The Ultimate Guide to the Corporate Sustainability Reporting Directive

Achilles
Supply Chain Sustainability

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Contents

Introduction

New supply chain related legislation is coming into force around the world to improve standards and reporting transparency in important areas including human rights, biodiversity and greenhouse gas emissions.

Businesses across the world are finding themselves facing a new era of regulatory reporting as well as stakeholder expectation that is now requiring them to go deeper into the impact their commercial activities may be having on people and the planet and report on them - to enable investors, consumers and other stakeholders evaluate a company's sustainability performance.

This new type of regulation goes beyond direct actions to also include the indirect impact a company is having throughout their upstream and downstream value chains. You can read more about some of the terminology used in recent legislation in our jargon buster blog: 6 value chain jargon terms every procurement and sustainability professional needs to know.

In many ways, the European Union has been leading the way with a series of Directives that aim to support social justice and reduce environment impact. The Corporate Reporting Sustainability Directive is one such initiative – making ethical business not only a means of competitive differentiation, but also a regulatory requirement with significant commercial implications when done wrong.

In this latest Achilles Ultimate Guide we take a detailed look at the Corporate Sustainability Reporting Directive (CRSD), who it applies to, what it means to those organisations that need to comply and provide advice on how to get started based on our own experience of supporting organisations in reporting on their sustainability performance, specifically in relation to risks and opportunities associated with value chain and carbon.

What is the Corporate Sustainability Reporting Directive?

The Corporate Sustainability Reporting Directive is an EU legislative framework which was adopted as part of the Sustainable Finance Package in April 2021, receiving European Union Council approval in November 2022 and officially entering into force in January 2023.

The directive expands the scope of sustainability reporting with the aim of standardising the disclosure of non-financial data. It is anticipated that the directive will impact as many as 50,000 companies when fully implemented. The directive aims to solve the issue of quality reporting by establishing a common reporting framework that can be used to better compare or assess sustainability information.

Under the Corporate Sustainability Reporting Directive, companies are required to report against a series of environmental, social and governance standards covering topics including climate change, workers in the value chain and business conduct. Companies disclosing under the regulations will be required to report on the material risks and opportunities associated with their business. The disclosure includes both mandatory and non-mandatory reporting elements where companies may have to describe their approach, or provide specific data.

The Directive requires all large EU based companies – meaning companies with more than 250 employees and more than €40 Million in turnover and/or more than €20 Million in total assets to disclose as well as all listed companies (except for micro-enterprises). When the legislation has been fully enacted it is expected that almost 50,000 companies will be required to disclose their sustainability performance.

The Directive also applies to non-EU companies where there is at least one EU entity within the organisation that is in scope. That means companies with:

- Securities listed on an EU-regulated market
- At least one EU branch that generated revenue of more than €40 Million in the previous year and has generated revenue in excess of €150 Million for the previous two fiscal years.

Most recently the Securities and Exchange Board of India (SEBI) produced similar reporting legislation in the form of the Business Reporting and Sustainability Report (BRSR) Core which requires India's largest publicly listed businesses to report on nine sustainability related principles. Read more about SEBI's BRSR Core legislation and requirements.

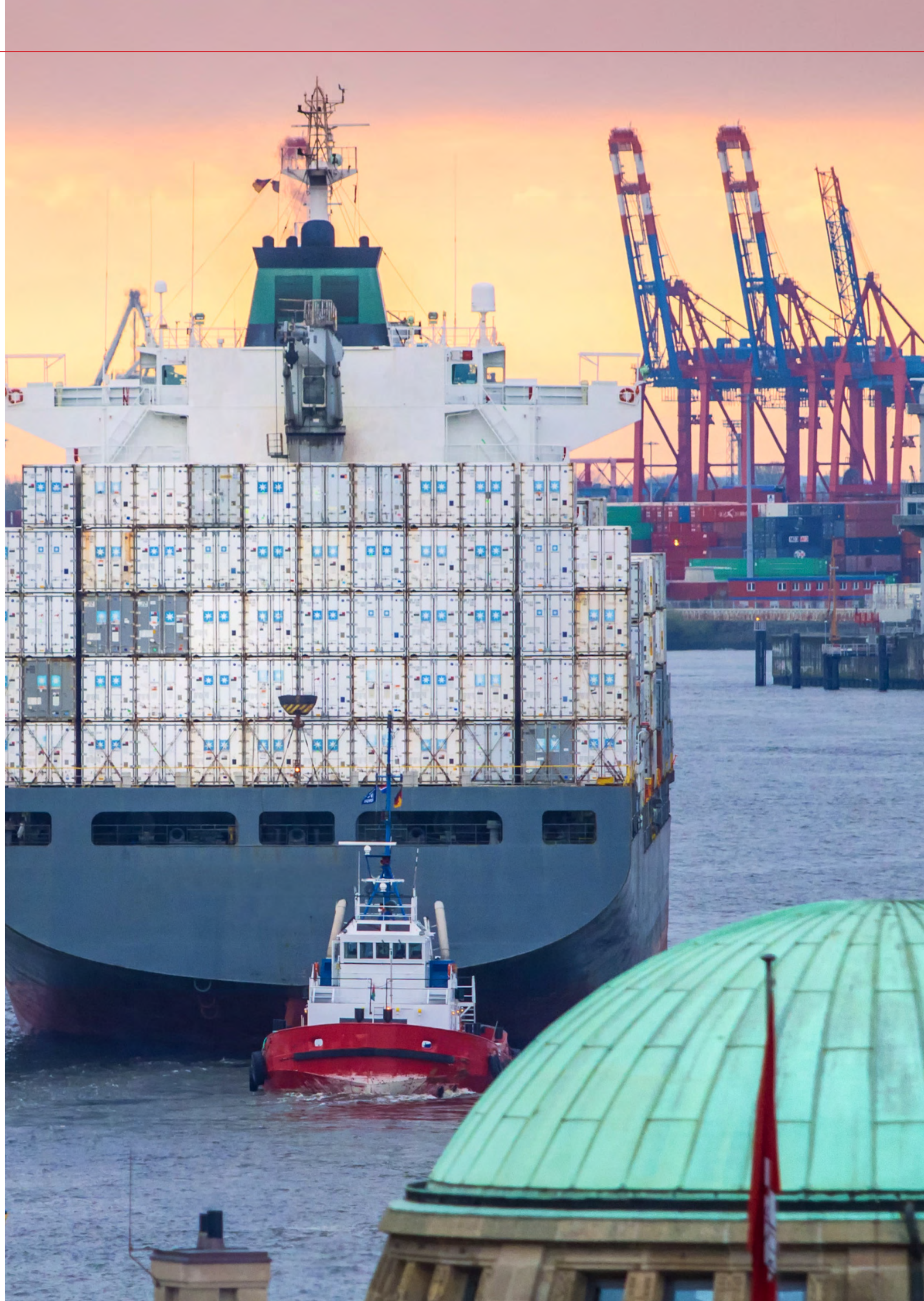
Why is the Corporate Sustainability Reporting Directive important?

The Corporate Sustainability Reporting Directive is important for two primary reasons:

- **Consistency in Reporting:** The Directive is designed to improve the way companies disclose environmental, social and governance (ESG) information. By standardising the mandatory and non-mandatory reporting elements investors and consumers will have access to data that is comparable across companies to enable better decision making.

- **Transparency:** By developing a specific standard for companies to disclose against, including mandatory reporting areas for businesses, the new Directive enables consumers and investors to trust the data that has been presented. Often investors found that ESG reports omitted useful information or used different reporting metrics.

Overall, the Corporate Sustainability Reporting Directive is important because it aims to establish a clear and consistent reporting framework for sustainability related data. Enabling investors, clients and consumers to make informed decisions on a company's sustainability performance.



Which organisations need to comply with the Corporate Sustainability Reporting Directive?

The new legislation will be phased based on company size or if the business has had to previously report under the Non-Financial Reporting Directive (NFRD):

- **Starting in financial year 2024 and reporting in 2025:** Entities already required to comply with the NFRD including all organisations that are listed in an EU-regulated market with 500 or more employees.
- **Starting in financial year 2025 and reporting in 2026:** Large, listed undertakings that were not previously required to comply with the NFRD.
- **Starting in financial year 2026 and reporting in 2027:** Small and medium-sized entities listed on an EU-regulated market that meet two of the following three criteria:
  - At least €4 Million in total assets
  - At least €8 Million net turnover
  - An average of 50 employees during the financial year
- **Starting in financial year 2028 and reporting in 2029:** Non-EU headquartered companies.

What reporting elements are covered by the Directive?

In total there are 12 standards covering environment, social, governance and general information.

- **Cross Cutting Standards:**
  - ESRS 1: General requirements
  - ESRS 2: General disclosure
- **Environment:**
  - ESRS E1: Climate change
  - ESRS E2: Pollution
  - ESRS E3: Water and marine resources
  - ESRS E4: Biodiversity and ecosystems
  - ESRS E5: Resource use and circular economy
- **Social:**
  - ESRS S1: Own workforce
  - ESRS S2: Workers in the value chain
  - ESRS S3: Affected communities
  - ESRS S4: Consumers and end users
- **Governance:**
  - ESRS G1: Business conduct

Each individual topic area includes both mandatory and non-mandatory data points which an organisation is expected to report against. These might include areas where a company provides a description of how they deal with a matter outlined within a topic area, or specific data where appropriate e.g. greenhouse gas emissions data.

These reporting standards are the same as the European Sustainability Reporting Standards (ESRS) developed by The European Financial Reporting Advisory Group (EFRAG).

What are the Corporate Sustainability Reporting Directive reporting requirements?

Known as a double materiality assessment, companies required to report under the Corporate Sustainability Reporting Directive are required to disclose how their operations impact people and the planet as well as how sustainability issues may affect their own organisation. Consideration will also need to be made for both upstream and downstream activities when reporting.

Businesses will be expected to submit both qualitative and quantitative information that is forward looking, considering short, medium and long-term timeframes as well as retrospective. Reports will be submitted within a dedicated section of a company's management report on an annual basis. Companies will be expected to digitally tag sustainability information within the report in accordance with an agreed digital taxonomy to aid those accessing information.

Businesses reporting under the Corporate Sustainability Reporting Directive will also be required to obtain limited assurance of their compliance with the reporting standards, specific data within the report and their assessment of material impacts. Limited assurance may be issued by a statutory or financial auditor, however, individual Member States may allow other service providers who can demonstrate appropriate levels of competence in sustainability related assurance or assessment.

On an annual basis, businesses that are required to comply with the Corporate Sustainability Reporting Directive will be required to prepare their report in XHTML format.

What happens if a company fails to comply with the Act?

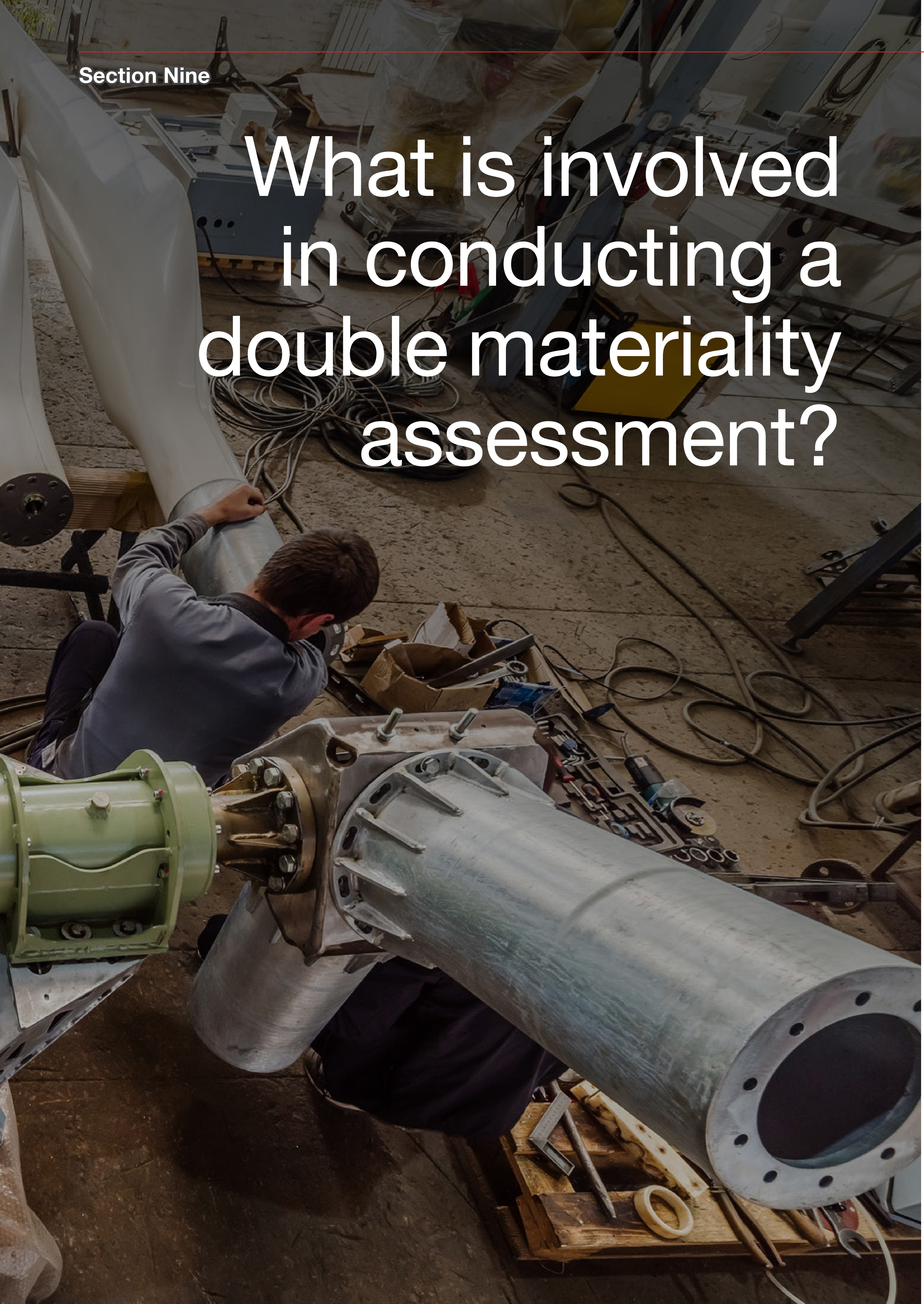
Individual Member States are responsible for the provision and enforcement of penalties. Depending on the Member State, companies will be subject to administrative or criminal penalties. Penalties for similar Member State legislation such as the NFRD have included fines of up to €10 Million in Germany and six months' imprisonment for company directors in Ireland.

Beyond the legislative penalties that may be brought against the entity, there are also other significant implications when failing to comply including damage to brand reputation and the financial impact of a loss of consumer or shareholder confidence. It can take a very long time to build up positive brand recognition, however, it does not take long to seriously damage it.

What are the benefits of compliance?

Overall, complying with the Corporate Sustainability Reporting Directive can bring significant benefits to organisations, including improved reputation, reduced risk, increased efficiency, competitive advantage, and long-term sustainability.

- **Improved Reputation:** Complying with the law can help improve an organisation's reputation as a responsible and ethical business. By taking steps to consider how their business activities impact society and the environment, organisations can enhance their brand image and increase customer loyalty.
- **Reduced Risk:** Compliance with the law can help reduce the risk of legal action, fines, and reputational damage. By identifying and addressing potential risks in their governance processes and value chains, organisations can minimise the potential for negative impacts being associated with their organisation.
- **Increased Efficiency:** Considering business activities and the implications that ESG issues may have on performance over the short, medium and long term can help to improve business strategy and increase operational efficiency particularly where sustainability-related risks and opportunities have been identified.
- **Competitive Advantage:** Compliance with the law can provide a competitive advantage by demonstrating a commitment to responsible business practices. This can help organisations attract and retain customers, investors, and employees who prioritise ethical business practices.
- **Long-Term Sustainability:** Compliance with the law can contribute to the long-term sustainability of an organisation's operations. By conducting an assessment of the material sustainability-related risks and opportunities to a business, society and the planet, organisations can promote well-being of employees, sound environmental practices within the communities they operate in and those of their value chains.



What is involved in conducting a double materiality assessment?

A double materiality assessment is the foundational step towards compliance with the Corporate Sustainability Reporting Directive. It is needed so that businesses required to report under the directive can focus their time and effort on the material sustainability matters associated with themselves and their stakeholders.

Companies should work closely with internal key stakeholders across their organisation who can help to define and assess sustainability-related risks and opportunities. Key stakeholders may include those in sustainability, finance, legal, procurement and human resources.

It is important that the ESRS criteria is appropriately assessed, and that relevant guidance is communicated to internal stakeholders to ensure that the assessment is consistent across the organisation. The material topics that should be reviewed internally to ensure that all relevant areas have been considered.

When considering whether a topic is material, stakeholders should evaluate whether it covers one, or both of the following:

- **Impact Materiality:** the company's operations including upstream and downstream value chain, and the effect on society or the environment.
- **Financial Materiality:** sustainability-related topics that affect the company's financial stability or performance.

Those responsible for conducting the assessment should ensure that close attention is placed at a macro level to identify all disclosure requirements and the corresponding data points to be reported against. Once complete, the double materiality assessment should be communicated across the business and embedded into the company's corporate strategy for sound decision making.

Overall, conducting a double materiality assessment enables companies to identify and address potential sustainability-related risks and opportunities across their organisation and within their value chain. This approach aligns with the requirements of the Corporate Sustainability Reporting Directive as well as helping companies to minimise the impact they have on people and the planet. Embedding the findings of the assessment into corporate strategy also enables companies to ensure that they are operating sustainably.

How to get started on the path to compliance with the Corporate Sustainability Reporting Directive

Getting started with the Corporate Sustainability Reporting Directive can be a complex process, but there are several steps that companies can take to begin their compliance journey:

- **Consider your CSRD Scope:** Companies should consider the full scope of the application of the Corporate Sustainability Reporting Directive. Considering various factors including structure, subsidiaries and the value chain. It is important that the scope of reporting accurately reflects your organisation and its material impacts, risks and opportunities.

- **Consider the Level of Disaggregation of Information:** Prior to conducting a double materiality assessment companies should disaggregate data to ensure there is a proper understanding of the impacts, risks and opportunities associated with the organisation.

- **Conduct a Double Materiality Assessment:** Companies should conduct a thoughtful, double materiality assessment which identifies and evaluates material impacts, risks and opportunities. The assessment should consider impact on people and the planet both internally and externally.

- **Engage with Internal & External Stakeholders:** Companies should collaborate with both internal and external stakeholders to ensure that full reporting considerations have been made in alignment with the ESRS Standards. Effective collaboration will ease the process of carrying out foundational elements such as the double materiality assessment as well as gathering information associated with the value chain.

- **Analyse Existing Data:** Companies should analyse existing data and its quality against the disclosure requirements outlined within the ESRS Standards. Initial analysis will help to identify where there is inadequate or inaccurate data. Conducting gap analysis early will provide companies with additional time to engage with internal and external stakeholders to ensure compliance with the mandatory data reporting requirements.

- **Streamline Data Collection:** Companies should find efficient ways to capture all of the data that is to be reported on as defined by the Directive. Utilising in-house and external software systems enables companies to capture data more efficiently and verify its accuracy. Holding data in a centralised library or system will also ease the gathering and reporting exercise.

- **Seek Assurance:** Companies should engage with sustainability experts throughout the reporting journey. Initially the Directive requires companies to seek limited assurance on their Corporate Sustainability Reporting Directive, moving to reasonable assurance at a later stage. Engaging with an assurance provider will help companies understand the assurance process and the assurance expectations.

In summary, getting started with the Corporate Sustainability Reporting Directive requires a broad approach to be truly effective. An approach that should include conducting a double materiality assessment, collecting sustainability data, engaging with the value chain, monitoring and evaluating performance, publishing annual reports, developing due diligence processes, assessing the supply chain, implementing due diligence measures, monitoring and evaluating performance, publishing annual reports, engaging with stakeholders, and seeking external assurance support where necessary.

Challenges of achieving compliance with the Corporate Sustainability Reporting Directive

Organisations working towards and achieving compliance with the Corporate Sustainability Reporting Directive face several challenges. These include:

- **Data Collection:** Data required to comply goes beyond regular operational boundaries. Data sources with questionable provenance, accuracy and interpretation often become primary sources of information which undermine the basis for the reporting. Data may also be in multiple data formats and there is often an absence of systems to record data in a methodical way that can be used to demonstrate a comprehensive approach has been taken.

- **Veracity of Data:** Web-scraped or AI generated data from sources of unknown provenance lacks the scrutiny necessary to fully understand the risks. Organisations rarely have the resources to undertake credible data checking or independent verification required to report on the value chain with confidence.

- **Limited Capacity:** Many companies may lack the resources to undertake such intensive and sustained data collection and evaluation from numerous disparate internal and external sources or sufficiently credible levels of data checking particularly within the value chain.

- **Cost of Compliance:** Complying with the law can be expensive, especially for small and medium-sized companies. The cost of conducting appropriate levels of internal and external evaluation, implementing data collection measures, seeking external assurance can be significant.

- **Knowing what is enough:** Understanding what is required to satisfy the regulators and ensure compliance.

- **Legal Liability:** Non-compliance with the law can result in legal liability, including fines and legal action. This can create additional risk for companies, particularly if they are unable to identify and address potential risks in their supply chains.

- **Coordination with External Stakeholders:** Collaboration with companies within the value chain is essential to ensure accurate data is collected when reporting on carbon footprint and workers in the value chain. However, engaging with companies can be challenging, especially if they are in different countries with different cultural and legal frameworks.

- **Time Constraints:** Companies may struggle to implement effective processes within the required timeframe. The law requires companies to implement submit their report within specific timeframes, and non-compliance can result in legal liability.

Conclusion

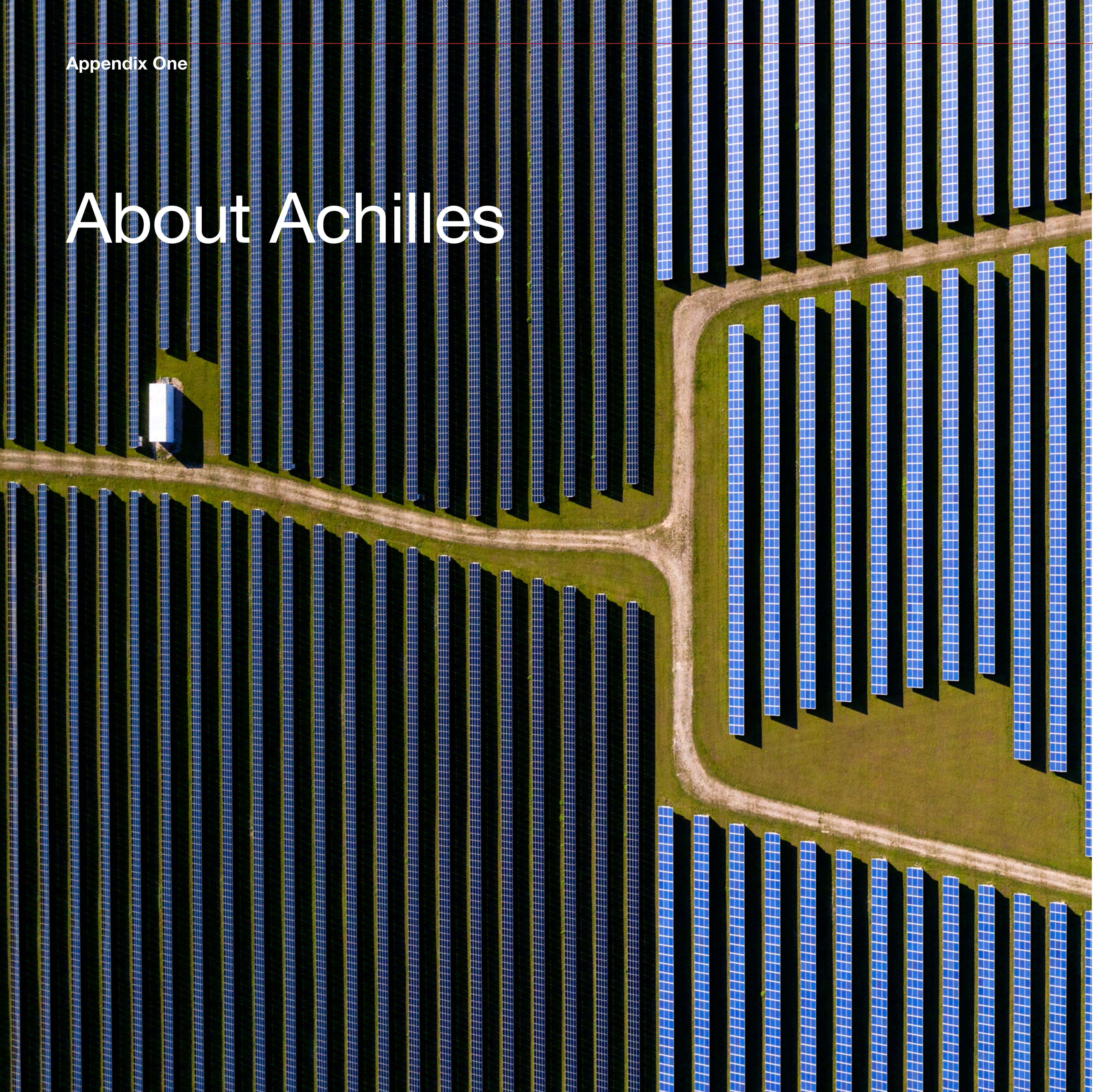
Section Twelve

The Corporate Sustainability Reporting Directive is a significant development in non-financial reporting. This Directive requires companies to report on specific sustainability-related data points and topics including those associated with their upstream and downstream value chain. It will eventually apply to both companies within the European Union and some entities located outside of the European Union, and can result in fines for non-compliance.

The introduction of this Directive an important step towards a more transparent global economy. As other countries consider similar legislation, it is likely that access to accurate and transparent sustainability-related data will become increasingly important in the global marketplace. Embarking on a journey of improved sustainability-related data collection, assessment and reporting now will likely reduce future disruption when other nations or industries adopt increased levels of sustainability performance disclosure.

The Corporate Sustainability Reporting Directive is a positive development that has the potential to create a more sustainable and transparent ways of operating. By prioritising the well-being of workers, communities, and the environment, companies can build a stronger and more resilient global economy for the future.

About Achilles



For over 30 years, Achilles has protected organisations' business interests and reputations by providing unrivalled levels of sustainability-related data collection, verification, management, and carbon reduction. We are the ESG and carbon management partner of choice for the world's leading global brands.

Achilles specialises in supporting customers that require truly robust environmental, social and governance reporting to fully comply with ESG regulation, meet investor requirements and achieve their own ambitious sustainability goals. We work with market-leading financial, industrial, commercial and governmental organisations requiring the serious, detailed analysis and expert insight necessary to deliver exceptional reporting confidence and positive social and environmental impact.

Operating from 17 locations worldwide, Achilles is at the forefront of the battle against climate change, a champion for social justice and human rights, and an expert in health, safety, and risk management.

How Achilles helps companies to comply with the Act

Achilles works on behalf of organisations that require comprehensive sustainability-related data collection, validation and verifications solutions and detailed data insight necessary to comply with international disclosure requirements including the Corporate Sustainability Reporting Directive.

Achilles services include:

- **Value Chain Evaluation:** We collect and assess data from a wide range of sources including (but not limited to) documentation from your value chain, publicly accessible and historical information from the internet and investigation reports from NGOs and charities. Uniquely, our online questionnaires also incorporate information captured from our extensive, global, in-person audit programme, and the voices of workers gathered over many years of interviews in similar industries and regions to paint a full picture of the workers in your value chain.

- **Greenhouse Gas Emissions Verification:** Using our in-house software, Achilles can capture and quantify a broad range of greenhouse gas emissions data from your company's value chain. Enabling accurate reporting on climate change issues as mandated within ESRS E1 (Climate Change).

- **Risk Assessment:** Detailed value chain evaluation enables us to undertake a "broad scoping exercise" to create a high-level picture sustainability-related risks and opportunities associated with your company's activities. This broad, multi-disciplined approach is integral to successful disclosures against the European Sustainability Reporting Standards and key for organisations that need to be able to demonstrate to regulatory authorities that they understand the material sustainability-related risks and opportunities associated with their business.

- **Due Diligence:** Delivering thousands of audits (both desktop and site) every year, our teams of highly skilled audit personnel are strategically situated across the globe to go beyond data collection, actively interrogating documentation, physically inspecting workplaces and confidentially speaking with individuals within your value chain to ensure workers are not subject to unethical employment practices or human rights violations.

- **Limited and Reasonable Assurance:** Achilles has experience in working with world leading brands to provide limited assurance against recognised standards. Our sustainability professionals and qualified audit team regularly assess public disclosures and shareholder reports prior to publication. For climate change, Achilles Carbon Reduce programme verifies emissions data against the ISO 14064-1:2018 Standard.

- **Remediation and Reporting:** Committed to continually improving sustainability performance of our clients, Achilles drives continual improvement through the tracking of value chain sustainability risks and opportunities. Analysis supported by Achilles Data Scientists gives you the comprehensive data that can be included within annual disclosure.

Contact us to find out how Achilles can help you meet your Corporate Sustainability Reporting Directive obligations.

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