

# CSRD: from obligation to opportunity?

Some time ago, the European Union (EU) set out a firm ambition to be the first continent to become climate neutral and fully circular. The overarching plan to fulfil these ambitions is the European Green Deal. Policy measures in areas such as green energy, sustainable industry, sustainable financing and safeguarding human rights have been hung on this banner.

The Corporate Sustainability Reporting Directive (CSRD) is one of these measures, which came into force on 5 January 2023 and will play an important role in accelerating the transition to a sustainable European economy in the coming years.

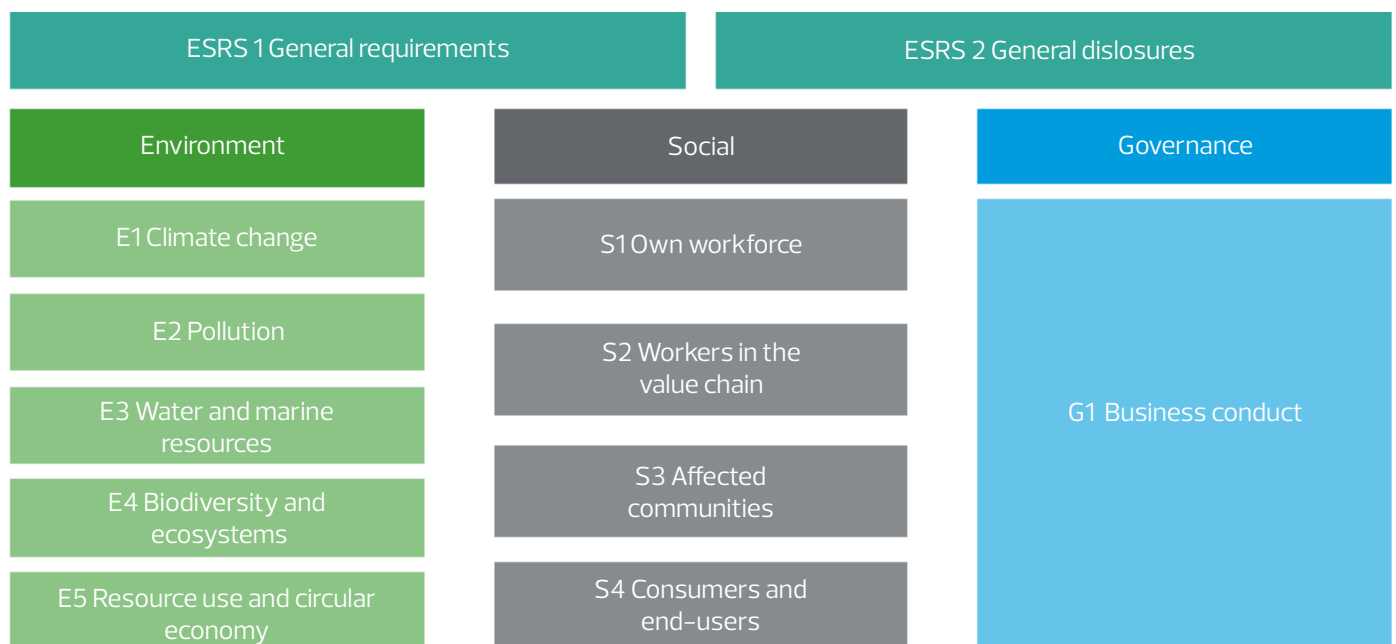
There has been talk for some time about how companies should deal with current and upcoming ESG legislation including the CSRD. Companies deal with the application of CSRD in their own way. In view of the approaching deadline of 1 January 2025 for large sized organisations (given that reporting will be required for the whole of 2025), there is suddenly only a (small) year to go. In our experience, by 2023, many companies will already have taken the first steps to shape the ESG journey, in particular the CSRD.

## INTRODUCTION OF THE CSRD

The CSRD requires large companies within the EU to disclose the impact they have on people, the environment and society, the risks and opportunities this poses to the company and how it addresses these risks. All this should be summarised in a report that provides clear information to its stakeholders.

In July 2023, the EU adopted the specific requirements to meet the reporting obligations, the European Sustainability Reporting Standards (ESRS). These standards consist of 2 generic standards with general requirements and 10 topical standards with specific topics. This provides companies with a framework for the topics they must report on and instructions on how to do so.

The reporting requirements in the ESRS are categorised by Governance (GOV), Strategy (SBM), Impact, risk and opportunity management (IRO) and Measures and targets (MT). See below for an abbreviated view.



## IMPACT ON BUSINESSES; THE COUNTDOWN HAS BEGUN

Listed companies covered by the Non-Financial Reporting Directive (NFRD) must comply with CSRD requirements from the 2024 financial year. This information must be included in the 2024 management report to be published in 2025. Listed SMEs are exempt from the CSRD until the 2026 financial year.

### Large companies

Large companies will be subject to the CSRD from 2025. This means that information as required by the CSRD must be included in the 2025 management report, to be published in 2026. A company is large if it meets at least two of the three criteria below: a) more than 250 employees, b) more than €50 million in annual turnover, and/or c) more than €25 million in assets on its balance sheet.

Since reporting is due for the 2025 financial year, large companies will have to be ready with preparations for the CSRD by 1 January 2025. Many companies have practical support needed. It is therefore wise to start understanding your company's situation and the steps you still need to take to report in line with the CSRD as soon as possible.

### Medium-sized and small enterprises

The CSRD indirectly impacts SMEs. They are exempt from the CSRD until (at least) financial year 2026. However, due to chain effects, they will have to deal with the CSRD. Large companies will be required to report on their own value chain. As many SMEs are suppliers and/or buyers of larger companies, they will face increased ESG data requests regarding, for instance, business operations and activities. As a result, medium-sized and smaller companies will have to act faster than the law requires of them.

## OPPORTUNITIES FROM FURTHER SUSTAINABILITY

At first glance, the CSRD appears to be just a reporting requirement through which companies inform their stakeholders about sustainability performance. However, the obligation is broader in scope; companies are expected to think (in a more structured way) about the impact they have on people, the environment and society. This involves identifying risks, formulating objectives and reporting on ESG performance.

The CSRD offers an opportunity for companies to (further) become more sustainable and future-proof their operations. A focus on ESG offers opportunities to companies. Also, several scientific studies show that companies with good ESG performance came through the COVID-19 crisis better than less sustainable companies. By embracing CSRD and becoming transparent about ESG initiatives, companies can create more non-financial as well as financial value. This can be explained by the four effects below:

### 1. Identifying and preparing for ESG risks

The transition to a sustainable and inclusive economy is causing major changes in government policy, regulation, technology, markets and stakeholder expectations. These changes create risks, such as rising costs due to taxation on carbon emissions, competition from more sustainable technologies and shifts in supply and demand based on climate risks or stakeholder expectations. The CSRD requires companies to identify ESG risks so that companies can prepare for them and minimise their (financial) impact. By starting this process in a timely manner, companies are not taken by surprise and higher costs are avoided.

### 2. Identify and exploit sustainability opportunities and cost savings

Companies need to understand performance such as energy consumption and resource efficiency. This requires investment on the one hand but also offers a concrete opportunity to increase operational efficiency that can save costs, or short-term investments with long-term returns.

### 3. Boosting business growth

Companies are required to develop targets that improve ESG performance. Good ESG performance can facilitate growth because it helps to tap new markets and expand. Companies with a strong ESG proposition attract customers with their sustainable products and services, recruit employees more easily and have better relationships with social stakeholders.

### 4. Improving corporate reputation

Society is setting ever-higher expectations on sustainability, making reputation more dependent on your ESG performance. Embracing CSRD helps with improving and effectively communicating this performance which positively affects corporate reputation.

## WHAT SHOULD BE REPORTED ON?

The CSRD requires companies to report on environmental, social and governance themes. The ESRS elaborates on these themes with concrete instructions on how to report on them. Not all ESG themes are equally important for every company.

Reporting should indicate which themes are relevant and why. Only for the topic of climate change should it be stated when they are considered not relevant.

Which external risks are relevant to a company and what impact a company has on society and the environment depends on the sector, activities, location and local legislation.

Therefore, the CSRD requires companies to comprehensively investigate the importance of ESG topics for their business. For this, a company must conduct a stakeholder and dual materiality analysis.

### **Stakeholder analysis**

As part of Sustainability Due Diligence, every company must conduct a stakeholder analysis. Sustainability Due Diligence is the process by which companies identify, prevent, mitigate actual and potential negative impacts on the environment, society and people, and account for how they deal with them.

A stakeholder or interested party of a company is a party or individual who can influence a company or be influenced by the company can be affected. Examples include shareholders, customers, suppliers, employees, financial institutions, investors or the surrounding community.

The CSRD requires companies to consider the impact on, and wishes of, stakeholders. On the one hand, this leads to insight into possible risks and opportunities for the organisation; on the other, it makes companies aware of the impact they have on stakeholders.

### **Double materiality**

Double materiality means that companies need to approach ESG from two different perspectives. Through an "inside-out analysis", they define the impact made by their own activities or in their supply chain have on the environment and society. "Outside-in" analysis is used to interpret external developments and their impact on company performance.

### **ESG themes**

Based on the results of the stakeholder and double materiality analysis, companies gain insight into topics that are relevant to them. For each theme, companies are expected to provide information on the policy, the goals set, the action plans and the resources they allocate to implement them. Progress is then measured and reported on the basis of several indicators per theme.



## DE ESG JOURNEY

The CSRD brings companies into an accelerated awareness process of how to deal with sustainability. The CSRD report is the end product of big and small changes that need to be made to make the business model and deal with stakeholders more sustainable. Successful sustainability is linked to a strong belief in the added value of sustainability. When the sustainability vision is intrinsically motivated, the likelihood of a successful implementation that will have a positive impact on the business is higher than when focusing only on compliance.

RSM has developed a process consisting of six steps you can follow to meet the requirements of the CSRD.



### 1. Kick-off, education & rapid assessment.

Ensure that knowledge about ESG and the CSRD is available in your organisation, set up a working group, inform and involve management and other relevant internal stakeholders. Compare your current situation with the process requirements from the CSRD to determine what steps you still need to take to comply.

### 2. Determine double materiality and consult stakeholders.

Explore the impact of ESG topics on society and the environment. Together with stakeholders and the board, identify issues of importance to the company.

### 3. Conduct CSRD Gap analysis.

After conducting the Double Materiality Assessment, an organisation may have a better understanding of its current state of sustainability. With this information, the GAP assessment can be conducted more effectively to identify what remains to be done to meet CSRD requirements.

### 4. Alignment of ESG strategy

Based on the material topics, identify indicators to arrive at units of measurement. In addition, develop appropriate targets for each indicator.

### 5. Data collection and internal process improvement

Collect relevant data based on ESG KPIs, describe internal procedures related to data collection and data quality, identify and suggest possible improvement for internal procedures and the collection process.

Collecting the relevant data is a project in itself. In the ESRS, the reporting guidelines are worded very specifically and the question is whether that data is available at all. Determining the right way to measure and collect requires time and attention. New processes may have to be set up or systems put in place to do this properly.

### 6. “CSRD-proof” reporting.

Your company is now “CSRD-proof” and you can prepare your report. Based on the data collected and experience gained, you can determine where improvements can be made. You can then improve the reporting cycle and your management report will be ready for an external audit.

## PRACTICAL EXPERIENCES

There has been talk for some time about how companies should deal with current and upcoming ESG legislation including the CSRD. Companies deal with the application of the CSRD in their own way. We have provided further detail in this white paper on how companies could set up their own ESG Journey, especially in view of the approaching deadline of the CSRD (depending on the size of the company). Below, we would like to conclude with some practical experiences from 2023 that deserve full attention in 2024. With a view to the last quarter in 2024.

### **ESG Technology**

In 2023, we noticed that many companies are still at the beginning of their ESG journey, especially with regard to CSRD. The first steps taken mainly included creating awareness and an initial inventory, including a CSRD GAP analysis. However, a comprehensive stakeholder or materiality analysis has not yet been carried out by most companies, nor has a concrete ESG strategy often been developed. An important step yet to be taken in this ESG journey involves data collection and integration of ESG technology, such as tooling and measurements. While this step is essential, it seems that it is not yet received full attention, given that many companies are still in the early stages of their ESG journey.

Nevertheless, this step ultimately deserves full attention. Measurements and the reporting of these measurements are a crucial part of CSRD, and essential for the successful implementation and reporting of ESG initiatives.

### **Interaction with the auditor**

Another element that deserves further attention will be consultation with the auditor. Regular consultation with the auditor becomes important where it is also relevant to consider that the auditor has to take into account independence rules (such as the Vio) and is for companies to gain a deeper knowledge on ESG and the CSRD. This puts the company in a better position to understand why certain steps still need to be taken and how they should be implemented.

In this context, regular in-depth sessions or knowledge sessions on key themes could be considered, for example.

### **Impact on the organisation**

Activities and data around sustainability are spread across various departments or functions. This can quickly lead to an inefficient process or initiatives or actions may even contradict each other go to work. To avoid this, it is wise to organise central coordination, appoint a clear team of motivated change agents and make one employee ultimately responsible for the change process.

Developing and implementing a sustainability strategy also places demands on the organisation's employees. Work processes may be organised differently and policies may be adjusted. This requires different behaviour from employees, which takes getting used to. Making employees aware of their role and showing understanding for the challenges this entails are important factors for successful strategy implementation.

### **2024**

The second half of 2024 has arrived, and with the deadline of 1 January 2025 looming – which requires companies to report for the whole of 2025 – it is time to pick up the pace to take. As indicated earlier, there are a number of important steps companies can take to prepare for the CSRD. With just under six months to go until the deadline, it is essential to take action now.

Do you want to know how well prepared your company is for the CSRD? Or do you want to get started concretely on managing sustainability risks? Our ESG specialists are ready to provide you with immediate information and support. Contact us for sound advice and practical help in navigating this important transition. For further questions, please feel free to email [mvdbroek@rsmnl.nl](mailto:mvdbroek@rsmnl.nl) or check out [our website](#).