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Sustainability Reporting Guidelines

Promoting better corporate practices in response to growing market expectations by enhancing environmental, social and governance (ESG) reporting in the Czech Republic

Deloitte.

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Disclaimer

These Guidelines are informed by the Czech and European legislative landscapes and international standards and frameworks on sustainability reporting available by the cut-off date of the publication (13 February 2023). As the relevant ESG reporting standards and legal framework develop over time, the contents of these Guidelines may need to be updated in the future.

These Guidelines have been produced by the Prague Stock Exchange (PSE), jointly with the European Bank for Reconstruction and Development (EBRD) and with technical cooperation support from the TaiwanBusiness – EBRD Technical Cooperation Fund (TB). The consultancy companies, Deloitte Sustainability Consulting Central Europe Team operating under Deloitte Advisory s.r.o. and Frank Bold, assisted with the development of the Guidelines.

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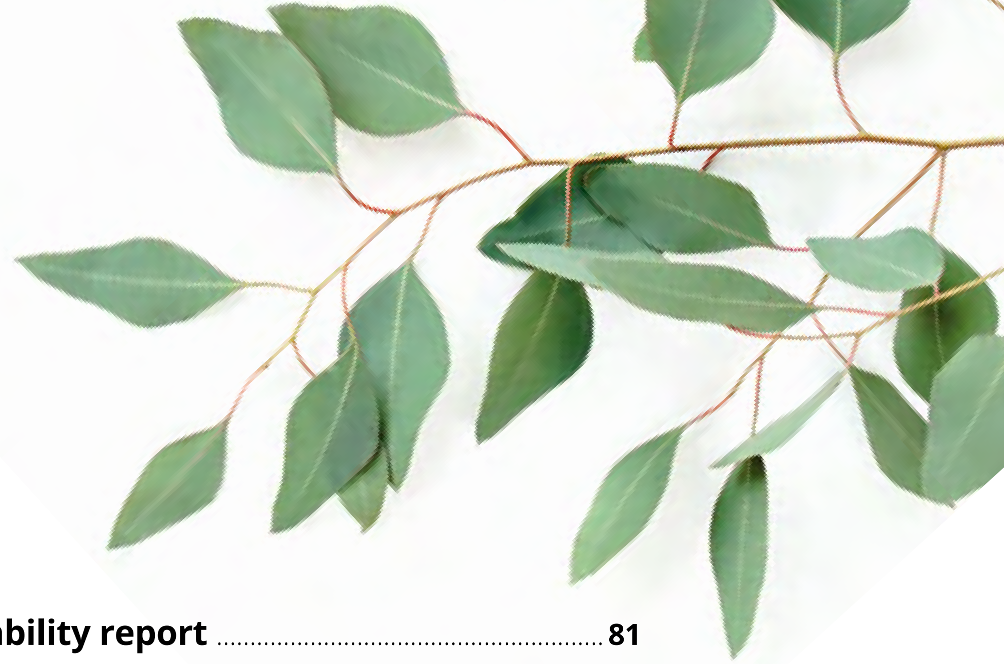
Contents



Foreword

Petr Koblic, CEO and Chairman, Prague Stock Exchange

Sustainable investment has been attracting more attention in recent years. We are witnessing increasing pressure to implement environmental, social, and governance (ESG) criteria in investment strategies throughout European markets. Identification, management, and disclosure of climate-related risks, as well as development of forward-looking strategies are now becoming part of a prudent business decision-making process. Institutional investors have already embarked on a sustainability journey driven by enhanced regulation, stakeholder activism, and reputational concerns, among other factors. Other capital market participants will join them on the basis of forthcoming legislation.

This sustainable trend is supported by non-financial reporting as an essential tool for reaching ESG goals. Unfortunately, applied sustainable terminology and techniques in practice vary considerably across the finance ecosystem. Therefore, we welcome the introduction of the new Corporate Sustainability Reporting Directive and European Sustainability Reporting Standards, which provide unification, comparability of ESG information, and thus effective monitoring by the market and regulators.

PSE is pleased to provide reporting companies with further guidance and navigate them through the latest sustainable legislation under local market conditions. These Sustainability Reporting Guidelines shed light on both on forthcoming regulatory requirements and the process of drafting ESG reports. The aim is to help companies with the transition towards ESG-responsible policies supported by duly informed stakeholders thanks to improvements in sustainability reporting.

We would like to take this opportunity to thank our partners from the European Bank for Reconstruction and Development (EBRD) and the sustainability-oriented consultants Frank Bold and Deloitte for collaborating on these Guidelines mainly for the benefit of PSE issuers. We are also grateful to the issuers who contributed to these Guidelines and welcome all those who will engage with us and use the guidance going forward.

Henrik Linders, Managing Director, Environment and Sustainability, EBRD

Harry Boyd-Carpenter, Managing Director, Climate Strategy and Delivery, EBRD

The global market shift to financing green and sustainable assets has accelerated in the last few years.
A combination of growing awareness of the severity and urgency of the world's sustainability crisis and consequent government policy, stakeholder pressure and increased scrutiny from institutional investors is driving global financial flows towards sustainable investment. Investors are increasingly demanding ESG data from companies to inform decision-making processes, for more comparability and for more effective due diligence and modelling for investment purposes.

Environmentally sound investment and sustainable development lie at the heart of the mandate of the European Bank for Reconstruction and Development (EBRD), underpinned at project level by our Environmental and Social Policy.
In furtherance of its transition mandate, the EBRD adopted the Green Economy Transition approach (2021-25) under which it has committed to increase green financing to at least 50 per cent of its annual business volume by 2025 and to achieve cumulative greenhouse gas emissions reduction of 25 to 40 million tonnes per year by 2025. Our green investment in both 2021 and 2022 already reached at least 50 percent of total financing, representing an early achievement of our targets.

When it comes to sustainability and climate ambition, we strongly believe in leading by example. As such, the EBRD was one of the first international financial institutions to align its activities with the goals of the Paris Agreement starting from 1 January 2023. EBRD was also the first multilateral development bank to support the Task Force for Climate-related Financial Disclosures in 2018, and we published our first stand-alone TCFD-aligned report in 2020.

We finance sustainable investments and support policy initiatives that help our partners and clients assess and integrate material ESG factors into the investment decision-making process. Sustainable finance is also a cornerstone of the European Union's (EU) policy and strategic agenda. The shift towards mandatory sustainability reporting is centred on the recognition that effective management of ESG risks is critical to the transition to a net-zero economy. It is also essential to unlocking new business opportunities at a time when the demands of investors, regulators and society are growing.

We are committed to supporting the Czech Republic in its transition to a low-carbon and climate-resilient economy, in line with the European Union's (EU) sustainable finance agenda and international best practice. As part of our country policy engagement, the EBRD is pleased to have supported our partner, the Prague Stock Exchange (PSE), in developing these timely and informative sustainability reporting guidelines. PSE has a powerful role to play in facilitating the ESG data flow between companies and investors by fostering transparency and providing guidance to clients and wider stakeholders on the importance of harmonised and comparable ESG data reporting.

The main objectives of the Guidelines are to support issuers in their efforts to identify and manage ESG risks and opportunities and guide the development of their ESG reporting practices. The guidelines have been developed in line with the EU reporting requirements, including requirements under the Taxonomy Regulation, the Sustainable Finance Disclosure Regulation and the Corporate Sustainability Reporting Directive (as well as the related reporting standards prescribed in the draft European Sustainability Reporting Standards), while also considering the national context and current level of sustainability reporting.

We hope that these guidelines will contribute to the development of a well-functioning and more resilient market, steering investment towards climate and sustainable development priorities. We are confident that this milestone work by PSE will provide companies, investors and other market participants in the Czech Republic with a clear and practical guide on their journey to a more sustainable economy.

1 Introduction

The aim of these Guidelines is to help companies in the Czech Republic to navigate through the new regulatory package on ESG reporting (CSRD, Taxonomy, SFDR, CSDDD) and understand their obligations under the the first European Sustainability Reporting Standards (ESRS), in the context of a global shift towards transparency in ESG.

The Czech Republic, like the European Union (EU) and world financial markets, is currently experiencing a **revolution of transparency** similar to the one that took place 20 years ago when a unified set of accounting standards—the International Financial Reporting Standards (IFRS)—was introduced to the market. In the field of financial information, an intense international harmonising effort is already underway. These mandatory standards, which are published and continually updated by the International Accounting Standards Board (IASB), have been integrated into the regular practices of global and European listed companies, including those in the Czech Republic.

Similar to the process undertaken for financial information, progress is currently being made to integrate the reporting of sustainability-related information internationally. The IFRS Foundation has established the International Sustainability Standards Board (ISSB), responsible for delivering a global baseline of sustainability disclosures, bringing in a **new way of integrating climate and other ESG matters into financial accounting.**
In parallel, the EU has adopted a comprehensive framework to finance the transformation of the European economy to become sustainable and carbon-neutral by 2050. The framework for sustainable finance and corporate sustainability is underpinned by three interconnected building blocks, one of which forms the disclosure framework for sustainability-related information for both financial market participants and non-financial companies. The aim of the EU sustainability disclosure framework is to strengthen investor protection, reduce greenwashing and ensure reliable and comparable disclosures that meet the information needs of investors and other users.

To meet this aim, the European Commission has introduced the Corporate Sustainability Reporting Directive (CSRD) which sets disclosure rules - mandatory European Sustainability Reporting Standards, based on the technical advice provided by the European Financial Reporting Advisory Group (EFRAG). These European standards[1] are aligned with the anticipated content of the reporting standards developed by the ISSB[2] as well as key elements of the Global Reporting Initiative (GRI) Standards and international instruments and requirements of EU law.

Around 97% out of more than 1000 companies in Czech Republic falling under new legal ESG reporting framework are not prepared yet

[1] Draft available on the date of publication of the Guidelines – March 2023
[2] ESRS incorporate GRI, and EFRAG and ISSB have made a joint commitment to develop consistent and harmonised reporting standards.

In order to help Czech companies effectively integrate ESG considerations into their reporting, the Prague Stock Exchange (PSE) has taken steps proactively to address the challenges that unified sustainability reporting may pose for both listed and non-listed companies.

The implementation of new sustainability reporting obligations will affect both **listed and non-listed** companies in the Czech Republic **with more than €20 million on their balance sheet, €40 million in turnover or 250 employees**. These obligations will be phased in over time, with mandatory reporting beginning in 2025 (for the year 2024) for companies that are already reporting under the European Non-Financial Reporting Directive (NFRD). All other affected companies, including small and medium enterprises (SMEs) listed on regulated markets, will be required to comply in the following period depending on specific criteria.

However, investors and banks already need to collect sustainability information from investee companies for the year 2023 due to their own obligations, in particular under the EU Regulation on sustainability-related disclosures in the financial sector.

It is important for companies, listed and non-listed alike, to take note of these upcoming changes and begin preparations in a timely manner. This also applies to companies that are not subject to the new legal obligations, in particular non-listed SMEs. Large companies and banks will need key ESG data from all their business partners.

The Guidelines are a tool for various companies, and all those in charge of preparing, developing, overseeing, monitoring and reporting or those responsible for preparing companies for new expanded regulations that include the EU sustainability disclosure framework. These Guidelines are not a new standard, they do not replace legal obligations, nor do they introduce new indicators.

Rather the Guidelines as presented in this document aim to help companies listed on the Czech Republic stock exchange to enhance their ESG reporting practices.

Readers of the presented Guidelines may include:

- **Supervisory boards,**
- **CEOs, CFOs and board members**, i.e., those C-suite executives and board members who are typically involved in supervising the quality of presented analyses, targets and data, or planning the sustainability transition in the company,
- **Directors** responsible for sustainability matters, investor relations, public relations and marketing, strategy, risk, controlling and finance, environmental management/climate/energy, human resources, digital/IT and supply chain; directors responsible for communication with financial providers or contributing to the process,
- **Managers responsible for ESG/ sustainability** strategy and reporting,
- **Regulators** deciding on their ambition and role in building capacity as well as supervision in the Czech Republic,
- **All other stakeholders** interested in sustainability strategy and reporting, trends and new regulatory frameworks.

The document provides cross-references between relevant regulatory frameworks that Czech companies need to apply and practical insights on how to design or update existing models of reporting in line with the ESRS. Readers will find additional boxes with key issues to consider as well as references to external links and documents where further information can be found.

The Guidelines are divided into three main parts:

1. EU legislative framework for sustainability,
2. Overview of new European Sustainability Reporting Standards (ESRS),
3. Practical roadmap of how to prepare the sustainability report in line with new regulation and best practices.

2 Sustainability reporting momentum

Sustainability-related risks and opportunities are quickly becoming financially material. Legislative, technological and market changes driven by climate change goals, soaring energy prices, and the physical impacts of climate change and loss of biodiversity pose major risks for companies and potential investments.

Institutional investors[3] and credit institutions require equivalent, high-quality sustainability-related information to consider how sustainability matters may affect their investments, allowing them to account for key risks and impacts. Many investors find it important to inform end beneficiaries of the impact that their investments have on various issues of concern, including climate change, biodiversity degradation and respect for human rights across the value chain. Furthermore, investors and other interested stakeholders are calling for comprehensive, verifiable and material ESG data from companies that can help mitigate greenwashing risks.

Risks are matched by opportunities. Analysts predict sustainability investment may overtake conventional investment as soon as 2025.[4] The European Union has adopted the Green Deal and continues to develop an ambitious policy and regulatory framework for sustainable finance to channel private investment into the transition to a climate-neutral, resilient and fair economy.

Efforts to improve the transparency of ESG information are necessary in order to:

- reap the benefits of providing consistent, decision-useful ESG information to investors,
- enable board members to make evidence-based strategic decisions,
- enable market participants to identify and manage risks and opportunities related to environmental and social impact,
- create a level playing field and help minimise the risk of greenwashing,
- create opportunities to show both the financial and sustainability value created by investments,
- improve access to finance,
- link with the most common reporting frameworks on sustainability reporting and sustainability guidance already in use by the Czech market (GRI, SASB, CDSB, IIRC, Value Reporting Foundation, UN, OECD) to make it easier for listed companies to add new elements of ESRS reporting to their existing lists of indicators, processes and strategic thinking (e.g. scenario modeling of impact on biodiversity or in relation to decarbonisation),
- assist in targeting the most urgent regional and national sustainability challenges as well as redirecting the flow of capital into green activities and investments to foster innovation and support reaching climate neutrality by 2050.

A responsible approach to the sustainability agenda and reporting can lead to **improved financial performance, increased resilience** to market fluctuations, and the ability to **attract** and retain socially responsible **investors**. Additionally, companies can demonstrate their compliance with the EU regulatory framework and improve their overall **credibility**. It is strategic for companies to weigh the benefits against the costs associated with sustainability compliance and reporting.

[3] When referring to investors, this guidance means financial market participants as defined in Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, Article 2(1).
[4] PwC (2022). The growth opportunity of the century. Available at: pwc.lu/en/sustainable-finance/docs/pwc-esg-report-the-growth-opportunity-of-the-century.pdf (Last accessed 28 July 2022).

3 EU legislative framework

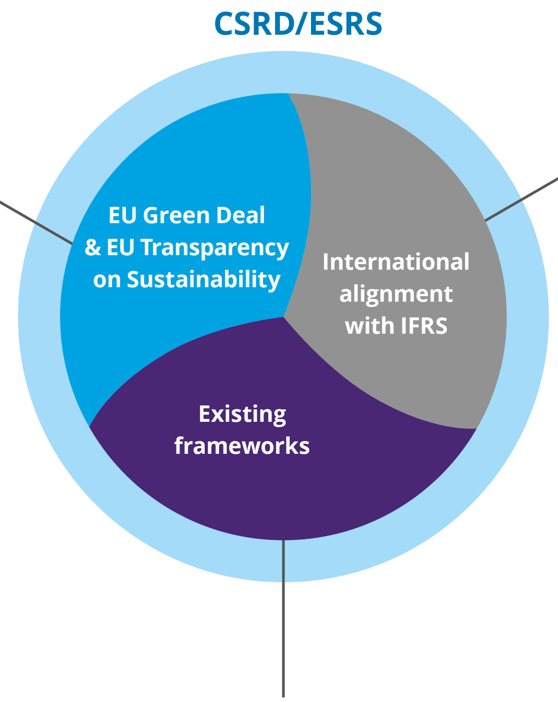
What are European Sustainability Reporting Standards (ESRS) based on?

EU Green Deal & EU Transparency on Sustainability

The CSRD and ESRS were formulated to enable the European Green Deal and aligned with other EU sustainability frameworks such as the EU Taxonomy and SFDR.

International alignment with IFRS

EFRAG and the ISSB are working together to ensure the alignment and interoperability of the ESRS and IFRS Sustainability Disclosure Standards.



Existing frameworks

EFRAG aligned its disclosure requirements with the GRI Standards and the TCFD's recommendations.

NAVIGATION

- In this chapter, we present the regulatory framework for sustainability and sustainable finance, including the EU Taxonomy for sustainable activities, Corporate Sustainability Reporting Directive, Sustainable Finance Disclosure Regulation (which applies to the financial sector). In the future, large companies will be subject to the Corporate Sustainability Due Diligence Directive (CSDDD), and listed companies may also need to report according to the anticipated IFRS for Sustainability-related disclosures.
- Mandatory disclosures requirements applicable to all listed and large non-listed companies in the Czech Republic and in the EU as a whole.
- Understanding the interconnectedness of all elements of the sustainability reporting and sustainable finance framework will help companies to develop existing reporting practices further towards full compliance. The full package sets clear, cohesive expectations for the quality of ESG strategic management within the entity and its value chain, decarbonisation, risk management and business conduct.

3.1. The EU Green Deal & reporting requirements

The EU framework for corporate sustainability transparency and sustainable finance **is underpinned by three interconnected building blocks:**

1. **A disclosure framework for sustainability-related information** for both financial market participants[5] and non-financial companies, credit institutions and insurance undertakings provided in the **Corporate Sustainability Reporting Directive (CSRD),[6]** which aims to **strengthen investor protection, reduce greenwashing, and ensure reliable and comparable disclosures** that meet the information needs of investors and other users.

   Furthermore, EU legislators are discussing a proposal for a new **Corporate Sustainability Due Diligence Directive (CSDDD),[7]** which would complement the disclosure rules with mandatory requirements for the largest corporations to address severe impacts on people and the planet across their value chain.

2. **A classification system, or 'taxonomy', of sustainable activities**, which aims to **facilitate sustainable investment** by providing a common definition of environmentally sustainable activities across the economy.

3. **Standards and tools to develop sustainable investment solutions** which further support the framework, including the EU Climate Benchmarks Regulation and the proposed standard for European green bonds, as well as criteria and transparency requirements for sustainable financial products in the **Sustainable Finance Disclosure Regulation (SFDR).[8]**

   In addition, the EU incentivises and increasingly requires large financial institutions, in particular banks, to consider sustainability risks. In 2022, the European Banking Authority (EBA) published binding standards **on Pillar 3 disclosures on ESG risks.** EU policy makers are considering integrating ESG factors into the prudential regulations.[9]

CHALLENGE

- Under the CSRD and the larger EU regulatory package on transparency, the ESRS are a tool to support the EU's ambition to help finance the European economy's transition to become sustainable and carbon-neutral by 2050 and to promote sustainable business among companies.

[5] Also provided in the SFDR
[6] Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting
[7] Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937, COM/2022/71 final. The rules apply to large EU companies and to non-EU companies active in the EU (the scope of which is as follows: those EU companies with more than 1000 employees and €300 million net worldwide turnover or, for non-EU companies, €300 million net turnover generated in the EU, 3 years from the entry into force of the Directive)
[8] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, OJ L 317, 9.12.2019, p. 1. https://eur-lex.europa.eu/eli/reg/2019/2088/oj
[9] On this note, the EBA in May 2022 published a Discussion Paper on the role of environmental risks in the EU Pillar 1 micro prudential framework for credit institutions and investment firms. The EBA expresses its view that the purpose of the prudential framework is to strengthen the financial resilience of credit institutions and investment firms, including by considering relevant environmental risks

Figure 1: How regulatory landscape influencing reporting in the Czech Republic looks like?

Legislative package regarding the integration of sustainability factors (MiFID regime)
Applies to investment firms and fund managers / investment advisors in relation to retail customers

Preferences regarding sustainability investments:
- Customers are to provide their preferences based on PAIs and taxonomy KPIs
- Only products that meet preferences can be offered

SFDR (Sustainable Finance Disclosure Regulation)
Applies to financial institutions that structure financial products (investment funds, pensions funds, insurance-based investment products, etc.)

Entity disclosure:
- Sustainability risk policy
- Principal Adverse Impacts
- Integration of sustainability risks in remuneration policy

Pre-contractual disclosures for products promoting environmental/social characteristics or having sustainable investment as objective:
- PAI considerations
- Asset allocation, including taxonomy alignment

Periodic disclosures for products promoting environmental/social characteristics or having sustainable investment as objective:
- PAIs considerations
- OECD ME Guidance / UNGP alignment
- Asset allocation
- Taxonomy KPIs
- Types of engagement to support characteristics/objectives

CSRD (Corporate Sustainability Reporting Directive), ESRS (European Sustainability Reporting Standards)
Applies to large entities (2 of 3: average number of employees during the financial year: >250 employees, EUR 40 million turnover, EUR 20 million balance sheet total) and SMEs listed on a regulated market except micro-enterprises:*

Large entities:
- Mandatory reporting based on ESRS with double materiality assessment
- Incorporating taxonomy reporting
- ESRS covering data for SFDR PAI calculations
- Limited assurance at the beginning (reasonable assurance likely after 2028)

Listed SMEs:
- Mandatory reporting based on simplified ESRS
- Possibility to opt-out for initial period
- Potentially incorporating taxonomy reporting
- Simplified ESRSs covering data for SFDR PAI calculations
- Limited assurance at the beginning (reasonable assurance probably after 2028)

Environmental taxonomy package
Applies to entities obliged to prepare non-financial/sustainability reporting under CSRD

Non-financial entities:
- Split of turnover, CapEx, OpEx into aligned and non-aligned activities
- Disclosures on procedures for minimum safeguards

Financial entities:
- Special disclosures for asset managers, credit institutions, investment firms and insurance firms
- New KPIs reflecting types of businesses, including Green Asset Ratio (GAR)
- Disclosures on fulfillment of taxonomy criteria

CSDDD (Corporate Sustainability Due Diligence Directive)
Applies to entities with >500 employees and EUR 150 million turnover; or: operating in high-risk sectors and with >250 employees and EUR 40 million turnover*

International norms:
- The CSDDD is based on globally endorsed UN Guiding Principles for Business and Human Rights and the OECD Due Diligence Guidance for Responsible Business Conduct

Behavioural obligations:
- Mandatory sustainability due diligence for impacts of own activities and in the value chain

Connected reporting obligations:
- Entities covered by the CSRD to report on due diligence in accordance with the ESRS
- Special regime to be established for other entities the EU

* Application to certain non-EU entities is envisaged

Similarly, MiFID, UCITS and AIFMD delegated acts integrate sustainability factors and risks in operational requirements and conditions for investment firms. It also requires investment firms to collect information from their clients on their preferences as regards the extent to what they want to invest in different types of sustainable investment products with reference to criteria set out in the SFDR and EU Taxonomy.

To whom and when does each regulation apply?

The main sustainability reporting requirements for companies and investors are provided in three instruments: CSRD, SFDR and to a limited extent the EU taxonomy. Table 1 provides an overview of the requirements.

PSE operates two regulated markets, namely the Prime Market - Prime Market | Prague Stock Exchange (pse.cz) and the Standard Market - Standard Market | Prague Stock Exchange (pse.cz)

Table 1: EU sustainability disclosure requirements for financial and non-financial companies

Area	Sustainability disclosure framework for investors and companies		EU taxonomy for sustainable activities
Instrument	Corporate Sustainability Reporting Directive (CSRD)	Sustainable Finance Disclosure Regulation (SFDR)	Regulation on the establishment of a framework to facilitate sustainable investment (EU taxonomy)
Scope	01. All companies and groups which meet 2 of the following 3 criteria: • 250 employees • €20 million balance sheet • €40 million turnover 02. All companies listed on a regulated market except micro enterprises 03. Non-EU companies with branches or subsidiaries in the EU which generate a net turnover of more than €150 million in the Union	Financial market participants offering investment products and financial advisers[10]	01. Financial market participants 02. All companies subject to NFRD and in future CSRD 03. Issuers of green bonds [as per the proposal of the European Green Bonds Standard Regulation]
Disclosure requirements	Sustainability disclosures in specific section of the annual management report Disclosure requirements specified in the mandatory European Sustainability Reporting Standards (ESRS) – sector agnostic and sector specific Requirements for entity-specific dicslosures to be developed by each company based on their specific material matters	Entity and product level disclosures on sustainability risks and principal adverse impacts (PAIs) Additional disclosures on any green investment products	For non-financial companies: disclosure of turnover, capital and operating expenditures from products or activities associated with the taxonomy For financial companies: green asset ratio from 2023; since 2021 regulations were limited to certain information
Sanctions and oversight	Limited assurance by statutory auditors (or other external assurance providers if provided by the Member States). Reasonable assurance by 1 October 2028 if determined feasible by the European Commission The general provisions of the Accounting Directive regarding public oversight, sanctions, and the collective responsibility of the members of the administrative, management and supervisory bodies apply.	National competent authorities should monitor compliance with SFDR requirements.	National competent authorities should monitor compliance with the taxonomy requirements.
Application	Phased entry into application: • NFRD companies - FY 2024, first reports published in 2025; • Other large companies - FY2025, reporting in 2026; • SMEs listed on a regulated market - FY 2026, reporting in 2027 (possible opt-out for 2 years); • Subsidiaries of non-EU companies - FY 2028, reporting in 2029.	Applies from 10 March 2021. Delegated Regulation which specifies mandatory disclosure templates and key performance indicators (KPIs) applies from 1 January 2023.[11]	Reporting on taxonomy eligibility applies from January 2022, followed by reporting on alignment from 2023 by non-financial undertakings and from 2024 by financial undertakings. Detailed technical criteria have been adopted for climate change mitigation and adaptation. Further criteria for: • pollution prevention and control, • the sustainable use of water and marine resources, • the protection and restoration of biodiversity, and • the transition to a circular economy are expected to be adopted.

[10] The SFDR provides the following definition: 'financial market participant' means: (a) an insurance undertaking which makes available an insurance-based investment product (IBIP); (b) an investment firm which provides portfolio management; (c) an institution for occupational retirement provision (IORP); (d) a manufacturer of a pension product; (e) an alternative investment fund manager (AIFM); (f) a pan-European personal pension product (PEPP) provider; (g) a manager of a qualifying venture capital fund registered in accordance with Article 14 of Regulation (EU) No 345/2013; (h) a manager of a qualifying social entrepreneurship fund registered in accordance with Article 15 of Regulation (EU) No 346/2013; (i) a management company of an undertaking for collective investment in transferable securities (UCITS management company); or (j) a credit institution which provides portfolio management.

[11] The Regulatory Technical Standards were adopted by the European Commission on 06.04.2022. Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022 supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of 'do no significant harm', specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports.

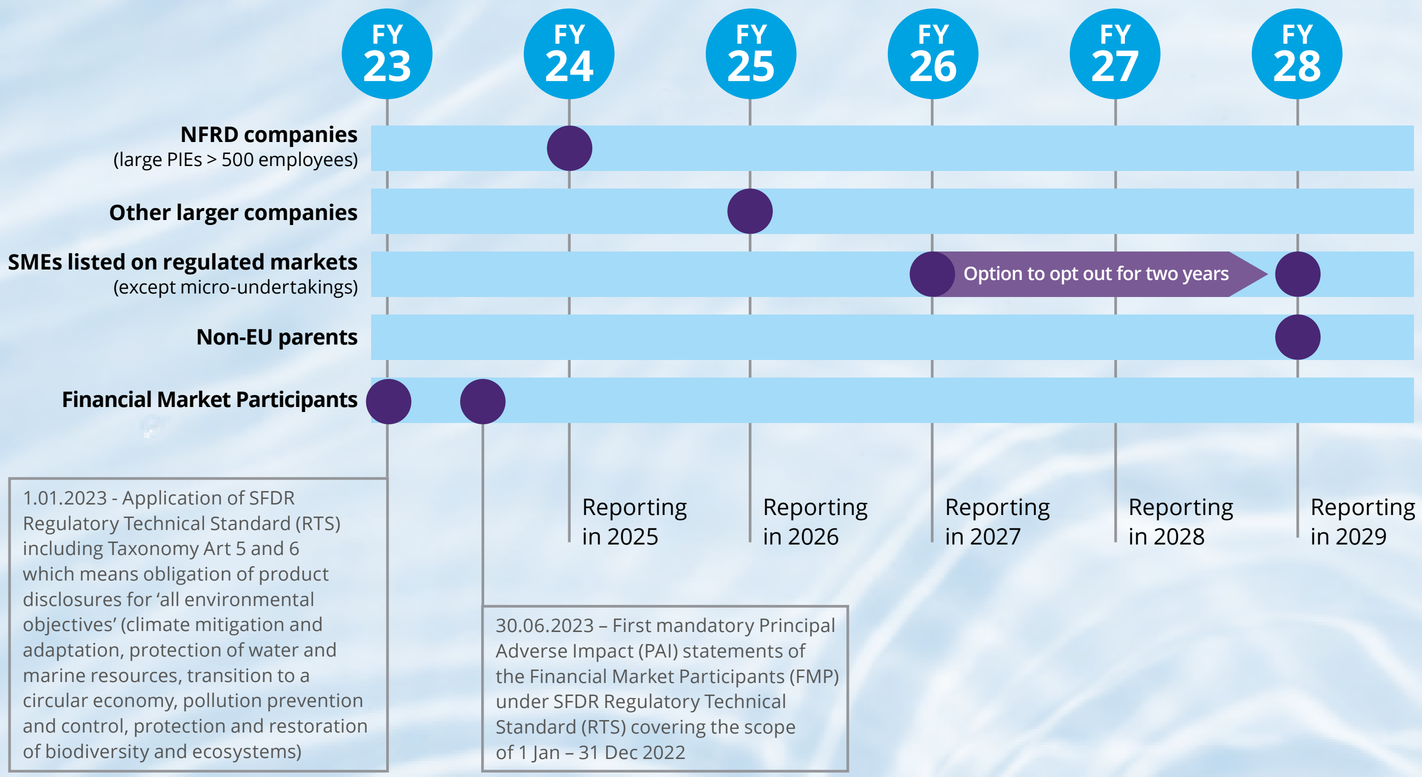
3.2. Sustainability disclosure for companies

The **Corporate Sustainability Reporting Directive (CSRD)** sets disclosure rules for all non-financial and financial companies that meet certain thresholds. The CSRD is supported by mandatory **European Sustainability Reporting Standards (ESRS)** which specify disclosure requirements and application rules.

The CSRD, which was adopted on 28 November 2022, replaces previous reporting requirements in the Accounting Directive[12] introduced by the Non-Financial Reporting Directive (NFRD), and further amends **the Audit Regulation,[13] Audit Directive[14] and Transparency Directive.**
The CSRD requires large listed and non-listed companies, banks and insurers and large groups (including foreign groups with large branches or subsidiares in the EU), as well as small and medium companies trading their securities on a regulated market to publish information in their annual reports regarding their impacts on sustainability matters and on their sustainability-related risks and opportunities.

The application of CSRD to these different categories of companies will be phased in between 2024 and 2028, as outlined in Figure 2.

Figure 2: Phase-in of CSRD and ESRS requirements



[12] Directive 2013/34/EU of the European Parliament and the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC

[13] Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC

[14] Directive 2006/43/EC of the European Parliament and the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/ 660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC

TIPS

The SFDR already requires large investors to collect sustainability information from their investee companies for the year 2023, which is before the CSRD and ESRS become applicable.
The ESRS fully integrate sustainability disclosures that investors need from companies in order to meet their own disclosure obligations under the SFDR.
Starting to add SFDR requirements to the material indicators that companies are gathering now will ease the transition and gain positive recognition from investors.

Companies reporting in accordance with the ESRS do not need to make additional disclosures to meet investors' information needs stemming from the SFDR.

See **Mandatory European Sustainability Reporting Standards**

Subsidiaries of companies which provide a consolidated report on behalf of the entire corporate group are exempted from the obligation, unless the subsidiary is listed on a regulated market. However, the consolidated report of the parent company must include data from subsidiaries and explain any specific sustainability impacts, risks and opportunities of the consolidated subsidiaries. The CSRD is expected to apply to hundreds[15] of Czech companies, which will be obligated to include the information required by the CSRD and the ESRS in their own annual reporting and/or to report such information to the parent companies responsible for the preparation of the consolidated reports.

The CSRD requires companies to have their sustainability statements audited, based on limited assurance standards, and digitally 'tag' the disclosures to make them machine-readable and enable their entry into the European single access point (ESAP).[16] The disclosure of sustainability information is subject to the same sanctions that apply to annual reporting as a whole.

The EU adopted a second interconnected sustainability disclosure framework setting disclosure rules and criteria for sustainable investment products for investors and other financial market participants. **The Sustainable Finance Disclosure Regulation (SFDR)** "regulatory technical standards"[17] specify a detailed set of KPIs regarding principal adverse impacts of financial investment on 'sustainability factors'. These KPIs are mandatory for investors with 500+ employees and applicable on a comply-or-explain basis for smaller investors. Investors also have to inform their clients of their assessment of sustainability-related financial risks linked to their products and of due-diligence policies to address the adverse impacts. The SFDR does not apply to non-financial companies directly; however, investors will request that investee companies disclose sustainability data, which they need for their own disclosure obligations.

NAVIGATION

In the Guidelines, you will find more information including:

- What needs to be reported among 82 mandatory requirements which stand for 398 mandatory datapoints (smaller pieces of information within data requirements)
- What the other 746 data points stand for? What does it mean that they may need to be reported upon materiality assessment
- The difference between "shall", "shall consider" and "may disclose"
- How to plan the transition process
- How to plan and implement strategic processess to drive ESG governance, management and control to the level expected by the regulation

See **Overview of new European Sustainability Reporting Standards (ESRS)**

[15] Fewer if consolidation exemption is taken into account. Exempted companies will still have to provide information to their parent companies.

[16] ESAP should be established by 2024 according to the Proposal for a regulation 2021/0378 (COD) of November 25, 2021.

[17] Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022 supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of 'do no significant harm', specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports

3.2.1. The EU Taxonomy for Sustainable Activities

The **EU taxonomy**[18] is a robust system of classification and standardisation of activities that aims to unify the criteria for determining whether an economic activity is environmentally sustainable. It enables to determine eligibility for sustainable finance. Taxonomy aims to protect private investors from greenwashing, help companies become more climate-friendly, mitigate market fragmentation and help shift investments to where they are most needed. The Taxonomy Regulation establishes six environmental objectives Climate change mitigation, Climate change adaptation, The sustainable use and protection of water and marine resources, The transition to a circular economy, Pollution prevention and control, The protection and restoration of biodiversity and ecosystems.

Undertakings under the scope of the Non-Financial Reporting Directive[19] and—when it becomes applicable—Corporate Sustainability Reporting Directive[20] must provide information on how and to what extent their activities are associated with environmentally sustainable activities under the Taxonomy Regulation.

Specifically, non-financial companies shall disclose the share of their:

- turnover (turnover KPI),
- capital expenditure (CapEx KPI), and
- operational expenditure (OpEx KPI)

associated with such activities.

Additionally, non-financial companies shall disclose the related accounting policy, assessment of compliance with Regulation (EU) 2020/852 as well as contextual information.

Financial undertakings must disclose:

- the proportion in their total assets of exposures to taxonomy
- aligned activities.

See Chapter:
4.5.4 Metrics and targets: Climate change,
"Tips – Taxonomy indicators"
4.4.2 Sustainability due diligence and minimum safeguards assessment

The criteria for EU Green Bonds and those set in the Sustainable Finance Disclosure Regulation for financial products that are marketed as either promoting sustainability characteristics ("light green") or having sustainability objectives ("dark green") require alignment or at least transparency on alignment of the investments with the taxonomy. Companies will find it easier to access sustainable finance if they are able to show alignment with the taxonomy.

TIPS

- The ESRS specify the location of the disclosures required by the Taxonomy Regulation. Additional technical details are provided in specific Delegated Acts to the Taxonomy, as referenced in the ESRS.
- The taxonomy may support companies in materiality assessment to illustrate their environmental impacts (impact materiality), and how those matters affect a company's performance, risk, financials, development and position (financial materiality).
- Minimum safeguards defined by the taxonomy require from companies management processes focused on human rights due diligence, which are presented in OECD Guidelines for Multinational Enterprises and United Nations Guiding Principles for Business and Human Rights, but also covered more broadly by draft ESRS 1. The forthcoming CSDDD will introduce rules for the sustainable due diligence process in the value chain. Following these regulations step-by-step helps companies eventually evolve their business conduct and ensure safe investment for capital providers.

[18] Regulation 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation 2019/2088, OJ L 198, 22.6.2020. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32020R0852
[19] The undertakings subject to Art 19a or 29a of the Non-Financial Reporting Directive (Directive 2014/95 of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups). EUR-Lex - 52021PC0189 - EN - EUR-Lex (europa.eu)
[20] Until the new Corporate Sustainability Reporting Directive becomes applicable, this obligation concerns the undertakings subject to Art 19a or 29a of the Non-Financial Reporting Directive (Directive 2014/95 of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups). EUR-Lex - 52021PC0189 - EN - EUR-Lex (europa.eu)

3.2.2. Tools for sustainable investment

The two main EU tools aiming to facilitate the development of sustainable investment solutions are the EU Climate Transition Benchmarks Regulation[21] and the proposed European Green Bonds Regulation.[22] The **Sustainable Finance Disclosure Regulation (SFDR)** complements these tools by providing a classification of sustainable financial products.

The EU Climate Transition Benchmarks Regulation requires all benchmark disclosures to specify how their methodologies reflect ESG factors, and creates two new labels for climate-related benchmarks:

01. The EU climate transition benchmark, which sets the resulting benchmark portfolio on a decarbonisation trajectory;
02. The EU Paris-aligned benchmark which brings the resulting benchmark portfolio's carbon emissions in line with the Paris Agreement target to limit the global temperature rise to 1.5C° compared to pre-industrial levels.

According to **the European Green Bond Standard proposal**, the funds raised by a bond marketed as a "European green bond" should be fully allocated to projects that are aligned with the taxonomy. Other bonds marketed as environmentally sustainable will have to declare the level of alignment of the use of proceeds with taxonomy activities.

The Sustainable Finance Disclosure Regulation, in addition to specifying sustainability disclosure obligations of financial market participants, defines two categories of sustainable financial products:

01. Products that promote environmental and social characteristics, among others.
02. Products that have sustainable investment as their objective.

For both types, the Regulation prescribes precontractual disclosures as well as requirements which need to be disclosed on websites and in periodic reporting, including on how the characteristics and objectives, respectively, have been met. The main difference between the two types of sustainable products is that those that have sustainable investment as their objectives must focus on investments in economic activities that contribute to specific environmental or social objectives that correspond to EU policies and goals and that such investments must not significantly harm any of the other objectives.

TIPS

- ESG-linked loans and green bonds may help to raise the credibility of the company's ESG performance.
- Green loans are structured in the same way as standard loans but are tracked and allocated to green projects.
- Sustainability-linked loans involve setting sustainability performance KPI's for the borrower, e.g. reduction in carbon footprint, improvements in energy efficiency, or achieving a certain sustainability rating. If these targets are met, the borrower is rewarded with a direct financial benefit through reduced cost of borrowing. The potentially greater liquidity for an ESG-linked product may in itself drive enhanced pricing.

[21] Regulation (EU) 2019/2089 of the European Parliament and the Council of 27 November 2019 amending Regulation (EU) 2016/1011 as regards EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmark
[22] See European Commission (2019). European Green Bond Standard. Available at: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/european-green-bond-standard_en (accessed 27 July 2022)

3.2.3. Proposal for a Corporate Sustainability Due Diligence Directive (CSDDD)

On 23 February 2022, the European Commission published the proposal for EU-wide rules for mandatory corporate sustainability due diligence.[23] If adopted as proposed by the Commission, the legislation will oblige the largest EU companies (approximately 13,000 firms)[24] and non-EU companies operating in the EU (approximately 4,000 firms) to address adverse impacts across the value chain on:

- human rights, including workers' rights;
- health;
- climate;
- environment.

The rules will be mandatory for companies with >500 employees and a net turnover of over €150 million worldwide by means of national transposition laws two years after the CSDDD enters into force. Additionally, after two more years, it will also become mandatory for companies with >250 employees and a net turnover of over €40 million worldwide from sectors where a high risk of human rights violations or harm to the environment has been identified (e.g. in agriculture, textiles or minerals).

In addition, the new proposal requires companies to adopt a plan to ensure that their business strategy is compatible with limiting global warming to 1.5°C, in line with the Paris Agreement. The CSDDD will rely on the CSRD for public reporting on the implementation of the CSDDD obligations related to identifying and reporting on adverse impacts and their management by adopting appropriate actions and tracking their effectiveness.

Furthermore, the CSDDD is conceptually connected with the Taxonomy Regulation, which stipulates that sustainable activities must be supported by minimum social safeguards in line with the international standards on sustainability due diligence, and with the SFDR, which requires large investors to develop and disclose their due diligence policies to manage principal adverse impacts. In this regard,

The CSDDD will indirectly help clarify what is expected of companies and investors when implementing these due diligence obligations.

Member States could impose fines on companies or issue orders requiring companies to comply with the due diligence obligation. Victims of harm which could have been prevented or mitigated may bring a civil liability claim before the competent national courts.

CHALLENGE

- Under the ESRS, in line with sustainability due diligence companies need to identify and assess their material impacts, risks and opportunities in its upstream and downstream value chain in addition to those that occur in their own operations.
- Both the ESRS and CSDDD are based on international norms for human rights and sustainability due diligence, in particular the UN Guiding Principles for Business and Human Rights, the OECD Guidelines for Multinational Enterprise and the OECD Due Diligence Guidance for Responsible Business Conduct.
- In order to limit the burden for small and medium sized enterprises (SMEs) that are a part of the value chain, reporting that requires obtaining data from across the value chain will not be mandatory for the first three years. During that time companies will be required to use in-house data to provide insights on their value chain.[25]
- CSDDD will significantly raise the level of ESG management within the supply chain and for contractors. Companies have gained time to create programmes of cooperation with the ecosystem of business partners and suppliers, implement proper ESG risk management within supply chain, apply necessary policies, establish data gathering processes and controls, implement digital systems and switch from estimations to calculations based on real and reliable data.

[23] The scope and reach of the CSDDD are not clear as of the date of publication of these Guidelines.
[24] Proposal for a Directive of the European Parliament and of the Council on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937
[25] Except when value chain data are needed to enable users to comply with the requirements of other pieces of EU legislation.

3.3. Frameworks in use and international alignment

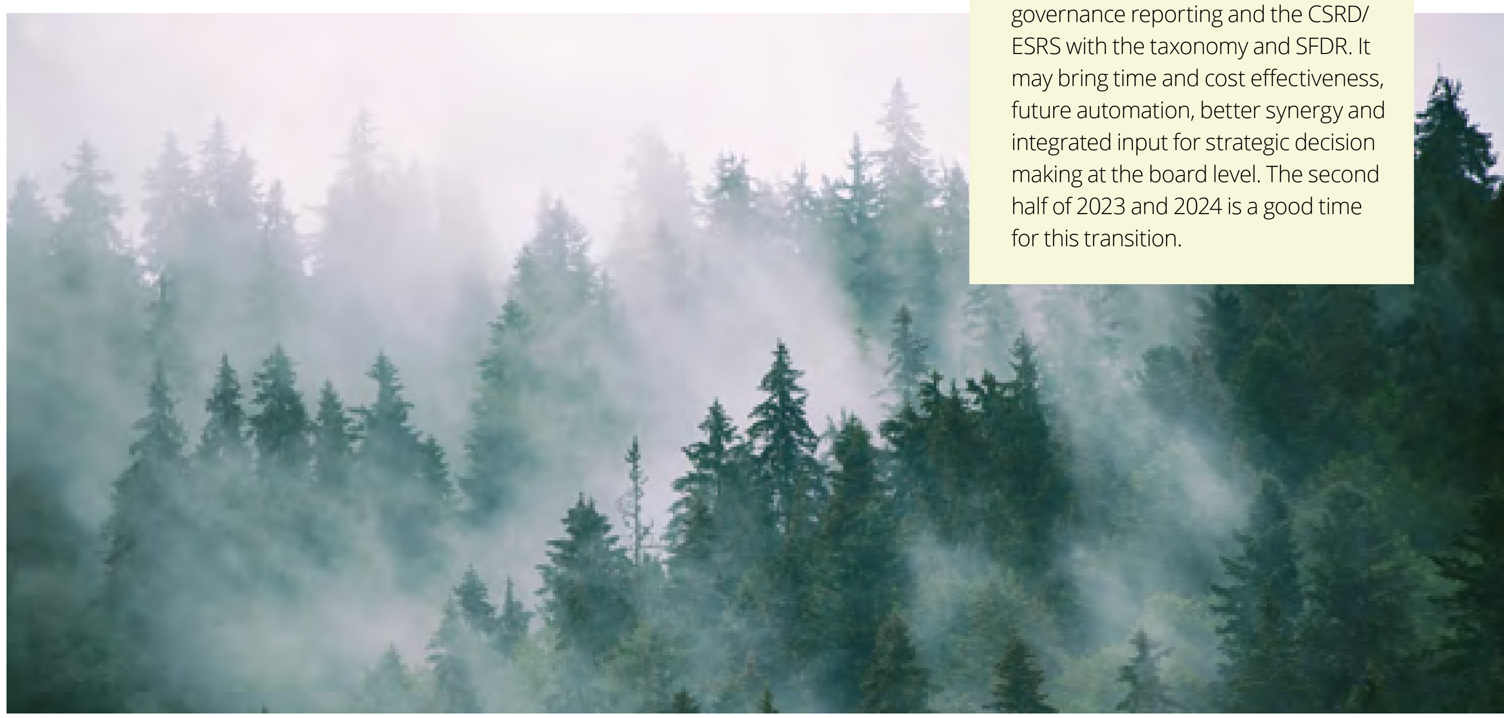
The ESRS integrate GRI indicators to the extent they are applicable to all sectors and intend to integrate sectoral **GRI** indicators in future sector-specific standards. The ESRS also incorporate the basic concept of impact materiality assessment from GRI. GRI standards include useful additional guidance, which can further assist companies.

The ESRS integrate the Recommendations of the Task Force on Climate-related Financial Disclosures (**TCFD**)[26] and supportive guidelines.[27]

The ESRS are aligned with the anticipated **IFRS** standards on sustainability-related financial disclosures, which are developed by the International Sustainability Standards Board under the IFRS Foundation. The financial materiality assessment in the ESRS double materiality concept follows the investor materiality assessment of IFRS. The architecture of the ESRS mirrors the IFRS (and TCFD) architecture. The ESRS integrate all of the proposed IFRS disclosures and principles, subject to specifications to ensure alignment with requirements stemming from EU legislation. Large listed companies can consult the IFRS standards to ensure that they present sustainability information in a format that allows international investors to easily locate the information required by the IFRS standards.

TIPS

- Adopting TCFD in FY 2023 will support the climate risk assessment needed for CSRD compliance and will ease convergence with IFRS on sustainability-related financial disclosures.
- Reporting streams are often separated and owned by different corporate departments (IR, Finance and controlling, ESG, Environmental, PR). Some data are gathered and described in parallel multiple times. A unified map of data sources can avert the problem of different departments providing different values for the same indicator, and thereby avoid presenting unreliable data to investors.
- Redesign the internal reporting process in an integrated way to link GRI reporting, IFRS financial and sustainability reporting, corporate governance reporting and the CSRD/ESRS with the taxonomy and SFDR. It may bring time and cost effectiveness, future automation, better synergy and integrated input for strategic decision making at the board level. The second half of 2023 and 2024 is a good time for this transition.



[26] See TFCD (2017) Recommendations of the Task Force on Climate-related Financial Disclosures. Available at: https://assets.bbhub.io/company/sites/60/2020/10/FINAL-2017-TCFD-Report-11052018.pdf (last accessed 26 July 2022)
[27] See TCFD (2021). Guidance on Metrics, Targets, and Transition Plans. Available at: https://assets.bbhub.io/company/sites/60/2021/07/2021-Metrics_Targets_Guidance-1.pdf (last accessed 25 July 2022)

NAVIGATION

- We explain in detail the European Sustainability Reporting Standards (ESRS)[28], which play a central role in the new regulatory framework and which define mandatory disclosures requirements applicable to all listed companies and large non-listed companies in the Czech Republic and in the EU as a whole.
- Section 4.1. explains the architecture of the draft ESRS and provides guidance how the individual standards work together
- Section 4.2. presents basic reporting principles
- Section 4.3. provides a high-level overview of the disclosure requirements in all standards
- Section 4.4. clarifies key application principles, including in particular on double materiality assessment
- Section 4.5. builds on section 4.3. by explaining details of the disclosure requirements across the standards, clarifying what specific data points are mandatory; and summarising application guidance on key issues in the area of ESG governance, strategy, risk management and metrics

4 Detailed overview of the new European Sustainability Reporting Standards (ESRS)

To meet the CSRD requirements, companies must apply the **European Sustainability Reporting Standards (ESRS),** which the European Commission will gradually adopt and expand in the form of delegated acts supplementing the CSRD.

The CSRD requires the European Commission to adopt the standards based on technical advice from the **European Financial Reporting Advisory Group (EFRAG).**[29] The ESRS were designed to provide a one-stop shop for sustainability reporting stemming from EU legislation for non-financial companies. Banks and large investment firms must apply their sectoral regulations in addition to the ESRS. The ESRS were created to ensure maximum compatibility and alignment with international reporting frameworks and standards, in particular the anticipated IFRS Sustainability Disclosure Standards. See Chapter 2

TIPS

The sector-agnostic ESRS consist of 84 disclosure requirements that specify 1144 datapoints. Companies will always have to report on 398 of these datapoints, whilst the rest are applicable if material.[30]

Though this number may appear overwhelming, the datapoints concern granular quantitative and qualitative aspects of disclosure requirements that help companies define the content and ensure comparability.

Datapoints and required categories of information may refer to any of the following:

- Description of management structure. Details of composition and role of governance bodies and their oversight, such as classification of members between executive and non-executive
- Description of the company's market position, its sector and or exposure to specified high-risk activities such as fossil fuels, and business model and value chain
- Description of a policy, providing information on its scope, objective, any commitments to particular topic area (ESRS standard)
- Qualitative criteria for description of financial effects of sustainability on company's strategy
- Approach and data inputs for the assessment of impacts, risks and opportunities and their results
- KPI presenting value (financial, such as effects of plans on cash flows, or ESG such as emissions) or estimation e.g. spend-based scope 3 emissions
- Models of future trends, e.g. biodiversity or climate change scenarios and their impact on the operations

The nature and level of detail of datapoints varies according with the subject matter of the disclosure.

[28] linked with the Corporate Sustainability Reporting Directive (CSRD) which replaces Non-Financial Reporting Directive (NFRD)
[29] https://www.efrag.org/About/Facts
[30] As of January 2023

4.1. The ESRS architecture and how to navigate it

The CSRD and ESRS establish the sustainability information that undertakings are required to include in their sustainability statements. Entities are required to provide qualitative, quantitative, forward-looking and retrospective information related to their impacts, including the value chain, covering short-, medium- and long-term time horizons. The reported information should enable readers to understand how sustainability-related issues may affect the entity's development, performance, position and financial capital (financial risks and opportunities). The information provided is subject to the application of double materiality in relation to environmental, social, and governance matters.

More information:
4.4.1. Double materiality assessment as the basis for sustainability disclosures
5.5. Materiality assessment

The disclosure requirements are organised in cross-cutting (or "general") standards and topical standards, which address a number of sustainability matters in **three overarching reporting areas:**

- Environment [ESRS E]
- Social [ESRS S]
- Governance [ESRS G]

Each is divided into specific topics.

Sustainability reporting based on the ESRS consists of **three layers:**

- **sector-agnostic** (mandatory cross-cutting disclosures [ESRS1 and ESRS2] and topical disclosures [ESRS E1-E5, ESRS S1-S4, ESRS G1] – applicable to all companies under CSRD regardless of their sector of activity)
- **entity-specific** (additional disclosures determined by the company to provide material information in relation to an entity's unique business context, impacts and risks)
- **sector-specific** (additional disclosures provided by the EU[31] – addressing relevant sustainability risks, impacts and opportunities considered to be material or potentially material due to the entity's sector).

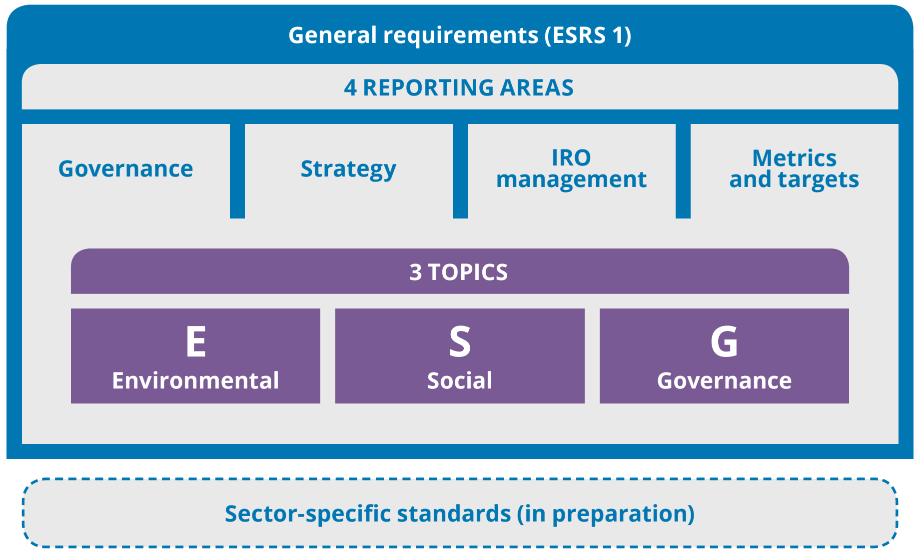
EFRAG has approved and presented to the European Commission drafts of the **12 sector-agnostic standards:**

- ESRS 1 General requirements
- ESRS 2 General disclosures

- 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

- ESRS S1 Own workforce
- ESRS S2 Workers in the value chain
- ESRS S3 Affected communities
- ESRS S4 Consumers and end-users
- ESRS G1 Business conduct

Figure 3: Overview of the scope of disclosure and the ESRS architecture



[31] Not available at the time of publication of these Guidelines

The CSRD and the first set of ESRS, which includes a full set of **sector-agnostic standards**, will be mandatory from the financial year 2024 with the report issued in 2025. It will be followed by multiple sets of **sector-specific standards** for 41 identified sectors.[32] The sector-specific standards are expected to set sector-specific requirements and provide additional disclosures related to the determination of material impacts, risks and opportunities, metrics and targets.

The European Commission plans to adopt a **simplified standard for SMEs listed on regulated markets**. The Commission will adopt a **standard** for **reasonable assurance** in 2028. It will also adopt a standard for reporting by non-EU corporate groups.

How are the ESRS relevant for SMEs listed on regulated markets?

The ESRS aim to standardise key sustainability information needs for the market as a whole.

SMEs—regardless of whether they are directly subject to the CSRD—can use the ESRS to prepare sustainability data that their larger business partners and banks will need from them.

In this regard, SMEs should pay particular attention to the indicators in the Metrics section See Chapter **4.5.4 Metrics and targets.**

Furthermore, from 2026,[33] the CSRD will apply directly to SMEs trading their securities on a regulated market in the EU (except micro-enterprises) The European Commission will adopt a special standard which will be mandatory for these SMEs. The standard will be aligned in structure and content with the main ESRS presented below, but it will provide more flexibility based on the simplified requirements.

The SME standard will include a set of key indicators and metrics similar to the main ESRS. This is because the ESRS metrics are based on the indicators provided in the SFDR for financial market participants, who will need the corresponding information from all their investee companies.

The CSRD allows SMEs to limit their disclosures to the following areas:

- a brief description of the undertaking's business model and strategy;
- a description of the undertaking's policies in relation to sustainability matters;
- the principal actual or potential adverse impacts of the undertaking on sustainability matters, and any actions taken to identify, monitor, prevent, mitigate or remediate such actual or potential adverse impacts;
- the principal risks to the undertaking related to sustainability matters and how the undertaking manages those risks;
- key indicators necessary for the disclosures in the material areas.

[32] The number of sector-specific standards may change in the future.
[33] Member States may postpone the application of the CSRD to these SMEs to 2028.

How and what should the company report?

Our guidance on key questions addressed by the ESRS

NAVIGATION

QUESTION we help to answer	ANSWERS provided in the Guidelines
How to ensure the quality of the content and data reported?	**KEY RULES** • Relevance • Faithful representation • Verifiability • Comparability • Understandability
How to ensure the quality of the structure and selection of indicators?	**KEY RULES** • Basic list of mandatory disclosures and data points for: – All companies regardless of materiality assessment – Companies with >250 or more employees only • List of additional disclosures and data points that companies may add depending on their materiality assessment or their own selection.
How to ensure quality of the process?	**KEY ELEMENTS OF THE PROCESS** • Double materiality assessment (range of the value chain) • Sustainable due diligence • Assurance
How to ensure necessary degree of reporting on the quality of sustainability strategy and management proses within material topics?	**KEY ELEMENTS TO DEEP DIVE** · Governance · Strategic goals · Future outlook · Risk management · Financial implications · Metrics
How to ensure compliance with technical requirements?	**KEY REQUIREMENTS** • Time horizons • Links, interconnections

4.2. Key rules to ensure quality of the content and data

The ESRS respond to increasing demands of analysts and capital market participants, and it is important for issuers to respond to these information needs accordingly. Decision-useful ESG disclosure has several key characteristics. It should be relevant, useful, comparable, verifiable and understandable.

TIPS

- The ESRS emphasise the importance of reliability, risk awareness and the implementation of strategic ambitions. ESRS includes new characteristics of investor-oriented ESG reporting compared to existing market guidelines like GRI standards and the NFRD. It values the concise and cohesive presentation of strategic management for each material area (measures, risk assessment, strategic targets, actions, policies and governance).

Key rules for ensuring the quality of the content and data

Feature	Requirements	Observations
RELEVANT		
	Sustainability information is relevant when it: • may make a difference in the decisions of stakeholders (to invest, to become an employee, to create business relations, etc.) • has confirmatory value • has predictive value • may be used in further analysis and forecasting	
FAITHFUL REPRESENTATION = USEFUL		
NEUTRAL	Sustainability information is neutral when it is: • material - it refers to negative and positive material impacts from both a sustainability and a financial perspective. • balanced - the entity presents both favourable/positive and unfavourable/negative aspects of its impacts, position and performance without bias. It presents not only successes, but also challenges. • reliable - not slanted, weighted, emphasised, or de-emphasised to make it more likely that the users will receive the information favourably or unfavourably.	
	• oriented towards real implementation - the entity presents not only commitments, aspirations, plans and goals, but also factors that could prevent them from achieving them. • prudent - opportunities are not overstated, risks are not understated and vice versa.	**New**

Feature	Requirements	Observations
COMPLETE	Sustainability information is complete when it: • presents the full spectrum of management quality within the main material areas—where the negative and positive impacts of the entity are, what the associated risk or opportunity is and if the company addresses this context in a complete way—through strategy (business, sustainability or integrated), governance, risk management, metrics to measure performance and whether strategic targets or goals are reached.	**New**
FREE FROM ERROR	Sustainability information is accurate and free of error or misstatement when: • areas of uncertainty are openly reported. • the entity presents limitations of data quality, availability and methods of calculation (e.g. possible limitations of estimation). • the entity presents implemented internal and external controls to ensure certainty of reported data.	
COMPARABLE		
	Sustainability information is comparable when it can be compared with information provided: • in previous reporting periods (approaches or methods of reporting must be consistent from period to period, changes must be reported and referral data adjusted). • by peers. • in benchmarks and ratings.	
VERIFIABLE		
	Verifiability helps give users confidence that information is complete, neutral and accurate. External assurance of reported data helps increase its credibility, allowing for more effective integration by investors.	**New**
UNDERSTANDABLE = CLEAR		
	Sustainability information is understandable when: • any user readily comprehends the information being communicated. • it is communicated in clear language, avoiding: – generic "boilerplate" information – unnecessary duplication of information (including information provided in financial statements) • it is provided in well-structured sentences and paragraphs. • it is provided with a focus only on material information. Complementary information should be provided in a way that avoids obscuring material information.	
	Clarity might be enhanced by distinguishing information about developments in the reporting period from "standing" information that remains relatively unchanged from one period to the next. For example, this can be done by describing features of the undertaking's sustainability-related governance and risk management processes that have changed since the previous reporting period separately from those that remain unchanged.	**New**

4.3. Mandatory disclosures

NAVIGATION

QUESTION we help to answer	ANSWERS provided in the Chapter
How to ensure the quality of the structure and selection of indicators?	**KEY RULES** • Basic list of mandatory disclosures and data points for: – All companies regardless of materiality assessment – Companies with >250 employees only • List of additional disclosures and data points that companies may add depending on their materiality assessment or their own selection.

NAVIGATION

In this section, we address the following points:

- What is the structure of the new European Sustainability Reporting Standard (ESRS)?
- What is mandatory to report under any circumstances?
- What other disclosure requirements companies need to consider based on the assessment of material impacts, risks and opportunities?

The map of data requirements outlined in this chapter presents an overview of ESRS standards, with a special focus on its alignment with the minimum list of SFDR PAI indicators, as the mandatory obligations which may influence listed companies preparing for new requirements.

Some ESRS disclosures are always mandatory irrespective of the outcomes of the company's materiality assessment. They are:

- **All information covered in ESRS 2 General disclosures (named as cross-cutting)**
- **All information covered in ESRS E1 Climate change**
- **Information on policies, actions and targets as outlined in ESRS S1 Own workforce if the company has 250 or more employees (S1-1 up to S1-9)**
- **Specific data points across other topical standards that are required by SFDR and other EU law are presented in Appendix C to ESRS 2**

See Chapter:
4.3. Mandatory disclosures
4.5.4 Metrics and targets

Cross-cutting standards

Cross-cutting standards provide sector-agnostic general requirements that are mandatory for all undertakings to which the CSRD applies regardless of the results of their materiality assessment

See **Double materiality principle.**

ESRS 1 provides general requirements and principles applicable to all ESRS, but it does not include any specific disclosure requirements. The cross-cutting disclosure requirements are provided in ESRS 2.

In their general disclosures pursuant to ESRS 2, the companies should reflect all material sustainability matters, taking into account guidance in both cross-cutting and topical standards.

The general disclosures should be provided in a cross-cutting section of the sustainability statement, except for disclosures on policies and actions as well as metrics and targets, which companies should include in topical sections in accordance with the disclosure requirements in the topical standards.

Topical standards

Topical standards provide disclosure requirements for specific environmental, social and governance matters, organised in the reporting areas set out in the cross-cutting standards.

ESRS 1 – General Application Requirements
[No specific datapoints to report on]

MANDATORY FOR ALL FALLING UNDER CSRD

CONTENT OF ESRS 1

Ch 1. **Categories of standards and disclosures** under ESRS	Ch 6. **Time horizon**
Ch 2. **Qualitative characteristics** of information	Ch 7. **Preparation and presentation** of sustainability information
Ch 3. Double materiality as the basis for sustainability disclosures	Ch 8. **Structure** of sustainability statements
Ch 4. Sustainability **due diligence**	Ch 9. **Linkages** with other parts of corporate reporting and connected information
Ch 5. **Value chain**	Ch 10. **Transitional provisions**
Appendix A: **Defined terms**	Appendix E: **Flowchart** for determining disclosures to be included
Appendix B: **Application Requirements**	Appendix F: **Structure** of ESRS sustainability statements
Appendix C: **Qualitative characteristics** of information	Appendix G: **Example of structure** of ESRS sustainability statements
Appendix D: List **of phased-in** Disclosure Requirements	Appendix H: **Example of incorporation by reference**

NAVIGATION

Abbreviations:

- Cross-cutting standards [CCR]
- General requirements [ESRS 1], General disclosures [ESRS 2]
- Requirements within 10 topical standards that may be assessed as material for the entity: [ESRS E] – environmental, [ESRS S] – social, [ESRS G] – governance
- Element within each of the Standards:
  - Governance [GOV],
  - Strategy and business model [SBM],
  - Policies to manage sustainability matters that are material for the company [DC-P],
  - Impacts, risks and opportunities management [IRO management],
  - Actions and resources [DC-A],
  - Metrics [DC-M] and targets [DC-T] in relation to material sustainability matters [E-, S-, G- #number]
- "Mandatory for All" means "Mandatory for all entities in the Czech Republic (both listed and non-listed) to which the CSRD applies"

ESRS 2 – General Disclosures

CSRD and ESRS: requirements to anticipate from the standard

MANDATORY FOR ALL FALLING UNDER CSRD

BASIS FOR PREPARATION

BP-1: General basis for preparation of the **sustainability statements**
BP-2: Disclosures in relation to specific circumstances

Governance

- GOV1: The role of the **administrative, management and supervisory bodies** SFDR
- GOV2: Information provided **to** and sustainability matters addressed **by** the undertaking's administrative, management and supervisory bodies
- GOV3: Integration of sustainability strategies and performance in **incentive schemes**
- GOV4: Statement on sustainability **Due Diligence**
- GOV5: **Risk management and internal controls** over sustainability reporting

SFDR REFERENCE (PAI)

- **Gender** diversity of the **board** (GOV1) SFDR

Strategy

- SBM1: **Market position, strategy, business model(s)** and **value chains** SFDR
- SBM2: Interests and views of **stakeholders**
- SBM3: **Material** impacts, risks and opportunities and their interaction with **strategy and business model**(s)

CROSS-CUTTING REQUIREMENTS TO ESRS 1

- Intellectual property, know-how or results of **innovation**

SFDR REFERENCE (PAI)

SFDR

- Information if company is active in **fossil fuel** sector through operating model, Information if company is active in chemicals production, Exposure to controvercsial **weapons**, Activities negatively affecting **biodiversity** – risks and **sensitive areas** **[SBM 1]**
- **Operations, geographies or commodities at significant risk of incidents of forced, compulsory or child labour [SBM 3]**

IRO management

DISCLOSURE ON THE MATERIALITY ASSESSMENT PROCESS

- IRO1: Description of **processes to identify and assess** material impacts, risks and opportunities
- IRO2: **Disclosure Requirements** in ESRS covered by the undertaking's **sustainability statements**

CROSS-CUTTING REQUIREMENTS ON POLICIES AND ACTIONS

- DC-P: **Policies** adopted to manage material sustainability matters
- DC-A: **Actions and resources** in relation to material sustainability matters

Metrics and Targets

- DC-M: **Metrics** in relation to material sustainability matters
- DC-T: Tracking effectiveness of **policies and actions through targets** (sustainability strategy goals, ESG performance – covering all material topics)

Other references: GRI

Mandatory Disclosure requirement

ESRS E1 – Climate change

CSRD and ESRS: requirements to anticipate from the standard

MANDATORY FOR ALL FALLING UNDER CSRD

General requirements

- E1-1: **Transition plan** for climate change **mitigation**

CROSS-CUTTING REQUIREMENTS

- DR related to ESRS 2 GOV1: The role of the **administrative, management and supervisory bodies** (AM&SB) in decarbonization, climate change adaptation and mitigation
- DR related to ESRS 2 SBM 3: Climate resilience of **strategy and business model**
- DR related to ESRS 2 GOV-3: Integration of climate change **strategies** and performance in **incentive schemes**

IRO management

- E1-2: **Policies** related to climate change mitigation and adaptation
- E1-3: **Action plans** and **resources** in relation to climate change policies and targets

CROSS-CUTTING REQUIREMENTS

- DR related to ESRS 2 IRO-1: Description of **processes to identify and assess** material climate-related impacts, risks and opportunities

Metrics and Targets

- E1-4: **GHG emission reduction targets** SFDR
- E1-5: **Energy consumption** and mix (inc intensity) SFDR
- E1-6: Gross Scopes 1, 2, 3 and Total **GHG emissions** (inc intensity in high climate impact sectors) SFDR
- E1-7: **GHG removals** and **GHG mitigation** projects financed through carbon credits
- E1-8: Internal **carbon pricing**
- E1-9: **Potential financial effects** from material physical risks, material transition risks and climate-related opportunities

CROSS-CUTTING REQUIREMENTS ON TARGETS

- CCR3: **Tracking effectiveness** of policies and actions through **targets**

Other references: Taxonomy | TCFD | IFRS ISSB | GRI

Mandatory Disclosure requirement

ESRS E2 – Pollution

CSRD and ESRS: requirements to anticipate from the standard

MANDATORY FOR ALL FALLING UNDER CSRD | **SUBJECT TO MATERIALITY ASSESMENT OF THE ENTITY**

General requirements

CROSS-CUTTING REQUIREMENTS

- DR related to IRO-1: Description of **processes to identify and assess** material pollution-related impacts, risks and opportunities

IRO management

- E2-1: **Policies** related to pollution
- E2-2: Pollution **actions** and **resources**

Metrics and Targets

- E2-3: **Targets** related to pollution
- E2-4: Pollution of **air, water and soil** SFDR
- E2-5: **Substances of concern** and substances of very high concern
- E2-6: **Potential financial effects** from pollution-related impacts, risks and opportunities

CROSS-CUTTING REQUIREMENTS ON TARGETS

- CCR3: **Tracking effectiveness** of policies and actions through **targets**

Other references: Taxonomy GRI

Mandatory Disclosure requirement · Only some Datapoints are mandatory

ESRS E3 – Water and marine resources

CSRD and ESRS: requirements to anticipate from the standard

MANDATORY FOR ALL FALLING UNDER CSRD | **SUBJECT TO MATERIALITY ASSESMENT OF THE ENTITY**

General requirements

CROSS-CUTTING REQUIREMENTS

- DR related to IRO-1: Description of **processes to identify and assess** material water and marine resources-related impacts, risks and opportunities

IRO management

- E3-1: **Policies** related to water and marine resources SFDR
- E3-2: **Actions** and **resources** related to water and marine resources policies and targets

Metrics and Targets

- E3-3: **Targets** related to water and marine resources
- E3-4: **Water consumption** SFDR
- E3-5: **Potential financial effects** from water and marine resources-related impacts, risks and opportunities

CROSS-CUTTING REQUIREMENTS ON TARGETS

- CCR3: **Tracking effectiveness** of policies and actions through **targets**

Other references: Taxonomy GRI

Mandatory Disclosure requirement · Only some Datapoints are mandatory

ESRS E4 – Biodiversity and ecosystems

CSRD and ESRS: requirements to anticipate from the standard

MANDATORY FOR ALL FALLING UNDER CSRD | **SUBJECT TO MATERIALITY ASSESMENT OF THE ENTITY**

General requirements

- E4-1: **Transition plan** for biodiversity and ecosystems

CROSS-CUTTING REQUIREMENTS

- DR related to SBM 3: Resilience of **strategy and business model**
- DR related to IRO-1: Description of **processes to identify and assess** material biodiversity and ecosystems-related impacts, risks and opportunities SFDR

IRO management

- E4-2: **Policies** related to biodiversity and ecosystems SFDR
- E1-3: **Action plans** and **resources** in relation to biodiversity and ecosystems policies

Metrics and Targets

- E4-4: **Targets** related to biodiversity and ecosystems
- E4-5: **Impact metrics** related to biodiversity and ecosystems change
- E4-6: **Potential financial effects** from biodiversity and ecosystems-related risks and opportunities

CROSS-CUTTING REQUIREMENTS ON TARGETS

- CCR3: **Tracking effectiveness** of policies and actions through **targets**

Other references: Taxonomy TNFD GRI

Mandatory Disclosure requirement · Only some Datapoints are mandatory

ESRS E5 – Resource use and circular economy

CSRD and ESRS: requirements to anticipate from the standard

MANDATORY FOR ALL FALLING UNDER CSRD | **SUBJECT TO MATERIALITY ASSESMENT OF THE ENTITY**

General requirements

CROSS-CUTTING REQUIREMENTS

- DR related to IRO-1: Description of **processes to identify and assess** material sustainability impacts, risks and opportunities

IRO management

- E5-1: **Policies** related to resource use and circular economy
- E5-2: **Action plans** and **resources** in relation to resource use and circular economy

Metrics and Targets

- E5-3: **Targets** related to resource use and circular economy
- E5-4: **Resource inflows**
- E5-5: **Resource outflows (products and services + waste)** SFDR
- E5-6: **Potential financial effects** from resource use and circular economy-related impacts, risks and opportunities

CROSS-CUTTING REQUIREMENTS ON TARGETS

- CCR3: **Tracking effectiveness** of policies and actions through **targets**

Other references: Taxonomy GRI

Mandatory Disclosure requirement · Only some Datapoints are mandatory

ESRS S1 – Own workforce

CSRD and ESRS: requirements to anticipate from the standard

MANDATORY FOR ALL FALLING UNDER CSRD (≥250 employees)

General requirements	IRO management	Metrics and Targets
CROSS-CUTTING REQUIREMENTS DR related to SBM-3: **Material** impacts, risks and opportunities and their interaction of impacts and the undertaking's strategy and business model(s) SFDR	S1-1: **Policies** related to own workforce SFDR S1-2: Processes for **engaging** with own workers and workers' representatives about impacts S1-3: Processes to **remediate negative impacts** and channels for own workers to raise concerns SFDR S1-4: **Taking action** on material impacts on own workforce, and approaches to **mitigating** material risks and pursuing material opportunities related to own workforce, and effectiveness of those actions **CROSS-CUTTING REQUIREMENTS TO SFDR** SFDR • Information on **Violations of UNGC principles and OECD guidelines** • **Lack of processes and compliance mechanisms** to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	S1-5: **Targets** related to managing material negative impacts, advancing positive impacts, and managing material risk and opportunities S1-6: Characteristics of the undertaking's **employees** S1-7: Characteristics of **non-employee workers** in the undertaking's own workforce S1-8: **Collective bargaining** coverage and social dialogue S1-9: **Diversity indicators** S1-14: **Health and safety** indicators SFDR S1-16: **Compensation** indicators (pay gap and total compensation) SFDR S1-17: **Incidents, complaints** and severe **human rights** impacts and incidents SFDR **CROSS-CUTTING REQUIREMENTS ON TARGETS** CCR3: **Tracking effectiveness** of policies and actions through **targets**

Other references: GRI

Mandatory Disclosure requirement | Only some Datapoints are mandatory

ESRS S1 – Own workforce

CSRD and ESRS: requirements to anticipate from the standard

SUBJECT TO MATERIALITY ASSESSMENT FOR LARGE ENTITIES FALLING UNDER CSRD (≥250 employees)

General requirements	IRO management	Metrics and Targets
CROSS-CUTTING REQUIREMENTS DR related to SBM-2: Views and interests of **stakeholders** DR related to SBM-3: **Material** impacts, risks and opportunities and their interaction of impacts and the undertaking's strategy and business model(s)		S1-10: Adequate **wages** S1-11: Social **protection** S1-12: Persons with **disabilities** S1-13: **Training and skills development** indicators S1-14: **Health and safety** indicators S1-15: **Work-life balance** indicators S1-16: **Compensation** indicators (pay gap and total compensation) SFDR S1-17: **Incidents, complaints** and severe **human rights** impacts and incidents **CROSS-CUTTING REQUIREMENTS ON TARGETS** CCR3: **Tracking effectiveness** of policies and actions through **targets**

Other references: GRI

ESRS S1 – Own workforce

CSRD and ESRS: requirements to anticipate from the standard

MANDATORY FOR MEDIUM AND SMALL ENTITIES FALING UNDER CSRD
(250 employees>)

General requirements

CROSS-CUTTING REQUIREMENTS

- DR related to SBM-3: **Material** impacts, risks and opportunities and their interaction of impacts and the undertaking's strategy and business model(s) SFDR

IRO management

- S1-1: **Policies** related to own workforce SFDR
- S1-3: Processes to **remediate negative impacts** and channels for own workers to raise concerns SFDR

CUTTING REQUIREMENTS TO SFDR SFDR

- Information on **Violations of UNGC principles and OECD guidelines**
- **Lack of processes and compliance mechanisms** to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises

Metrics and Targets

- S1-14: **Health and safety** indicators SFDR
- S1-16: **Compensation** indicators (pay gap and total compensation) SFDR
- S1-17: **Incidents**, **complaints** and severe **human rights** impacts and incidents SFDR

CROSS-CUTTING REQUIREMENTS ON TARGETS

- CCR3: **Tracking effectiveness** of policies and actions through **targets**

Other references: GRI

Mandatory Disclosure requirement · Only some Datapoints are mandatory

ESRS S1 – Own workforce

CSRD and ESRS: requirements to anticipate from the standard

SUBJECT TO MATERIALITY ASSESSMENT FOR LARGE ENTITIES FALLING UNDER CSRD
(250 employees>)

General requirements

CROSS-CUTTING REQUIREMENTS

DR related to SBM-2: Views and interests of **stakeholders**

DR related to SBM-3: **Material** impacts, risks and opportunities and their interaction of impacts and the undertaking's strategy and business model(s)

IRO management

S1-1: **Policies** related to own workforce

S1-2: Processes for **engaging** with own workers and workers' representatives about impacts

S1-3: Processes to **remediate negative impacts** and channels for own workers to raise concerns

S1-4: **Taking action** on material impacts on own workforce, and approaches to **mitigating** material risks and pursuing material opportunities related to own workforce, and effectiveness of those actions

Metrics and Targets

S1-5: **Targets** related to managing material negative **impacts**, advancing positive impacts, and managing material risks and opportunities

S1-6: Characteristics of the undertaking's **employees**

S1-7: Characteristics of **non-employee workers** in the undertaking's own workforce

S1-8: **Collective bargaining** coverage and social dialogue

S1-9: **Diversity** indicators

S1-10: Adequate **wages**

S1-11: Social **protection**

S1-12: Persons with **disabilities**

S1-13: **Training and skills development** indicators

S1-14: **Health and safety** indicators

S1-15: **Work-life balance** indicators

S1-16: **Compensation** indicators (pay gap and total compensation)

S1-17: **Incidents, complaints** and severe **human rights** impacts and incidents

Other references: GRI

ESRS S2 – Workers in the value chain

CSRD and ESRS: requirements to anticipate from the standard

MANDATORY FOR ALL FALLING UNDER CSRD

SUBJECT TO MATERIALITY ASSESMENT OF THE ENTITY

General requirements

CROSS-CUTTING REQUIREMENTS

DR related to SBM-3:
Material impacts, risks and opportunities and their interaction of impacts and the undertaking's strategy and business model(s)
SFDR

DR related to SBM-2: Views and interests of **stakeholders**

IRO management

S2-1: **Policies** related to value chain workers
SFDR

S2-2: **Processes for engaging** with value chain workers about impacts

S2-3: Processes to **remediate negative impacts** and channels for value chain workers to raise concerns

S2-4: **Taking action** on material impacts on value chain workers, and **approaches to mitigating** material risks and pursuing material opportunities related to value chain workers, and effectiveness of those actions
SFDR

CROSS-CUTTING REQUIREMENTS TO SFDR

SFDR

- Information on **Violations of UNGC principles and OECD guidelines, processes of monitoring and compliance**

SFDR Focus areas referring to OECD Guidelines and UN Global Compact:

- Human rights
- Workforce

Metrics and Targets

S2-5: **Targets** related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities

CROSS-CUTTING REQUIREMENTS ON TARGETS

CCR3: **Tracking effectiveness** of policies and actions through **targets**

Other references: GRI

Only some Datapoints are mandatory

ESRS S3 – Affected communities

CSRD and ESRS: requirements to anticipate from the standard

MANDATORY FOR ALL FALLING UNDER CSRD

SUBJECT TO MATERIALITY ASSESMENT OF THE ENTITY

General requirements

CROSS-CUTTING REQUIREMENTS

DR related to SBM-3:
Material impacts, risks and opportunities and their interaction of impacts and the undertaking's strategy and business model(s)

DR related to SBM-2:
Views and interests of **stakeholders**

IRO management

S3-1: **Policies** related to affected communities
SFDR

S3-2: **Processes for engaging** with affected communities about impacts

S3-3: Processes to **remediate negative impacts** and channels for affected communities to raise concerns

S3-4: **Taking action** on material impacts on affected communities, and **approaches to mitigating** material risks and pursuing material opportunities related to affected communities, and effectiveness of those actions
SFDR

CROSS-CUTTING REQUIREMENT TO SFDR

SFDR

- Information on Violations **of UNGC principles and OECD guidelines, processes of monitoring and compliance**

SFDR Focus areas referring to OECD Guidelines and UN Global Compact:

- Human rights

Metrics and Targets

S3-5: **Targets** related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities

CROSS-CUTTING REQUIREMENTS ON TARGETS

CCR3: **Tracking effectiveness** of policies and actions through **targets**

Other references: GRI

Only some Datapoints are mandatory

ESRS S4 – Consumers and end-users

CSRD and ESRS: requirements to anticipate from the standard

MANDATORY FOR ALL FALLING UNDER CSRD

SUBJECT TO MATERIALITY ASSESMENT OF THE ENTITY

General requirements	IRO management	Metrics and Targets
CROSS-CUTTING REQUIREMENTS DR related to SBM-3: **Material** impacts, risks and opportunities and their interaction of impacts and the undertaking's strategy and business model(s) DR related to SBM-2: Views and interests of **stakeholders**	DR S4-1: **Policies** related to consumers and end-users SFDR DR S3-2: **Processes for engaging** with consumers and end-users about impacts DR S3-3: Processes to **remediate negative impacts** and channels for consumers and end-users to raise concerns DR S3-4: **Taking action** on material impacts on consumers and end-users, and **approaches to mitigating** material risks and pursuing material opportunities related to consumers and end-users, and effectiveness of those actions SFDR **CROSS-CUTTING REQUIREMENT TO SFDR** SFDR • Information on Violations **of UNGC principles and OECD guidelines, processes of monitoring and compliance** SFDR Focus areas referring to OECD Guidelines and UN Global Compact: • Consumer interest	DR S4-5: **Targets** related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities **CROSS-CUTTING REQUIREMENTS ON TARGETS** CCR3: **Tracking effectiveness** of policies and actions through **targets**

Other references: GRI

Only some Datapoints are mandatory

ESRS G1 – Business conduct

CSRD and ESRS: requirements to anticipate from the standard

MANDATORY FOR ALL FALLING UNDER CSRD

SUBJECT TO MATERIALITY ASSESMENT OF THE ENTITY

General requirements	IRO management	Metrics and Targets
CROSS-CUTTING REQUIREMENTS DR related to ESRS 2: Governance (GOV), Strategy (SBM) and Management of impacts, risks and opportunities (IRO) DR related to ESRS 2 GOV-1: The role of the administrative, supervisory and management bodies DR related to ESRS 2 IRO-1: Description of the processes to identify and assess material impacts, risks and opportunities	DR G1-1: Corporate culture and business conduct **policies** SFDR DR G1-2: Management of relationships with **suppliers** DR G1-3: Prevention and detection of **corruption/bribery** **CROSS-CUTTING REQUIREMENT TO SFDR** SFDR • Information on **Violations of UNGC principles and OECD guidelines, processes of monitoring and compliance** SFDR Focus areas referring to OECD guidelines and UN Global Compact: • Anticorruption • Competition • Tax • Science and technology	DR G1-4: **Confirmed incidents** of corruption or bribery SFDR DR G1-5: **Political influence and lobbying activities** DR G1-6: **Payment practices** **CROSS-CUTTING REQUIREMENTS ON TARGETS** CCR3: **Tracking effectiveness** of policies and actions through **targets**

Other references: GRI

Mandatory Disclosure requirement Only some Datapoints are mandatory

Additional mandatory indicators - SFDR and investors' information needs

Large investors—financial market participants—have a legal obligation to report on principal adverse impacts of their investment. The SFDR provides investors with detailed regulatory technical standards which include mandatory indicators for reporting such impacts. In turn, investors are required to collect the relevant data from their investee companies.

In order to address this information need, the ESRS are closely aligned with the SFDR requirements for investors' reporting on principal adverse impacts and with related sustainable finance legislation, especially the EU Benchmarks Regulation. The SFDR principal adverse impact indicators are incorporated in:

01. General disclosure requirements in ESRS 2 concerning governance and strategy, which are always mandatory. The scope of ESRS requirements is broader than that of SFDR. Therefore, by complying with ESRS requirements, the company will provide data which the SFDR requires investors to collect.
02. Disclosure requirements on policies, metrics and targets that are applicable regardless of the outcome of the company's materiality assessment. These disclosure requirements are always mandatory because their purpose is to facilitate disclosures required from investors under the SFDR.

MANDATORY FOR ALL USING FINANCIAL PRODUCTS AND PREPARING FOR IPO

MANDATORY KP1

ENVIRONMENTAL	
	CORPORATE INVESTMENTS
	01. GHG emisions (scope 1, 2 and from January 2023, scope 3 and total GHG emissions)
	02. Carbon footprint
	03. GHG intensity of investee companies
	04. Share of investments in companies active in the fossil fuel sector
	05. Share of non renewable energy consumption and production
	06. Energy consumption intensity per high impact climate sector
	07. Activities negatively affecting biodiversity sensitive areas
	08. Emissions to water
	09. Hazardous waste ratio
	REAL ESTATE INVESTMENTS
	10. Exposure to fossil fuels through real estate assets
	11. Exposure to energy-inefficient real estate assets

SOCIAL	
	CORPORATE INVESTMENTS
	12. Violations of UN Global Compact principles and OECD Guidelines for MNEs
	13. Lack of processes and compliance mechanism to monitor compliance with UN Global Compact principles and OECD Guidelines for MNEs
	14. Unadjusted gender pay gap
	15. Board gender diversity
	16. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)

SFDR Focus Global Compact:

- Human rights
- Workforce
- Environment
- Anticorruption
- Consumer interest
- Science and technology
- Competition
- Tax

4.4. How to ensure the quality of the process

NAVIGATION

QUESTION we help to answer	ANSWERS provided in this chapter
How to ensure the quality of process?	**KEY ELEMENTS OF THE PROCESS** • Double materiality assessment (range of the value chain) • Sustainability due diligence • Assurance

4.4.1. Double materiality assessment as the basis for sustainability disclosures

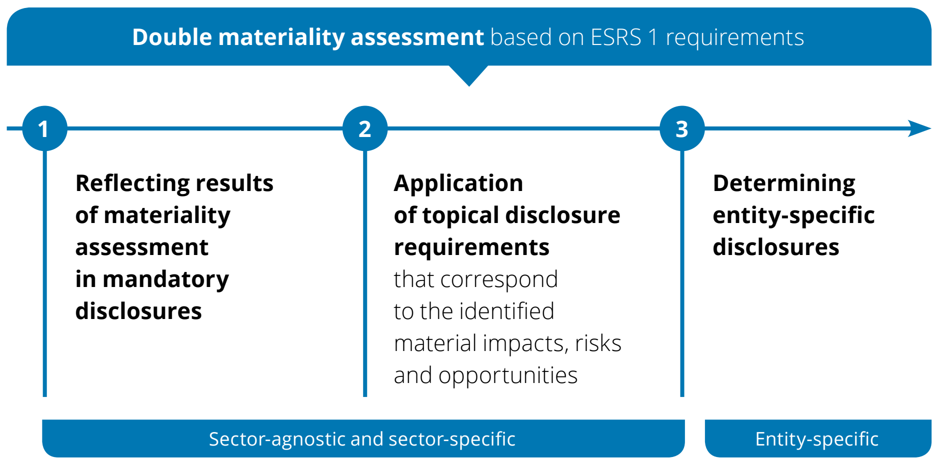
ESRS require companies to disclose **material information** regarding their sustainability impacts, risks and opportunities, in accordance with applicable topical ESRS.
In the first step, companies need to carry out a materiality assessment following the double materiality requirements in ESRS 1 and describe the process and the outcomes of the materiality assessment in the general disclosures in ESRS 2

See **Chapter 3.2.3**

In the second step, ESRS require companies to apply those topical standards (ESRS E, S, G) and the individual disclosure requirements therein which correspond to material impacts, risks and opportunities.

In the last step, companies need to complement the standardised disclosures with additional entity-specific information, where the topical standards do not provide disclosure requirements concerning the company's material matters or where they do so in insufficient detail to enable the understanding of those matters.

Figure 4: How materiality assessment determines the application of disclosure requirements



Double materiality

The CSRD and ESRS require companies to identify and assess their sustainability-related material impacts, risks and opportunities by applying the **double materiality principle,** which has two interrelated dimensions: impact materiality and financial materiality. In general, the starting point is the assessment of impacts, which is followed and complemented by an assessment of whether such impacts—and matters other than company's impacts such as physical risks of climate change—may be financially material. The ESRS require companies to identify and report on matters that are material for them from either of the two perspectives or both.

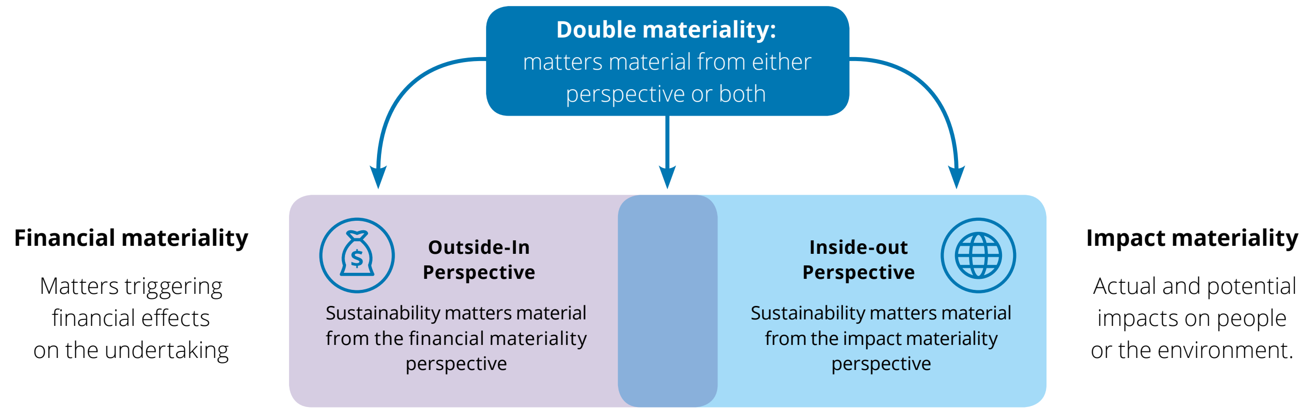
The ESRS define the two dimensions of double materiality based on the following criteria:

- A sustainability matter is material from a **financial perspective** if it triggers or may trigger material financial effects on the undertaking's development, including cash flows, financial position and financial performance, in the short-, medium- or long-term. This is the case, in particular, when it generates or may generate risks or opportunities that significantly influence or are likely to significantly influence its future cash flows.
- A sustainability matter is material from an impact perspective when it pertains to the undertaking's material actual or potential, positive or negative impacts on people or the environment over the short-, medium- or long term. A material sustainability matter from an **impact perspective** includes impacts caused or contributed to by the undertaking and impacts which are directly linked to the undertaking's own operations, products and services and through its business relationships. Business relationships include the undertaking's upstream and downstream value chain and are not limited to direct contractual relationships.[34]

The financial materiality perspective is aligned in terms of concepts and terminology, as well as related disclosures in general (ESRS 2) and climate change (ESRS E1) disclosures, with the IFRS investor materiality assessment. It is expected to correspond to the requirements in future IFRS S1 and S2.

In line with the CSRD requirements, impact materiality is based on the sustainability due diligence concept defined in the international instruments, particularly in the UN Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidance for Responsible Business Conduct. In this way, it is conceptually aligned with GRI Universal Standards. Accordingly, materiality is determined by the severity and likelihood of impacts, and not by the proximity of impacts or the company's control over them.

Figure 5: Double materiality



Value chain

ESRS require companies to identify, assess and report on their material impacts, risks and opportunities across their entire value chain.

The financial materiality of a sustainability matter is not constrained to matters that are attributable to the company. Companies can be affected by changing regulatory and market expectations regarding sourcing of materials or products from supply chains and geographies known for high risk of negative impacts.

Similarly, a company's assets can be exposed to increasing risks of floods, heat waves and other effects of climate change, regardless of its contribution to global greenhouse gas emissions.

Impact materiality is determined by the severity and likelihood of impacts, and not by the proximity of impacts or the company's control over them. The impact, however, must be directly linked to the company by a business relationship, so it must be part of its upstream or downstream value chain.

The ESRS requirement to include value chain information does not require information on each and every entity in the value chain, but the inclusion of material value chain information.

In this regard, topical ESRS provide companies with guidance on how to identify and assess impacts and risks in the sub-topics they cover. The future sector-specific standards will provide additional guidance and potentially some value chain metrics.

In order to determine relevant issues and value chain information, companies may also consult available guidance applicable to their sector, activities, geographic locations and value chains.

CHALLENGE

CASE STUDIES

Examples of material impacts in the value chain:

01. A company uses cobalt supplied by an external mining company (global brand) which extracts cobalt using child labour. In such case, the negative impact (i.e. child labour) is directly linked to final products—electric cars—through business relationships in its supply chain (e.g. through a smelter and mineral trader, with a mining company that uses child labour), even if the company itself did not cause or contribute to the negative impact.

02. A large share of global polysilicon production is concentrated in the Xinjiang region of China, and is associated with China's policy towards Uyghurs, which involves the systemic use of forced labour. This represents a material human rights impact for companies in the energy sector that directly or indirectly source photovoltaic panels from China.

03. Global deforestation and destruction of other valuable natural ecosystems is attributed to several commodities, including cattle, soy, palm oil, coffee, cocoa and timber. Using such commodities in own products, or trading products which include them, directly links a company to the underlying impacts. In addition, the EU Deforestation Regulation will set due diligence rules for companies that sell relevant products on the EU market, and will require tracing the commodities to the farmland.

See **Minimum safeguards and sustainability due diligence**

[34] EFRAG, European Sustainability Reporting Standard 1 General provisions, accessible here: https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2F06%2520Draft%2520ESRS%25201%2520General%2520requirements%2520November%25202022.pdf

4.4.2. Sustainability due diligence and minimum safeguards assessment

The CSRD requires undertakings to provide 'a description of the due diligence process implemented with regard to sustainability matters'. As set out in draft ESRS 1, **sustainability due diligence** is the process by which companies **identify, prevent, mitigate and account for** material actual and potential negative impacts on the environment and people connected with their business.

These include impacts **directly caused** by the undertaking and impacts to which the undertaking contributes through its activities, as well as impacts that are otherwise **directly linked to the undertaking's own operations, its products or services** through its business relationships.
Large investors who report on their principal adverse impacts in line with the SFDR requirements also request information on sustainability due diligence from their investee companies. The ESRS ensure transparency on the extent and quality of companies' due diligence. These disclosures will be increasingly important in light of new regulations which will set mandatory due diligence rules, in particular the CSDDD.

Similarly, EU Taxonomy requires assessing compliance with the minimum safeguards as part of the taxonomy-alignment analysis. An economic activity can only be counted as Taxonomy-aligned if is carried out in compliance with the minimum safeguards, which are defined in article 18 of the taxonomy and further explained by the EU Platform on Sustainable Finance. Non-compliance with minimum safeguards is determined if one of the following criteria applies to the company:

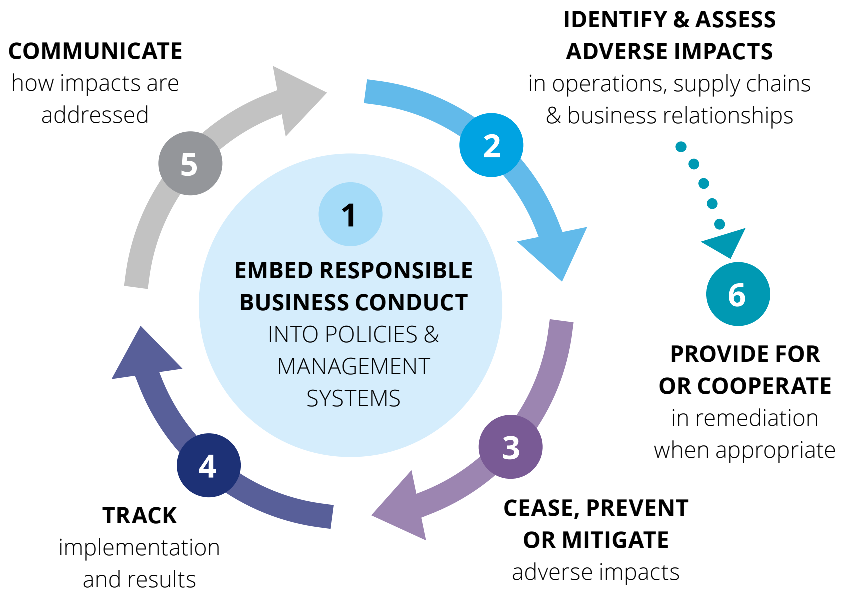
- The company has not established adequate **sustainability due diligence** process, as outlined in the UN Guiding Principles for Business and Human Rights and OECD Guidelines for Multinational Enterprises.
- There are clear indications that the company does not adequately implement human rights due diligence – for example it does not take appropriate action to address identified potential and actual impact(this could be, but does not need to be confirmed by final court rulings, OECD National Contact Point cases).

The EU Taxonomy minimum safeguards refer to the same process of sustainability due diligence as the CSRD and ESRS, and CSDDD, which is defined in the international instruments. Sustainability due diligence is an ongoing process of identifying, assessing and preventing negative human rights and environmental impacts in companies' own operations and business relationships, including the value chain. The main elements of human rights due diligence include:

- Embedding a commitment to respect human rights into policies and procedures.
- Identification and assessment of adverse impacts including through stakeholder engagement.
- Taking actions to cease, prevent, and mitigate adverse impacts.
- Tracking implementation effectiveness.
- Communication on human rights impacts.
- Remediation, including the establishment of a grievance mechanism.

Sustainability due diligence is an ongoing practice that responds to changes in an undertaking's strategy, business model, activities, business relationships, operating, sourcing and selling contexts. ESRS 1 provides a comprehensive framework for reporting on the core elements of sustainability due diligence, which include:

Figure 6: Sustainability Due Diligence



[Source: OECD, https://www.oecdguidelines.nl/oecd-guidelines/due-diligence]

Embed due diligence and responsible business conduct in governance, strategy, policies and management systems	• Due diligence should be embedded in the organization from the top and across all functions • Mindsets, behaviours and practices necessary to minimise impacts on human rights and the environment should be grounded • It is expressed in coherence of strategy with human rights and environmental commitments, allocation of responsibilities, integration in decision-making, budget allocations and oversight, and effective information flows to the senior management and the board of the company.
Engage with affected stakeholders in all steps of the due diligence (ongoing process)	• Engage stakeholders to identify, address and remediate actual and potential impacts • Provide necessary information to the stakeholders • Listen to their views and experiences
Identify and assess adverse impacts	• Identify instances where the company is, or is at risk of being, involved with negative impacts on the evironment or people • Assess the nature of those actual or potential impacts (context, causes, severity etc.) • Assess how the company is involved with the impact and how severe it is in order to determine adverse impacts. The company can be involved with an impact by causing it, contributing to it, or being linked to it. Causing means that its actions (or omissions) on their own result in the impact. Contributing means that the company facilitates or incentivises a third party to cause an impact, or that its actions (or omissions), combined with those of others, result in the impact. Direct linkage means that, while the company does not cause or contribute to it, an impact is nevertheless directly linked to its operations, products or services through a business relationship (which may be a direct or remote relationship in the value chain). The severity of an impact is informed by how grave the harm is or would be, how widespread the harm is or would be, and how hard it is or would be to put the harm right. Any one of these factors may be sufficient to judge the impact to be severe. For potential impacts, an assessment of their likelihood is also important.
Cease, prevent, mitigate, take actions to address those adverse impacts	• If the company causes or may cause the impact, it should take action to cease or prevent the impact. • If the company contributes, or may contribute, to the impact, it should take action to cease or prevent its contribution, and use its leverage to mitigate any remaining impact. • If there is no contribution by the company, but the impact is directly linked to its operations, products or services, the company should first and foremost use its leverage with third parties to seek to prevent or mitigate the impact. The more complex or systemic the issue, or the more remote in a company's value chain, the more likely that exercising leverage will require some form of collaboration with others, whether industry peers or other public, private, international or civil society organisations. It may also require forms of collective action. • If the company has caused or contributed to an adverse impact, it should provide for, or cooperate in securing remedy for those harmed, whether by itself or in collaboration with others.
Track and communicate the effectiveness of these efforts	• Processes to track effectiveness are expected to be based on a mix of qualitative and quantitative indicators and draw on internal as well as external feedback, including from affected stakeholders. • Tracking effectiveness should be focused on evaluating whether the company's activities are leading to better outcomes for stakeholders.

The company can be involved with an impact by causing it, contributing to it, or being linked to it. Causing means that its actions (or omissions) on their own result in the impact. Contributing means that the company facilitates or incentivises a third party to cause an impact, or that its actions (or omissions), combined with those of others, result in the impact. Direct linkage means that, while the company does not cause or contribute to it, an impact is nevertheless directly linked to its operations, products or services through a business relationship (which may be a direct or remote relationship in the value chain). In situations that appear to be limited to direct linkage, companies need to consider whether the company's own business model, decisions or practices may play a role, even if the impact appears to be caused by a third party.

The severity of an impact is informed by how grave the harm is or would be, how widespread the harm is or would be, and how hard it is or would be to put the harm right. Any one of these factors may be sufficient to judge the impact to be severe. For potential impacts, an assessment of their likelihood is also important.

Due diligence requires that action be taken to address negative impacts that have been identified.

Due diligence specifies that the nature of the appropriate action to prevent and/or mitigate an impact depends on the nature of the company's involvement with the impact:

- If the company causes or may cause the impact, it should take action to cease or prevent the impact.
- If the company contributes, or may contribute, to the impact, it should take action to cease or prevent its contribution, and use its leverage to mitigate any remaining impact.
- If there is no contribution by the company, but the impact is directly linked to its operations, products or services, the company should first and foremost use its leverage with third parties to seek to prevent or mitigate the impact. The more complex or systemic the issue, or the more remote in an company's value chain, the more likely that exercising leverage will require some form of collaboration with others, whether industry peers or other public, private, international or civil society organisations. It may also require forms of collective action.

If the company has caused or contributed to an adverse impact, it should provide for, or cooperate in securing remedy for those harmed, whether by itself or in collaboration with others.

Action to verify whether negative impacts are being addressed effectively is an integral part of due diligence. Processes to track effectiveness are expected to be based on a mix of qualitative and quantitative indicators and draw on internal as well as external feedback, including from affected stakeholders. While it can be important to measure the quality or reach of an company's activities or the outputs they produce, tracking effectiveness is focused on evaluating whether these are leading to better outcomes for stakeholders.

Companies are expected to be prepared to communicate externally about how they address their environmental and human rights impacts, to provide some transparency and accountability to stakeholders—in particular affected stakeholders. Meaningful, ongoing stakeholder engagement can play a significant role in this element of due diligence.

TIPS

Pursuant to the EU taxonomy, SFDR and ESRS, companies should disclose how and to what extent they comply with minimum safeguards and international documents referring to human and labour rights such as:

- The UN Guiding Principles on Business and Human Rights, guiding principles covering the corporate responsibility to respect human rights and human rights due diligence
- The Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, a set of recommendations for responsible business conduct in a global context. The OECD Guidelines incorporate UN Guiding Principles and extend the human rights due diligence concept to employment and industrial relations, environment, bribery, consumer interests, science and technology, and competition and taxation).
- The eight fundamental conventions of the International Labour Organisation, legal instruments covering fundamental principles and rights at work (such as freedom of association, elimination of all forms of forced or compulsory labour, effective abolition of child labour, and the elimination of discrimination in respect of employment and occupation). The UN Guiding Principles and the OECD Guidelines also refer to these international human rights.
- The International Bill of Human Rights.

4.5. Disclosures on the quality of management

NAVIGATION

QUESTION we help to answer	ANSWERS provided in this chapter
How to ensure necessary degree of reporting on the quality of sustainability strategy and management processes within material topics?	**KEY ELEMENTS** • Governance • Strategic goals • Future outlook • Risk management • Financial implications • Metrics

NAVIGATION

- To help companies comply with the ESRS, reporting requirements from all standards (ESRS 2, ESRS E1-5, ESRS S1-4, ESRS G1) have been aggregated into clusters: governance, strategic goals, IRO management, and metrics. Requirements have been integrated across the regulation, instead of presenting each standard separately. In each cluster, the **reader may find which datapoints are mandatory stemming from other EU legislation**[35]—SFDR, Benchmarks, Pillar III, and EU Climate Law. These indicators are also of great importance for investors.
- This section **enables primary, high level gap assessment** in line with new regulation. We advise conducting a proper health check (detailed gap analysis) and due diligence as the next steps.
- The original structure of the ESRS, presenting each standard and a list of mandatory indicators, See in **Chapter 4.3**

[35] Datapoints from topical ESRS listed in Appendix D of ESRS 2; disclosure of ESRS datapoints in accordance with EU laws and ESRS 1 chapter 3 listed in Appendix E

NAVIGATION

In this section we present practical examples and guidance on how to address this part of the regulation with a special **focus on climate issues**. ESRS E1 (Climate change) is interconnected with ESRS 2 (on governance, strategy, risk management, and metrics). Both ESRS E1 and ESRS 2 are mandatory for all undertakings to which the CSRD applies, regardless of materiality assessment. Analysis of the status of current reporting practice shows that those standards will pose the greatest challenge for companies. In this chapter, we present practical examples of decarbonisation transition planning and other technicalities.

4.5.1. Governance

Figure 7: Reporting areas - Governance

4 REPORTING AREAS

Governance → **Strategy** → **IRO management** → **Metrics and targets**

The disclosures on governance are mandatory, which means that the individual data points cannot be omitted. However, the actual content of the disclosures depends on the individual company because it concerns descriptions of the company's governance bodies and of the processes and procedures that allow them to monitor and manage sustainability matters.

Accordingly, the ESRS require the following disclosures:

- The composition and diversity of the company's administrative, management and supervisory bodies and their roles and responsibilities
- Mandatory datapoints including, among others, two datapoints corresponding to requirements of the SFDR and Benchmarks Regulation:
  - the average ratio of female to male board members, and other aspects of diversity that the undertaking considers
  - the percentage of independent board members
- Expertise and skills they can leverage with regard to the company's material sustainability matters
- How the administrative, management and supervisory bodies are informed about material impacts, risks and opportunities, how they consider them, and which specific matters they address
- Integration of sustainability strategies in incentive schemes for the management, advisory and supervisory bodies

Additionally:

- A statement on sustainability due diligence, including an overview of the location of information in the sustainability statements about the sustainability due diligence processes; this information reflects the investors' needs due to the SFDR requirements
- Risk management and internal controls over sustainability reporting

CHALLENGE

STRATEGY: CLIMATE CHANGE GOVERNANCE

E
Environmental

Companies should disclose specifically whether their and senior executives' performance has been assessed against the GHG emissions reduction targets (decarbonisation strategy and implementation roadmap).

As an issuer, you should explain the relevance of ESG factors to your business, operating model and strategy. You should make clear how your company is positioning itself to benefit from these factors or to manage and mitigate associated risks.

4.5.2. Strategy

Figure 8: Reporting areas - Strategy

4 REPORTING AREAS

Governance → **Strategy** → IRO management → Metrics and targets

Based on the determination of material impacts, risks and opportunities, the ESRS require an explanation of **how the material impacts, risks and opportunities interact with a company's strategy and business model.** The ESRS require companies to provide the following disclosures:

- Market position
- Business model and value chain with the level of detail needed to provide an understanding of the company's exposure to sustainability related impacts, risks and opportunities (that may have financial implications) and where they originate
  - Where applicable, this disclosure should include a statement indicating, together with the related revenues, that the company is active in the fossil fuels sector, chemicals production, controversial weapons (anti-personnel mines, cluster munitions, chemical and biological weapons), or cultivation and production of tobacco, in alignment with SFDR requirements.
- Strategy (sustainability or integrated) along with target KPIs
- Material impacts, risks and opportunities and their interaction with the strategy and business model, including:
  - How impacts affect people or the environment, whether the company is involved with the impacts through its activities or its business relationships; whether and how impacts originate from the company's strategy and business model
  - How the risks and opportunities relate to the company, where in the value chain materiality risks and opportunities are concentrated, and which of them could affect its business model, strategy, cash flows, access to finance and cost of capital
  - The effects of impacts, risks and opportunities on the company's strategy and decision-making, including changes to the business model
  - The current and anticipated effects of risks and opportunities, reflecting the company's investment plans, on the company's financial position, performance, cashflows and financial planning
  - The assessment of the resilience of the company's strategy and business model with respect to the risks
- Overview of how the strategy and materiality assessment process take into account the views, interests and expectations of stakeholders

Companies should consider listing business activities, site locations and business relationships associated with the identified impacts, risks and opportunities, and providing relevant contextual information. Based on SFDR requirements, the ESRS require companies to describe specifically:

- activities negatively affecting biodiversity-sensitive areas, whether they have identified material negative impacts with regards to land degradation, desertification or soil sealing, and whether they or their operations affect threatened species
- own operations at significant risk of incidents of forced or compulsory or child labour either in terms of types of operations or countries and geographic areas, as well as any geographies (at country level or other levels) or commodities for which there is a significant risk of child labour, or of forced or compulsory labour, among workers in the undertaking's value chain
- the types of stakeholders affected by impacts and whether the impacts are systemic or related to particular incidents

The information needs to be sufficiently granular to enable the readers to understand the identified material impacts, risks and opportunities. The detailed information may be provided in the topical disclosures, while the cross-cutting section of the sustainability statement can focus on high-level summary.

CHALLENGE

STRATEGY: CLIMATE CHANGE SPECIFICATIONS

E
Environmental

ESRS E1 provides further specifications and requirements which companies need to disclose regarding their strategy in relation to climate change.

These disclosures are also mandatory. The main specifications are as follows:

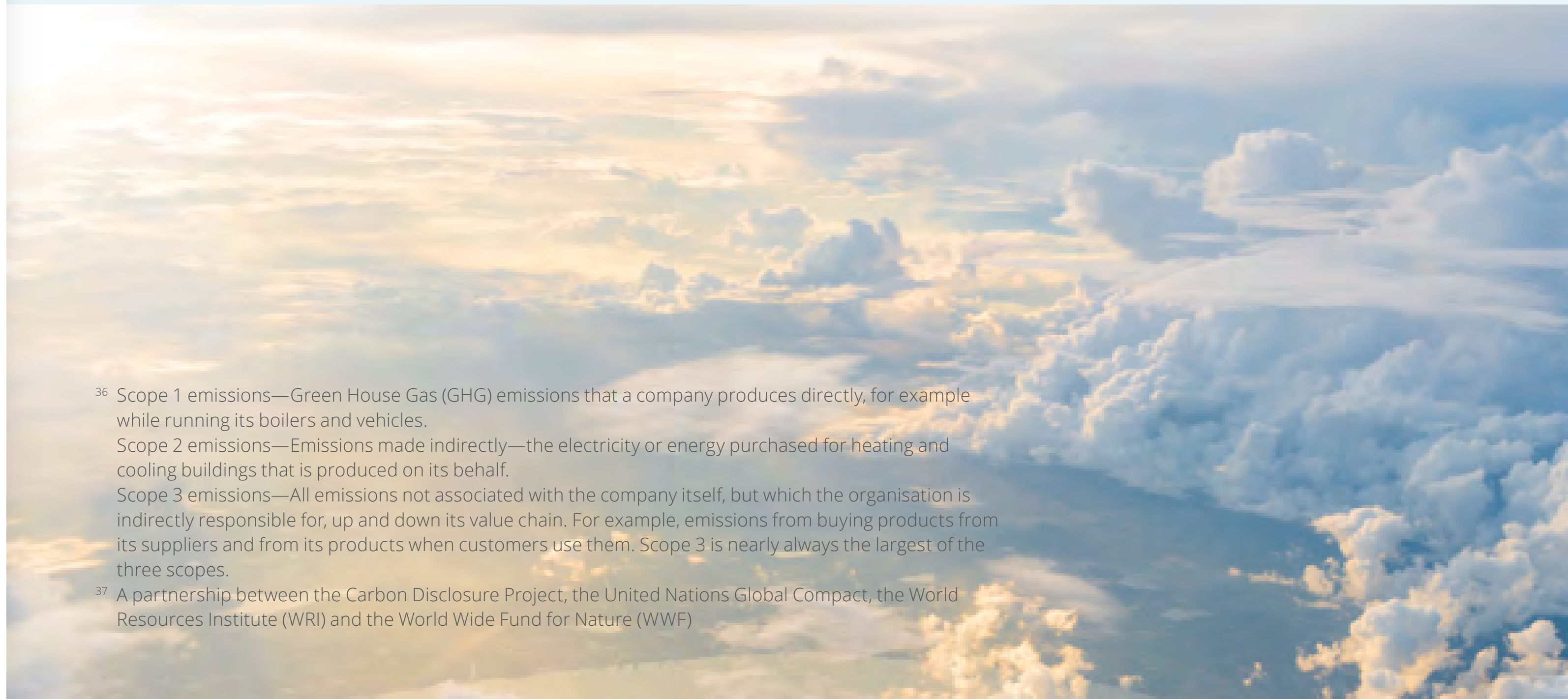
Transition plan—or a statement that the company has not adopted one—to ensure the company's strategy and business model are compatible with limiting global warming to **1.5°C** in line with the Paris Agreement and with the objective of achieving climate neutrality by 2050, including explanations of:

- the alignment of the company's climate targets and action plans with the above goals, the decarbonisation levers, investment and funding of the transition plan, how the plan and the targets are reflected in the company's strategy and governance, the role of alignment with the EU taxonomy, and whether or not the company is excluded from the EU Paris-aligned Benchmarks.
- the qualitative assessment of locked-in GHG emissions from key assets and products; how such emissions affect the company's targets and plan.
- its climate change mitigation ambition and whether and when it will adopt a transition plan, in the case that the company does not or not yet have a transition plan.

Targets: Companies shall specifically report on their targets—or the absence thereof—for the reduction of GHG emissions in scopes 1, 2 and 3,[36] in five-year rolling periods and include target values for at least the years 2030 and 2050. The information shall be presented over the target period with reference to a cross-sector or sector-specific emission pathway in line with limiting global warming to 1.5°C.

How can a company develop climate mitigation targets?

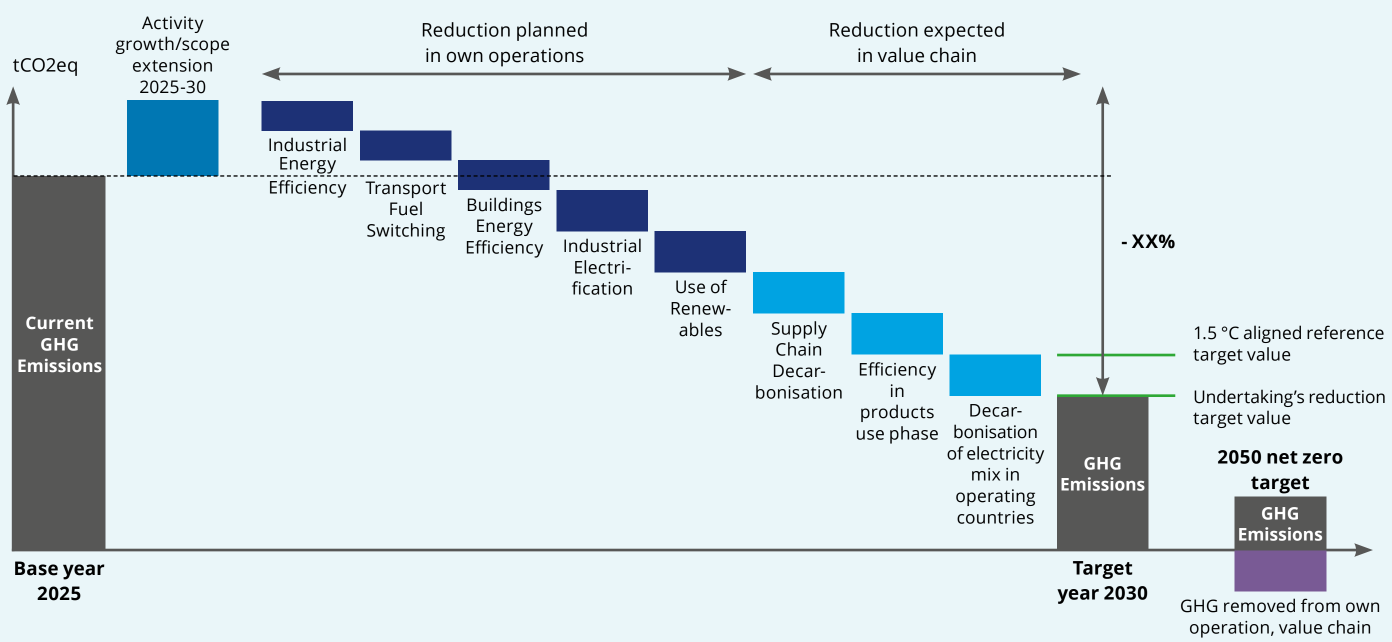
The ESRS recommend using the **One Earth Climate Model (OECM)** and Science Based Targets initiative (SBTi)[37] Net Zero Standard for defining reference values for targets. In this regard, the CSRD requires companies to disclose their plans for ensuring that their business model and strategy are compatible with limiting global warming to 1.5°C and other scenarios of climate change. The CSDDD proposes a legal obligation for very large companies to adopt such climate transition plans.
The SBTi offers practical guidance on setting emission reduction targets, including how to select the temperature goal for aligning scope 1 and scope 2 targets, how to identify the target time frame, and whether sector-specific guidance is available for the company or if the target should use a sector decarbonisation approach or other requirements. Science-based targets must cover scopes 1 and 2. For companies whose scope 3 emissions cover more than 40% of their combined scope 1, 2 and 3 emissions, targets must cover scope 3.



[36] Scope 1 emissions—Green House Gas (GHG) emissions that a company produces directly, for example while running its boilers and vehicles.
Scope 2 emissions—Emissions made indirectly—the electricity or energy purchased for heating and cooling buildings that is produced on its behalf.
Scope 3 emissions—All emissions not associated with the company itself, but which the organisation is indirectly responsible for, up and down its value chain. For example, emissions from buying products from its suppliers and from its products when customers use them. Scope 3 is nearly always the largest of the three scopes.

[37] A partnership between the Carbon Disclosure Project, the United Nations Global Compact, the World Resources Institute (WRI) and the World Wide Fund for Nature (WWF)

Figure 9: Example of practical target setting



Assessment of the resilience of the company's strategy and **business model** in relation to climate change over the short-, medium- and long-term, including critical assumptions, and specification of scenarios considered for determining physical and transition risks and targets. ESRS E1 provides further instructions on key elements of these disclosures, including:

- Considering at least high emissions scenarios for physical risks and 1.5°C scenarios for identification of climate-related transition events.
- Explaining how the company uses the scenario analysis, including the specification of scenarios and their alignment with state-of-art science, narratives, time horizons, and endpoints used with a discussion of why it believes the range of scenarios used covers its plausible risks and uncertainties; key forces and drivers taken into consideration in each scenario and why these are relevant to the undertaking (e.g. policy assumptions, macroeconomic trends, technology assumptions and energy usage and mix); key inputs and constraints of the scenarios, including their level of detail (e.g. whether the analysis of physical climate-related risks is based on geospatial coordinates specific to the undertaking's locations or national- or regional-level broad data).
- When conducting scenario analysis, the ESRS instruct companies that they may consider the following guidance: TCFD Technical Supplement on "The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities" (2017); TCFD "Guidance on Scenario Analysis for Non-Financial Companies"; ISO 14091:2021 "Adaptation to climate change—Guidelines on vulnerability, impacts and risk assessment"; any other recognised industry standards; and EU, national, regional and local regulations.

Please note that the above summary does not include all details of ESRS E1's specifications of cross-cutting disclosures. **The reader is advised to consult the full standard.**

4.5.3. Impact, risk and opportunity management

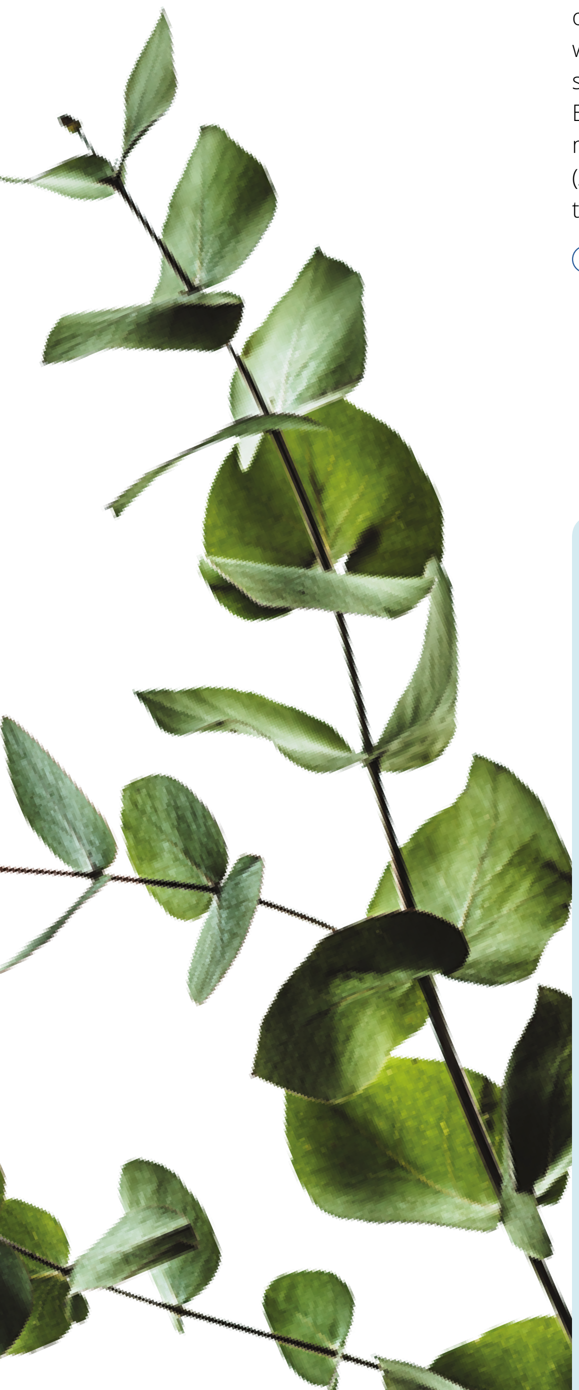
Figure 10: Reporting areas - IRO management

In the area of IRO management, the cross-cutting ESRS include mandatory disclosures of:

- processes by which companies identify and assess their material sustainability impacts, risks and opportunities, and
- how companies manage those material impacts, risks and opportunities through policies and actions, as well as how are they integrated into existing risk management processes.

ESRS 2 IRO-1 [**description of processes to identify and assess material climate-related impacts, risks and opportunities**] requires companies to disclose the following information for all topics in the cross-cutting section of the sustainability statement:

- an overview of the processes to identify, assess and prioritise potential and actual impacts on people and the environment, informed by the undertaking's sustainability **due diligence** processes, including explanations of whether and how the processes:
  - focus on specific areas due to heightened risks of adverse impacts
  - review the impacts with which the indertaking is involved through its own activities or as a result of its business relationships (in the environmental context, these two dimensions are sometimes distinguished as own operations and value chain)
  - include consultations with affected stakeholders to understand how they may be impacted and/or with external experts
  - prioritise negative impacts based on their severity and likelihood and—if applicable—positive impacts on their scale, scope and likelihood.
- an overview of the processes used to identify sustainability risks and opportunities that have or may have **financial effects**, including:
  - how the undertaking assesses the likelihood and effects associated with them (such as qualitative factors, quantitative thresholds and other criteria used)
  - how the undertaking prioritises sustainability-related risks relative to other types of risks, including its use of risk-assessment tools
  - an explanation of how the company has determined that the material information related to its material impacts, risks and opportunities is material, including the use of thresholds and application of criteria specified in ESRS 1
  - the organisation and process of decision-making and related **internal control procedures, integration into overall risk management processes** and any changes to the processes since the last reporting period



ESRS 2 provides cross-cutting disclosure content [CCR1: **Policies adopted to manage material sustainability matters**, CCR2: **Actions and resources in relation to material sustainability matters**] applicable to the disclosure of policies and actions across all topics, which are further specified in topical standards, e.g. within climate standards E1-2 (**Policies** related to climate change mitigation and adaptation) and E1-3 (**Action plans** and **resources** in relation to climate change policies) and targets.

See **Mandatory European Sustainability Reporting Standards**

The information on policies should consist of a brief overview of the management approach as a whole, rather than a description or a list of internal policies or codes of conduct. Similarly, companies are expected to disclose key actions, rather than a detailed list of all actions to address the sustainability matter.

Summary of cross-cutting disclosure requirements for policies and actions:

- For **policies adopted by the undertaking to manage its material sustainability-related impacts, risks and opportunities**, the ESRS disclosures require descriptions of:
  - key contents and general objectives of the policy, the scope of the policy in terms of activities, value chain, geographies and, if relevant, affected stakeholder groups
  - the most senior level in the organisation accountable for the implementation
  - if relevant, third-party standards of conduct that the company commits to respect through the implementation of the policy, the consideration given to the interests of stakeholders in setting the policy and if and how the undertaking makes the policy available to potentially affected stakeholders and stakeholders who need to help with implementation
- For **actions and resources in relation to sustainability matters,** the ESRS specify the following disclosures:
  - a list of key actions in the reporting year and those planned for the future, their expected outcome, their scope and the time horizon, including—if applicable—actions taken to provide or cooperate in the provision of a remedy for those harmed by impacts,
  - if applicable, information on the progress of the actions and action plans disclosed in previous periods and
  - where the implementation of an action plan requires significant operational expenses and/or investments, the type and amount of current and future financial resources allocated to the action plan.

If the company has not adopted relevant policies and/or actions, it can comply with ESRS requirements by disclosing this to be the case and providing the reasons and plans for future implementation. Some matters may be immaterial for companies in the Czech Republic; for example, they will not find a strong connection between their business models and the topic of sustainable oceans. Companies need to state that the matter is not material (and why) and because of this no policies nor actions are needed.

CHALLENGE

IRO - Climate risk assessment with financial impacts

E
Environmental

Company needs to conduct and report on climate risk assessment due to taxonomy as well as ESRS E1 requirements. One of the main challenges of the market currently is to embed climate risk assessment into financial valuations.

Potential financial effects from material climate-related physical and transition risks and opportunities (mandatory):

- the monetary amount and proportion (percentage) of assets at material physical and transition risk
- the proportion of assets at material physical and transition risk addressed by the climate change adaptation and mitigation actions, respectively
- the locations of significant assets at material physical risk
- a breakdown of the carrying value of its real estate assets by energy-efficiency classes
- liabilities due to the transition risks that may have to be recognised in financial statements over the short-, medium- and long-term time horizons
- the monetary amount and proportion (percentage) of net revenue from its business activities at material physical and transition risk, respectively, over the short-, medium- and long-term time horizons, including, where relevant, the net revenue from the undertaking's customers operating in coal, oil and gas-related activities.

For the disclosure of potential to pursue climate-related opportunities, the company shall consider its expected cost savings from climate change mitigation and adaptation actions as well as the potential market size or expected changes to net revenue from low-carbon products and services or adaptation solutions to which the undertaking has or may have access.

TIPS

For each material topic, the ESRS require companies to explain how they address the underlying impacts, risks and opportunities through policies and actions. Companies shall provide these disclosures, as well as corresponding disclosures on targets, in the topical section of the sustainability statement for each topic or cluster of topics E, S and G and subtopics identified by the company as material, and furthermore—irrespective of the materiality assessment—for:

- **Climate change mitigation** (i.e. the management of the undertaking's GHG emissions, GHG removals and transition risks) and **adaption** (i.e. the management of the undertaking's physical climate risks and climate change adaptation-related transition risks) policies and actions and their outcomes.
- All policies and actions concerning **own workforce** for companies with >250 employees.
- Any other E, S and G subtopic identified by the company as material in cross-cutting disclosures.
- Disclosures of whether the company has policies in select areas reflected in the SFDR, including:
  - management of water and marine resources
  - management of sites located in areas of water stress
  - sustainable oceans and seas
  - sustainable land/agriculture
  - deforestation
  - human rights policy commitments and their alignment with international standards
  - a statement of whether its policies in relation to affected stakeholders address trafficking in human beings, forced or compulsory labour and child labour
  - workplace accident prevention policy or management system
  - grievance mechanisms related to employee matters
  - a statement in the case that the company has no policies on anti-corruption or anti-bribery consistent with the United Nations Convention against Corruption.

CHALLENGE

IRO - Risk assessment on biodiversity and other environmental issues

E
Environmental

Companies need to assess materiality of impacts, risks and opportunities across all topics and subtopics covered by the topical ESRS.

The ESRS guide companies to consider the LEAP approach, as proposed by the Taskforce on Nature-Related Financial Disclosures:

- locate where in the company's own operations and along the value chain the interface with nature takes place
- evaluate the pollution-related dependencies and impacts
- assess the material risks and opportunities
- prepare and report the results of the materiality assessment.

Further guidance and materials on this approach can be found in the TNFD Nature-Related Risk & Opportunity Management and Disclosure Framework.

The environmental ESRS further guide companies to consider material risks and opportunities in the following categories:

- transition risks and opportunities in own operations and upstream and downstream value chains, including:
  - policy and legal: e.g. introduction of regulation, exposure to sanctions and litigation (e.g. negligence towards ecosystems),
  - technology: e.g. substitution of products or services with a lower impact
  - market: e.g. shifting supply, demand and financing, volatility or increased costs of resources
  - reputation: e.g. changing societal, customer or community perceptions
- physical risks, such as extreme weather events, access to resources and pollution incidents
- opportunities, including resource efficiency, markets (diversification of business activities), access to (green) financing, resilience and reputation

4.5.4. Metrics and target

Figure 11: Reporting areas - Metrics and targets

4 REPORTING AREAS

Governance → Strategy → IRO management → **Metrics and targets**

In the Metrics and targets section, the ESRS define common cross-cutting content requirements complemented by a detailed list of specific metrics with application guidance in the topical standards.

For all topics determined to be material, the cross-cutting requirements require companies to disclose:

- whether and how the undertaking **tracks the effectiveness** of its actions and implementation of policies,[38] including the **metrics** it uses to do so;
- the overall **progress over time towards** the adopted measurable time-bound outcome-oriented **targets**[39] set by the undertaking.

Measurable, outcome-oriented targets should not be confused with general policy commitments or aspirations, which should be included instead in the description of policy objectives. Similarly, targets should not be mistaken for the company's plans that are not directly related to impacts or risks, for example the training of employees or suppliers or implementation of certain processes. Disclosure of such plans belongs with the description of key actions, if material.

If companies do not comply with these requirements, they need to disclose that they have not adopted targets and what future plans they have to do so, or if other ways of tracking effectiveness and measuring progress are in place.

METRICS AND TARGETS: CLIMATE CHANGE

Environment

ESRS E1
Climate change

E
Environmental

MANDATORY FOR ALL FALLING UNDER CSRD

Mandatory sector-agnostic metrics

- Energy consumption, intensity per revenue and mix broken down by (certified) renewable/non-renewable origin
- Gross scope 1, 2 and 3 and total GHG emissions and intensity per revenue
- GHG removals and GHG mitigation projects financed through carbon credits (if applicable)
- Internal carbon pricing
- Potential financial effects of material physical and transition risks related to climate change

38 to address material impacts, risks and opportunities
39 to meet the policy's objectives, defined in terms of expected results for people, the environment or the undertaking regarding material impacts, risks and opportunities; to present the effectiveness of actions to address material impacts, risks and opportunities and measures the progress in achieving its policy objectives, if no measurable outcome-oriented targets exist

CHALLENGE

How can a company measure its GHG emissions broken down by scope 1, 2 and 3?

In the presentation of GHG emissions and GHG emission reduction targets, the ESRS do not allow the netting of GHG emissions and reduction targets with GHG removals and carbon credits.

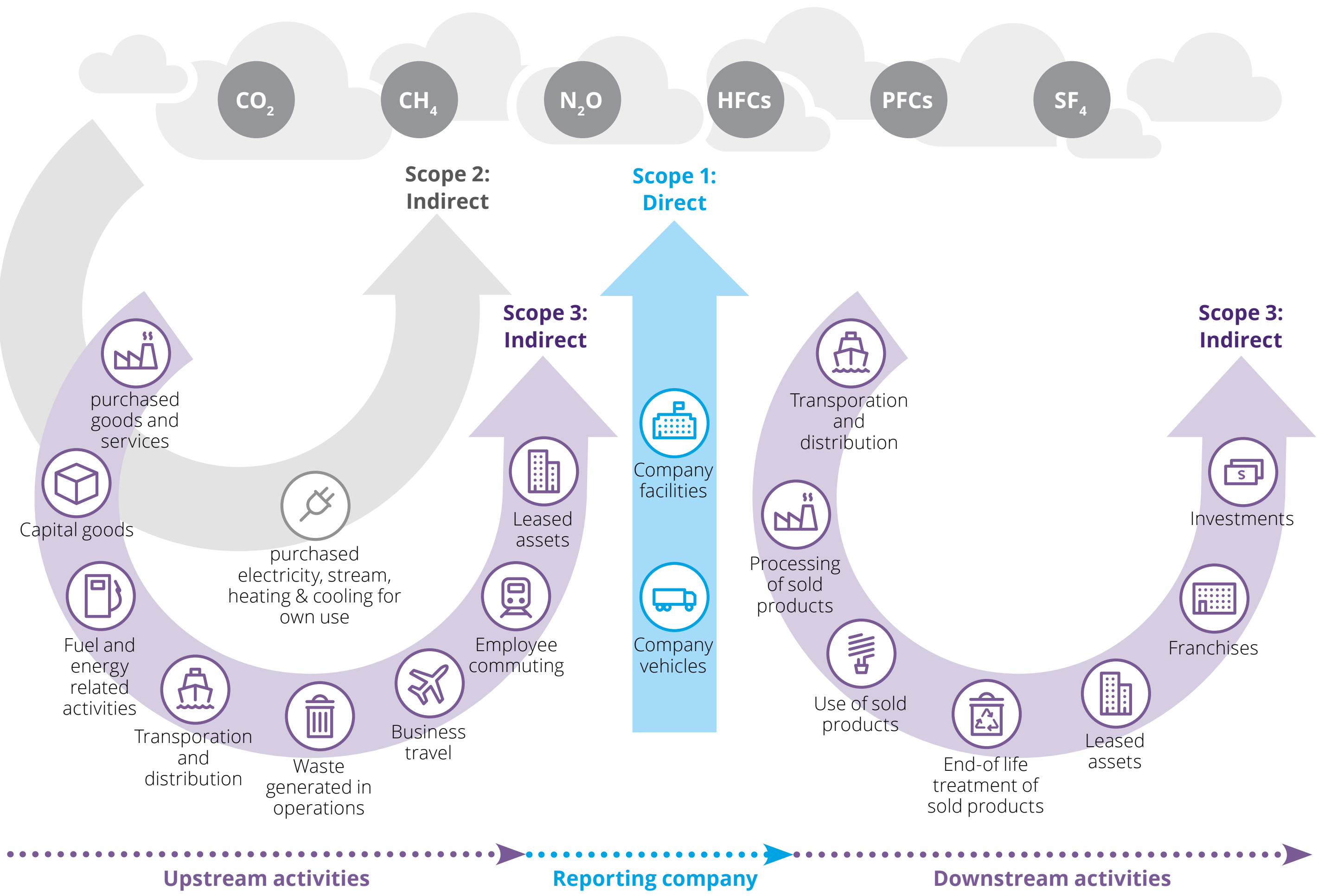
For quantifying GHG emissions, the GHG Protocol provides the world's most widely used GHG accounting standards, which classify a company's emissions into three 'scopes'. The ESRS, as well as ISSB exposure drafts, explicitly rely on the GHG Protocol.

- Scope 1 concerns direct emissions produced by the company by combustion of fuels
- Scope 2 covers indirect emissions from purchased or acquired energy
- Scope 3 covers all other indirect emissions in the value chain and is by definition the most difficult to calculate. Companies should apply the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard.[40] Financial institutions should consider the GHG Accounting and Reporting Standard for the Financial Industry from the Partnership for Carbon Accounting Financials (PCAF).

GHG Protocol divides scope 3 emissions into 15 categories covering both **upstream emissions**, e.g. from purchased goods and services, and **downstream emissions**, e.g. use and end-of life of sold products, transportation of goods, travel and financial investments.

For many undertakings, scope 3 GHG emissions are the main component of the GHG inventory and an important driver of their transition risks. The disclosure required by ESRS shall include GHG emissions from all significant scope 3 categories

Figure 12: Overview of GHG Protocol scopes and emissions across the value chain



TIPS

Taxonomy indicators

In Chapter 3: EU Legislative Framework, the Taxonomy Regulation was introduced, under which certain companies are obligated to disclose the share of their turnover, capital expenditure (CapEx) and operational expenditure (OpEx) associated with environmentally sustainable economic activities that meet taxonomy criteria.

See Chapter **3.2.1. The EU Taxonomy for Sustainable Activities**

Commission Delegated Regulation (EU) 2021/2178 establishes a framework for sustainable finance in the European Union. It lays out the rules for the information obligation of companies, including those obliged to issue non-financial reports, regarding their alignment with the EU taxonomy.

The regulation establishes a methodology for calculating and reporting on key performance indicators (KPIs) related to the EU taxonomy, which companies must provide in their reports. The ESRS recommend that companies include taxonomy disclosures alongside the environmental section of the sustainability statement. The ESRS further refer to the taxonomy disclosures on two ocassions:

- Companies shall relate the information on **significant monetary amounts of CapEx and OpEx required to implement their climate mitigation and adaptation actions** to the taxonomy KPIs (proportion of CapEx and OpEx) and, if applicable, the CapEx plan mentioned by Commission Delegated Regulation (EU) 2021/2178.
- If applicable, companies should explain in the descriptions of their climate transition plans their objectives for aligning their economic activities (revenues) with the Taxonomy Regulation and their plans for future taxonomy alignment (revenues, CapEx and CapEx plans).

The thresholds set for sustainable activities in the Taxonomy Regulation are generally very high, and therefore companies and investors can expect that initially only a small percentage of their economic activities and investments will meet those criteria. Nevertheless, the taxonomy criteria provide a useful benchmark which economic activities should meet in the long-term horizon, in particular with a view to the EU's objective to reach climate neutrality by 2050.

Taxonomy reporting requires cooperation between the financial controlling department, sustainability experts and business strategy unit. Companies therefore need to approach the taxonomy assessment needs from a strategic perspective. Below, we provide practical guidance for calculating the required KPIs. At the same time, we recommend that reporters consult more comprehensive guidance that is fully focused on the taxonomy requirements.

Figure 13: EU taxonomy alignment and environmental objectives

[40] Version 2011, p. 63 and 65-68 or ISO 14064-1:2018 Annex H.3.2

EU Taxonomy turnover = $\frac{A}{B}$

A

For **6 environmental objectives** turnover can be counted where the economic activity meets:

- The criterion of **making a substantial contribution** to one or more of those environmental objectives, including by meeting the technical screening criteria;
- The criterion of **not doing significant harm** to any of the other environmental objectives, including by meeting the technical screening criteria; and
- The criterion of **Minimum Safeguards**

B

- "Net turnover" **defined in Article 2(5) of the Accounting Directive as the reference point.**
- Non-financial undertakings applying IFRS Standards should be required to count the amounts that are presented as "revenue" according to IAS 1 paragraph 82(a)

EU Taxonomy CapEx = $\frac{X}{Y}$

X

Count CapEx where the costs incurred relate to assets or processes which **meet or are part of a plan to meet the criteria for environmentally sustainable economic activities under Article 3 of the Taxonomy Regulation**.

'Plan' should meet the following conditions for the capital expenditure to be eligible:

- Make the economic activity **taxonomy-aligned within a 5-year max period** (unless a longer period of maximum 10 years can be justified on the basis of the features of the concerned investments);
- Approval by the management body either directly or by delegation

Y

- **Additions to tangible and intangible assets during the financial year before any remeasurements** (including revaluations and impairments), depreciation and amortization charges for the year and excluding fair value changes and
- **additions resulting from acquisitions** through business combinations.*

EU Taxonomy OpEx

Count OpEx where the costs incurred relate to assets or processes **which meet or are part of a plan to meet the criteria for environmentally sustainable economic activities under Article 3 of the Taxonomy Regulation.**

In this regard, 'plan' should meet the following conditions for the operational expenditure to be eligible:

- related to assets or processes associated with taxonomy-aligned economic activities;
- part of the CapEx plan to expand taxonomy-aligned economic activities or allow taxonomy-eligible economic activities to become Taxonomy-aligned within a predefined timeframe;
- related to the purchase of output from Taxonomy-aligned economic activities.

* Non-financial undertakings applying IFRS should define CapEx as the costs accounted for on the basis of: IAS 16 Property, Plant and Equipment paragraphs 73 (e) (i) and (iii); IAS 38 Intangible Assets paragraphs 118 (e) (i), IAS 40 Investment Property paragraphs 76 (a) and (b) (for the fair value model); IAS 40 paragraphs 79 (d) (i) and (ii) (for the cost model); IAS 41 Agriculture paragraph 50 (b) and (e); and IFRS 16 Leases paragraph 53(h).

TIPS

How to adjust existing processes to enable efficient Taxonomy reporting ?

- Companies face the need to implement changes in internal processes or to **establish a new structure and division of responsibilities** in the organization. Indicating a specific unit responsible for coordinating the process and cooperation between finance, controlling, environment or administration and various departments will allow for effective management.
- In order to improve the process of data collection, it is possible to implement additional solutions in the organization's accounting systems, e.g. by flagging turnover, CapEx and OpEx during a given financial year as potentially qualifying for the EU Taxonomy or using existing external tools to **automate the data gathering**.
- Due to the detailed nature of the **technical screening criteria**, the **assessment** should be planned in advance and the appropriate documentation should be collected to certify that the relevant criteria are met. For instance, some of the requirements, such as life-cycle GHG emission savings, require verification by an independent third party, which should be taken into account when preparing the EU Taxonomy disclosures.

It is important to note that because the EU taxonomy is a living document, the criteria, guidance and interpretation of it may be subject to change. During implementation, it is necessary to consult the most up-to-date version of the Taxonomy Regulation, guidance and any other relevant documentation and to consult with experts.

Metrics in other ESRS standards

MANDATORY FOR ALL

SUBJECT TO MATERIALITY ASSESMENT OF THE ENTITY

METRICS AND TARGETS: POLLUTION, WATER AND MARINE RESOURCES AND CIRCULAR ECONOMY

ESRS E2 Pollution

ESRS E3 Water and Marine Resources

ESRS E5 Resource use and circular economy

E Environmental

Mandatory sector-agnostic metrics:

- Emissions of air pollutants
- Emissions to water
- Emissions of inorganic pollutants
- Emissions of ozone-depleting substances
- Total water consumption per net revenue
- Total water recycled and reused
- Total amount and % of non-recycled waste
- Total amount of hazardous and radioactive waste

Sector-agnostic metrics dependent on materiality assessment

- Microplastics generated or used by the undertaking
- Substances of concern and substances of very high concern
- Total water consumption
- Total water consumption in areas at material water risk, including areas of high water stress
- Total water stored and changes in storage
- Inflows of resources: weight of products and materials, weight and % of input materials from regenerative sources; weight and % of reused and recycled products and materials used to manufacture the undertaking's products and services (including packaging)
- A description of the key products and materials that come out of the undertaking's production process and that are designed along circular principles
- The total weight and % of materials that come out of the undertaking's production process and that are designed along circular principles
- The total amount of waste generated broken down by recovery operation (for waste diverted from disposal) and waste treatment (for waste directed to disposal)
- Waste streams and materials present in the waste
- Potential financial effects from the related impacts, risks and opportunities

Targets: Beyond climate change, companies need to disclose their environmental targets—or their absence—only for the environmental subtopics which they determine and report to be material. If the company has set such environmental targets, it must further specify:

- whether and how the set targets relate to subtopics listed in each of the environmental standards (companies may disclose other targets, provided that such targets are related to the identified material impacts, risks and opportunities).
- whether and how ecological thresholds and entity-specific allocations were taken into consideration when setting targets.
- for the water-related targets, how those targets relate to areas at water risk.

When disclosing information on pollution, the ESRS allow companies to refer to information they are already required to report under other existing legislation (i.e. IED, EPRTR, etc.).

NAVIGATION

- To facilitate initial high-level gap assessment for companies, indicators are **aggregated** for presentation:
  - Environmental indicators - ESRS E2, E3, E4 are presented together. Standards on biodiversity are presented separately as they include additional requirements.
  - Social - ESRS S2, S3, S4 are presented together.
  - Governance - ESRS G1.
- **Elements that are new** compared to existing market practice or may be challenging in the data gathering process have been **highlighted, as they are worthy of attention**.
- Within each area, there is a division of indicators required by the SFDR and other EU regulations.[41]

[41] Datapoints which are mandatory stem from other EU legislation—SFDR, Benchmarks, Pillar III, and EU Climate law. Mandatory datapoints from topical ESRS are listed in Appendix D of ESRS 2; those from ESRS 1 chapter 3 are listed in Appendix E of ESRS 2.

CHALLENGE

A key challenge is that the ESRS encourage companies whose activities are subject to the Industrial Emission Directive (IED) and relevant Best Available Techniques Reference Documents (BREFs), irrespective of whether the activity takes place within the European Union, to disclose additional information, including:

- A list of installations operated by the undertaking that fall under the IED and EU BAT conclusions;
- A list of any non-compliance incidents or enforcement actions necessary to ensure compliance in case of breaches of permit conditions;
- The actual performance, as specified in the EU BAT conclusions for industrial installations, and comparison of the undertaking's environmental performance against "emission levels associated with the best available techniques" (associated emission levels, BAT-AEL) as described in EU-BAT conclusions;
- The actual performance of the undertaking against "environmental performance levels associated with the best available techniques" (associated environmental performance levels, BAT-AEPL) provided that they are applicable to the sector and installation; and
- A list of any compliance schedules or derogations granted by competent authorities according to Art. 15(4) IED that are associated with the implementation of BAT-AEL.

CHALLENGE

Companies may find it challenging to report on the potential financial effects from environmental impacts, risks and opportunities (if material) such as:

- A quantification of the potential financial effects in monetary terms, or where impracticable, qualitative information, including:
  - **the share of net revenue made with products and services that are or that contain substances of concern and substances of very high concern separately;**
  - **the operating and capital expenditures which occurred in the reporting period in conjunction with major incidents and deposits;**
  - **the provisions for envir-onmental protection and remediation costs, e.g. for rehabilitating contaminated sites, recultivating landfills, removing environmental contamination at existing production or storage sites and similar measures.**
- A description of the effects considered, the related impacts and the time horizons in which they are likely to materialise;
- A critical assumptions used in the estimate, as well as the sources and level of uncertainty attached to those assumptions.
- A contextual information including a description of material incidents and deposits whereby pollution had negative effects on the environment and/or had or is expected to have negative effects on the undertaking's financial cash flows, financial position or financial performance within short-, medium- and long-term time horizons.

CHALLENGE

In addition, the ESRS specify the following disclosures influencing preparation:

- Whether the set targets are informed by and/or aligned with **the post-2020 global biodiversity framework**, the EU biodiversity strategy for 2030 and other biodiversity and ecosystem-related national policies and legislation as well as authoritative intergovernmental instruments like the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES).
- Transition plan addressing own operations as well as material impacts across its related value chain to ensure that the company's business model and strategy are compatible with respecting planetary boundaries, biosphere integrity and with land-system change of no net loss by 2030, net gain from 2030 and full recovery by 2050, as specified in the above instruments. As with targets, if the company does not have a transition plan, it shall provide an explanation.
- ESRS require information on transition plans from companies in the following industries: Agriculture and Forestry, Construction, Oil and Gas, Energy, Water and Waste, Food and Beverages, Paper and Wood, Building materials, Chemicals, Mining, Pharma, Textiles, Tobacco, and Transportation.
- The targets and transition plan should also take into account the agreement adopted in December 2022 at the United Nations Biodiversity Conference (COP15) of the Parties to the UN Convention on Biological Diversity. The agreement includes an objective to increase the protection of land and oceans to 30% and initiate restoration of at least 30% of degraded ecosystems by 2030.

METRICS AND TARGETS: BIODIVERSITY AND ECOSYSTEMS

ESRS E4 Biodiversity and Ecosystems

E Environmental

Biodiversity indicators are highly dependent on the entity's sector and individual context. Their application depends on the undertaking's contribution to biodiversity impacts and impact drivers.

Therefore, the ESRS on biodiversity and ecosystems adopt a more guidance-based approach in line with the most recent draft of the recommendations of the Taskforce on Nature-related Financial Disclosures See **"TNFD"**.

The ESRS provide extensive guidance for materiality assessment and explain specific triggers for a number of biodiversity impact metrics.

Companies should consider and report on their impacts, risks and opportunities across the entire value chain, but sector-agnostic ESRS metrics are limited to own operations. Value chain-related metrics, such as those linked to the use of high-risk commodities, are expected to be specified in the sector-specific standards.

Sector-agnostic metrics dependent on materiality assessment:

- If the company identified **sites located in or near biodiversity-sensitive areas** that it is negatively affecting, it shall disclose the number and area of sites owned, leased or managed in or near these protected areas or key biodiversity areas.
- If the company operates in one of the priority sectors according to the TNFD[42] and has identified material impacts with regard to land-use change, or impacts on the extent and condition of ecosystems, the undertaking shall also disclose their **land use based on a Life Cycle Assessment**.
- If the company directly contributes to impact drivers of **land-use change, freshwater-use change and/or sea-use change**, the undertaking shall consider reporting:
  - the conversion of land cover (e.g. deforestation or mining);
  - changes in the management of the ecosystem (e.g. through the intensification of agricultural management or forest harvesting);
  - changes in the spatial configuration of the landscape (e.g. fragmentation of habitats, changes in ecosystem connectivity);
  - changes in ecosystem structural connectivity (e.g. habitat permeability based on physical features and arrangements of habitat patches); and
  - the functional connectivity (e.g. how well genes, gametes, propagules or individuals move through land, freshwater and seascape).
- If the company directly contributes to impact drivers of the accidental or voluntary **introduction of invasive alien species**, the undertaking shall report relevant metrics or (if impracticable) qualitative information on the management of the issue.
- If the undertaking identifies material impacts related to **the state of species and extinction risks**, it should consider reporting relevant metrics concerning:
  - changes in the number of individuals of a species within a specific area
  - information on species' global extinction risk
- If the undertaking identifies material impacts related to **ecosystems**, it shall consider:
  - ecosystem extent: area coverage of a particular ecosystem
  - ecosystem condition: indicators that measure multiple species
  - one or more indicators that may also reflect structural components of conditions such as habitat connectivity.

Targets: Companies need to disclose whether and what biodiversity targets they adopted only if they identified material biodiversity and ecosystems-related impacts, risks and opportunities.

[42] The TNFD Nature-Related Risk and Opportunity Management and Disclosure Framework Beta v0.2 June 2022: Food and beverage; Renewable resource and alternative energy; Infrastructure; Extractives and mineral processing; Health care; Resource transformation; Consumer goods; and Transportation.

METRICS AND TARGETS: SOCIAL MATTERS

ESRS S1 Own Workforce

ESRS S2 Workers in the value chain

ESRS S3 Affected communities

ESRS S4 Consumers and end-users

S Social

As in other areas, the ESRS require companies to assess their impacts, risks and opportunities across the entire value chain, and specifically with regard to the concrete affected stakeholder groups addressed in the respective social standards.

Mandatory sector-agnostic metrics:

- Characteristics of the undertaking's employees: data on the company's employees, broken down by gender and by country for countries in which they have 50 or more employees; the data should be further broken down for permanent, temporary, and non-guaranteed hours employees and for full-time and part-time employees
- Characteristics of the undertaking's non-employee workers, including their total number, alongside a description of the most common types of workers and their relationship with the company
- The extent of collective bargaining coverage and the extent to which its employees are covered in social dialogue in the EEA at the establishment and European level
- Diversity indicators, including at least the gender distribution of its top management and the age distribution of its employees
- Health and safety indicators, including:
  - the percentage of own workers who are covered by the undertaking's health and safety management system based on legal requirements and/or recognised standards or guidelines;
  - the number of fatalities as a result of work-related injuries and work-related ill health
  - the number and rate of recordable work-related injuries;
  - the number of cases of recordable work-related ill health; and
  - the number of days lost to work-related injuries and fatalities from work-related accidents, work-related ill health and fatalities from ill health
- Annual total compensation ratio of the highest paid individual to the median annual total compensation for all employees (excluding the highest-paid individual)
- Work-related incidents and complaints and severe cases of human rights issues and incidents
- Gender pay gap

TIPS

The ESRS provide specific sector-agnostic metrics only for a company's own workforce. These metrics are highly aligned with **GRI standards.**

Sector-agnostic metrics dependent on materiality assessment

- Adequate wage (locations in which the lowest wage received by own workers is below the fair wage)
- Social protection (social security eligibility coverage and differences in the provision of benefits to employees with different contract types)
- Employment of persons with disabilities
- Training and skills indicators
- Work-life balance indicators
- Indicators presenting an increase of positive impact, a reduction of negative impact and/or managing risks and opportunities related to affected communities (social capital), consumers and workers in the value chain

Relying only on a country's GDP as the measure of advancement provides an incomplete picture of human, societal and environmental progress – all aspects of our quality of living. Relying only on company's financial profit does not cover it's full value – social, human, relational and intelectual, as well as natural and manufactured capital.

TIPS

How can a company report on social capital, social investments and positive impact related to affected communities, consumers and workers in the value chain?

The ESRS do not require the use of specific pre-defined indicators. However, reporting should focus more on social and relational capital created by the company (directly or indirectly) in line with the business context and areas of risk of negative impact. Companies should define quantitative KPI's, for example:

- % reduction in health and safety incidents affecting contractors and delivery drivers
- % of affected community members whose livelihoods were restored after resettlement
- % of online services accessible to people with disabilities

To quantify positive impact and the value of investment in the community, a company may refer to other global frameworks, e.g. LBG Model (See **the link**) or methods of assessment used in economics (e.g. input-output using Leontief analysis).

TIPS

Who are non-employee workers, according to the ESRS?

Regulation requires companies to report detailed information on human capital considering total workforce—not only employees but also non-employee workers. Non-employee workers are either individuals with contracts with the undertaking to supply labour ("self-employed workers") or workers provided by undertakings primarily engaged in "employment activities" (NACE Code N78). Companies may check whether data concerning non-employee workers are already gathered to the necessary degree.

TIPS

How to calculate gender pay gap?

The male-female pay gap is defined as the difference between average gross hourly earnings of male paid own employees and of female paid own employees expressed as a percentage of average gross hourly earnings of male paid own employees.

$$\frac{\text{(average gross hourly earnings of male employees - average gross hourly earnings of female employees)}}{\text{average gross hourly earnings of male employees}} \times 100$$

The pay gap can might result from two groups of factors:

- Differences in actual characteristics of evaluated groups that were not captured when defining male-female comparison groups (such as differences in experience, level of education or skills and as a result difference in productivity)
- Unjustified differences that result from conscious and unconscious prejudices

In order to identify actual source of inequity, company in practice decide to conduct deeper statistics-based surveys than the ESRS recommendation. Whereas unjustified differences in salaries are clear red light for employers also the differences resulting from characteristics of groups should be analysed (e.g. while particular group of employees has lover skills, additional trainings may be needed to even the level of skills and productivity as a result).

Closing gender pay gaps is not only regulatory obligation (ESRS, SFDR) but has a proven impact on business performance, below are listed key reasons why decision makers in companies take special care about it:

- Talents' acquisition: Employees, especially women, but also man, prefer employers who care about equality. Good performance in Diversity and Inclusion area gives access to a larger talent pool and improves employee welfare
- Clients' acquisition: Surveys show that clients believe that a sustainable product or service is characterized by social responsibility in the production process (equal pay, employee inclusion, etc.)
- Investors' acquisition: The relationship between the company and its employees is vital to investors. This is reflected in the ratings, e.g., in MSCI, S&P, or Sustainalytics. Improvements in the areas of equal pay, diversity of the management team, and linking their compensation to ESG goals will translate into better performance of the firm/group in ESG ratings.

Addressing complex societal challenges requires collaboration and no company nor sector can do it alone.

CHALLENGE

How can a company ensure the expected focus on human rights in a social area of impact within its own policies on HR, supply chain, product and consumers, and business conduct towards other partners in the value chain?

The ESRS oblige companies with 250 employees and more to at minimum report on their policies, actions and targets—or the absence thereof—concerning their own workforce. Most companies will find themselves connected to material impacts in one of the aspects of their value chain covered by Workers in the value chain (ESRS S2), Affected communities (ESRS S3) and Consumers and end-users (ESRS S4) respectively, and therefore required to consider adopting and reporting on policies and actions towards those impacts as well.

All four social standards include the following specifications of cross-cutting disclosures on policies and actions:

- Statement of human rights commitments with respect to the relevant stakeholder group
- Summary of how the policy is communicated in an accessible form to the potentially affected stakeholders and—in the case of value chain-related policies—to business partners
- Processes for engaging with the affected stakeholders about actual and potential material impacts
- Processes to remediate negative impacts and channels for the affected stakeholders or their representatives to raise concerns
- Taking action on impacts and approaches to mitigating risks, including assessing the effectiveness of these actions, programmes and processes in delivering intended outcomes for affected stakeholders

Furthermore, due to the SFDR requirements, the ESRS require companies to report on the extent to which violations in relation to the UN Global Compact principles and the OECD Guidelines for Multinational Enterprises that involve workers in the value chain have been reported in its upstream and downstream value chain. These disclosure requirements are based on international norms for human rights due diligence, in particular on the UN Guiding Principles for Business and Human Rights and the OECD Guidelines for Multinational Enterprises and related OECD Responsible Business Conduct and Due Diligence guidance.

Human rights due diligence procedures are also at the core of minimum safeguards (taxonomy). In order to report minimum safeguards alignment companies need to establish adequate human rights due diligence processes, as outlined in the UNGPs and OECD Guidelines for MNEs. It is essential to realise that accordance with minimum safeguards is a requirement of alignment with the taxonomy. This means lack of adequate human rights processes in place determines lack of taxonomy aligned activities.

Companies should therefore consider these instruments when developing their policies and sustainability due diligence processes. Companies may also consult other public and private recommendations applicable to their sector and their identified material impacts, that are aligned with the above international instruments. For example, in July 2021, **the European Commission published guidance on due diligence for EU businesses** to address the risk of forced labour in their operations and supply chains.

CHALLENGE

Companies shall disclose **the role of board members and key management representatives** (supervisory, management and administrative bodies) **in forming a proper corporate culture**, such as how they are engaged in promoting expected values and behaviours.

METRICS AND TARGETS: GOVERNANCE AND BUSINESS CONDUCT MATTER

ESRS G1 Business conduct | G Governance

ESRS G1 provides for transparency in the area of **business conduct** with a special focus on **corporate culture, ethics, prevention of corruption and relations with business partners** (suppliers, SMEs, etc.).

It specifies a number of metrics, most of which will be triggered by underlying material impacts, risks and opportunities.

Mandatory sector-agnostic metrics

- Number of convictions and the number of fines for violating anti-corruption and antibribery laws
- Whether the company has identified insufficiencies in actions taken to address breaches in procedures and standards of anti-corruption and anti-bribery

Sector-agnostic metrics dependent on materiality assessment

- **Political influence**
  - the total monetary value of financial and in-kind political contributions made directly and indirectly by the company, as well as type of recipient/beneficiary; the company may also disclose lobbying expenditures
  - the main topics covered by its lobbying activities and the undertaking's main positions on these, in brief
  - information about the appointment of any members of the administrative, management and supervisory bodies or senior executives who previously held a comparable position in public administration, including regulators
- **Payment practices**
  - the average time the company takes to pay an invoice
  - description of the company's detailed standard payment terms and % of payments aligned with those terms, broken down by significant categories of suppliers
  - number of legal proceedings for late payments
- **Corruption and bribery**
  - information on confirmed incidents of corruption or bribery during the reporting period, including their number and nature and details of public legal cases brought against the undertaking and its own workers during the reporting period and the outcomes of such cases
  - number of confirmed incidents in which own workers were dismissed or disciplined for corruption or bribery-related incidents
  - number of confirmed incidents related to contracts with business partners that were terminated or not renewed due to violations related to corruption or bribery

What should companies consider when developing and disclosing the expected quality of governance?

ESRS G1 further provides standardised data points to help companies report comparable information on their policies and processes with regard to several key governance topics. In principle (with two exceptions noted below), these disclosures are applicable if a company identifies material impacts, risks or opportunities related to such topics. However, in practice, investors and other business partners will expect companies to disclose most of the information addressed in ESRS G1 irrespective of the company's materiality assessment. **Listed companies will be expected to treat ESRS G1 as material.**

ESRS G1 sets the following disclosure requirements concerning management (policies and processes):

On **corporate culture and business conduct**, the company should consider reporting on:

- Whether the company has a whistle-blower protection policy (mandatory disclosure due to the SFDR)
- Mechanisms for identifying, reporting and investigating concerns about unlawful behaviour, and whether they accommodate whistleblowing from internal and/or external stakeholders
- The company's safeguards for its own workers for reporting irregularities, including whistle-blower protection and protection for workers refusing to act unethically
- A commitment to investigate business conduct incidents promptly, independently and objectively
- Whether the company has a policy on animal welfare, if applicable
- Strategy for training on business conduct within the organisation

On **prevention and detection of corruption and bribery,** the company should consider reporting on:

- Whether the company has policies on anti-corruption or anti-bribery consistent with the United Nations Convention Against Corruption (mandatory disclosure due to the SFDR)
- Its system to prevent and to detect, investigate and respond to allegations or incidents related to corruption and bribery
- How the company communicates its policies to those for whom they are relevant to ensure that the policy is accessible and that its implications are understood
- The nature, scope and depth of anti-corruption/anti-bribery training programmes offered or required by the undertaking

On **management of relationships with suppliers**, the company should consider reporting on:

- The company's strategy with respect to its relationships with suppliers, in the context of the risks of the supply chain specifically and sustainability in general
- Whether and how it takes into account social and environmental criteria for selecting its supply-side contractual partners (procurement criteria)
- A description of the undertaking's practices implemented to support vulnerable suppliers and improve their social and environmental performance

CHALLENGE

Companies shall provide information about the **effectiveness of its system to prevent incidents of corruption and bribery**. This includes reporting on outcomes of assessments of at-risk functions and groups, taking into account **employees as well as contractors, suppliers, and partners** (if material). The company is encouraged to report in detail on the **number of people at risk of corruption and bribery, number of training hours, and the frequency and duration of training as well as topics** covered.

5 How to prepare a sustainability report

Sustainability reports are not only useful tools for companies to address and communicate sustainability information and manage sustainability-related risks that surround their business, they are also being demanded by investors, regulators and stakeholders

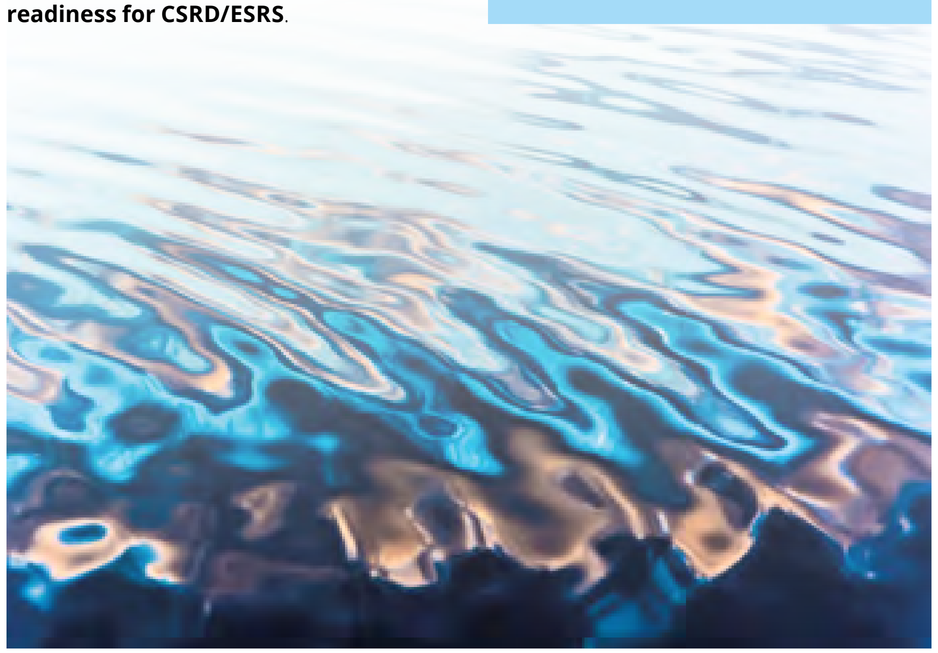
As mentioned in the previous chapters, in the EU, the expectation for companies to report on their sustainability performance is reinforced by several key legislative frameworks, such as the Corporate Sustainability Reporting Directive (CSRD), European Sustainability Reporting Standards (ESRS), Sustainable Finance Disclosure Regulation (SFDR), EU taxonomy for sustainable activities and the proposed Directive on Corporate Sustainability Due Diligence (CSDDD). See **Chapter 3**. **Companies should be prepared for new developments in the EU, such as the increasing integration of sustainability metrics into financial reporting and the use of digital platforms to enhance the comparability and transparency of sustainability reports.**

It is important to understand how to **approach** the creation of a sustainability report **without the process becoming overwhelming**.

The time allocated time needed for each step in the reporting roadmap (mapped in relation to the other steps) may differ. For example, data collection and content consultation are likely to be the most time-consuming parts of the process. However, this will depend on the approach, tools and timeframe applied. This chapter serves as a starting point, as well as a **point of reference for a high-level assessment of the current reporting practice and readiness for CSRD/ESRS**.

NAVIGATION

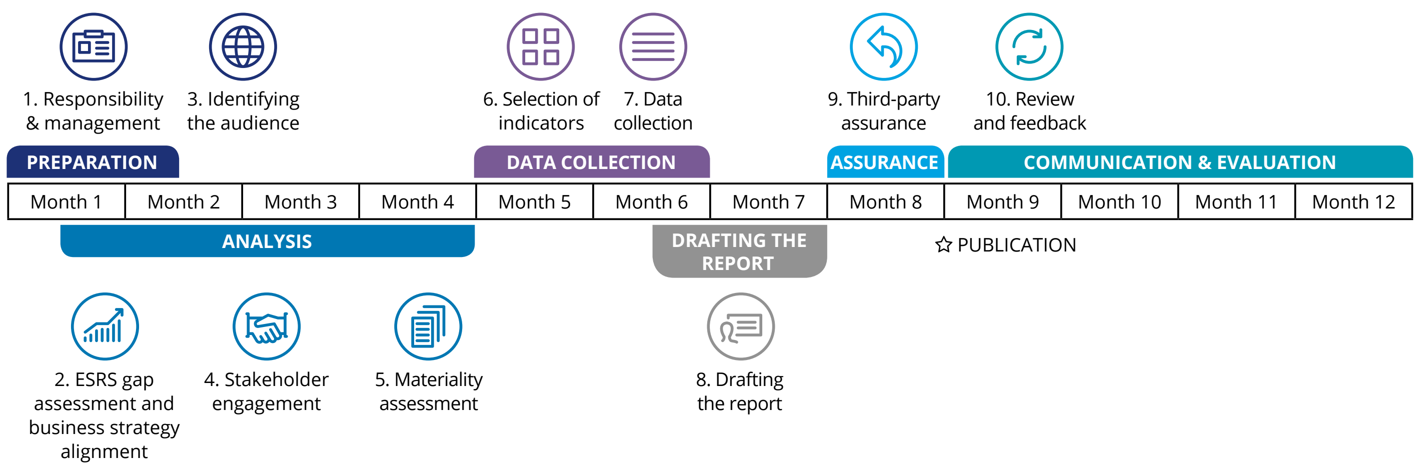
- This chapter aims to provide an overview of best practices for sustainability reporting, including a recommended approach of **10 steps** and **practical tips** to help companies **navigate the complexities of sustainability reporting** and its **transition towards CSRD/ESRS** and the new regulatory package on sustainability reporting.
- Each of the 10 steps in the reporting roadmap is a subchapter which further describes its added value in the entire process as well as how to successfully approach and complete the step. Each subchapter is accompanied by **common challenges and tips** to help avoid or address them.



NAVIGATION

- Further navigation refers to each of the 10 steps of the suggested process within 6 stages of reporting.

Figure 14: Sustainability reporting roadmap in 10 steps.[43]



[43] The seventh step, "Data collection", is ongoing throughout the whole reporting period. In the simplified reporting roadmap, this part represents only the data aggregation and consolidation process.

Table 2: Overview and content of the sustainability reporting roadmap

REPORTING PHASE	10 REPORTING STEPS	OVERVIEW OF STEP
Preparation	Responsibility and management	• Aligning internally with top management and establishing internal roles prior to commencing the reporting process.
	Identifying the audience	• Identifying the intended audience of the report, to better set the expectations for the report content.
Analysis	Business strategy alignment	• Benefits of and approach to integrating sustainability strategy with business strategy; establishing links with sustainability reporting. • AS-IS gap analysis based on ESRS requirements and mandatory disclosures to check the readiness of the company in terms of processes and data availability. – Identifying new ESRS requirements on governance, decarbonisation scenarios and implementation plan, strategy and impact/risk management. – Embedding new required processes—sustainability due diligence (ESRS), minimum safeguards assessment (taxonomy), and assessing whether the company does significant harm to the environment (taxonomy). – Integrating new requirements on climate risk assessment (ESRS, taxonomy) into risk management and financial valuations. – Identifying data availability, potential for automation and mapping new reporting process.
	Stakeholder engagement	• Gathering information from relevant stakeholders and establishing an engagement plan.
	Materiality assessment	• Determining which sustainability matters to address in the sustainability report, mainly through the method of applying double materiality.
Data collection	Selection of indicators	• Selecting the relevant indicators on which to report, and what to consider when selecting indicators.
	Data collection	• Design and implementation of ESG data management. Collecting and aggregating relevant data, supported by a suggested approach to the collection process and an overview of sustainability data solutions.
Drafting the report	Drafting the report	• Creating the report, with emphasis on considerations of scope, format and accessibility.
Assurance	Third-party assurance	• Seeking third-party assurance (limited vs. reasonable) and its added benefits.
Communication & Evaluation	Review and feedback	• Concluding the reporting process with a final review that considers internal and external feedback.

5.1. Responsibility and management

Regulations are gradually coming into effect, and issuers need to get ready now.

Companies have less than 2 years to design and implement their ESG reporting processes—plus assign responsibilities, train staff and put the missing strategies and governance processes in place.

Effective **governance of sustainability issues, a decarbonisation plan and ESG reporting** are essential for meeting the expectations of stakeholders and regulators. This includes **setting goals, targets and objectives, as well as processes for oversight and control**.

The board of directors plays a key role in integrating sustainability into the company's strategy, decision-making and overall risk management. It is important for board members to take ownership of the sustainability agenda and transition towards the new regulatory package in order to adhere to new standards and enhance the credibility of disclosed information.

After the board establishes ownership of the sustainability agenda, it is helpful to identify appropriate personnel and determine their responsibilities related to sustainability. This facilitates coordinating various departments and teams, ensuring consistency in the application of sustainability throughout the organisation, managing the sustainability reporting process, and communicating with external stakeholders such as investors, banks, rating agencies, regulators, civil society, press and affected stakeholders.

In order to meet these expectations, it is essential for board members to be familiar with relevant laws, regulations and guidelines such as the CSRD, EU taxonomy, ESRS and CSDDD, and to allocate responsibility for the design and implementation of the decarbonisation plan, sustainability strategy, social due diligence, new calculations and proper internal control. This may require creating new roles in the organisation as well as defining who should be responsible for ensuring compliance with laws and regulations, evaluating impacts, risks and opportunities for financial valuations and providing guidance for improvement.

See Chapter:
4.5.1 Governance
4.5.2 Strategy

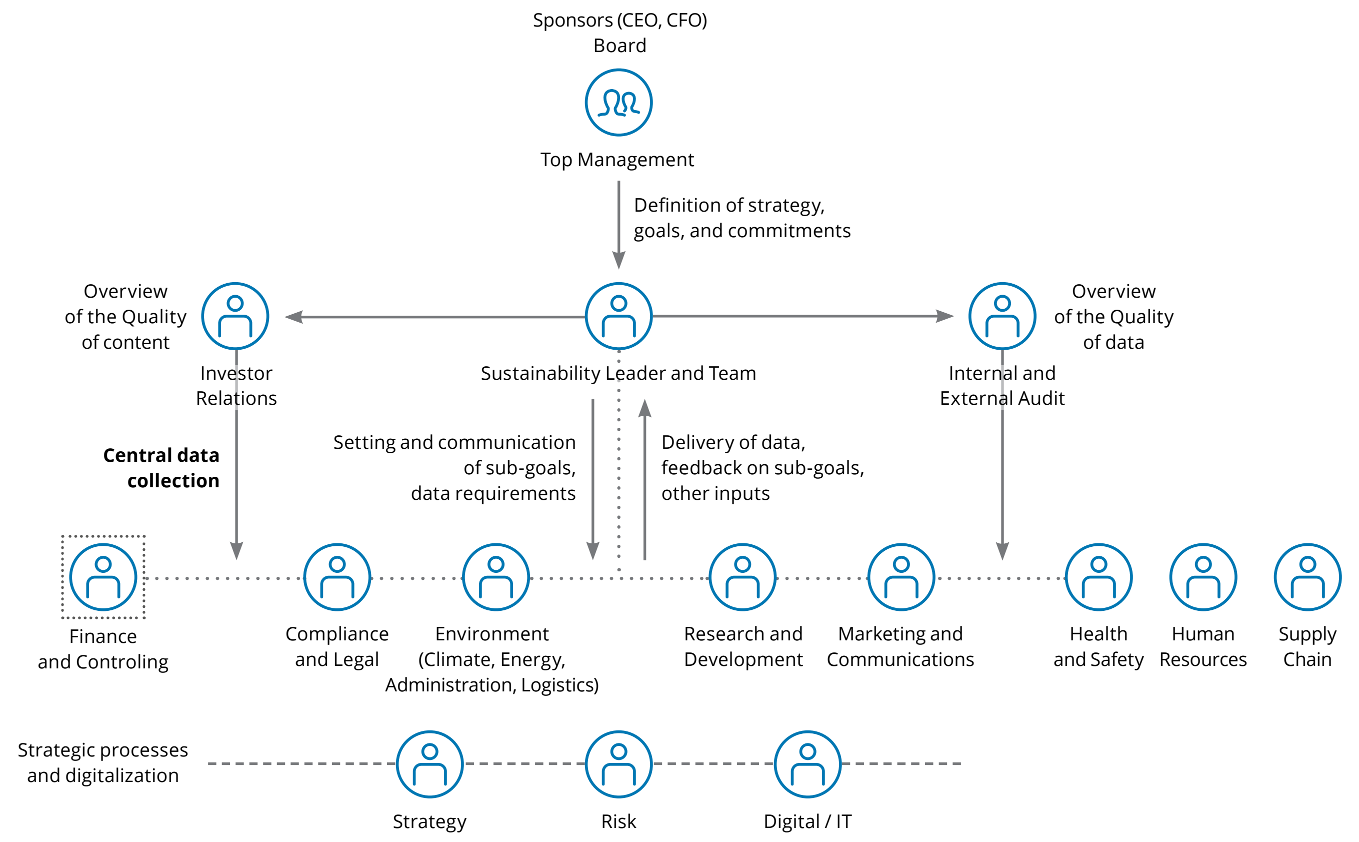
CHALLENGES

- Implementing a holistic approach.
- Actively engaging with the board and top management; building a business case for sustainability-related activities and their integration into decision-making.
- Poor ownership of the sustainability-related agenda by top management.
- Insufficient internal experience and skills to manage topics related to sustainability, decarbonisation and ESG reporting.
- ESG department is solely responsible for the ESG agenda.
- Large number of people contributing to the project from almost all departments of the organisation.

TIPS

- Internally educate and upskill personnel on sustainability-focused topics and provide educational sessions for the board.
- Define a sponsor of the transition towards new regulations and the ESG reporting project at the Board level—most often CFO.
- For top management, consider sustainability-related topics in decision-making and MBO.
- Establish an information mechanism on sustainability-related agenda and issues.
- Establish a sustainability team or group of knowledgeable staff that report directly to top management. Map internal stakeholders and allocate roles and responsibilities for gathering ESG data, acceptance, internal audit, content creation and sign-off.
- Establish cooperation between the main departments responsible for compliance with each of the new regulations (CSRD/ESRS, taxonomy, SFDR, CDDD, etc.) to promote knowledge sharing, understanding purpose, defining and overlaps and ensuring the effectiveness of the reporting process.
- Define the main departments responsible for CSRD/ESRS gap analysis and integrating ESG into business strategy, financial reporting and risk. Ensure the engagement of IR, strategy, ESG/climate, compliance and risk departments.
- Define roles that are lacking (e.g. climate and decarbonisation officer, diversity officer, circularity and biodiversity officer).
- Engage internal audit to be responsible for ensuring the quality of the ESG data gathering process.

Figure 15: Example of responsibilities and management structure related to corporate sustainability and reporting.[44]



[44] Please note that while this example is based on common practices, it is important to recognise that the responsibility and preparation of sustainability reports may vary by company and may shift to different departments.

5.2. Business strategy alignment

The sustainability agenda is not a stand-alone element of the business. New regulatory requirements indirectly impose the thorough integration of sustainability into an organisation's mechanisms.

Processes connected to preparing sustainability reports can improve internal reporting systems related to financial and sustainability performance and identify new gaps, which leads to better management and control. Management of an organisation should establish strong cohesion between business strategy, sustainability strategy and risk management, as well as between ESG reporting and financial reporting. This can further improve decision-making and identify new business challenges and opportunities.

Companies are obliged to present strategic targets, management and effects of implementation in all important sustainability areas (usually integrated in the sustainability strategy or business strategy).

See Chapter:
4.3. Mandatory disclosures
4.5. Disclosures on the quality of management
4.5.1 Governance
4.5.2 Strategy
4.5.3. Impact, risk and opportunity management
4.4.2. Sustainability due diligence and minimum safeguards assessment

To ensure strong cohesion between business strategy and sustainability reporting, management should take into account the key considerations outlined in figure 16.

By following these key considerations, companies can ensure their sustainability reporting is in line with the necessary regulatory requirements and provides a clear understanding of their business operations and sustainability efforts.

Figure 16 : Key considerations for aligning business strategy with sustainability reporting.[45]

Market Position	Products, Services, and Customer Groups	Involvement in Specific Industries	Sustainability-related Goals and Intended Direction
Market position, elements of the strategy that relate to or impact sustainability matters, business model, and key value chains	Information on the organization's products, services, customer groups, geographical areas, and revenue breakdown by significant ESRS sectors	Any involvement in fossil fuels, chemicals production, tobacco cultivation and production, or controversial weapons	Sustainability-related goals and intended direction for sustainability matters

CHALLENGE

- Linking the influence of CSRD/ESRS /taxonomy minimum safeguards with strategic processes in the organisation.
- Setting realistic sustainability goals in line with business strategy.
- Continuing implementation and being able to show whether the company is advancing.
- Taking sustainability commitments seriously.
- Integrating ESG factors into strategy and risk assessment.

TIPS

- Establish sustainability ownership among top management so that leaders feel comfortable communicating internal commitments.
- Consider sustainability aspects at the inception of new activities and services.
- Set SMART goals as well as a proper plan for implementation and monitoring.
- Engage HR and the board and embed sustainability targets into MBO of the board and top management.
- With the board representative, consider embedding new processes required by regulation into the overall strategic management of the organisation, such as:
  - Identifying new ESRS requirements on governance, decarbonisation scenarios and implementation plan, strategy and impact/risk management.
  - Sustainability due diligence (ESRS) including human rights due diligence (minimum safeguards as outlined in the taxonomy), as well as assessing whether the company does significant harm to the environment (taxonomy).
  - Integrating new requirements towards climate risk assessment (ESRS, taxonomy) into risk management and financial valuations.

[45] This approach is based on draft ESRS 2 General disclosures.

5.3. Identifying the audience

There are arguably two main groups of stakeholders related to sustainability reporting in line with the CSRD/ESRS:

- Direct users of the report (e.g. existing and potential investors, lenders and other creditors, including asset managers, credit institutions, and insurance undertakings), and
- Other stakeholders who are often the audience of sustainability communication[46, 47] (e.g. employees, workers in the value chain, consumers and end users, local communities and suppliers).

The purpose of a sustainability report is to transparently communicate material information related to sustainability that can impact the decision-making of its intended audience. It is essential to first identify the relevant audience and understand their expectations and needs. This can simplify the process of developing the report's content to serve multiple purposes. Understanding the expectations of investors, shareholders, and other key stakeholders can also drive changes in the company's value creation and influence its business strategy.

Table 3: Audience identification process with examples

SUPPORTIVE QUESTION	RESULT	EXAMPLES
Who are the most important stakeholders?	Initial list of stakeholders	Investors, shareholders, banks, employees, workers in the value chain, consumers and end users, customers, local communities, press, business partners, suppliers, competitors, industry experts, government, regulators, NGOs
Who will be the main audience of the sustainability report?	Prioritised list	Primary audience: investors, banks, analysts, regulators Secondary audience: consumers, media
What are the needs of the identified audience? What data and information will the audience utilise for decision-making?	List of needs, priorities and KPIs	Financial and sustainability performance (KPIs), risk management, decarbonisation strategy, due diligence, effectiveness of actions to address severe impacts, commitments and responsibilities of the board

CHALLENGE

- Audience identification is often skipped because the added value is overlooked.
- Identification of some stakeholder groups (e.g. stakeholders related to the organisation's value chain).
- Ambiguous terms are often used; stakeholder mapping, stakeholder analysis, stakeholder assessment usually mean the same process.

TIPS

- Assess peers' stakeholder lists to create or update an initial list of stakeholders.
- Prioritise important stakeholders and focus on their interest in reading the report.
- At the beginning of the process, ensure the understanding of how the final content of the report will be used, by which channels of communication it will be shared, and how different information needs will be addressed (e.g. investors have different expectations for data and the manner of presentation than consumers and clients)
- Use the answers to the questions from Table 3 to identify:
  – report format
  – report content
  – report scope
- Plan efficient stakeholder engagement to gather expectations from the priority stakeholders defined as the target audience.

[46] The affected stakeholders are those whose interests are affected or could be affected—positively or negatively—by the company's activities and its direct and indirect business relationships across its value chain.
[47] Ecosystems are often represented as "silent stakeholders".

5.4. Stakeholder engagement

Reporting may provide a basis for wider dialogue with investors and other stakeholders.

Stakeholder engagement is an essential process for gathering information and building relationships with relevant parties. It enables organisations to manage risks, minimise obstructions, and build trust. Engagement with affected stakeholders is central to the organisation's ongoing sustainability materiality assessment and due diligence process. It also provides valuable insights for management and improves decision-making. The main goals of stakeholder engagement include:

- Understanding the relationship between an organisation and its stakeholder groups
- Comparing stakeholder and organisational interests
- Identifying and assessing stakeholders' concerns related to materiality assessment

After identifying and selecting stakeholders, organisations can design a suitable stakeholder engagement plan. The results of this engagement should be clearly presented, including a description of the process and methods used.

Additionally, international instruments such as the UN Guiding Principles on Business and Human Rights and the OECD Guidance on Due Diligence emphasise engagement with stakeholders as a crucial aspect of due diligence. This is because it enables companies to understand their impacts, determine appropriate actions to address those impacts, and track the effectiveness of those actions.

Table 4: Engagement plan

SUPPORTIVE STEP	EXAMPLES
Set engagement objectives	Understanding of employee needs
Define questions or topics for discussion	Potential risks and problems perceived by employees, work-life balance, employee development, decarbonisation, workplace relationships, company's investments, new business plan, digitalisation
Choose engagement method	Interviews, focus groups, workforce representatives, anonymised surveys and questionnaires
Choose engagement channels	Websites, podcasts, webinars, workshops, social media, newsletters, calls, meetings
Prepare logistics of each engagement	Resources needed, date, time, location, materials
Engage personnel to conduct engagement activities	Specific departments, sustainability working group, designated executive management

CHALLENGE

- Meaningfully engaging in dialogue with all relevant stakeholders.
- Coordinating stakeholder dialogues can be quite overwhelming.
- All stakeholder interests cannot be satisfied.
- One-off dialogue session instead of long term, ongoing process with strategic value.

TIPS

- Map stakeholders in a detailed way, integrating the perspectives of different departments.
- Utilise relevant standards such as "AA1000 Stakeholder Engagement Standard (SES) 2015".
- Engage continuously with stakeholders, not only during the reporting process.
- Build on existing stakeholder dialogue channels to form a dialogue process.
- Engage indirect stakeholders, ensure representation of the value chain—engage suppliers, contractors, partners, representatives of social partners, NGOs, and regulators.
- Ensure outcomes of the dialogue are capitalised upon by the organisation and contribute to real risk assessment, product and customer experience, strategic target setting, etc.
- Provide training and tools to those internally responsible for stakeholder engagement.
- Where direct consultation is not possible, consider reasonable alternatives, such as consulting credible independent experts and organisations.

5.5. Materiality assessment

Materiality assessment is a crucial step in determining which sustainability matters to address in sustainability reporting. With so many impacts, risks, and opportunities to consider in sustainability reporting, it is essential to prioritise. Materiality can be seen as a filter for identifying the most relevant impacts, risks, and opportunities to disclose. To accomplish this, companies should apply the principle of double materiality. It involves looking at both how the company affects the environment and society (impact materiality or inside-out perspective) and how sustainability affects the company's finances (financial materiality or outside-in perspective).

See Chapter **4.4.1. Double materiality assessment as the basis for sustainability disclosures**

To ensure their sustainability reporting is relevant and addresses the most critical issues, organisations should regularly review and update their materiality assessments, **embedding them in a process of regular strategic management**. The process, known as dynamic materiality, recognises that the importance of sustainability topics may change over time and takes into account internal and external factors that can impact the organisation's sustainability performance, such as changes in regulations, stakeholder expectations, and emerging risks and opportunities. By conducting regular reviews, organisations can stay updated on the most important sustainability matters and ensure that their reporting is responsive to evolving trends and concerns.

It is important to note that stakeholder engagement plays a key role in the materiality assessment process. By engaging with stakeholders, organisations can gain insight into the concerns and priorities of their stakeholders. This information is essential for identifying and prioritising the most material sustainability impacts or topics for reporting.

5.5.1. Preliminary mapping of impacts

When identifying impacts, organisations should consider ESRS topics, subtopics, sub-subtopics, and detailed guidance in topical ESRS, in addition to various sources of information and channels highlighted in Figure 17. This approach will help to produce a list of predictable impacts, risks, and opportunities. Additionally, organisations should have a comprehensive approach to considering topics such as physical risks from climate change, even if the organisation does not make a significant contribution to GHG emissions.

Figure 17: Preliminary identification of impacts.[48]

Preliminary identification of impacts

- Peer analysis and benchmarking
- Stakeholder engagement
- Analysis of organization's internal and external information
- Basic analysis of standards under which an organization is reporting (ESRS, GRI)
- Global and local sustainability initiatives and frameworks

[48] The preliminary mapping of impacts should subsequently be replaced by ongoing sustainability due diligence processes.

5.5.2. Materiality assessment

During this step, the organisation aims to evaluate the relevance and severity of the impacts identified in the previous step. This includes considering the organisation's context and circumstances, as well as engaging with stakeholders to identify and assess its impacts on them. The organisation should prioritise engagement with stakeholders who are most severely affected or potentially affected.

Impact materiality

The assessment of impact materiality involves identifying and addressing potential negative impacts related to sustainability topics that may be associated with an organisation's products, services, operations, or value chain. Organisations can use various guidelines such as the UN Guiding Principles on Business and Human Rights, OECD Guidelines for Multinational Enterprises and Responsible Business Conduct Due Diligence guidance, or the Global Reporting Initiative's Universal Standards for detailed guidance on determining material topics and assessing the severity of impacts. It is recommended that companies follow a four-step process outlined in Figure 18.

Figure 18: GRI approach to impact materiality.

Understand the organization's context
- High-level overview of activities and business relationships
  - entire upstream and downstream value chain
  - types of activities
  - geographic location (origin of key resources or manufacturing processes)
- Overview of stakeholders

Identify actual and potential impacts
- Analysis of impacts on the environment, and people, including impacts on human rights
  - actual and potential impacts
  - negative and positive impacts
  - short-term and long-term impacts
  - intended and unintended impacts
  - reversible and irreversible impacts
- Stakeholder engagement

Assess the significance of the impacts
- Negative actual impact (scale, scope, irremediable character)
- Positive actual impact (scale, scope)
- Negative potential impact – RISK (scale, scope, irremediable character, likelihood)
- Positive potential impact - OPPORTUNITY (scale, scope, likelihood)
- Impacts in each category should be assessed separately

Prioritize the most significant impacts for reporting
- Prioritization of impacts based on their significance
- Set a cut-off point to eliminate less significant impacts

The organisation may identify many actual and potential impacts. The step of prioritisation based on the severity of these impacts enables the organisation to 1) address the most significant impacts through appropriate action and 2) determine which impacts to report on. The appropriate action will depend on the organisation's relationship to the impact, including impacts caused by the organisation, contributed to by the organisation, and connected to the organisation via business relationships anywhere in the value chain.

Financial materiality

The principle of financial materiality involves assessing the economic consequences of an organisation's material sustainability impacts and the potential financial effects of sustainability matters on the organisation. This includes evaluating both the resources the organisation has at its disposal and the relationships it has with stakeholders and its value chain. For example, it includes assessing how an organisation's assets and business activities may be affected by climate-related hazards. Financial materiality should be considered alongside impact materiality as part of the broader principle of double materiality.

See Chapter:
4.4.1. Double materiality assessment

Figure 19: Financial materiality concept: what to consider.

Continuous use of resources

- Pricing and margins
- Available supply and markets
- Ability and cost of maintaining or recreating resources
- Regulatory constraints

Continuous reliance on relationships

- Financial institutions
- Supply chain
- Customers, brand, and reputation
- External stakeholders
- Broader society and communities

Natural capital
Social capital
Human capital
Financial capital
Manufactured capital
Intellectual capital

5.5.3. Determining applicable disclosures

The final step is to identify disclosures that are relevant for reporting purposes. The organisation should analyse relevant reporting standards (e.g. ESRS, GRI, SASB) and determine which disclosures are applicable based on the results of the materiality assessment. The organisation should also consider any additional entity-specific disclosures that should be included in the report. It is important to review the materiality assessment regularly and update it to reflect any changes in the organisation's context and circumstances, as well as stakeholder expectations and emerging risks and opportunities.

CHALLENGE

- Designing the process to ensure added value for strategy and risk department.
- Having a complete understanding within the organisation of material topics (purpose and development).
- Identifying indirect impacts.
- Dialogue with a wide range of stakeholders during the materiality assessment process.
- Ensuring the outcomes of the materiality assessment influence the content of the report in a visible way, that the report is consistent with the priorities of the organisation, and that materiality determines which data points (indicators) are gathered and presented in the report.

TIPS

- Hold a workshop or discussion with top management to showcase material topics (how they emerged and how they will be communicated in the report).
- Consult general, sector-, and activity-specific guidance on known risks, including recommendations and reports by international human rights bodies and non-governmental organisations.
- Consider the organisation's risks and opportunities and test the resilience of the organisation's strategy against various climate scenarios.
- In the report, focus only on material indicators; do not hesitate to present both data that are positive and those that show challenges.

5.6. Selection of indicators

Embedding the indicators needed to comply with new regulatory requirements into the organisation is challenging. It can entail simultaneously redesigning existing processes of data gathering and control, tracking KPIs, and ensuring business and strategic value from the process for the board of directors and top management. Proper transition time is needed for planning, discussion, design, and implementation. Start the process as soon as possible.

The organisation should identify all indicators it should report, considering legislation and standards as well as measures set for strategic targets in the sustainability area. This group of indicators can also be expanded based on information gathered during stakeholder engagement to satisfy their demands. The final list of all required indicators should be analysed from these perspectives:

- Indicators the organisation already uses for different purposes
- Resources needed for measuring indicators (time, financial and human resources)
- Value and importance of information provided by the indicators

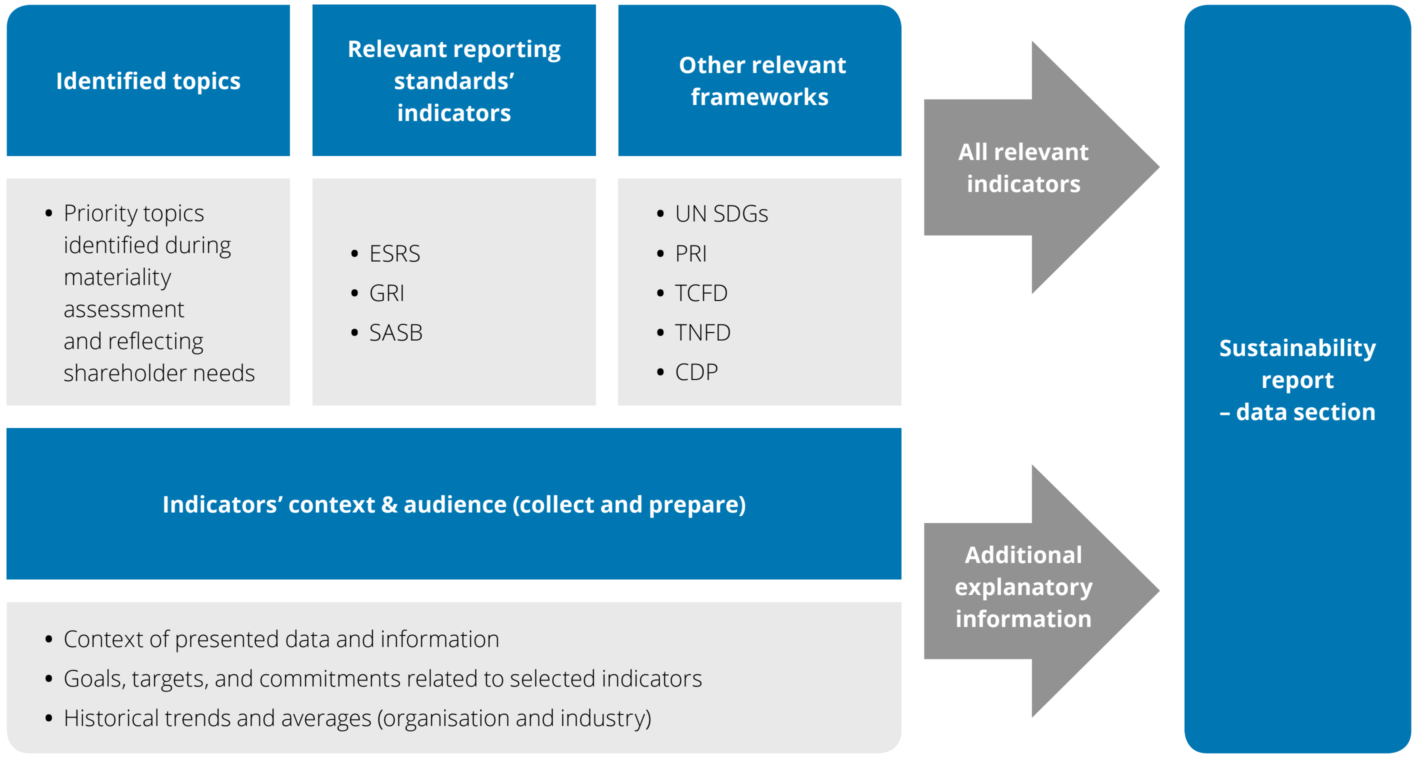
See Chapter:
4.3. Mandatory disclosures
4.5.4. Metrics and target

The organisation should set up internal data dashboards for different purposes and needs.

An absence of robust indicators in the social areas relevant to a company can lead to unintentional misjudgments within the sustainability agenda. If robust indicators are not available for the organisation's sustainability topics, it should seek alternative supporting information and utilise existing scientific knowledge and relevant frameworks.

The organisation is not obliged to collect and provide data for all relevant indicators at all costs.[49] Therefore, the indicator analysis can inform the organisation about which indicators have strategic priority and are easy to measure, and which indicators provide insignificant value while being cost-intensive.

Figure 20: Subjects to consider when selecting indicators, with examples.



[49] If the data are impossible to collect, the organisation should maximise transparency and provide all contextual information, including the reasons for omission and the mitigation steps.

CHALLENGE

- Understanding which KPIs among all those required by regulations and guidelines are of strategic value for the organisation.
- Without an existing management process (policy, process, implementation, monitoring), the organisation cannot report on it or its effects.
- Understanding which KPIs are mandatory under the European framework while also including those that relate to the organisation's sustainability goals and commitments.
- Knowing which KPIs beyond the European framework will be referenced by the main stakeholders of the report (e.g. the scope of indicators that banks reference vary based on industry and main areas of business).

TIPS

- Conduct a CSRD/ESRS health check to define which data are missing.
- Engage CFO, strategy, and IR as well as financial department to choose which indicators should be monitored more frequently (monthly, quarterly, yearly); set a process of reviews at the board level.
- Ensure cooperation between Finance, IR, ESG department, strategy, and climate/decarbonisation department to start working with an integrated perspective, linking financial and ESG data.
- Consider the reporting scope when selecting indicators.
- Ensure education on methods of estimation and calculation in new areas indicated by ESRS—GHG, scope 3 (e.g. the difference between spend-based and other methods), gender pay gap, etc.
- Consider creating a manual that defines and provides supporting information on all selected indicators.

Figure 21: Main information related to indicators: example of water intensity.

Name	Water intensity
Definition & calculation	Definition: the amount of water a company withdraws per unit of financial output. Calculation: total water intake / normalisation factor (monetary unit)
Units	Total water withdrawal in m^3 per monetary unit of sales
Reporting frequency	Annually

5.7. Data collection

While data are crucial for reporting purposes, their utility extends beyond to support informed decision-making and strategic planning for companies, ultimately leading to a more stable and responsible business model. Data gathering is often the most resource-intensive and time-consuming step in the reporting process. The sustainability agenda requires both inputs from diverse departments and stakeholders and collection of indicators related to various topics.

The data collection process is costly and inseparable from other data cycle components, and thus an organisation should consider this process in all stages of sustainability reporting.

Prior to performing data collection, the organisation should:

- Define the scope of reporting (what is included).
- Determine a collection timeframe.
- Define data owners and data sources.
- Educate data owners on the required information needs.
- Select appropriate data solutions.
- Establish a proper quality check and control process.

The assessment of an organisation's data management needs to determine the selection criteria for the most effective data solution.

Figure 22: Sustainability data cycle.

Data cycle element	Resources
Generation	Business activities and relationships, first-party and third-party data
Collection	Responsible personnel, reporting team
Processing, storage, & management	Data solution
Analysis	Data analysts, reporting team
Visualisation & interpretation	Data analysts, reporting team, graphic designers

CHALLENGE

- Multiplication of effort and lack of reliable and consistent data—the same data are often gathered in different formats for different reporting purposes (e.g. statement of the management board, non-financial statement of the management board, financial report, corporate report, ESG report, marketing communication, internal communication, internal audit reporting, internal monitoring of strategy implementation).
- Data management for some indicators/topics requires several years, including:
  - identification and analysis of value chain impacts
  - calculation of scope 3 GHG emissions
  - analysis of long-term sustainability data to support decision-making and management of underlying impacts, risks, and opportunities
  - development and approval of climate transition plan
- Lack of an established and verifiable data collection process that allows for consistent collection of quality data.
- Lack of adequate tools and systems in the organisation to collect indicators.
- Time consuming, especially if it is the first time data is collected or the report scope is extensive.

TIPS

- Utilise existing channels of data collection.
- Prepare explanations of identified data collection gaps.
- Analyse data sources and potential for automating ESG and integrated reporting.
- Define a "single source of truth" for individual data elements.
- Identify and utilise specialised data management tools and software to support the process of data collection and data management.
- As they occur, prepare explanatory notes on data collection methodology and any significant trends to include in the report.

Figure 23: Sustainability data solutions.[50]

Traditional data tools
Usually based on simple tools such as MS Excel or Google Sheets

\+

- Low initial costs
- Easy to implement
- Suitable for small data volumes and small organisations

–

- Time-consuming process
- Higher error rates
- Manual data management

Specialised ESG data tools
Diverse platforms usually based on subscription

\+

- Long-term cost-effective
- Automated data processing including data collection
- Lower error rates
- Flexibility and adaptability of the system (new regulations or methodologies)
- Visualisation and dashboards usually included
- Real-time performance results

–

- Higher initial costs
- Problematic integration with a data solution from another provider (financial reporting)

[50] The figure represents an example of categorisation and general overview.

When using ESG data for investment decision-making, investors want ESG information to be reliable, complete, consistent, comparable, and not focused only on positive but also negative outcomes of performance.

5.8. Drafting the report

Sustainability reports should provide quantitative and qualitative information relevant for decision-making by stakeholders, including board statements that are linked to sustainability strategy, management approach, and sustainability-related governance processes. Content should fulfil certain quality requirements.

See Chapter:
4.2. Key rules to ensure quality of the content and data

The ESRS use the term "sustainability statement" to refer to a section of the company's management report that presents sustainability information. The sustainability statement's structure should include general, environmental, social, and governance sections. Each of the sections provides specific disclosures in a similar structure, including information about impacts, metrics, targets, management approach, and more.

NAVIGATION

QUESTION we help to answer	**ANSWERS** described further in the Chapter
How to ensure compliance with technical requirements?	**KEY REQUIREMENTS** • Time horizons • Links, interconnections

5.8.1. Scope and boundary

Reporting scope is usually determined at the beginning of the reporting process. The organisation should explain reporting boundaries and list the entities included in the report. If it reports according to the ESRS, it must apply the same consolidation scope used for financial reporting. Consequently, the information and data provided should be aligned with the issuer's fiscal year and business ownership model. Attributes such as size, location, or business activity are commonly used in the consolidation process. The extent of the report's coverage of the organisation's value chain should also be described.

The reporting period for the company's sustainability statements should be consistent with its financial statements. The company needs to adopt the following time intervals as of the end of the reporting period:

- Short-term: the period adopted in the financial statements
- Medium-term: from the end of the short-term reporting period to five years
- Long-term: more than five years.

5.8.2. Story

In this step, the organisation can present its current and upcoming opportunities and challenges and demonstrate its ability to generate value in a responsible way. The organisation should determine the principal message of the report while considering its audience and main stakeholder groups. Analysis of gathered data, averages, trends, materiality assessment, and other results can assist with storytelling. In this step, it is crucial to remain transparent and avoid greenwashing. There should be a clear distinction between mandatory information required by a reporting standard and additional information related to the desired story.

Figure 24 : Example of creating the narrative.

Introduction of the organisation	Governance and management	Main part of the report	Supportive information
Business activities, products, services, business performance, size, location, value chain, material topics, issues, opportunities, and challenges	Oversight, control, strategy, policies, and management approach related to material topics and relevant areas	Material topics, quantitative data, trends	Short case studies, examples of good practice, success stories, pictures

Understand and explain: What? Why? How? | **Comply with mandatory disclosures**

5.8.3. Transparency and accuracy

Users of sustainability reports expect the provided information to be timely, correctly computed, and comparable between peers and industries, such as by using widely recognised methodologies and standards. This facilitates accurate assessments and decision-making. While organisations are inclined to present an optimistic picture, the ESRS require an organisation to show stake-holders that it understands and addresses all relevant impacts. Neutral language and a more scientific approach can improve trust and minimise potential reputational risks.

Data collection, normalisation methods, and calculations should remain consistent throughout all reporting periods. Any changes require appropriate explanations. Any data gaps, including missing, estimated or inaccurate data or material information should be disclosed with transparent clarification and management measures. Irrelevant information should be excluded rather than disclosed. Other reasons for not disclosing certain information in the report include confidentiality constraints and legal prohibitions.

Companies are required to disclose one year of comparative information in respect of all metrics disclosed in the current period, and for narrative sustainability disclosures when relevant to an understanding of the current period's sustainability disclosures. In the year of adoption, an undertaking may defer the presentation of comparative information by one year.

5.8.4. Format

According to Regulation EC 2019/815, companies are obligated to prepare reports on their sustainability information, including environmental, social and governance matters, in a way that is relevant and useful for investors. The report format may vary according to the extent to which financial and sustainability information is integrated. However, under the new CSRD rules, companies will have to disclose all necessary sustainability information in a separate section of the management report. Companies are advised to streamline their reporting into one integrated report. This ensures that the information reaches the intended stakeholders and complies with regulations. It is important to note that companies must prepare these reports in accordance with the NFRD and the guidelines of the European Securities and Markets Authority (ESMA) to ensure that the information is of high quality and comparable across companies.

Table 5: Overview of sustainability report formats

STAND-ALONE SUSTAINABILITY REPORT	FINANCIAL REPORTING WITH MATERIAL SUSTAINABILITY-RELATED TOPICS	INTEGRATED REPORTING
Now widely used		Will be required by CSRD
Detailed sustainability-related material topics	Limited sustainability-related material topics	Detailed sustainability-related material topics
Limited financial information	Detailed financial information	Detailed financial information
Sustainability-related information relevant to investors and other stakeholders	Financial information and management report with some complementary sustainability-related information	How strategy, governance, performance, and context contribute to short- and long-term value creation

5.8.5. Accessibility

The report should be easily accessible from the issuer's website and through other channels, depending on the preferences of the audience. Organisations reporting under the CSRD will have to prepare sustainability reports in the European Single Electronic Format (ESEF), which is required for financial statements, digitally tag sustainability information, and upload it to the proposed European Single Access Point (ESAP).[51] The goal is to build a singular database of categorised sustainability information which can support high-level decision-making and further research in related areas.

CHALLENGE

- When there are multiple data contributors, ensuring standardisation and cohesiveness of the content and storyline can be difficult and overwhelming.
- Understandability if the issues are sector-specific (e.g. language used or approach to chapter layouts).
- Achieving a balance between sufficient detail and sufficiently short report length.

TIPS

- Define roles for content approval at the beginning of the reporting process. Ensure engagement with board representatives as well as investor relations, legal, and communication departments (not only ESG).
- Ensure representatives of the board and top management review key ESG data trends periodically, not just once a year for the purpose of publication. Ensure strategic understanding and the opportunity to add comments on ESG data trends.
- Benchmark main ESG values with peers, sector average.
- Define the structure, key information and KPIs before drafting the report.
- Internally, request supporting information (e.g. case studies) early in the process.
- Identify relevant people who will provide feedback on the report narrative to avoid the process becoming protracted.
- Report on challenges and mistakes as well as accomplishments—be transparent and avoid greenwashing.

[51] ESAP should be established by 2024 according to the Proposal for a Regulation 2021/0378 (COD) of November 25, 2021.

5.9. Third-party assurance

To ensure that the information provided in non-financial, sustainability, and integrated reports is reliable, a third-party auditor should review both sustainability and annual reports.

The European Council's Corporate Sustainability Reporting Directive (CSRD) introduces an EU-wide **requirement for limited assurance of sustainability data**. More comprehensive assurance may be required in the future.

External assurance can be provided by statutory auditors and audit firms who are already experienced in auditing financial statements, as well as sustainability experts who have expertise in the reporting standard. In the sustainability report audit, they can provide detailed explanations of how financial data and sustainability performance are interconnected.

The main goal of the CSRD is to ensure consistency across EU reporting, so it establishes a new framework for EU-wide assurance. It sets guidelines for reporting in accordance with the proposed IFRS framework, including the process for evaluating data included in the report.

Methodology for non-financial assurance

The most widely used standard for the assurance of non-financial information is the International Standard on Assurance Engagements (ISAE) 3000 (Revised), issued by the International Auditing and Assurance Standards Board.

Table 6: Limited vs Reasonable assurance

LIMITED ASSURANCE	REASONABLE ASSURANCE
What do limited and reasonable assurance **have in common**? An external practitioner concludes, based on sufficient appropriate evidence, that the risk of material misstatement has been reduced to an acceptably low level in the context of the engagement.	
Limited assurance allows for the assurance of subject matter which is less well-defined and for which the control environment is less mature and robust.	Reasonable assurance is a more comprehensive process than a limited assurance engagement.
The assurance provider performs different or **fewer tests than those required for reasonable assurance or uses smaller sample sizes** for the tests performed. As a result, the risk of a material misstatement of the subject matter is reduced, but not to the low level required by reasonable assurance. The **auditor focuses on understanding the process used to compile the reported information** and also on inquiry, observation, and analytical procedures (e.g. observing the data at an aggregated level).	The assurance provider must conduct **extensive procedures** as described in the standard. This includes identifying risks and assessing the possibility that any matters may be unfairly represented; testing the operating effectiveness of the organisation's internal controls on which the auditor intends to rely; and substantive procedures.
Based on the procedures performed and evidence obtained, **the auditor expresses a conclusion in a negative manner**, such as, 'Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the subject matter information has not complied, in all material respects, with XYZ law or applicable criteria'.	**The auditor's conclusions are stated in a positive manner**, such as, 'In our opinion, the [appropriate party's] statement that the key performance indicators are presented in accordance with XYZ criteria is, in all material respects, fairly stated'. As in an audit of financial statements, this is the highest level of assurance, but is still not absolute.

Key benefits of third-party assurance

Improving the quality of the report:

- **Correct mistakes and add information before publishing.**
- **Assess and strengthen internal procedures for sustainability-related data collection, management, and reporting.**
- **Get valuable guidance from an experienced auditor.**
- **Ensure content meets regulatory requirements or reporting standards, such as CSRD, IFRS, GRI Standards, TCFD, or SASB.**

Increasing the report's usefulness for external users:

- **Increase the credibility of the report in the eyes of the company's stakeholders, such as shareholders, analysts, customers, cooperating entities, and lending institutions, which may use the information in decision-making.**
- **Improve the company's position in ESG rankings and stock exchange indices that take external verification of sustainability-related factors into account.**

5.9.1. How to prepare for assurance

The assurance process depends on the maturity of ESG governance within the company and its level of preparedness.

Here are some tips for organisations that are preparing for assurance for the first time.

Figure 25: Recommendations for preparing for assurance for the first time.

1. Develop and implement a consistent system for collecting data for the report and gathering supporting documentation.
2. Maintain information on the methodology, assumptions made, and data collection process for each reported indicator.
3. Communicate with those responsible for individual indicators and aspects to ensure that data is collected for the period covered by the report.
4. Prior to verification, the data should be reviewed internally by the coordinator responsible for the subject matter.
5. Retain the source files and working spreadsheets used for the calculation and consolidation of data.

CHALLENGE

- External assurance carried out by a qualified third party becomes mandatory.[52]
- Digital tagging of reported information becomes mandatory.
- It is a resource-intensive process in terms of time, financial, and human resources

TIPS

- The type of assurance chosen should reflect the recommended standard of assurance (sector-based), as well as stakeholder expectations.
- Establish a controlling mechanism, either automated controls identifying significant variations in the data from previous years or manual checks performed after data collection to identify trends or outstanding data points to check.

[52] Assurance will be required at the limited level in the first stages, but a requirement for reasonable assurance is expected after some time.

5.10. Review and feedback

Even after drafting, finalising and communicating the report, we recommend not to end the process there. As a final step, organisations can benefit from concluding the process with a final review that incorporates both internal and external feedback (if applicable). The aim is to continue learning by reflecting on the current approaches to the reporting process and improve them for future reporting periods. Additionally, this process can help identify targets for addressing current gaps in the reporting process and establish next steps for the following report.

5.10.1. Internal feedback

The aim of internal feedback is to receive recommendations from those involved in the process of creating the report. This can occur in many formats, most commonly an internal survey or questionnaire and an internal workshop or interactive discussion.

It does not matter which method is used to gather internal feedback; what matters is obtaining feedback from all relevant parties and gathering feedback that is constructive. Including all stakeholders who were involved in any aspect of the reporting process not only helps to collect first-hand information, but also shows that the organisation values the time they spent to help produce the report. This encourages them to continue being involved in future reporting processes and invest the time required to draft the reports.

Table 7: Pros and cons of feedback formats

MEANS OF COMMUNICATION	SUGGESTED FORMAT	PROS	CONS
Internal survey or questionnaire	Make the process easy for the respondent, while collecting useful and constructive information (on which practical actions can be based).	Convenient: the respondent can fill it out when time permits.	Does not allow for an interactive discussion, therefore it is not possible to follow up with questions or to engage further. Respondents tend to be less engaged because it requires more effort to write responses. Greater likelihood of having to prod respondents to receive feedback; responses may not be collected from everyone.
Internal workshop or interactive discussion	Have something or someone to guide the in-person discussion. A good tool to use is a presentation with slides to give an overview of the reporting phases.	Engaging: those involved can bounce ideas off each other, as they understand first-hand what works within the process and why.	More difficult to host because a convenient time for all parties involved must be determined. Must be well-organised and structured to ensure that discussions stay relevant and focused, therefore someone must lead the discussion.

Table 8: Example of internal feedback, supported by a sample questionnaire.

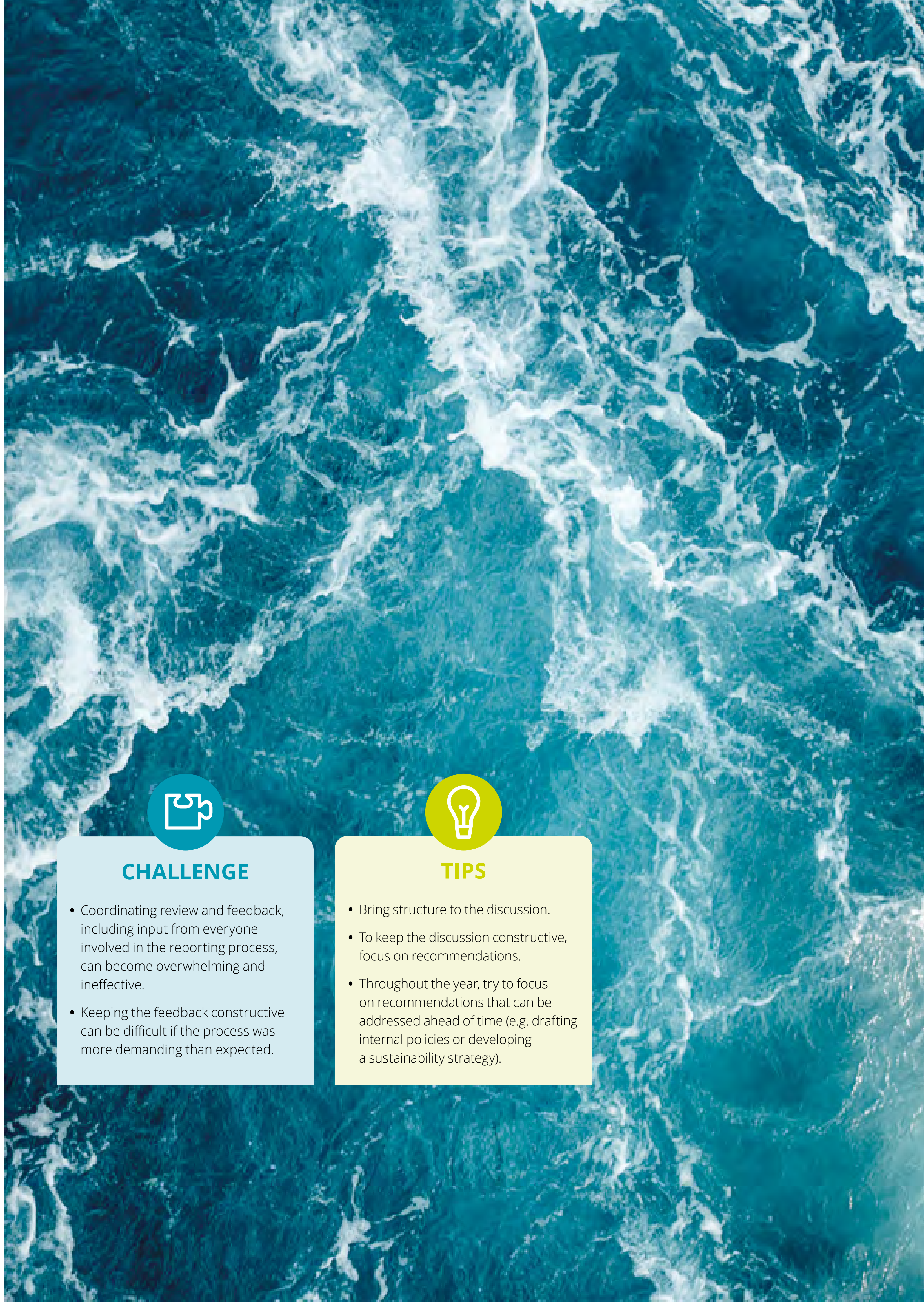
Sample Questionnaire

REPORTING PHASE	SUMMARY OF TASKS AND OUTCOMES	IDENTIFIED GAPS OR ISSUES	RECOMMENDATIONS FOR IMPROVEMENT
Preparation: Establishing roles and responsibilities	Core ESG team was established and internally, contact points were determined in each company department.	*Missing contact point for overall data collection and verification.*	*Appoint someone from the finance department as the contact for data collection and verification; they should already be familiar with data collection for annual reporting.*
Preparation: Business strategy alignment	Sustainability strategy was established so that it is aligned with and supports the business strategy. Short-term targets: completed Long-term targets: to be approved		
Analysis: Identifying the audience	Main users of the report identified as: • Banks • Investors		
Pre-filled	**Pre-filled**	**If relevant to the respondent, they complete**	**If relevant to the respondent, they complete**

5.10.2. External feedback

External feedback is received from third parties, most commonly from ESG rating agencies, banks, investors, and shareholders. Additionally, organisations can anticipate scrutiny by NGOs, especially within publicly sensitive areas. This information may help to address concrete gaps within the report that can be especially important when securing finances.

After internal and external feedback is obtained, it is important to create a plan of action based on the recommendations received. Actions should be prioritised (e.g. short- and long-term) and responsibility for addressing each task allocated to the responsible personnel.



CHALLENGE

- Coordinating review and feedback, including input from everyone involved in the reporting process, can become overwhelming and ineffective.
- Keeping the feedback constructive can be difficult if the process was more demanding than expected.

TIPS

- Bring structure to the discussion.
- To keep the discussion constructive, focus on recommendations.
- Throughout the year, try to focus on recommendations that can be addressed ahead of time (e.g. drafting internal policies or developing a sustainability strategy).

List of figures

List of tables

The way forward: Summary and conclusions

Recently, we have observed a significant increase in interest in the subject of ESG. This is due to new regulations and growing expectations from investors, financial institutions, business partners and consumers. The requirements concern the inclusion of ESG considerations in the business strategy, goal setting, performance indicators, risk management, decision-making, as well as responsibility in the organization for considering ESG factors and sustainability-related disclosures. Meeting these requirement remains a challenge for most companies in the Czech republic. We estimate that less than 1% of companies are currently prepared for the package of new regulations enhancing ESG transparency (CSRD/ESRS, EU taxonomy, SFDR, CSDDD). Out of more than 1000 companies in the Czech Republic to which the new ESG reporting requirements will apply, around 97% will be implementing ESG reporting for the first time.

The most frequently indicated obstacles are the complexity of new regulations on ESG reporting, lack of knowledge about the process and methodologies as well as its strategic value, difficulties in defining the structure of responsibility and effective governance, as well as the lack of tools and data. Many companies stop at the level of declarations within climate and environmental issues. Deloitte research shows that just a few ESG leaders in the Czech Republic calculate GHG emissions (carbon footprint), and very few submit their ESG data or indirect carbon footprint (scope 3) for external verification. Although, the majority of leading companies have started to consider or declare the adoption of reduction plans in line with the Paris Agreement, few of them certify the targets through the methodology of Science Based Targets. Still less attention is paid to social due diligence embedded in risk management and corporate governance.

Meaningful actions in the area of ESG are needed here and now. Compliance with regulations, including the Corporate Sustainability Reporting Directive (CSRD), new European Sustainability Reporting Standards (ESRS), and EU Taxonomy is a necessary minimum; companies can also use market guidelines, sector standards, and certification. There is a strong group of ESG leaders – mainly listed companies – that have already started to incorporate ESG factors into business decision-making and operations. Such companies can play a significant role in driving the transition of the whole market to the new regulatory landscape. Key success factors may include:

- Ensuring strong governance and climate governance is necessary – big roles of Management Boards and Non-Executive Boards
- Detailed gap analysis with respect to the new regulatory landscape
- Advancement of ESG strategy implementation and decarbonisation
- Focus on gathering basic data to conduct evidence-based decisions
- Focus on climate risks, financial valuation, and double materiality – linking sustainability with financial performance will become critical
- Data collection and management throughout the value chain and scopes using technology and AI will become crucial

ESG is not only about expectations and regulations, but also about business opportunities – e.g. lowering costs, obtaining better financing conditions, or accessing new sources of income. The green transformation can form the basis of building long-term value. And real change requires the cooperation of businesses, investors, public administration, NGOs and society – including clients and employees.

6 Appendices

6.1.1. List of relevant EU legislation

SHORTCUT	FULL NAME	DESCRIPTION	LINK TO LEGISLATIVE ACT	EU COMMISSION WEBSITE
ESRS	European Sustainability Reporting Standards	EU standards for sustainability reporting developed by EFRAG, required for reporting under the EU Corporate Sustainability Reporting Directive (CSRD).		https://www.efrag.org/lab6
SFDR	Sustainable Finance Disclosure Regulation	Regulation that aims to level the playing field for financial market participants and financial advisers on transparency in relation to sustainability risks, the consideration of adverse sustainability impacts in their investment processes, and the provision of sustainability-related information with respect to financial products.	https://eur-lex.europa.eu/eli/reg/2019/2088/oj	https://finance.ec.europa.eu/sustainable-finance/disclosures/sustainability-related-disclosure-financial-services-sector_en
Taxonomy	EU taxonomy for sustainable activities	A classification system which establishes a list of environmentally sustainable economic activities. It could play an important role helping the EU scale up sustainable investment and implement the European Green Deal.	https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020R0852	https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en
	EU Taxonomy Climate Delegated Act	Aims to support sustainable investment by making it clearer which economic activities most contribute to meeting the EU's environmental objectives (on sustainable activities for climate change mitigation and adaptation objectives).	https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32021R2139	https://finance.ec.europa.eu/regulation-and-supervision/financial-services-legislation/implementing-and-delegated-acts/taxonomy-regulation_en

SHORTCUT	FULL NAME	DESCRIPTION	LINK TO LEGISLATIVE ACT	EU COMMISSION WEBSITE
	Delegated Act supplementing Article 8 of the Taxonomy Regulation	Article 8 of the Taxonomy Regulation requires undertakings covered by the Non-Financial Reporting Directive (NFRD) to publish information on how and to what extent their activities are associated with economic activities that qualify as environmentally sustainable under the Taxonomy Regulation. The Delegated Act specifies the content, methodology, and presentation of information to be disclosed by financial and non-financial undertakings concerning the proportion of environmentally sustainable economic activities in their business, investments, or lending activities.	https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32021R2178	https://finance.ec.europa.eu/regulation-and-supervision/financial-services-legislation/implementing-and-delegated-acts/taxonomy-regulation_en
	EU taxonomy Complementary Climate Delegated Act	Specifies, under strict conditions, nuclear and gas energy activities that are in line with EU climate and environmental objectives.	https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32022R1214	https://finance.ec.europa.eu/regulation-and-supervision/financial-services-legislation/implementing-and-delegated-acts/taxonomy-regulation_en
CSRD	Corporate Sustainability Reporting Directive	A comprehensive set of measures aimed to help improve the flow of capital towards sustainable activities across the EU. The CSRD is a central part of the EU Sustainable Finance package. It amends the NFRD, the Accounting Directive, the Transparency Directive, the Audit Directive, and the corresponding Audit Regulation. It aims to strengthen investor protections, reduce greenwashing, and ensure reliable and comparable disclosures that meet the information needs of investors and other users.	https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32022L2464	https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en

6.1.2. List of stock exchanges providing ESG reporting guidance in Central Europe and the EU

MARKET	STOCK EXCHANGE	YEAR	ESG GUIDANCE
Belgium	Euronext Brussels	2022	ESG Reporting Guide - Target 1.5°C
Denmark	Nasdaq Copenhagen	2019	ESG Reporting Guide 2.0: A Support Resource for Companies
Estonia	Nasdaq Tallinn	2019	ESG Reporting Guide 2.0: A Support Resource for Companies
Finland	Nasdaq Helsinki	2019	ESG Reporting Guide 2.0: A Support Resource for Companies
France	Euronext Paris	2022	ESG Reporting Guide - Target 1.5°C
Germany	Deutsche Börse	2013	Communicating sustainability: Seven recommendations for issuers
Greece	Athens Exchange Group	2022	ESG Reporting Guide
Hungary	Budapest Stock Exchange	2021	ESG Reporting Guide
Iceland	Nasdaq Iceland	2019	ESG Reporting Guide 2.0: A Support Resource for Companies (Also in Icelandic)
Italy	Borsa Italiana (Euronext)	2022	ESG Reporting Guide - Target 1.5°C
Latvia	Nasdaq Riga	2019	ESG Reporting Guide 2.0: A Support Resource for Companies
Lithuania	Nasdaq Vilnius	2019	ESG Reporting Guide 2.0: A Support Resource for Companies
Luxembourg	Luxembourg Stock Exchange	2019	2019 Guide to ESG Reporting
Netherlands	Euronext Amsterdam	2022	ESG Reporting Guide - Target 1.5°C
North Macedonia	Macedonian Stock Exchange	2021	ESG reporting guidelines
Norway	Oslo Børs (Euronext)	2022	ESG Reporting Guide - Target 1.5°C
Poland	Warsaw Stock Exchange	2021	ESG Reporting Guidelines
Portugal	Euronext Lisbon	2022	ESG Reporting Guide - Target 1.5°C
Romania	Bucharest Stock Exchange	2022	ESG Reporting Guidelines
Spain	Bolsas y Mercados Españoles	2016	Voluntary Market Guidance for Listed Companies for Corporate Reporting on ESG Information
Sweden	Nasdaq Stockholm	2017	ESG Reporting Guide 2.0: A Support Resource for Companies
Turkey	Borsa İstanbul	2020	Sustainability Directory for Companies

6.1.3. Glossary

CAPEX	Capital expenditures
CDP	Carbon Disclosure Project
CDSB	Carbon Disclosure Standards Board
CSDDD	Corporate Sustainability Due Diligence Directive
CSR	Corporate social responsibility
CSRD	Corporate Sustainability Reporting Directive
DNSH	Do No Significant Harm
E	Environmental
EBRD	European Bank for Reconstruction and Development
EFRAG	European Financial Reporting Advisory Group
EPRA	European Public Real Estate Association
ESAP	European Single Access Point
ESEF	European Single Electronic Format
ESG	Environmental, Social and Governance
ESMA	European Securities and Markets Agency
ESRS	European Sustainability Reporting Standards
EU	European Union
EUGBS	EU green bond standard
FRC	Financial Reporting Council
FTSE	Financial Times \ Stock Exchange
G	Governance
GAR	Green asset ratio
GHG	Greenhouse gas
GRI	Global Reporting Initiative
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
INREV	Investors in Non-Listed Real Estate Vehicles
IOSCO	International Organization of Securities Commissions
ISAE	International Standard on Assurance Engagements
ISS	International Sustainability Standards
ISSB	International Sustainability Standards Board
KPI	Key performance indicator
MSCI	Morgan Stanley Capital International
MVO	Movement for entrepreneurs in the New Economy
NFRD	Non-Financial Reporting Directive
OECD	Organization for Economic Co-operation and Development
OPEX	Operational expenditures
PAI	Principal adverse impact
PRI	UN Principles for Responsible Investment
PSE	Prague Stock Exchange
RTS	Regulatory Technical Standards
S	Social
SASB	Sustainability Accounting Standards Board
SBTi	Science Based Targets initiative
SFDR	Sustainable Finance Disclosure Regulation
SFS	Sustainable Finance Strategy
SME	Small and medium-sized enterprises
SSE	Sustainable Stock Exchanges
TCFD	Task Force on Climate-related Financial Disclosures
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNEP FI	United Nations Environment Programme Finance Initiative
UNGP	United Nations Guiding Principles on Business and Human Rights
US	United States
WRI	World Resources Institute
WWF	World Wide Fund for Nature

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