what is material from both:

1. The **investor perspective**, which means reporting on ESG matters material to the company's value creation.
2. The **wider stakeholder perspective**, which means reporting on ESG matters material to the company's impact on the economy, environment, nature and people.

A sustainability matter is "material" for CSRD reporting if either of the two is satisfied. Compared to previous drafts of the ESRS, there is a move away from mandatory disclosures and more of a focus on materiality (e.g., it is only mandatory to disclose climate IROs if material for the business or its

value chain). The European Financial Reporting Advisory Group is currently working on guidance to provide more explanations on how companies should conduct their materiality assessments.
All standards**, except for ESRS 2 "General disclosures**", undergo a materiality assessment.
The materiality assessment serves as the initial step in reporting according to the ESRS.

Companies are obliged to evaluate and disclose the significant sustainability-related impacts, risks, and opportunities (IROs) within their value chain based on the specified topical standards.
If, after conducting the materiality assessment, a particular sustainability issue is deemed significant, the company is required to provide relevant disclosures in accordance with the corresponding topical ESRS.

These disclosures are only required if deemed material.

See below what these topical standards entail:

Topical standards (Environmental, Social and Governance standards)

Environmental Standards:

- ESRS E1 Climate change:

ESRS E1.1
The undertaking shall disclose its plans to ensure that its business model and strategy are compatible with the transition to a climate-neutral economy and with limiting global warming to 1.5 °C in line with the Paris Agreement.

ESRS E1.2.
The undertaking shall disclose its policies related to climate change mitigation and its policies related to climate change adaptation.

ESRS E1.3.
The undertaking shall disclose the climate-related targets it has adopted.

ESRS E1.4.
The undertaking shall disclose its climate change mitigation and adaption action plans and the resources allocated for their implementation.

ESRS E1.5. - E1.18.
Please consult the above-mentioned link to find out about all the ESRS E1 obligations.

- ESRS E2 Pollution

ESRS E2.1
The undertaking shall describe its policies that address the management of its material impacts, risks and opportunities related to pollution prevention and control.

ESRS E2.2
The undertaking shall disclose its pollution-related actions and the resources allocated to their implementation.

ESRS E2.3
The undertaking shall disclose the pollution-related targets it has set.

ESRS E2.4
The undertaking shall disclose the pollutants that it emits through its own operations, as well as the microplastics it generates or uses.

ESRS E2.5
The undertaking shall disclose information on the production, use, distribution, commercialisation and import/export of substances of concern and substances of very high concern, on their own, in mixtures or in articles.

ESRS E2.6
The undertaking shall disclose the anticipated financial effects of material pollution-related risks and opportunities.

- ESRS E3 Water and marine resources

ESRS E3.1
The undertaking shall describe its policies that address the management of its material impacts, risks and opportunities related to water and marine resources.

ESRS E3.2
The undertaking shall disclose its water and marine resources-related actions and the resources allocated to their implementation.

ESRS E3.3
The undertaking shall disclose the water and marine resources-related targets it hasset.

ESRS E3.4
The undertaking shall disclose information on its water consumption performance related to its material impacts, risks and opportunities.

ESRS E3.5
The undertaking shall disclose the anticipated financial effects of material water and marine resources-related risks and opportunities.

- ESRS E4 Biodiversity and ecosystems

ESRS E4.1
The undertaking shall disclose how its biodiversity and ecosystem impacts, dependencies, risks and opportunities originate from and trigger adaptation of its strategy and business model.

ESRS E4.2
The undertaking shall describe its policies to address the management of its material impacts, risks, dependencies, and opportunities related to biodiversity and ecosystems.

ESRS E4.3
The undertaking shall disclose its biodiversity and ecosystems-related actions and the resources allocated to their implementation.

ESRS E4.4
The undertaking shall disclose the biodiversity and ecosystem-related targets it has set.

ESRS E4.5
The undertaking shall report metrics related to its material impacts on *biodiversity* and *ecosystems*.

ESRS E4.6
The undertaking shall disclose its anticipated financial effects of material biodiversity- and ecosystem-related risks and opportunities.

- ESRS E5 Resource use and circular economy

ESRS E5.1
The undertaking shall describe its policies to address the management of its material impacts,risks and opportunities related to resource use and circular economy.

ESRS E5.2
The undertaking shall disclose its resource use and circular economy actions and the resources allocated to their implementation.

ESRS E5.3
The undertaking shall disclose the resource use and circular economy-related targets it has set.

ESRS E5.4
The undertaking shall disclose information on its resource inflows related to its material impacts, risks and opportunities.

ESRS E5.5
The undertaking shall disclose information on its resource outflows, including waste, related to its material impacts, risks and opportunities.

ESRS E5.6
The undertaking shall disclose the anticipated financial effects of material risks and opportunities arising from resource use and circular economy-related impacts.

Social standards:

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

Governance standards:

ESRS G1-1– Corporate culture and business conduct policies
ESRS G1-2 – Management of relationships with suppliers
ESRS G1-3 – Prevention and detection of corruption or bribery
ESRS G1-4 – Confirmed incidents of corruption or bribery
ESRS G1-5 – Political influence and lobbying activities
ESRS G1-6 – Payment practices

• **Additional phase-in provisions**:

The European Commission has introduced further phase-in provisions, particularly streamlining provisions for reporting on anticipated financial effects. In the first reporting year, companies are allowed to exclude reporting on anticipated financial effects related to climate and other environment-related impacts, risks, and opportunities.

Furthermore, companies may limit their disclosures on anticipated financial effects to qualitative disclosures for the initial three reporting years, with limited exceptions. This applies to climate-related financial effects only if preparing quantitative disclosures is impracticable. Moreover, in the first reporting year, certain disclosure requirements and data points in ESRS S1 "Own workforce" concerning social protection, employees with disabilities, health and safety, and work-life balance can be omitted.

Next steps:

Following the public consultation, which closes on July 7, 2023, the European Commission may amend the draft ESRS. The updated draft will then be formally approved and adopted into EU law, which we anticipate before the end of 2023. The law will take the form of an EU regulation that will apply directly in all 27 EU member states. Other sets of standards will be adopted in the coming years for businesses operating in high-risk sectors, small- and medium-sized enterprises, and non-EU parent companies.

Sources:

Cooley.com
Efrag.org