

# CSRD

## European companies are one step closer to reporting ESG impacts, risks and opportunities

The European Commission took a giant leap forward toward fulfilling the European Green Deal with its adoption of the European Sustainability Reporting Standards (ESRS) on July 31, 2023. These standards outline not only what sustainability data participating companies will be required to disclose for the Corporate Sustainability Reporting Directive (CSRD), but also how information is to be reported.

Before we take a closer look at who will be impacted by these CSRD reporting standards, let's look briefly at how we arrived here in the first place.

### Before there was CSRD, there was NFRD

- **2014:** The European Commission (EC) adopts Directive 2014/95/EU. This non-financial Reporting Directive (NFRD) requires qualifying companies to include in their annual reports, or separate filings, non-financial statements related to their impact on a number of environmental, social, and governance (ESG) issues including treatment of employees, diversity on company boards, respect for human rights, environmental protection, and social responsibility.
- **2019:** The European Commission endorses the Green Deal, an ambitious strategy to transition Europe to a circular economy to reduce waste and pollution and reach carbon neutrality by 2050. Fostering sustainable economic growth is considered a critical element of the Green Deal's success, so emphasis is placed on funding economic activities supporting ESG efforts. In order to identify companies that are legitimately supporting ESG activities, the EC also shares its intention to review the NFRD. According to the EC, in order to appropriately channel funding towards sustainability efforts, stakeholders first need a common framework to evaluate ESG performance.
- **2020:** The EU Taxonomy Regulation comes into effect to address greenwashing. The taxonomy is a complex science-based classification system for identifying activities that can be considered environmentally sustainable. The EU Taxonomy's definitions and rules enable market participants to identify and invest in sustainable assets with more confidence.



- **2022:** The European Commission adopts the CSRD, which will replace and improve upon the NFRD. Not only does the CSRD mandate more detailed reporting, but it also covers more sustainability matters and applies to more companies. The European Financial Reporting Advisory Group (EFRAG) is tasked with identifying the specific reporting standards needed. Emphasis is placed on developing a set of standards that align with various global standards already in place, such as those from the Task Force on Climate-related Financial Disclosure (TCFD), Task Force on Nature-Related Financial Disclosures (TNFD), the Global Reporting Initiative (GRI) and criteria from the United Nation's Sustainable Development Goals. The CSRD also includes references to the EU Taxonomy.
- **2023:** After receiving recommendations from EFRAG and hearing public comment, the European Commission issues the ESRS. Companies falling under CSRD now have specific disclosure reporting guidelines.

## Who will be impacted by ESRS?

While the NFRD affected approximately 12,000 companies, almost 50,000 companies (75 percent of businesses in European Economic Area) fall under the criteria for CSRD.

CSRD initially applies to large public-interest EU companies with over 500 employees, but over several years expands to eventually include small, medium and large EU companies meeting certain financial thresholds. In 2029, companies outside of the EU with subsidiaries or branches in the EU that meet certain thresholds will also be included.

## ESRS Standards

Environment	Social	Governance
ESRS 1 addresses the mandatory concepts and principles to be followed by companies when preparing sustainability statements under the CSRD		
ESRS 2 addresses specific disclosures related to companies' general business, as well as their compliance and governance strategy. Additionally, their impact on ESG as well as the risks and opportunities faced under ESG (often referred to double materiality) are required.		
Disclosure Topics		
E1-E5 Environment (climate change, pollution, water and marine resources, biodiversity and ecosystems, resource use and circular economy).	S1-S4 Social standards (employees, workers in value change, affected communities, consumers).	G1 Ethics in regard to corporate practices

## What are the standards outlined in ESRS?

Before looking at the disclosure standards outlined in ESRS, it is important to consider the “why” behind the required disclosures. Ultimately, the European Commission wants stakeholders to clearly understand impacts, risks, and opportunities a company is facing as it relates to ESG issues. This includes both the potential negative and positive impacts an organization has on the community and environment, as well as any sustainability related risks and opportunities faced by the organization.

To make an honest, informed assessment, this requires information related to a company’s governance structure, its internal control and risk management system, as well as its strategy and approach to ESG issues, including policies, procedures, processes and performance.

If all companies are required to disclose the same information, only then will stakeholders be able to identify those companies that are truly making meaningful and measurable inroads towards the European Green Deal compared to those companies which still have a long way to go.

Christine Adeline, Chief Product Officer at SAI360, says CSRD with ESRS is a game changer because it is more comprehensive and applies to more companies.

“Not only are you required to report on outcome and performance metrics over time, but ESRS requires you provide information on your strategy, policies, procedures, targets, and action plans as well,” explains Adeline. “This sets the bar high and ensures organizations are doing more than paying lip service to ESG.”

## Environmental standards

Of the 12 standards in the ESRS, 50 percent are environmental.

### E1: Climate change

- Organizations must disclose their greenhouse gas emissions and other climate-related impacts.
- They must also disclose their climate change adaptation and mitigation measures.
- This standard is designed to help organizations reduce their climate impact and prepare for the effects of climate change.

### E2: Pollution

- Organizations must disclose their air, water, and waste pollution data.
- They must also disclose their pollution prevention and control measures.
- This standard is designed to help organizations reduce their pollution impact and protect the environment.

### E3: Water and marine resources

- Organizations must disclose their water use and other water-related impacts.
- They must also disclose their water management measures.
- This standard is designed to help organizations reduce their water impact and protect water resources.

### E4: Biodiversity and ecosystems

- Organizations must disclose their impacts on biodiversity and ecosystems.
- They must also disclose their biodiversity conservation and restoration measures.
- This standard is designed to help organizations protect biodiversity and ecosystems.

### E5: Resource use and circular economy

- Organizations must disclose their resource use data and other resource-related impacts.
- They must also disclose their circular economy measures.
- This standard is designed to help organizations reduce their resource use and promote a circular economy.

## Social standards

Aside from environmental reporting, CSRD also places emphasis on organizations' social impact. This includes disclosing information about their workforce health and safety, contractors, workers in the value chain, affected communities, and consumers. This broader perspective recognizes the importance of societal aspects, human rights, and social responsibility.

Of the 12 standards in the ESRS, 40 percent are social.

### ESRS S1: Own workers

- This standard delves into a company's internal workforce dynamics.
- It assesses matters like employee well-being, diversity and inclusion, training, and working conditions.

### ESRS S2: Workers in the value chain

- Focusing on the broader value chain, this standard evaluates the treatment and rights of workers beyond the organization's immediate employees.

### ESRS S3: Affected communities

- This standard highlights a company's interactions with local communities impacted by its operations.
- It looks at engagement, stakeholder communication, and initiatives to uplift these communities.

### ESRS S4: Consumers

- This standard revolves around consumer welfare and protection and examines how a company ensures product safety, communicates effectively with consumers, and addresses concerns and feedback.

## Governance standards

Of the 12 European Sustainability Reporting Standards (ESRS), one is focused on governance.

### G1: Business conduct

- The business conduct standard seeks to understand how reporting companies are structured, how they manage risks and opportunities, as well as their corporate culture.

## What are important next steps?

CSRD reporting obligations begin in 2025 for large, public-interest companies in the EU with 500 or more employees and a balance sheet total exceeding €20 million or net turnover exceeding €40 million. Keep in mind, these companies will be reporting on 2024 data.

Fortunately, many of the companies required to report in 2025 already have a significant number of the standards in place. As mentioned earlier, ESRS incorporates many disclosure requirements from existing standards and frameworks including the GRI, TCFD, TNFD and ISO 26000.

While the ESRS can feel intimidating at first glance, Adeline believes companies with a robust Governance, Risk, Compliance (GRC) implementation will be able to leverage their GRC expertise to operationalize and comply with ESRS requirements more efficiently. Ultimately, CSRD is one more regulatory requirement. It fits well within the GRC framework, which excels at managing risk and ensuring compliance with regulatory requirements.

### With that in mind, Adeline suggests the following to get ready for CSRD reporting

- Thoroughly review and understand the mandatory ESRS reporting standards
- Understand your business context, align stakeholders, and undertake a double materiality assessment to understand which standards apply to your organization
- Formulate your Sustainability Strategy to manage sustainability impacts, risks and opportunities and align with your company's enterprise Risk and Compliance management strategy
- Identify which elements are already covered as part of your GRC strategy. Incorporate the remaining requirements into your existing GRC strategy
- Update risks and action plans in addition to policies, procedures to align as needed
- Identify your targets and performance metrics required from your own operations as well as third parties that form part of your upstream and downstream value chain
- Develop governance strategy and procedures around the data collection and CSRD report production to ensure compliance with CSRD disclosure reporting and guaranteeing you are prepared for external assurance when it comes into force

## SAI360'S efforts to support CSRD

CSRD reporting requires a multifaceted approach that manual processes can't facilitate. SAI360's comprehensive ESG software and learning solutions leverage technology to provide the building blocks for a robust ESG compliance and governance strategy.

Automation provides streamlined data collection that meets regulatory requirements, minimizes the potential for human error, and is assessable within a centralized system for reporting. This transformational shift yields cost and time savings and upholds higher precision. Moreover, such streamlining of operations extends beyond mere regulatory compliance, fostering well-informed decision-making and a steadfast commitment to environmental sustainability.

### Here are several examples of SAI360'S ESG capabilities at work

- Capture CSRD-related impacts, risks, and opportunities centrally and alongside all enterprise risks to ensure sustainability risk management is integrated within overall risk management strategy
- Track the implementation of action plans for all types of impacts, risks and opportunities across ESG
- Create, implement, and ensure compliance of all ESG policies
- Embed ESG into corporate culture and extended enterprise by educating employees, board members, and third-party partners on important policies such as working conditions, work-related rights, equal opportunities, child labor, forced labor and other human rights
- Digitalize and automate the procedures required to meet CSRD disclosure requirements
- Define metrics and related targets and automate the data collection
- Conduct data analysis to identify trends and patterns to monitor performance over time
- Easily identify which actions plans are not working and undertake a targeted review of action plans and policies for optimal results
- Efficiently support the ESRS reporting by providing data with less effort
- Conduct assurance assessments to test preparedness and compliance, ensure adherence to standards, and safeguard organization from penalties

## FINAL THOUGHTS

Ultimately, the ESRS is a comprehensive reporting system designed to enhance transparency, accountability, and sustainability practices within companies, providing stakeholders with a better understanding of a company's performance across ESG domains. SAI360 simplifies CSRD compliance by streamlining data collection, as well as automating tasks and reporting.

To start a conversation on how SAI360's comprehensive ESG software and training solutions can support your organization's CSRD preparation efforts, [click here](#).

[Let's start a conversation.](#)

## Our unified approach to risk sets us apart

Today's complex risk landscape demands more. SAI360 leads the way with an integrated GRC platform and Learning solution that spans the entire risk spectrum.

### Risk Management Solutions

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- Regulatory Change Management
- Policy Management
- Third-Party Risk Management
- Internal Control
- Internal Audit
- Incident Management
- Conflicts of Interest (COI) Disclosure Management
- IT & Cybersecurity
- Business Continuity Management

### Ethics & Compliance Learning Solutions

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- Competition & Anti-Trust
- Conflicts of Interest
- Data Protection & Privacy
- Information Security
- Exports, Imports & Trade Compliance
- Harassment & Discrimination