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Getting started with CSRD

What you need to know to prepare your organisation for the EU's Corporate Sustainability Reporting Directive

What is CSRD and why do I need to think about it now?

Corporate Sustainability Reporting Directive (CSRD) is an ESG (environmental, social and governance) standard enacted by the European Union. It is designed to make corporate sustainability reporting more common, consistent and standardised like financial accounting and reporting.

The new directive's impact is far-ranging and essentially modernises and strengthens the social and environmental information that companies have to report.

The directive went into force in January 2023. The first companies will have to apply the new rules for the first time in the 2024 financial year, for reports published in 2025.

CSRD requires all large and listed companies to publish regular reports on the social and environmental risks they face, and on how their activities impact people and the environment. It aims to help investors, consumers, policymakers and other stakeholders evaluate non-financial performance and encourage a more responsible approach to business. CSRD defines - for the first time - a common reporting framework for non-financial data, encompassing not just climate change but broader ESG metrics.

CSRD will dramatically increase the number of businesses that are subject to mandatory ESG disclosures from 15,000 to over 50,000. It will also impact non-EU companies, called third-country companies, that have substantial activity in the EU. Businesses need to prepare now as successful reporting will require a holistic approach that involves the entire organisation.

Beyond ESG

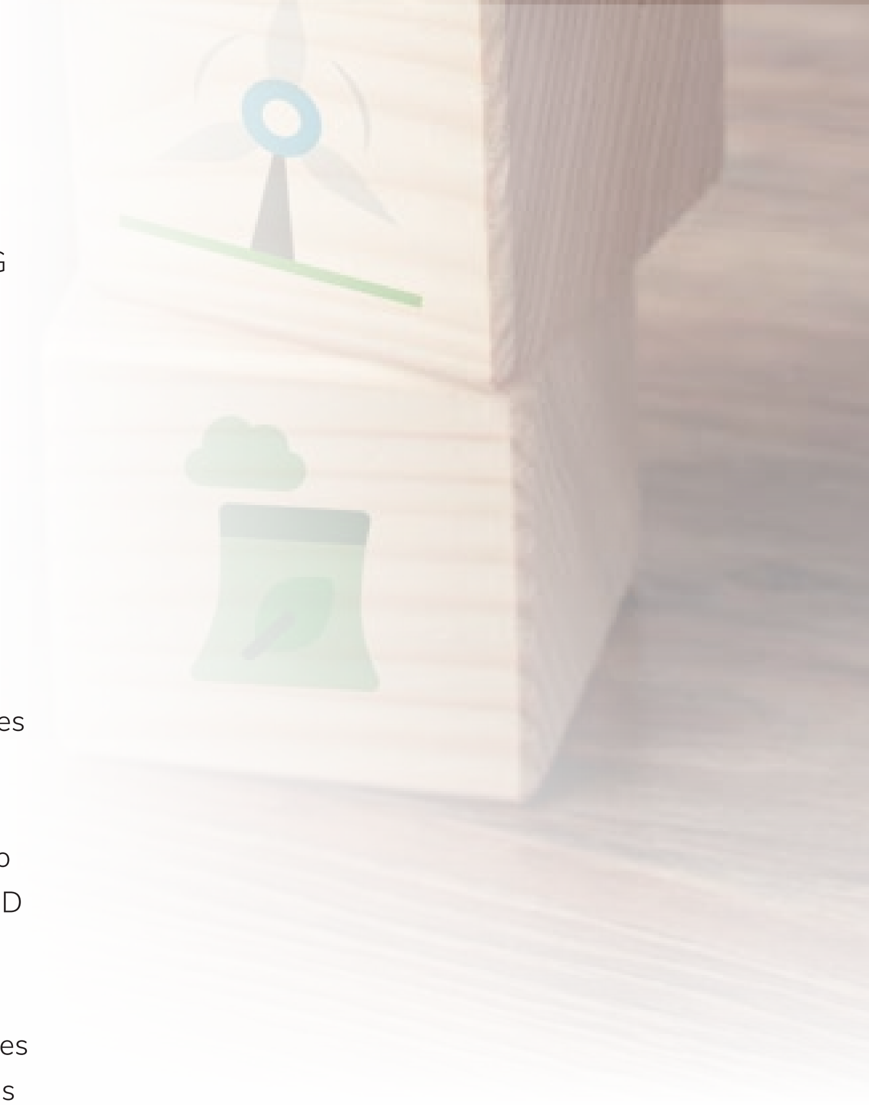
ESG was once the hottest acronym in the busines world. It pushed out the CSR (Corporate Social Responsibility) approach in favour of a more holis view that considers many more aspects of the business, from the carbon footprint as well as the number of women on the board.

ESG introduced the concept that global businesse no longer working on environmental, social and governance issues in a silo. They brought them together to demonstrate the positive impact businesses can have on the world.

ESG did not come from one single source. It wasn sparked by a new law, but was spurred by institu investors and then grew into something of an indu itself.

What companies, investors and stakeholders at la liked about ESG is that it combined all of the thing that could impact a business. From regulatory fau and fines to environmental disasters and social disruption, it provided a singular measure of how a company is able to respond to those challenges short, ESG measured resilience.

CSRD has its roots in the development of ESG principles. Adopting these principles of sustainabi means that corporate strategy focuses on those tl concepts and develops a set of standards to meas their business' impact on society and the environr and how robust and transparent its governance is terms of company leadership, executive pay, audi internal controls and shareholder rights. The goal ESG and now, CSRD, is to capture all the non-fina risks and opportunities inherent in a company's day-to-day activities.



The EU actually already emerged as a leader in ESG with its Non-Financial Reporting Directive (NFRD) which was adopted in 2014. When the NFRD was passed, large European businesses were asked to undertake non-financial reporting on ESG matters for the first time.

Now, CSRD dramatically extends the scope of reporting requirements to tens of thousands of additional companies, including all large companies and all listed companies in the EU. CSRD also applies to large companies not in the EU, but who have an EU subsidiary which meets certain criteria. It is estimated that the number of companies required to report will increase from around 11,000 under NFRD to nearly 50,000 as part of CSRD.

As well as the expansion in the number of companies who must report, what those reports must include is also significantly different.

Companies in scope will need to:

- Create binding sustainability reporting standards that set scope and content
- Integrate sustainability reporting with all required management reporting
- Require the inclusion of taxonomy-aligned data
- Publish all management reports in electronic format, with digitally tagged sustainability data
- Require third-party verification of reported sustainability data
- Establish collective, active management responsibility for sustainability reporting

CSRD: You're more prepared than you think

The thought of implementing a sustainability programme to get ready for CSRD can seem overwhelming at first, but many companies will find that they are already contributing to many aspects of a comprehensive programme.

Do you train on bribery and tax evasion? If so, that is a key factor in reducing the risk of a governance failure. Does your company undertake diversity audits? Or have an employee benefit programme? If so, you're already ahead on the social aspect. Does your organisation have a recycling policy? Do you have energy efficient light bulbs in your office? Then you've already got a head start on the environmental front.

Having a system for energy efficiency, social questionnaires, and governance compliance training are key components of a sustainability programme. So getting started with CSRD compliance can often be more of a reorganisation and reorienting of already existing data.

A sustainability programme can have significant benefits for businesses, and even for smaller firms or professional services companies. Any organisation, no matter their environmental footprint, can undertake a sustainability programme and demonstrate their wider impact.

How to prepare for sustainability reporting

According to KPMG, nearly 80% of the world's largest companies now integrate financial and sustainability data into their annual financial reports. But what goes into sustainability reporting? Ideally it will be a measurable summary of your sustainability efforts over the last year, but also an aspirational look at where the business wants to go.

You can also describe baseline figures and then incremental change over time. For example a first report might quantify total energy consumption, with subsequent reports describing efforts towards energy reduction or switching to renewable sources. So while a year-on-year energy consumption report might not show significant reductions, the report can demonstrate efforts towards long-term sustainability.

Key steps to preparing for a sustainability report

1. Defining roles for the preparation of the report
2. Aligning the report with corporate strategy
3. Engaging stakeholders
4. Identifying and understanding the audience
5. Identifying themes and defining material disclosures
6. Assessing relevance of performance indicators
7. Collecting data for the report
8. Identifying the format and communication channels
9. Consider internal audit and external assurance

Reporting frameworks

Sustainability reporting can seem like a daunting task - especially at the beginning. But in actual fact, compliance dovetails into sustainability reporting in a very meaningful way. Undertaking training on bribery and tax evasion is a key factor in reducing the risk of a governance failure. Diversity audits and progressive HR policies can help with the social side of the score, and even something as simple as a well implemented recycling policy can make a difference when it comes to measuring your environmental impact.

Using a particular sustainability framework can help to guide your reporting processes, showing you where to look, what to measure, and how to communicate it.

The key sustainability reporting frameworks:

Global Reporting Initiative (GRI):

The GRI provides ESG standards that address disclosures of socially material topics affecting a company's stakeholders. It also requires that companies determine the issues that are material in consultation with stakeholders. GRI Sustainability Reporting Standards are the most widely used standards for reporting on sustainability impacts globally.

Sustainability Accounting Standards Board (SASB):

The SASB recommends topics and metrics for 77 different industries across all three pillars of ESG. These standards provide guidance on how organisations can align their reporting with investor needs and how companies gather standardised data.

The Task Force on Climate-related Financial Disclosures (TCFD):

These recommendations, issued in 2017, aim to help financial markets, including lenders, insurers and investors, better assess and price those risks and opportunities.

The Climate Disclosure Standards Board (CDSB):

is an international consortium of business and environmental NGOs that have developed a framework for companies to report environmental and climate change-related information in their corporate financial reporting.

The Carbon Disclosure Project (CDP):

is a UK-based non-profit that runs a global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. Over 8,400 companies, 800 cities and 120 states and regions have reported through CDP on climate change, water security and deforestation.

The United Nations Sustainable Development Goals (SDGs):

This is a collection of 17 goals adopted by the UN member states in 2015 to achieve the 2030 Agenda for Sustainable Development. The SDGs provide a blueprint for countries to achieve a more sustainable future, including ending poverty and hunger, improving health and education, combating climate change and protecting oceans and forests.

UN Principles for Responsible Investment (PRI):

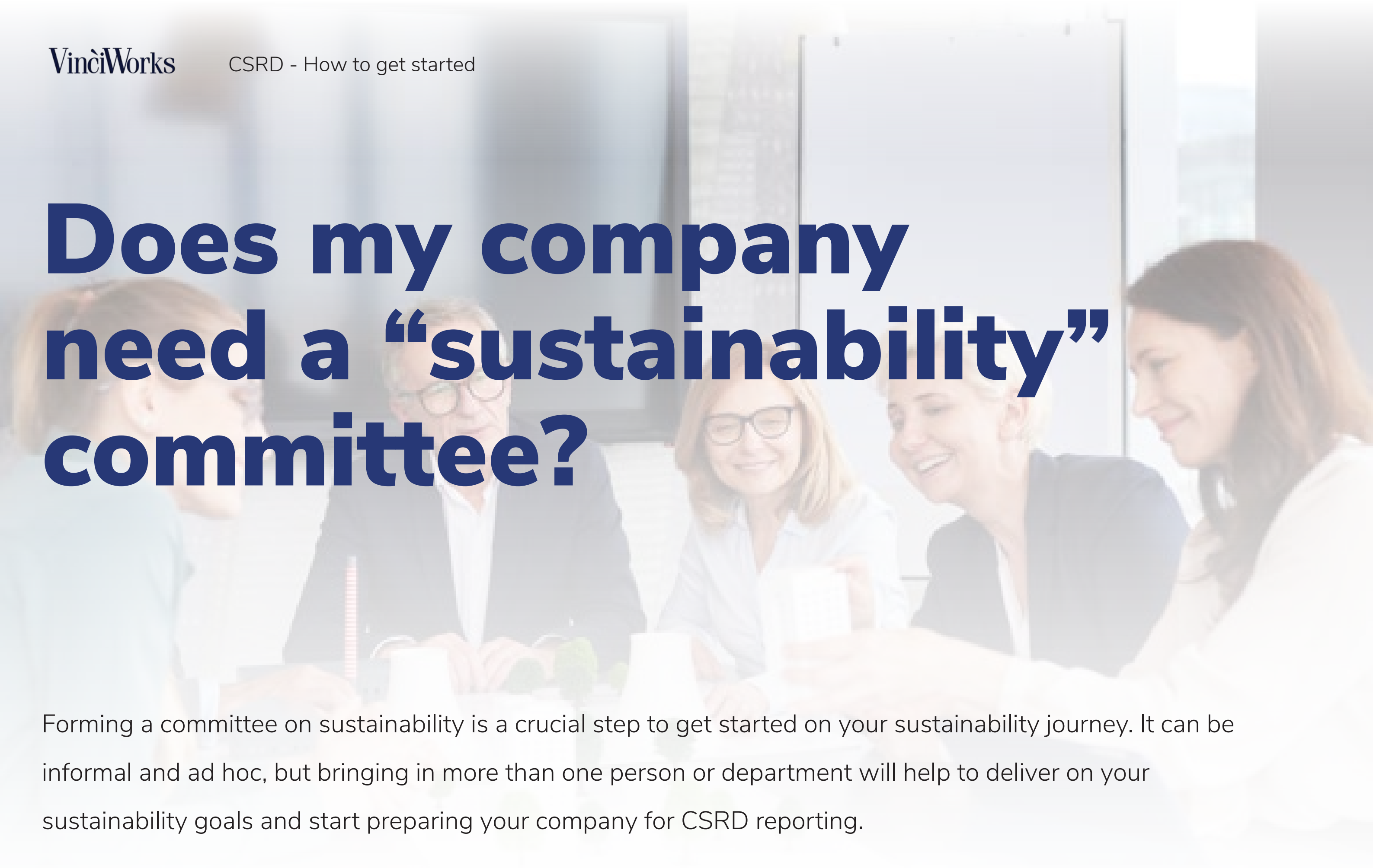
In 2006, the United Nations launched the Principles for Responsible Investment to help investors incorporate ESG factors into their investment and ownership decisions. The international network of investor signatories has grown from 100 to over 2,300, representing over $80 trillion in assets under management.

EU Guidelines on reporting climate-related information:

In June 2019, the European Commission published guidelines on reporting climate-related information. The guidelines aim to give practical recommendations to around 6,000 EU-listed companies, banks and insurance companies that must disclose non-financial information under the Non-Financial Reporting Directive (NFRD).

EU Taxonomy:

The European Commission's Technical Expert Group on sustainable finance (TEG) has developed a classification system, or taxonomy, for environmentally-sustainable economic activities. The group screens activities across a wide range of sectors, including energy, transport, agriculture, manufacturing and real estate and identified low-carbon activities such as zero-emissions transport but also transition activities like iron and steel manufacturing.



Does my company need a "sustainability" committee?

Forming a committee on sustainability is a crucial step to get started on your sustainability journey. It can be informal and ad hoc, but bringing in more than one person or department will help to deliver on your sustainability goals and start preparing your company for CSRD reporting.

A strong sustainability committee consists of executive leadership, budget decision makers, and middle and back office stakeholders. A committee would often be chaired or led by a designated sustainability specialist. Using the committee structure for decision making helps ensure a coordinated sustainability integration effort and generate broad-based support for the sustainability programme.

The committee will ideally sit **directly beneath** board level in terms of seniority. The sustainability committee should be able to gather and review data from broad parts of the business, then filter and summarise it upwards to the board. The sustainability committee will likely be responsible for writing the sustainability pages inside the annual report, or producing a separate sustainability report which includes material disclosures.

Key objectives of a corporate sustainability committee:

- Emphasise importance of environmental measures, sustainability goals and performance, at all levels of the business.
- Provide best practice on the structure, policies and regulations that impact the business
- Increase understanding and awareness of corporate governance and social aspects that impact the industry
- Implement and promote common and workable standards of corporate governance for the business

Five steps to sustainability committee success:

1. Treat the sustainability committee like other board committees with schedules, rights and functions. Use agendas and record minutes.

2. Be deliberate with the committee composition and train committee members in sustainability awareness issues. Try to seek out members who can contribute positively to the committee's work.

3. Focus on sustainability risks and opportunities, including material and non-material sustainability risks

4. Set a committee reporting structure including what should be reported to the board and when. Be sure the committee can gather the information it needs

5. Decide on outcomes and measurements such as annual report pages. Be sure to develop measures around sustainability integration into the wider business and communicate the committee's work.

Sustainability programmes: What are the drivers?

Beyond mandated reporting, there are a number of reasons to begin the process of implementing a sustainability programme. Your business might be looking for investment or might want to attract the best talent as an employer of choice. Whatever the reason and no matter the size and scope of your business, implementing a sustainability programme means that you can be prepared for whatever driver requires you to make a report or a disclosure.

Stakeholder expectation

The world is demanding more visibility over the value chain, from where products are sourced to the welfare of those involved in making, shipping and packing them. Consumer decisions are increasingly led by ethical concerns. Failure to hear those concerns and respond to them can significantly dent customer loyalty and lead to long term risks.

Competitive advantage

Leading by example is a key part of maintaining a strong market position and being an industry leader. Evidence of ethical considerations in the value chain can sway major purchasing decisions. Businesses have the opportunity not just to react to supply or demand shifts, but to actively influence third parties and create positive change throughout the value chain.

Investors

Institutional investors have growing expectations for ESG to be integrated across the business. Long-term returns, reputational management and decreased risk are key features which are driving external ESG investment.

Regulators

Regulators around the world, from the SEC in the US to the Securities and Futures Commission of Hong Kong are taking concerted actions to expedite green financing and wider sustainability reporting. The UK requires TCFD disclosures for large companies while stock exchanges are making concerted efforts to encourage disclosures.

Consumers

Consumer demand is affecting the corporate bottom line. Consumers are increasingly expecting sustainability practices, from good environmental awareness to actions against modern slavery. Younger generations are also seen as willing to pay more for socially responsible products and services.

Media

Reputational damage can have a significant impact on a company. Sustainability issues cut across most potential areas of reputational damage. This could include child labour in the supply chain or series governance breaches like bribery or tax avoidance scandals.

Employees

Employee attraction, retention, engagement and productivity can be significantly impacted by sustainability issues. Younger generations are actively looking for companies to work for who share their values. Up to three quarters of people under 40 actively consider a company's sustainability commitments before deciding to work there.

Supplier assessments

More large businesses are being required to report on sustainability. As part of a larger company's supply chain, a smaller business may need to report on various sustainability issues 'up' the supply chain towards the larger company. For example, a larger company might need to ensure all its suppliers pay a living wage, and your business may need to report on that.

Supplier risk

Supply chains can often be complex and difficult to understand. Many layers of suppliers and reliance on trust and third parties can expose us to risks of non compliance, fines and inefficiencies. Shifting this mindset to a collaborative value network is crucial to business continuity, reducing ethical violations and ensuring long term sustainability.

Operational efficiency

Reducing waste and inefficiencies are key hallmarks of well managed businesses. Fair treatment of suppliers and third parties means a greater output and enhanced productivity due to higher quality and better relationships. When supply chains are squeezed, customers and companies prefer to deal with strong relationships they know will weather storms.

Practical steps to do now for CSRD:

- Start by assessing the double materiality of your sustainability topics and check that they align with the proposed CSRD framework
- Keep your eye on CSRD reporting standards released in mid-2023 so you can apply them to your preparation work
- Start talking to a third-party assurance provider - CSRD mandates limited assurance by a third party
- Measure your baseline environmental KPIs and start monitoring your progress
- Assess social considerations in your value chain
- Set clear environmental reduction targets and targets on how to improve the social aspects of your business
- Assess your environmental, economic, and social impacts and start monitoring your progress

Approaches to sustainability reporting

There are a number of ways to demonstrate a company's sustainability impact. These could include types of expenditure, how investments are financed, and the wider impact of the sustainability efforts on the business. A company wants to demonstrate that the information they present is rigorous and as up to an auditable and traceable standard as any other material disclosure.

There are different types of methodology that can be used, depending upon your industry and business.

Some examples:

Best in class

This approach measures the businesses efforts on an aspect of sustainability as it contrasts to others within that category or industry. Often the analysis will be conducted by outside experts or an external ratings agency, for example a logistics provider demonstrating they have the least emissions per mile within their industry.

Ethical Exclusions

This considers what a business doesn't invest in or doesn't do, in comparison to its peers. A business might actively refuse to invest in tobacco or weapons for example, or not do business with suppliers who engage in poor labour practices. Value and ethical-based exclusions can demonstrate how a business is using its impact for a wider good by not perpetuating environmental degradation or human rights abuses.

Sustainability-themed

This focuses on engaging in sustainability-themed work that addresses social and environmental concerns. Suppliers could be screened to ensure sustainability, with the business focusing on responsibly-sourced materials, certifying its products as fair trade and ensuring a living wage is paid throughout its supply chain.

Norms-based screening

This takes any potential investments or key partners and screens them for compliance with sustainability standards and norms. For example, an investment house might decide it will only invest in a business which has signed up to certain sustainability reporting frameworks, or is committed to responsible business, good governance, and sustainability.

Impact investment

This approach is about actively investing into companies and organisations who generate a social or environmental good, alongside a financial return. Impact investing could range from micro-finance in developing nations to supporting social enterprises, for example sourcing office catering from an organisation that employs disabled people which makes a positive impact in the community.

Sustainability integration

This is where sustainability efforts are explicitly integrated into financial and risk analysis. This strategy considers the wider sustainability impact of all spending, and assesses it alongside existing criteria. For example all potential suppliers would undertake a sustainability screening process, reporting on their greenhouse gas emissions as well as commitment to a living wage and good governance.

CRSD’s tech requirements: Get your systems ready

Companies will be required to prepare their CSRD report in XHTML format. The reported information has to be easily accessible to investors and other stakeholders in the European Single Access Point (ESAP) database.

Companies will have to ‘tag’ their reported sustainability information according to a new digital categorization system. This system is under development and will be announced together with the two sets of Reporting standards.

CSRD will have to be reported on in the management report rather than a separate sustainability report. This means financial and sustainability information will be disclosed at the same time. Companies also need to tag their sustainability information digitally to make it available in the upcoming ESAP database.

Tracking data

Measuring the effectiveness of a sustainability programme forms the backbone of a sustainability report or pages within an annual report. Data collection is of critical importance. Understanding the information which needs to be collected and bringing it into a central dashboard will make sustainability reporting significantly easier.

VinciWorks' sustainability and ESG training suite

By providing your team with comprehensive sustainability training, you empower them to become change agents within your organisation. Our sustainability courses go beyond mere theoretical knowledge; they delve into practical strategies and actionable insights that can be implemented across departments and levels. From understanding the principles of sustainable development to integrating sustainability into daily operations, our training equips your staff to identify opportunities for positive change, drive efficiency, and foster innovation.

Our courses

- ESG: The Basics
- ESG: Fundamentals
- Climate Change
- ESG: Practical Applications
- What is Sustainability?
- Eco-driving
- Saving Energy and Water
- Pollution
- Working Towards Zero Waste
- Non-Recyclable Waste

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Proud member of the VinciWorks Group incorporating:

Skill Boosters EssentialSkillz DeltaNet Compliance Office

Contact us

www.vinciworks.com
enquiries@vinciworks.com
+44 (0) 208 815 9308