CS Campana Schott

Corporate Sustainability Reporting Directive.

What companies need to know now.

The Corporate Sustainability Reporting Directive (CSRD) of the European Union (EU) heralds a new era for our economy. The aim: to expand and standardize European sustainability reporting. In the process, the CSR Directive Implementation Act (CSR-RUG) from 2017 will be completely updated. As a result, non-financial issues will become an integral part of corporate disclosure practices. Accordingly, sustainability will be raised to the same level as financial reporting.

> For a long time, sustainability was something that companies did on a strictly voluntary basis. However, the sustainable transformation is increasingly becoming an imperative for all businesses. And now there is also regulatory clarity: soon, the EU will have uniform standards that will set out the manner in which sustainability must be reported.

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Read more in this Fact Sheet:

1. Is my company affected?
2. What do I have to report?
3. How does the reporting process work?
4. How do I create the right conditions?

Consult our Fact Sheet to discover what it means for your company, and how your IT department can play its part to ensure mostly automatic compliance with the requirements.

What was approved?

The Corporate Sustainability Reporting Directive went into force in 2023; it sets out extensive new reporting requirements for companies in the European Union. It replaces the current Non-Financial Reporting Directive (NFRD). In addition to the CSRD, the European Sustainability Reporting Standards (ESRS) set out the type of information that must be reported and which data must be collected for this purpose.

Why was it published?

The CSRD is part of the European Green Deal, and it is supposed to provide transparency about the business practices of companies and their impact on people and the environment. It ensures that investors and customers are able to access reliable and comparable information. As a consequence, the business models of the companies are supposed to be adapted in order to achieve the climate protection targets for 2050.

What are the consequences?

The CSRD supplements the current mandatory financial reporting process and expands the scope of the reporting obligations. To comply with the new requirements, most EU companies must quickly create structures for accurately collecting the required data and processing it into information. Particularly IT departments will be required to fundamentally revise their data strategy.

1. Is my company affected?

The reporting obligation applies in accordance with the illustration below for the previous financial year, beginning with 2024. The reports must be submitted for an external audit with limited assurance.

Other than the companies that meet the aforementioned criteria, many other companies will be indirectly affected by the reporting requirement. Every company that is required to report must collect comprehensive data about its entire value chain (upstream and downstream), which means that their business partners, supplier firms etc. will also have to provide this information in the future.
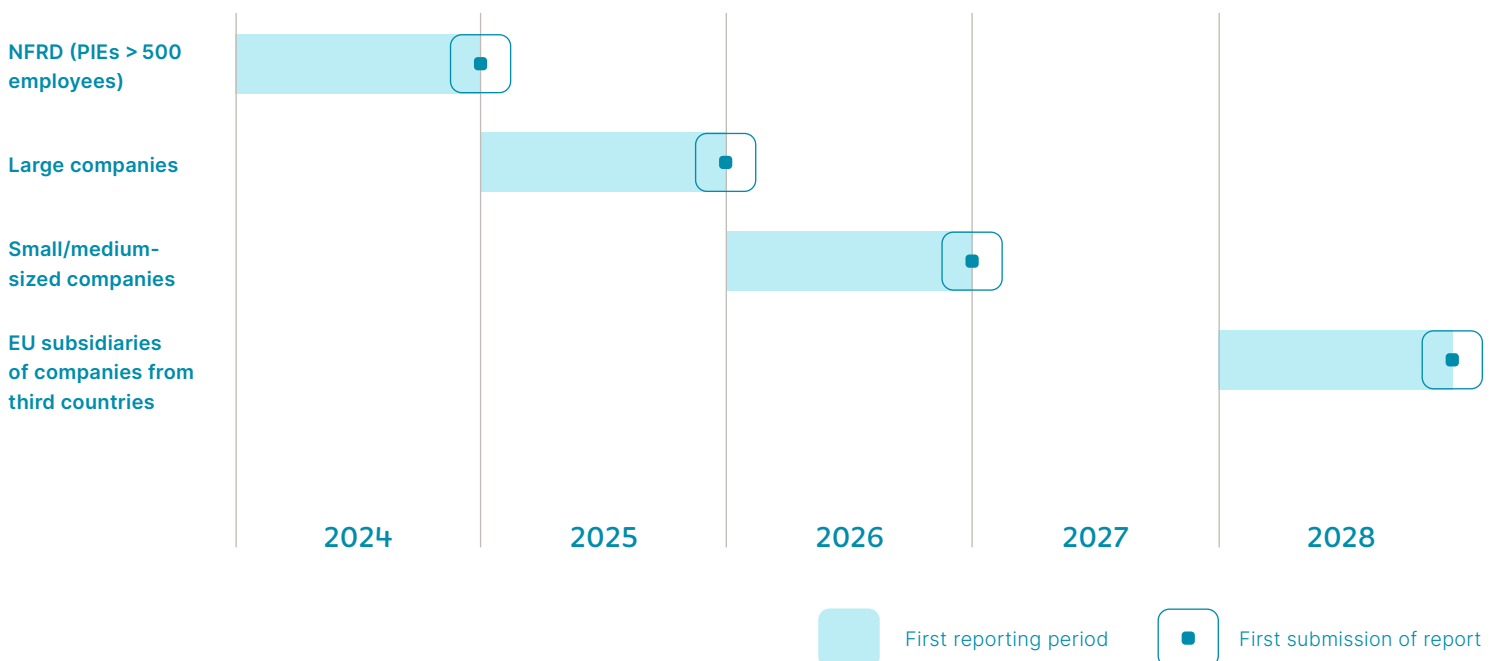
Consequences of breaches

If a company that is required to report breaches the CSRD, it must expect fines and a public statement that names the natural persons and legal entities responsible for the breach. The amount of the fine is set by the EU member state; the amount for Germany is not known at this time. It is expected that it will be similar to breaches of the General Data Protection Regulation, where fines in the amount of 4 % of global annual sales or EUR 20 million may be imposed.

The following companies fall under the new reporting obligations:

- Companies that are already subject to the Non-Financial Reporting Directive; so-called "Public-Interest Entities (PIEs)"
- Large companies, i.e. companies that meet two of the three criteria below:
  - > 250 employees
  - > EUR 50 million in sales revenues
  - > EUR 25 million in total assets
- Listed SMEs, with the exception of very small companies[1]
- Companies with parent companies from third countries, which generated total group sales of more than EUR 150 million in the EU over two consecutive years

[1] Very small companies are companies that do not exceed two of the three size characteristics: 10 employees; total assets of EUR 350,000; net sales revenues of EUR 700,000
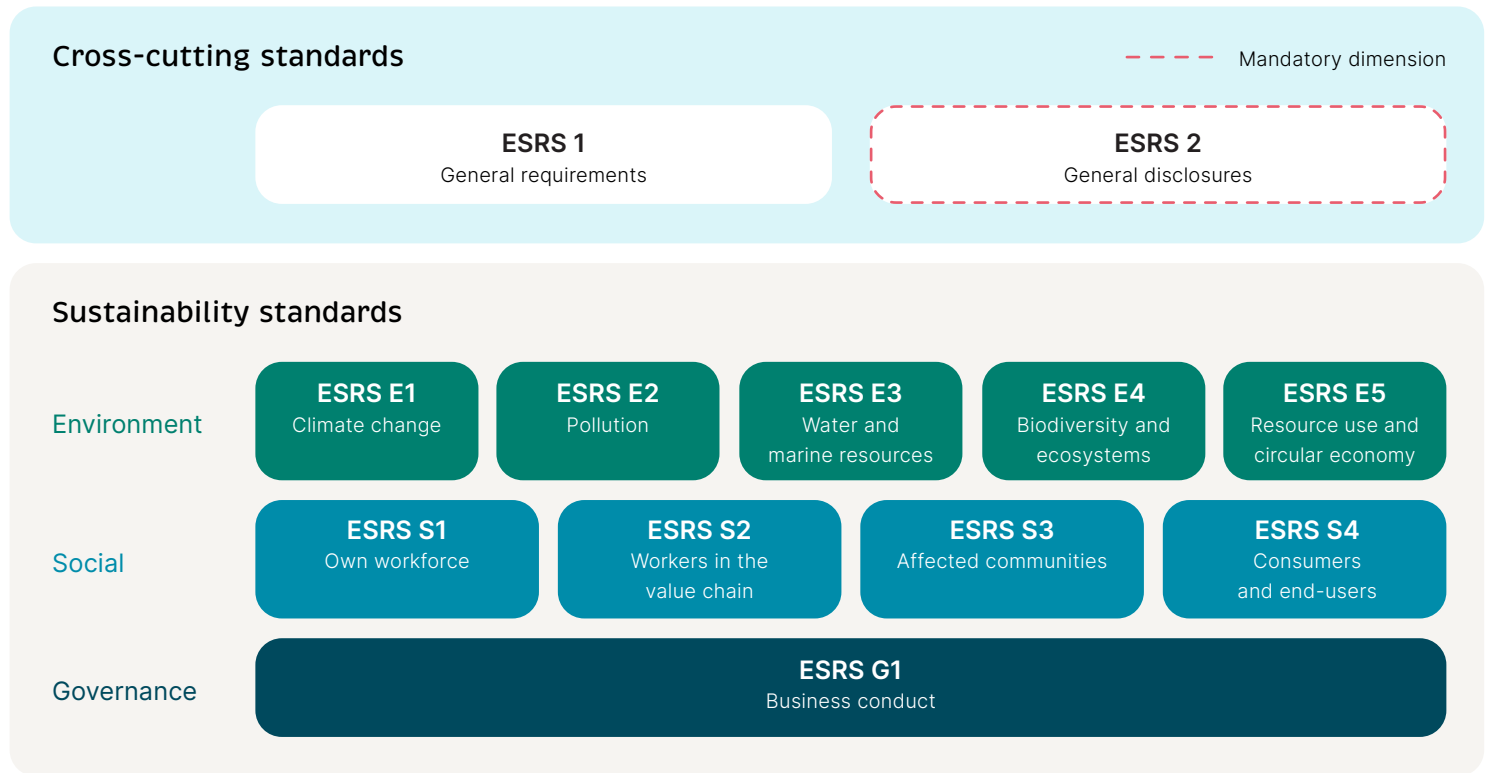
Start of reporting requirement, by type of company:

	2024	2025	2026	2027	2028
NFRD (PIEs > 500 employees)					
Large companies					
Small/medium-sized companies					
EU subsidiaries of companies from third countries					

First reporting period   First submission of report

2. What has to be reported?

The ESRS detail which information must be reported according to the CSRD. They are organized into general areas (so-called cross-cutting standards) as well as thematic sustainability dimensions. While the cross-cutting standards specify the general reporting requirements, the sustainability standards define the specific ESG-related data that must be reported.
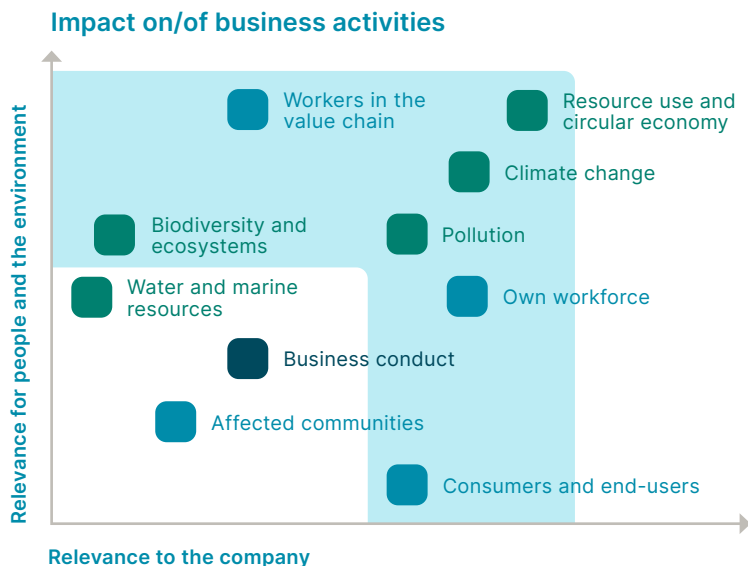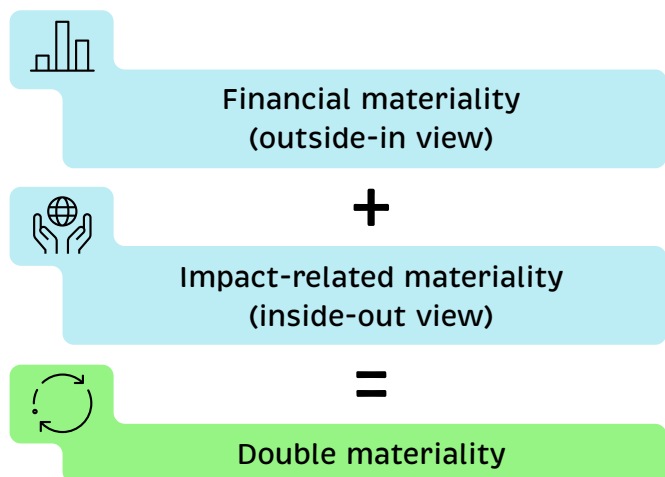
Companies use a double materiality analysis to identify the standards that are required for reporting purposes. In the first year of the reporting obligation, companies are exempt from reporting certain information this applies even more so to companies with less than 750 employees. The purpose of this gradual introduction phase is to ease companies into the reporting process.

Cross-cutting standards

— — — Mandatory dimension

ESRS 1
General requirements

ESRS 2
General disclosures

Sustainability standards

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
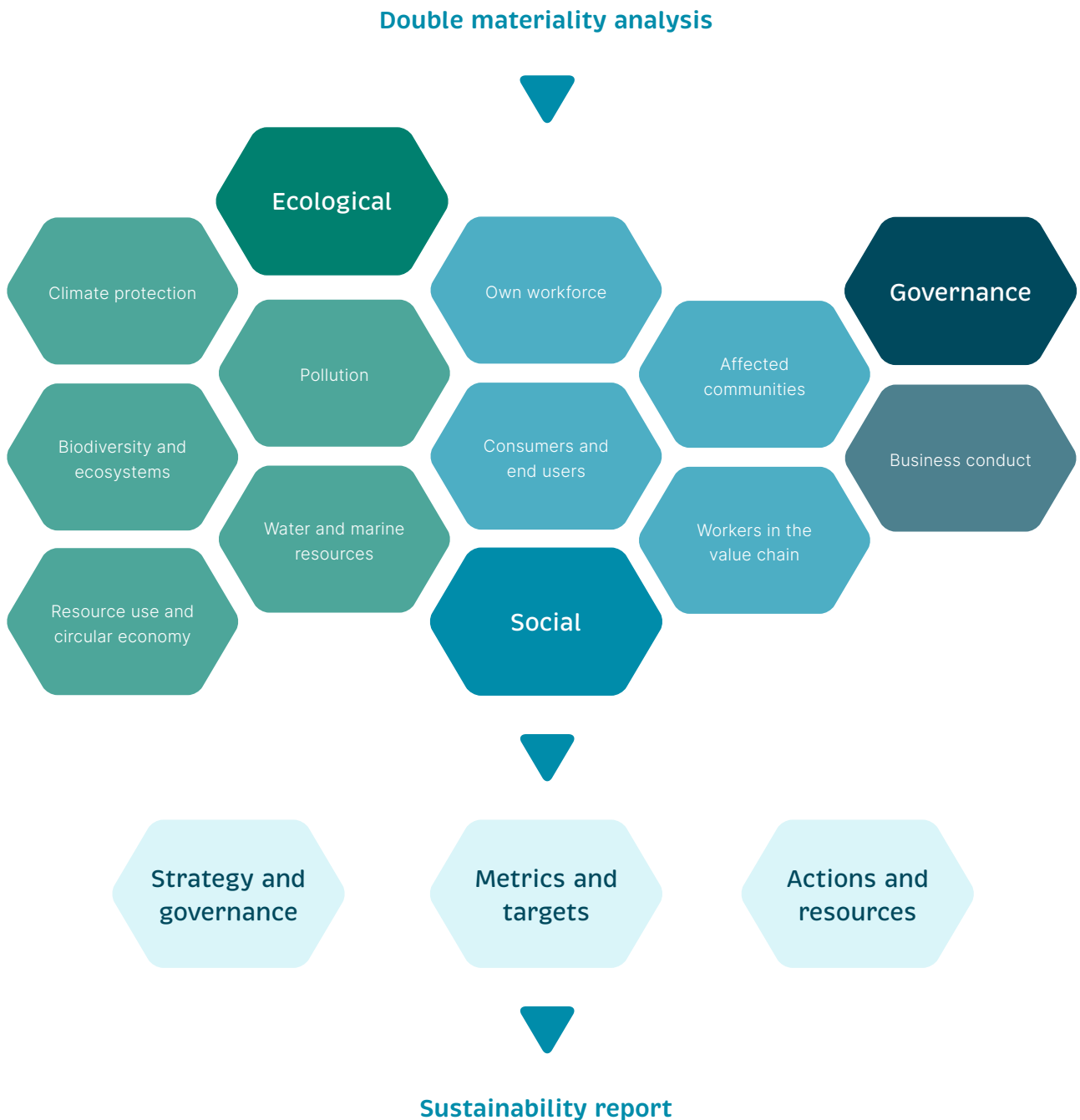Business conduct

Double materiality analysis:
Companies use a so-called double materiality analysis to evaluate which sustainability dimensions are relevant to them and must be reported. On the one hand, double materiality means the impact of environmental factors

on the business model and the success of the company ("outside-in", financial materiality); on the other hand, it also refers to the impact of the company's actions on people and the environment ("inside-out", impact-related materiality).

**Financial materiality
(outside-in view)**

+

**Impact-related materiality
(inside-out view)**

=

Double materiality

Impact on/of business activities

Relevance for people and the environment

- Workers in the value chain
- Resource use and circular economy
- Climate change
- Biodiversity and ecosystems
- Pollution
- Water and marine resources
- Own workforce
- Business conduct
- Affected communities
- Consumers and end-users

Relevance to the company

3. How does the reporting process work?

Double materiality analysis

Ecological

Climate protection

Pollution

Biodiversity and ecosystems

Water and marine resources

Resource use and circular economy

Own workforce

Consumers and end users

Social

Affected communities

Workers in the value chain

Governance

Business conduct

Strategy and governance

Metrics and targets

Actions and resources

Sustainability report

4. How do I create the right conditions?

1. Collect sustainability data

A well thought out Green Data Strategy is required for the systematic collection and preparation of data that is required for reporting purposes. It combines your sustainability strategy with a clear concept for the effective collection, harmonization, calculation, storage and use of company-wide sustainability data.

Extrapolation of key indicators that must be reported

• Extrapolation of the requirements from the Green Data Strategy • Analysis of current situation	• Extrapolation of metrics that must be reported • Identification of the required data	• Introduction of data management processes • Implementation of the data pipeline and integration

Advantages

- Ensures a high degree of trust in the data
- Increases the analytical level of maturity
- Ensures the operation and maintenance of data management as a line function

2. Calculate sustainability indicators

The correct processing of the sustainability data and the calculation of the indicators are essential for reporting in the context of the CSRD. Specialized tools are particularly useful for calculating GHG emissions based on consumption data and emission factors.

PowerBI Dashboard	Sustainability manager	Cloud for sustainability
• Individual configuration • Simple set-up and administration	• Turnkey solution to make sure you are prepared for any challenge • Effective tools for calculation, monitoring and reporting	• Integration of the Sustainability Manager into the Azure Cloud • Integrated IT infrastructure for your company

3. Optimize sustainability performance

The indicators that are calculated provide important insights for formulating the sustainability strategy. This information can be used to identify potential reductions and opportunities for increasing efficiency. In this way, the progress of projects for achieving the sustainability targets can also be tracked and reported according to the relevant sustainability-related key performance indicators (KPIs).

4. Prepare the sustainability report

Once all of the relevant data has been made available on a centralized basis, the report is prepared after the end of the financial year. Turnkey solutions such as the Microsoft Sustainability Manager make the process easier by offering configurable data exports. Additionally, some of the qualitative reporting dimensions require explanations in text form.

Finally, the report must be submitted for an external audit with limited assurance. A successful audit requires the transparent documentation of the processes that are used to obtain the reported data.

Example

Company X has 500 employees and total assets of EUR 55 million. A report pursuant to ESRS must be submitted as of 2024.

▼

For the report, company X must collect data about the emissions from its production locations and the business trips taken by employees (GHG Scope 1-3). By introducing a Green Data Strategy, it creates the required processes, the ERP system adjustment and a data architecture for collecting this data.

▼

With the help of the MS Sustainability Manager, company X processes the Cloud data on a centralized basis and in real time. Using the relevant emission factors (e.g. for air travel), it also calculates the resulting GHG emissions in the tool.

▼

Company X has set reduction goals and obtains accurate information about its KPIs and target attainment in the tool's dashboard. This enables data-based management of the sustainability activities.

➕

Company X exports the calculated indicators in the format specified by the ESRS, and also uses them for the annual sustainability report. The report is then submitted to the European delivery point.

Outlook: CSRD .... the big picture

In discussing the CSRD, the European Commission itself notes that reporting is not the only thing that matters. Instead, the new reporting requirements are a first step towards an economy that depicts its impact on the environment and social matters in a way that is comparable and uniform.

Companies must assess their business model and transform it if necessary, in order to stay competitive. In the medium term, sustainability will become the main criterion for business success (re: obtaining financing from investors, the requirements of customers, the recruitment of staff, or avoiding the need to purchase expensive emission rights).

With these key steps, your company is prepared for a sustainable future:

Identify your development potential
Every company has a multitude of starting points for reducing emissions and optimizing processes. By using environmental accounting (Life Cycle Assessment), you can identify the most effective levers for your sustainable transformation.

Set reduction goals
Frameworks such as the Science Based Targets Initiative make it easier to define measurable quantitative targets. They are essential to achieving business sustainability.

Plan concrete reduction measures
Transfer your sustainability objectives into your project portfolio with the help of governance structures and modern portfolio management.

Track and manage the performance of your projects
The CS Sustainability Tracking Planner (based on SharePoint) provides you with the best possible overview and options for managing your projects

Become a beacon of change
Empower your managers and employees with target-group-appropriate change management and communication concepts. Include your employees in the sustainable transformation journey and benefit from the ideas that are generated in your community.

Cheat Sheet: ESRS Quantitative Metrics (excerpt)

Metric	Unit
Climate change	
• Fuel consumption from non-renewable sources • Fuel consumption from renewable sources	MWh
• Energy intensity associated with business activities	MWh per net revenue
• Gross Scope 1-3 GHG Emissions • Total emissions • GHG reductions, removals and storage • Approximate GHG emissions (Scope 1–3) covered by internal carbon pricing schemes	$ktCO_2eq$
• GHG emissions intensity	$ktCO_2eq$ per net revenue
Pollution	
Priority substances, i. a.: • Nitrates, Phosphates, Pesticides • Ozone-depleting substances • Microplastics • SO2 • NOX • NMVOC • Fine particulate matter • Heavy metals	metric tons or kg
Water and marine resources	
• Total water consumption • Total water consumption in areas at material water risk and high-water stress • Total water recycled and reused • Total water stored and changes in storage	m^3
Biodiversity and eco-systems	
• Number and area of sites owned, leased or managed in or near negatively affected biodiversity-sensitive areas • Total use of land • Total sealed area • Total nature-oriented area on and off site	m^2 or ha

Metric	Unit
Own workforce	
• Total number of employees, breakdowns by gender, country and employment status	#
• Total number and rate of employee turnover	
• Total number of non-employee workers	
• Number of fatalities as a result of work-related injuries and work-related ill health	
• Number and rate of of recordable work-related accidents	
• Number of cases of recordable work-related ill health	
• Number of days lost to work-related injuries and fatalities from work-related accidents, work-related ill health and fatalities from ill-health	
• Total number of incidents of discrimination	
• Number of complaints filed through channels to raise concern	
• Total amount of material fines, penalties and compensation for damages as a result of violations regarding social and human rights factors	
• Number of severe human rights issues and incidents connected to workforce	
• Percentage of total employees covered by collective bargaining agreements	%
• Global percentage of employees covered by worker's representatives	
• Gender distribution in number and percentage at top management level	#, %
• Distribution of employees by age group	
• Percentage of own workforce paid below the adequate wage, broken down for employees and non-employee workers	%
• Percentage of workers covered by social protection against loss of income due to major life events	
• Percentage of persons with disabilities amongst employees broken down by gender	
• Percentage of employees that participate in regular performance and career development reviews, broken down by employee category and gender	
• Percentage of own workers covered by health and safety management system	
• Percentage of workers entitled to take family-related leaves	
• Percentage of entitled employees that took family-related leaves, broken down by gender	
• Average hours of training hours per person by employee category and gender	hours
• Male-female pay gap	
• Ratio of annual total compensation of highest paid individual to median annual total compensation for all employees	

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Metric	Unit
Resource use and circular economy	
● Total weight and percentage of renewable input materials from regenerative sources used to manufacture products and services	metric tons
● Total weight and percentage of reused or recycled products and materials used to manufacture products and services	
● Electronics & ICT	
● Batteries & vehicles	
● Packaging	
● Plastics	
● Textiles	
● Construction and buildings	
● Food, water, nutrients	
● Total weight and percentage of materials that come out of product and service production processes that have been designed along circular principles	metric tons
● Total amount of waste generated	
● Preparation for reuse	
● Recycling	
● The total amount and percentage of non-recycled waste	
● Total amount of hazardous waste and radioactive waste generated	
● Quantification of potential financial effects of material risks and opportunities arising from resource use and circular economy-related impacts	€
Business conduct	
● Total number and nature of confirmed incidents of corruption and bribery	#
● Number of convictions and amount of fines for violation of anti-corruption and anti-bribery laws	
● Number of confirmed incidents in which own workers were dismissed or disciplined for corruption or bribery related incidents	
● Number of confirmed incidents relating to contracts with business partners that were terminated or not renewed due to violations related to corruption or bribery	
● Number of legal proceedings for late payments	
● Total monetary value of financial and in-kind political contributions, by country or area and type of beneficiary	€
● Average time the company takes to pay an invoice	# of days