



CSRD

9 topic-specific key challenges

APRIL 2023

Corporate Sustainability Reporting Directive (CSRD)

CSRD is a new reporting directive that aims to promote greater transparency regarding corporate activities by improving the quality of corporate ESG disclosures.



In **January 2023** the CSRD, that is supposed to replace the Non-Financial Reporting Directive (NFRD), entered into force, which moves the ESG reporting landscape from a voluntary to a **mandatory** reporting application by equaling financial and ESG reporting.

Precisely, the CSRD is underpinned by the European Sustainability Reporting Standards (**ESRS**), which define how companies should report on sustainability issues. The ESRS consist of **two cross-cutting and ten topical standards** on relevant ESG matters.

Of these standards, the two cross-cutting standards **ESRS 1, ESRS 2** and the topical standards **E1** (climate change) and parts of **S1** for undertakings with 250 or more employees (own workforce) are **mandatory**. The remaining disclosure requirements depend on the result of the **materiality analysis**. Sector specific standards will be published in 2023.

The first set, including overarching standards, topic-specific and cross-industry disclosure requirements, will be adopted in **June 2023**. The EU Commission plans the full adoption of all disclosure requirements (sector specific, SMEs, third countries) for **June 2024**.

The CSRD will affect all large companies, **regardless of capital market orientation**, as well as smaller companies (inside and outside the EU). It will apply in stages, starting on the **1st of January 2024** with companies already subject to the NFRD.

CSRD & ESRS

Compared to the NFRD, key changes under the CSRD include a larger number of affected companies, the specification of double materiality, more extensive reporting content, as well as increased reporting depth and assurance requirements.

Legislative proposal for a Corporate Sustainability Reporting Directive (CSRD)

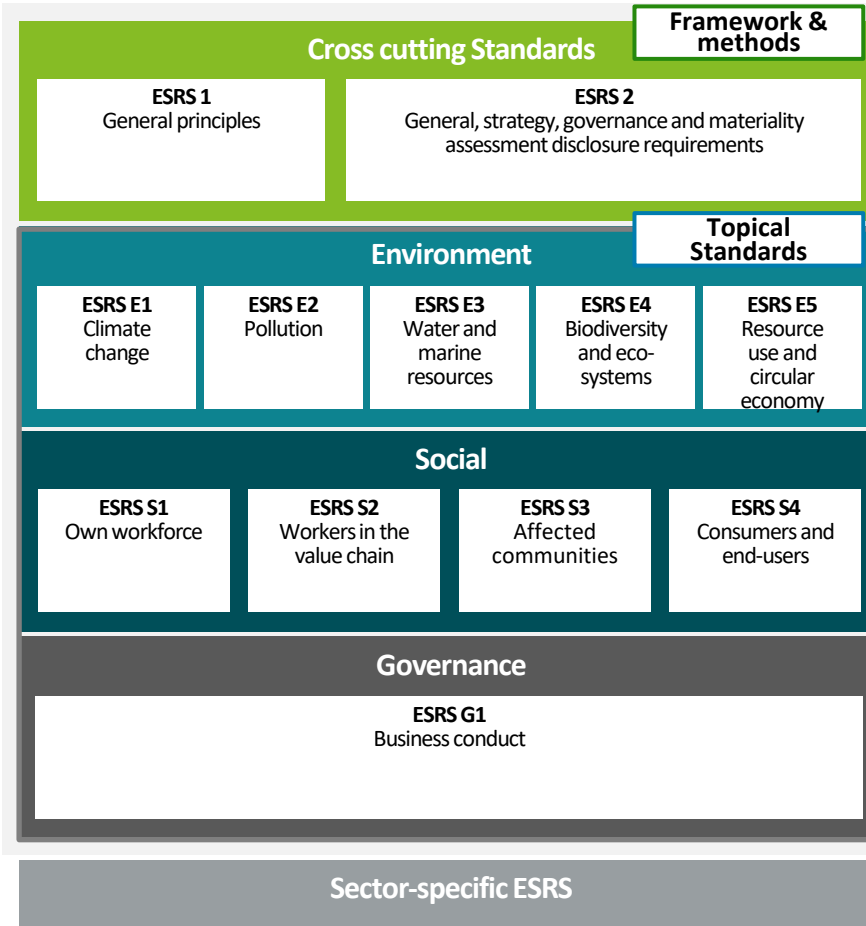


Brussels, 21.4.2021
COM(2021) 189 final
2021/0104 (COD)

Proposal for a
DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL
amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting

(Text with EEA relevance)
{SEC(2021) 164 final} - {SWD(2021) 150 final} - {SWD(2021) 151 final}

Updated ESRS Nov 2022: Draft to EU Commission



The ESRS consist of **84 disclosure requirements** and **1,144 quantitative and qualitative data points**, which can be found in the 12 cross-cutting and topical standards.

9 topic-specific key challenges

The CSRD and ESRS affect both companies already falling under the NFRD and those newly covered by the reporting directive. The CSRD will be implemented gradually, starting in FY24 for companies already covered by the NFRD.



- (1) Double Materiality Assessment**
- (2) Description of expected decarbonization levers** and their overall quantitative contributions to achieve the GHG targets

(3) Financial effects of material physical and transitional risks*
- (4) Transition plan:** Mandatory for priority sectors defined by the TNFD**

(5) Detailed disclosure of financial effects and impact metrics (qualitative and quantitative)
- (6) Quantification of potential financial effects of material risks/ opportunities related to resource use and CE**
- (7) Level of detail regarding employee and non-employee information**
- (8) Identification of material (negative/positive) impacts, related measures and effectiveness** of those actions which are linked to **indirect suppliers (Tier-n)**
- (9) Identification of material (negative/positive) impacts, related measures and effectiveness** of those actions which are linked to **consumers**

* Companies may disclose only qualitative information for the first three years, if it is impracticable to prepare quantitative disclosures.
 **Industries: Based on the list of priority sectors provided by the Taskforce on Nature-related Financial Disclosures (TNFD): Agriculture and Farming Forestry, Construction and Engineering, Oil and Gas from Midstream and Downstream, Energy Production and Utilities, Water and Waste Services, Food and Beverages, Paper and Wood Products, Building materials, Chemical products, Coal Mining , Mining , Oil and Gas Upstream and Services, Pharma and biotechnology, Textiles, Accessories, Footwear and Jewelleries, Tobacco, and Transportation

ESRS 1 & 2: Double Materiality



The double materiality identifies and prioritizes impacts, risks and opportunities along the entire value chain, that impact the environment and society (Impact Materiality) AND/OR companies (Financial Materiality).

Selected ESRS Disclosure Requirements

- ESRS 1-3.3: “Double materiality has two dimensions, namely: impact materiality and financial materiality”
- ESRS 1-3.4: Assessment of (potential) impacts by severity + likelihood
- ESRS 1-3.5: Assessment of (potential) risks and opportunities by potential financial effects + likelihood
- Sustainability topics would be defined as material if its considered material from either, or both perspectives



Challenges for businesses

- Emphasis of **outside-in** (stakeholder, financial) and **inside-out** (impact) perspectives
- Incorporation of a broader range of material topics (topics are material from a **financial AND/OR impact perspective**)
- Valuation of risks and opportunities according to **time horizons** (short, medium, long term*) and along the **entire value chain**
- **Mandatory disclosure requirements** for all companies regardless of their analysis for ESRS 2 (General disclosures), ESRS 2 Appendix C (Datapoints that are required by EU law), ESRS E1 (Climate change) and partially ESRS S1 (Own workforce)



Climate change is a change in global or regional climate patterns, in particular a change apparent from the mid to late 20th century onwards and attributed largely to the increased level of atmospheric carbon dioxide produced by the use of fossil fuels.

Selected ESRS Disclosure Requirements

- ESRS E1-4: “the undertaking shall describe the **expected decarbonization levers** and their overall quantitative contributions to achieve the **GHG emission reduction targets** (e.g., energy or material efficiency and consumption reduction, fuel switching, use of renewable energy, phase out or substitution of product and process)”
- ESRS E1-9: “The undertaking shall disclose* its
 - (a) potential **financial effects** from **material physical risks**;
 - (b) potential **financial effects** from **material transition risks**”



Challenges for businesses

- **Detailed data** concerning the decarbonization levers
- Analysis of financial effects over **short-, medium- and long-term time horizons**
- Extensive **breakdown of data** (e.g. real estate assets by energy-efficiency classes, location of significant assets at material physical risk, monetary amount and proportion (percentage) of net revenue)

ESRS E4 Biodiversity and ecosystems



Biodiversity is the variability among living organisms from all sources including terrestrial, marine, and other aquatic ecosystems and the ecological complexes of which they are a part. Ecosystem services refers to the contributions of ecosystems to the benefits that are used in economic / human activity, respectively the benefits people obtain from ecosystems.

Selected ESRS Disclosure Requirements

- ESRS E4-1: “the undertaking shall disclose its **plan** to ensure that its business model and strategy are **compatible** with the respect of **planetary boundaries of the biosphere integrity and land-system change (...)**”, “for priority sectors provided by **TNFD*** (...) it is **mandatory**”
- ESRS E4-5: “**Impact metrics** related to biodiversity and ecosystems change”
- ESRS E4-6: “potential **financial effects of material risks and opportunities** arising from biodiversity- and ecosystem-related **impacts and dependencies**”



Challenges for businesses

- **Broad transition plan information** (e.g. on implementation ambitions and metrics for progress review, and description of challenges and limitations) including **own operations** and interactions with material impacts across the **value chain**
- **Detailed disclosure of financial effects and impact metrics** (qualitative and quantitative)

*Industries: Based on the list of priority sectors provided by the Taskforce on Nature-related Financial Disclosures (TNFD): E.g. Agriculture and Farming Forestry, Construction and Engineering, etc.

ESRS E5 Resource use and circular economy



An economic system whereby the value of products, materials and other resources in the economy is maintained for as long as possible, enhancing their efficient use in production and consumption, thereby reducing the environmental impact of their use, minimising waste and the release of hazardous substances at all stages of their life cycle.

Selected ESRS Disclosure Requirements

- ESRS E5-6: “**potential financial effects** of material risks and opportunities arising from resource use and circular economy-related impacts”
- ESRS E5-6: “**description** of the effects considered, the **impacts** to which they relate and the **time horizons** in which they are likely to materialize”



Challenges for businesses

- Quantification of potential **financial effects of material risks/ opportunities related to resource use and circular economy** (in monetary terms if possible)
- Evaluation based on different **time horizons**



Own workforce includes both employees and non-employees who are either self-employed or provided by companies that primarily perform employment activities.

Selected ESRS Disclosure Requirements

- ESRS S1-6: “**total number of employees**, and breakdowns by **gender** and by **country** for countries in which the undertaking has 50 or more employees”
- ESRS S1-6: “**full-time employees**, and breakdowns by gender and by region”
- ESRS S1-6: “**part-time employees**, and breakdowns by gender and by region”
- ESRS S1-7: “**total number of non-employee workers** in own workforce”
- ESRS S1-7: “**types** of non-employee workers”
- ESRS S1-7: “the **type of work** they perform”
- ESRS S1-16: “male-female **pay gap**”



Challenges for businesses

- **Level of detail regarding employee information** – e.g. per country (challenges in gathering data due to different HR systems)
- **Level of detail regarding non-employee information**
- **Level of detail regarding compensation ratios** – e.g. gender pay gap and ratio of the highest to the median annual salary

ESRS S2 Workers in the value chain



Workers in the value chain include all employees in the company's upstream and downstream value chain who are or may be significantly affected by the company but are not part of the company's own workforce (Tier N).

Selected ESRS Disclosure Requirements

- ESRS S2-4: “what **action** is planned or underway to **prevent, mitigate or remediate material negative impacts** on value chain workers”
- ESRS S2-4: “any **additional initiatives or processes** it has in place with the primary purpose of delivering **positive impacts** for value chain workers”
- ESRS S2-4: “how it tracks and assesses the **effectiveness of these actions**, programs and processes in delivering intended outcomes for value chain workers”



Challenges for businesses

- Reporting on **Tier 1 and Tier N** suppliers
- Identification of **material negative impacts**, related **measures and effectiveness** of those actions which are linked to **direct and indirect suppliers**

ESRS S4 Consumers and end users



Consumers and end users are actual or potential affected parties of the company who purchase, consume or use goods and services for personal use and not for resale or commercial purposes.

Selected ESRS Disclosure Requirements

- ESRS S4-4: “what **action** is planned or underway to **prevent, mitigate or remediate material negative impacts** on consumers and/or end-users”
- ESRS S4-4: “any **additional initiatives or processes** it has in place with the primary purpose of **positively contributing to improved social outcomes** for consumers and/or end-users”
- ESRS S4-4: “how it tracks and assesses the **effectiveness** of these actions, programmes and processes in delivering intended outcomes for consumers and/or end-users”



Challenges for businesses

- Identification of **material (negative/positive) impacts**, related **measures and effectiveness** of those actions which are linked to **consumers**
- Report on **actions** taken regarding significant impacts on consumers and approaches to mitigate significant risks and pursue significant opportunities.
- Indication of **effectiveness of measures**

How can we help?

When preparing your sustainability reporting according to EU CSRD, you should consider the three key aspects.

How to start...

1 | Status Quo Analysis

Get an overview of external requirements and your internal status quo

- Outside-in perspective: External regulatory requirements (CSRD and ESRS) and industry benchmark
- Inside-out perspective: Internal status quo



2 | Materiality Analysis

Conduct a Materiality Analysis to define the framework for your report (Regardless of the analysis, the following ESRS are mandatory: ESRS2, E1 and partially S1 for companies with more than 250 employees)

- Inside-Out (Impact Materiality) and Outside-In (Financial Materiality)
- Identification and assessment of impacts, financial risk and opportunities
- Development of materiality matrix



3 | Gap Analysis & Roadmap

Perform a gap identification based on status quo and materiality analysis to develop a roadmap to meet future regulatory requirements

- Identification and prioritization of gaps
- Development of a detailed implementation roadmap incl. defined measures



ESG Reporting & Regulatory Readiness

ESG KPIs, Management & Steering
Performance & Implementation

ESG@GRC
(Governance, Risk, Controls)

ESG Rating Support
(CDP, SASB, ISS, EcoVadis, etc.)

ESG IPO Support & Assurance Readiness & ESG DDs

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