CIA CHEMICAL INDUSTRIES ASSOCIATION

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Sustainability Reporting Disclosures

Guidance on sustainable finance and taxonomy-related reporting and disclosures

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RESPONSIBLE CARE

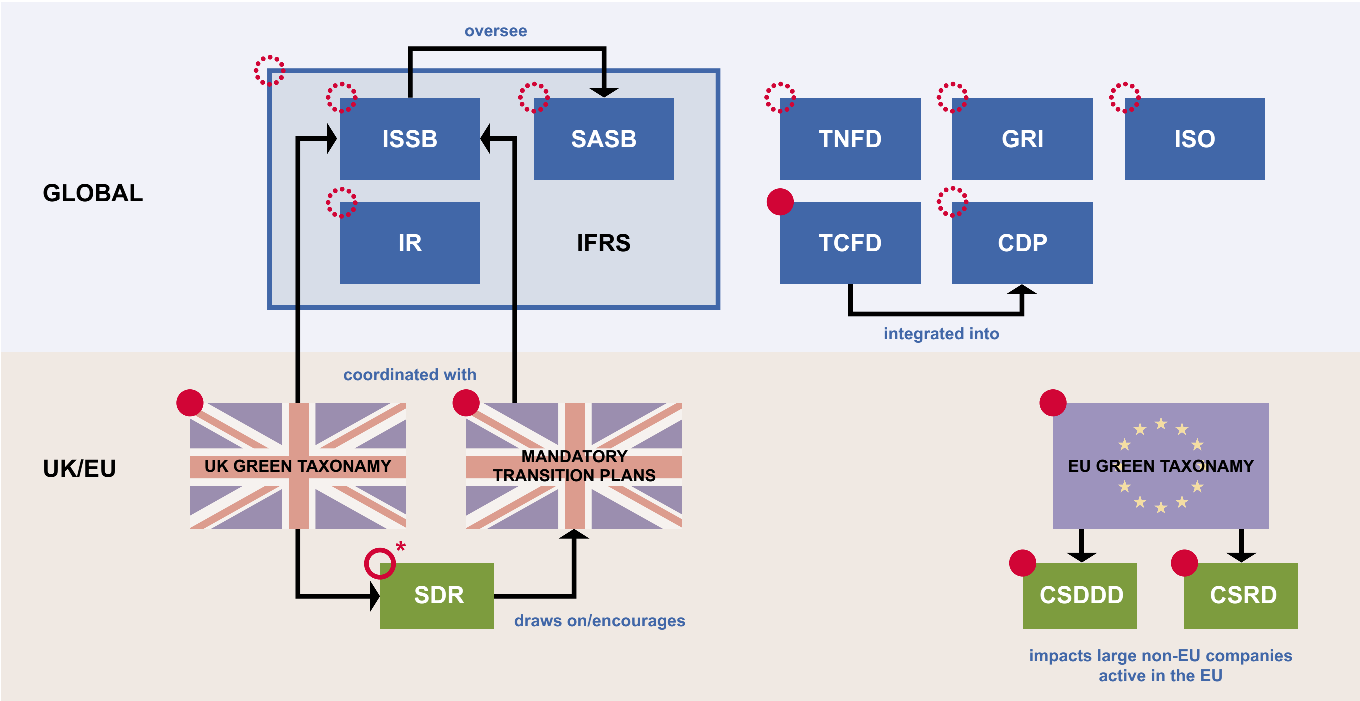
Introduction

Sustainability reporting is important and useful for companies; social and environmental concerns imply future business threats. Therefore, investing time and resources into sustainability solutions may allow any company to strengthen its long-term strategy. Sustainability reporting gives an overview of a company's economic, social and environmental impacts, enabling a company to measure, understand and assess its performance. Sustainability reporting helps manage risk; optimise costs and savings; support decision-making and increases employee, customer and other stakeholder engagement.

The following is a guide to sustainability reporting. The objective is to help members navigate the complex policy landscape and provide a better understanding of how the different standards and disclosures influence and interact with one another. The disclosures in this guide stem from global, UK and EU frameworks and standards that are of significance to UK business.

For any queries please contact CIA's Sustainability Executive, Charis McInnes (mcinnesc@cia.org.uk).

Sustainability Reporting Disclosures



Mandatory

Voluntary

Standard setting initiative/framework

* Cannot use the labels without adhering to specific requirements

GLOBAL

Carbon Disclosure Project (CDP)

Objective

To measure corporate and city environmental progress.

Scope

CDP provide questionnaires for companies, cities, states and regions to report on climate change, deforestation and water security. This provides stakeholders with qualitative and quantitative information on governance; policy; risk and opportunity management; environmental targets and strategy; as well as climate-related scenario analysis.

CDP also includes a supply chain module as well as sector-specific questions aimed at high-impact sectors such as coal, oil and chemical producers. Financial services reporting to CDP can also easily report on TCFD's recommendations as these have been integrated within the climate change questionnaire. CDP takes the information supplied in its annual reporting process and scores companies and cities to measure corporate and city environmental progress.

CDP is most suitable for large companies with international sites; cities; state or regional authorities; and companies with a high environmental footprint.

Timeframe

Annually (typically end-July).

Guidance

- Companies

Benefits

- **Transparency** – improve relationships with all stakeholders
- **Risk management** – demonstrates long-term thinking
- **Indicating environmental commitment**
- **Mitigating emerging regulations** – stay ahead of regulatory and policy changes, detect and mitigate emerging risks, and discover and pursue new possibilities for action that investors and consumers are requesting
- **Boost competitive advantage** – responding to CDP may attract investors/consumers, gain access to winning capital bids, and boost stock market performance

Challenges

- **Organisational silos** – companies are organised in various ways throughout the world and under multiple commercial and operational structures which might make it difficult to break down segmented risk-management systems and get leadership support for a more comprehensive approach to climate risk management
- **Inadequacies in practical capabilities** – most businesses have little or no expertise with climate change scenarios and GHG emissions accounting across all 3 emission scopes and science-based goal setting
- **Time-consuming** – a comprehensive set of questions must be answered to comply; obtaining the necessary information and responding to the questionnaire is a time-consuming and difficult task

Global Reporting Initiative (GRI)

Objective

To help businesses and other organisations take responsibility for their impacts by providing them with a global common language to communicate those impacts.

Scope

GRI work with businesses, investors, policymakers, civil society, labour organisations and other experts to develop the GRI Standards and promote their use by organisations around the world.

The Standards are designed as an easy-to-use modular set, delivering an inclusive picture of an organisation's material topics, their related impacts, and how they are managed. GRI have 3 different Standards:

1. ***The Universal Standards*** (incorporating reporting on human rights and environmental due diligence, in line with intergovernmental expectations) apply to all organisations
2. ***The Sector Standards*** enable more consistent reporting on sector-specific impacts
3. ***The Topic Standards*** list disclosures relevant to a particular topic (split into Economic, Environmental and Social)

GRI does not have a prescriptive scoring process, instead focusing on transparency and stakeholder engagement.

Timeframe

Standards are to be incorporated within a company's annual report.

Guidance

- Introduction to the Standards
- Universal standards

Benefits

- **Comprehensive** – cover a comprehensive set of ESG areas, while simultaneously providing a flexible framework for reporting on material issues
- **Stability in reporting** – unlike other frameworks the GRI Standards remain largely unchanged year on year
- **Globally recognised** – lessening the administrative burden placed on companies
- **Standardisation** – giving the ability to draw comparisons

Challenges

- **Neglecting supply chain** – principally intended to help companies complete audits on their own operations, this could mean social and environmental isolations which occur in a company's extended global supply chain are missed
- **Short of universal support** – although the GRI is becoming better recognised and supported, the initiative is still short of universal support
- **Too specific** – the level of detail and standardised approach is said to produce reports which are of little value to anyone bar experts of social and environmental standards.
- **Voluntary** – allowing companies to continue to use reporting as an opportunity for public relations spin rather than a serious effort at measuring and improving performance

Integrated Reporting (IR)

Objective

To advance communication about value creation, preservation and erosion. The Integrated Reporting Framework is used to connect financial statements and sustainability-related financial disclosures. IR enhances accountability and stewardship for the broad base of capitals (financial, manufactures, intellectual, human, social and relationship, and nature) and promotes understanding of their independencies.

Scope

7 guiding principles:

(1) Concise report;
(2) Connectivity of information in report format;
(3) The relationship of stakeholders;
(4) Materiality principle and consistency of information;
(5) Reliability and completeness of information;
(6) Presentation of information in a way so that it's comparable;
(7) Future-focused and strategic orientation.

8 content elements that should be included in the integrated report:

(1) Overview of organisation and external environment;
(2) Governance;
(3) Business model;
(4) Opportunities and risks;
(5) Strategy and resource allocation;
(6) Performance;
(7) Outlook;
(8) Basis of preparation and presentation.

Timeframe

Integrated within a company's annual report.

Guidance

- Transition to integrated reporting

Benefits

- **Provides clarity** – to help understand the organisation's strategy and business goals, as well as the understanding of the business operations
- **Integration** – promoting the culture of an integrated way of thinking
- **Non-financial and growth** – establishes a link between non-financial performance and business growth, as well as financial and non-financial performance matrices
- **Value creation** – stakeholders can analyse and measure non-financial performance factors
- **Risk management** – enhanced analysis of risks, opportunities, and threats

Challenges

- **Initial transition** – a shift from traditional annual reporting, focused on financial metrics, to a broader report that tells the value creation story of an organisation may be challenging
- **No model report** – every report must be built around the unique business model of the preparer, which may lead to difficulties in structuring the report

International Organisation for Standardisation (ISO)

Objective

Voluntary, consensus-based, market relevant International Standards that support innovation and provide solutions to global challenges.

Scope

ISO Standards are internationally agreed upon by experts as the best way of doing something and they encompass a broad range of sectors and responsibilities.

Some of the ISO Standards most relevant to the field of sustainability include:

- ISO/Guide 82:2014 Guidelines for addressing sustainability in standards
- ISO 26000 Guidance on Social Responsibility
- ISO 20400 Sustainable Procurement – Guidance
- ISO 14000 Environmental Management
- ISO 45001 Occupational Health and Safety Management System

ISO and its members see ISO Standards as contributions to a more sustainable world, and many environmental and sustainability frameworks now look to align with ISO Standards to ensure international alignment and credibility.

Timeframe

ISO standards can be adopted by a company in their business practice and annual reports.

Guidance

- Standards catalogue
- ISO in brief

Benefits

- **Time and cost savings** – standard framework to guide employees more precisely to streamline processes and liability
- **Uses best methods** – set the goals for your employees to help them perform tasks better and clearer, while encourage best practice sharing
- **Increases credibility** – emphasis on quality and engaging all employees
- **Open doors for new markets** – ISO gives a recognised mark of quality to products
- **Enhance customer satisfaction** – ISO Standards provide the best a business has to offer
- **Market environmental gains** – helps reduce adverse implications on the market environment

Challenges

- **Management commitment** – sometimes a lack of management commitment means compliance will not be met which compromises the product's quality
- **Knowledge** – a lack of proper knowledge regarding ISO compliance and implementation will affect every stakeholder involved in the process
- **Employee motivation** – change often meets resistance which is why employees must understand the ISO implementation
- **Auditing** – internal auditing is used to improve and confirm compliance, therefore if experience is lacking then implementation will be affected
- **Financial support** – training and implementation requires quality resources and financial support

International Sustainability Standards Board (ISSB)

Objective

Established by the IFRS, the ISSB was set up as a standard-setting board to provide high quality, transparent, reliable and comparable reporting by companies on climate and other ESG matters. The ISSB intend to provide a baseline standard on sustainability-related disclosures – both mandatory and voluntary.

Scope

Jurisdictions of individual nations can choose to adopt the ISSB's standards, which would make them binding for companies in those areas – companies can also voluntarily adopt the standards.

- Those compliant will eventually be required to disclose Scope 3 emissions, which include those from suppliers, in addition to their own emissions.
- 2 rules currently under discussion aim to set a baseline for disclosures as companies globally grapple with varying frameworks, standards and regulatory disclosure requirements:
    1. Companies to disclose significant climate-related risks, e.g. extreme weather events
    2. Companies to share information on how they manage, measure and monitor certain sustainability risks
- In 2023, the ISSB will look into potential new disclosures around the impact of businesses on biodiversity, human capital and reporting on human rights within companies.

Timeframe

The first two finalised frameworks (IFRS S1 and S2) are to be issued by the end of June with the expectation that the first corporate reports aligned with these frameworks will be issued in 2025. The UK will be using ISSB in the final development of their Sustainable Disclosure Requirements (SDR) regime. And it is expected that the various TCFD-based programs will be updated to align with ISSB as they integrate each into their master SDR framework.

Guidance

- IFRS Due Process Handbook

Benefits

- **Globally recognised** – setting consistent and comparable standards for organisations globally
- **Consensus for reporting** – simplifying a complex landscape and standardising the practice of non-financial reporting

Challenges

- **Standard-setting process may be very quick** – potentially limiting the extent of scrutiny being given to any proposed ISSB standard
- **Regional regulatory discrepancies** – regulators in the US have previously been reluctant to adopting global standards, making future ISSB implementation precarious. The European Commission also has plans for its own set of standards (i.e. CSRD, EU Taxonomy and the Directive on Sustainable Supply Chains).

Sustainability Accounting Standards Board (SASB)

Accounting for a Sustainable Future

Objective

The SASB has developed 77 industry-specific accounting standards that identify the subset of ESG issues most relevant to financial performance in each industry. SASB are under the oversight of the ISSB.

Scope

SASB Standards:

- surface sustainability information which is **financially-material** – i.e. reasonably likely to affect the financial performance of the typical company in an industry
- are **industry-based** because the issues that are most likely to impact financial performance vary by industry
- produce information that is **decision-useful** for **investors**
- are designed to be **cost-effective** for companies to use
- are developed using an **evidence-based** and **market-informed** process that is modelled after the process used to develop financial accounting standards

Standards include:

- **Disclosure topics** – industry-specific topics likely to be material, and a description of how value creation may be affected
- **Accounting metrics** – quantitative and/or qualitative accounting metrics intended to measure performance on each topic
- **Technical protocols** – guidance on definitions, scope, implementation, compilation, and presentation, for third-party assurance criteria
- **Activity metrics** – a set of metrics that quantify the scale of a company's business to be used with accounting metrics to normalise data and facilitate comparison

Timeframe

SASB's requirements are focused on what information should be disclosed, but SASB only supplies recommendations on where to disclose or how to share the ESG-related information. This flexibility aims to allow companies to share these data points through a means that makes sense for their organisation.

Guidance

- Standards
- External guidance

Benefits

- **Industry and sector specific** – uses nuances of each industry to define the materiality of specific sustainability accounting criteria
- **Making ESG understandable for the financial community** – provides a standardised metric of ESG data for the financial community to understand and subsequently make good investment decisions; they focus on ESG issues that are likely to have material financial effects

Challenges

- **Tailored to financial stakeholders** – may not be easily accessible to stakeholders who are outside the bounds of finance

Task Force on Climate-related Financial Disclosures (TCFD)

Objective

The TCFD develop recommendations on the types of information that companies should disclose to support investors, lenders, and insurance underwriters in appropriately assessing and pricing a specific set of risks—risks related to climate change. The TCFD is committed to market transparency and intends for its recommendations to be adopted by companies in both the financial and non-financial sectors.

Scope

TCFD disclosure recommendations are structured around 4 thematic areas that represent core elements of how companies operate:

1. **Governance** – around climate-related risks and opportunities
2. **Strategy** – the actual and potential impacts of climate-related risks and opportunities on the organisation's business, strategy, and financial planning where such information is material
3. **Risk Management** – how the organisation identifies, assesses and manages climate-related risks
4. **Metrics and targets** – those used to assess and manage relevant climate-related risks and opportunities where such information is material

The 4 recommendations are interrelated and supported by 11 recommended disclosures that build out the framework with information that should help investors and others understand how reporting organisations think about and assess climate-related risks and opportunities. The TCFD also recommend that organisations undertake a scenario analysis.

Timeframe

No timeframe. The TCFD encourages companies to adopt and implement the recommendations as soon as possible, recognising that different organisations may be in different positions regarding their capabilities to do so. The TCFD *recommends* that organisations provide climate-related financial disclosures in their mainstream annual financial filings.

Guidance

- TCFD knowledge hub

Benefits

- **Access to capital** – increases investors' confidence that the company's climate-related risks are appropriately assessed and managed
- **Meeting existing disclosure requirements** – can more effectively meet existing requirements to report material information in financial filings
- **Awareness of climate-related risks and opportunities** – (internally) manage risk and inform strategic planning; (externally) more efficient allocation of capital to help the transition toward a low-carbon economy
- **Company-wide engagement** – recommendations promote board and senior management engagement on climate-related issues
- **Bring 'future' of nature issues into present** – through scenario analysis

Challenges

- **Voluntary** – although many companies have adopted it, there are many others that are yet to
- **Costs** – reporting comes with some costs, those not reporting are likely to have an undue advantage, e.g. selling products at lower prices
- **Complexity of measuring global risk** – it may be difficult to trace all supply chains, especially those running globally, to force them to take actions for sustainability
- **Short-term data vs long-term implications** – lack of historical data means climate forecasting is not fall proof therefore quantifying the potential impacts in different scenarios is not easy and could impact the decisions that are made to craft strategies for sustainability

Task Force on Nature-related Financial Disclosures (TNFD)

Objective

The TNFD delivers a risk management and disclosure framework for organisations to report and act on evolving nature-related risks, with the ultimate aim of supporting a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes. TNFD take a market-led approach, combined with input from leading science and data bodies.

Scope

The TNFD recommends that companies disclose on the full set of nature-related dependencies, impacts, risks and opportunities, including climate, of their operations and across their value chain. This includes a consideration of the upstream and downstream value chains. For financial institutions, this includes lending, investment and/or insurance, as well as fee-based advisory activities.

The TNFD's work will build on 7 principles:

- Market usability
- Science-based
- Nature-related risks
- Purpose-driven
- Integrated and adaptive
- Climate-nature nexus
- Globally inclusive

The Task Force is developing additional guidance along two dimensions of relevance to market participants: (1) sector specific and (2) biome specific. The TNFD also includes voluntary guidance on how to approach nature-related risk management structured around a novel 'LEAP' process of **L**ocate, **E**valuate, **A**ssess and **P**repare.

Timeframe

The TNFD will go through five phases of work from 2021 to 2023: Build, Test, Consult, Disseminate and Uptake.

Guidance

- Framework
- FAQs

Benefits

- **Bringing nature into finance** – factoring nature into financial and business decisions by being market-led
- **Understand and prepare for nature-related risks** – the framework is intended for organisations to act on evolving nature-related risks and opportunities
- **Shift global financial flows** – from nature-negative outcomes and toward nature-positive outcomes
- **Global framework** – drives global alignment for comparability
- **Increase disclosure ambition** – through providing a structured path, recognising that this area is new to many organisations
- **Accessible** – designed for organisations of all sizes in all jurisdictions

Challenges

- **Complex** – the TNFD framework is expected to be more complex than the TCFD, e.g. TCFD deals with universal metrics like carbon and climate whereas TNFD faces challenges such as geolocation and geo-specificity which lack defined metrics. Similarly, what nature-based solutions should be selected to best capitalise on nature-related opportunities remain elusive.

UK

Transition Plans (TPs)

Objective

The Transition Plan Taskforce (TPT) was announced at COP26 to develop the gold standard for private sector climate transition plans (TPs) in the UK. High quality TPs are crucial for the transition to net zero.

Scope

The Framework:

- Builds on recommendations to disclose TPs under the TCFD recommendations and those presented in the ISSB's proposed standards
- Need for concrete, short-term action by companies and financial firms across the economy
- Recommends companies and financial firms to be ambitious and consider the full range of levers at their disposal to contribute to, and prepare for, an economy-wide transition to net zero
- Governance and accountability mechanisms
- Measures to address material risks to, and leverage opportunities for, the natural environment and other stakeholders
- The TPT's recommendations are structured around 5 elements which mirror key components of a TP recommended by GFANZ. The TPT build on this structure with 19 sub-elements.

Disclosures:

- Disclosures should integrate with, and build from, broader climate-related disclosures in the reporting entity's general purpose financial reports
- Material information related to the TP in general purpose financial reporting is recommended, alongside a standalone document for the TP
- Entities should update their TP at least every 3 years, and in the interim years content relevant to the plan should be published annually in general purpose financial reporting

Timeframe

TBC – expected late-2023 to early-2024. It will apply first to FCA regulated companies (listed firms and financial institutions).

Guidance

- Disclosure framework
- Implementation framework

Benefits

- **Step to Net Zero** – Transition Plans are fundamental to ensuring the financial system supports the transition to Net Zero
- **Investors to make smarter capital allocation decisions** – as a result of the transparency and accountability Transition Plans create
- **Pressure governments to fulfil Net Zero targets** – the Framework enables a space for organisations to set out the action needed from governments to implement a successful, economy-wide transition
- **Avoid 'paper decarbonisation'** – focus on concrete, short-term actions
- **Complementary to other ESG regulation** – the TPT have worked hard to make sure their guidance fits neatly with other regulatory requirements and frameworks (e.g. TCFD, ISSB, etc.)

Challenges

- **Potential criticism** – transparency and accountability exposes firms to public criticism, especially if goals are not met. Nevertheless, it can also be said that a lack of transparency and accountability is likely to incite even greater criticism…

UK Green Taxonomy (UKGT)

Objective

The UK Green Taxonomy (UKGT) intends to provide a common framework, setting the bar for investments that can be defined as environmentally sustainable, helping tackle 'greenwashing', improve understanding of environmental impact to help companies and investors make informed green choices, support investment in sustainable projects and boost efforts to tackle climate change. The UKGT is yet to be completed, however the following recommendations have been made by the Green Taxonomy Advisory Group (GTAG) and are awaiting response. The UKGT is essentially a framework for the Sustainability Disclosure Requirements (explored in the following slides).

Scope

The UKGT will build on existing international taxonomies, including the EU Taxonomy, but will focus on net zero in the UK context therefore taking an 'adopt some and revise some' approach.

GTAG's key recommendations for the UKGT

- Robust and evidence-based; accessible and built for the UK to support a global transition
- Priority focus on investors and financial participants and regulators many of whom are already subject to EU Technical Screen Criteria (TSC) thus close alignment is preferable. Nevertheless, some urgent revisions should be made to ensure compatibility with the UK following a hierarchy of principles…
    1. Avoid greenwashing and support an economy-wide transition
    2. Be simple and usable
    3. Be internationally relevant and consistent
- The EU Do No Significant Harm requirements pose some issues for the UK in that they can be complex to navigate and often relate specifically to EU legislation, therefore a 'review and revise' approach is advised
- Greater international interoperability is needed to facilitate comparability and consistency of different alignment approaches, contributing to the global net zero mission

Timeframe

Government consultation expected Autumn 2023, estimated to be finalised in 2024.

Guidance

- GTAG advice

Benefits

- **Anti-greenwashing** – may increase the ways in which regulators and investors can hold companies to account with regards to sustainability
- **Standardisation** – providing standards for what can be considered green or not, enabling clarity and consistency for investors
- **Improve understanding of company's environmental impact** – taxonomy disclosures will improve transparency with regards to a company's environmental sustainability
- **Reference point for companies** – providing an informative performance target

Challenges

- **Additional burdens on companies** – the potential lack of internal expertise may make assessing activities in order to determine if they are taxonomy-aligned or not, a challenge
- **Time-consuming** – if companies do not proactively take steps to incorporate environmental risk assessment into their business strategy

Sustainability Disclosure Requirements (SDR) and Investment Labels

Objective

Under the UK Green Taxonomy, the Financial Conduct Authority (FCA) attempt to address greenwashing and build trust in the market through greater scrutiny in labelling. They hope to direct investment into truly green ventures, protecting consumers; market integrity; and effective competition.

Scope

Applicable to all FCA-regulated firms, primarily focusing on funds and portfolio management based in the UK. However, the FCA intend to follow with a separate consultation on overseas funds which form an important part of the overall regime.

- **Sustainable investment** labels (no hierarchy and not mandatory, but must meet criteria to use label)
  - Sustainable focus
  - Sustainable improvers
  - Sustainable impact
- **Disclosures** – initially for asset managers but to be extended to certain FCA-regulated asset owners
  1. ***Consumer-facing disclosures:*** to enable consumers to make informed decisions about which products and services they buy into
  2. ***Detailed product-level disclosures:*** for institutional investors and other interested stakeholders (split into (i) pre-contractual disclosures, and (ii) sustainability product report)
  3. ***Detailed entity-level disclosures:*** how firms manage sustainability risks and opportunities
- **Naming and marketing rules** – to prevent misleading product labelling
  - **General 'anti-greenwashing' rule** to ensure naming and marketing of products is clear and fair – e.g. firms prohibited from providing products to retail investors that do not qualify for sustainable investments labels from using sustainability-related terms (i.e. ESG, SDGs, climate, green, etc.)
- **Requirements for distributors** – acknowledges the role of distributors in communicating sustainability-related information

Timeframe

The FCA hope to publish a final version by 30 June 2023 with the enforcement one year later (30 June 2024) – N.B. the disclosures would come into force 24 months later (30 June 2025).

Guidance

- Consultation paper

Benefits

- **Accessible sustainability data** – enables consumers to make more conscious purchasing decisions
- **In-depth disclosures** – providing greater information for both consumers and institutional or retail investors
- **Tackle greenwashing** – anti-greenwashing rule and restrictions on how sustainability-related terms can be used to prevent misleading product marketing

Challenges

- **Potential to divert investment from well-meaning green products** – some 'light green' products with credible sustainability intensions may be neglected for not meeting the stringent requirements of the investment labels
- **Anti-greenwashing vs pro-growth** – anti-greenwashing seems to take priority over pro-growth measures; these must be achieved in parallel to support a green transition

EUROPE

EU Green Taxonomy

Objective

Prior to Brexit, the UK contributed to and fell under the EU Taxonomy. It is still relevant to the UK given that the UK Green Taxonomy is based upon the EU Taxonomy with revisions to make it more applicable to the UK context. The EU taxonomy is a classification system, establishing a list of environmentally sustainable economic activities.

Scope

The Taxonomy Regulation establishes the basis for the EU taxonomy by setting out 4 overarching conditions that an economic activity has to meet in order to qualify as environmentally sustainable. It establishes 6 environmental objectives:

1. Climate change mitigation
2. Climate change adaptation
3. The sustainable use and protection of water and marine resources
4. The transition to a circular economy
5. Pollution prevention and control
6. The protection and restoration of biodiversity and ecosystems

Under the Taxonomy Regulation, the Commission had to come up with the actual list of environmentally sustainable activities by defining technical screening criteria (TSC) for each environmental objective through delegated acts.

A taxonomy compass exists which is an IT tool that will facilitate the use of the taxonomy by allowing users to navigate easily through its contents. The CSDDD and CSRD (explained in the following slides) are part of the EU Taxonomy.

Timeframe

Jan 2022: eligibility under climate change mitigation and adaptation objectives (financials and non-financials)

Jan 2023: eligibility under remaining 4 objectives (subject to publication of associated delegated acts (financials) and alignment on adaptation and mitigation objectives (non-financials)

Jan 2024: alignment on all 6 environmental objectives (financials and non-financials)

Guidance

- FAQs

Benefits

- **Scale-up sustainable investment** – providing appropriate definitions for which economic activities can be considered environmentally sustainable should create security for investors, helping divert investments where they are needed most to implement the European Green Deal
- **Anti-greenwashing** – imposes rules on what can and cannot be considered sustainable to prevent the spread of misleading information, encouraging companies to become more climate-friendly

Challenges

- **Structural issues** – the use of incorrect templates, number formats (ranges) and naming conventions
- **Interpretive issues** – failure to follow the correct disclosure standards, i.e. reporting 'investments' instead of Capex or 'business expenses' instead of Opex
- **Technical issues** – problems with interpreting what constitutes an eligible activity and technical screening criteria

Corporate Sustainability Due Diligence Directive (CSDDD/CS3D)

Objective

Mandatory environmental and human rights due diligence.

Scope

- The CSDDD requires companies to report what due diligence obligations certain corporations will bear.
- Applies to company's own operations, its subsidiaries and supply chains
  - Compliance
  - Integrate due diligence into corporate policies
  - Identify actual or potential adverse human rights and environmental impacts
  - Prevent or mitigate potential impacts
  - Establish and maintain complaints procedures
  - Monitor the effectiveness of due diligence
  - Publicly communicate on due diligence implementation
- Who?
  - All EU LLCs with 500+ employees and €150m+ worldwide net turnover
  - LLCs in high-impact sectors with 250+ employees and €40m worldwide net turnover
  - **Non-EU companies** with a net turnover in the EU of more than €150m are subject to the CSDDD obligations for their *entire business operations*
    - Even those with no business activities linked to the EU, for example an Asian bank that has a branch in the EU, will have to comply with the regulations

Timeframe

Expected to be adopted by the EU in 2024, applicable to the first group of companies (large EU companies and non-EU companies with a net turnover of €150m in the EU in the FY preceding the current FY) as from 2026. The second group (EU SMEs and non-EU companies with net turnover of €40m+ in EU in the FY preceding the current FY and at least 50% of this net turnover generated in 1+ 'high risk sector') 2 years later.

Guidance

- Directive
- Explained

Benefits

- **Sustainability and equality** – the CS3D enables companies to provide a valuable contribution toward creating a sustainable and fair economy and society
- **Put sustainability reporting and financial reporting on equal footing** – highlighting the significance and symbiotic relationship between the two
- **Risk assessment** – improve the organisation's risk assessment over the entire value chain
- **Bolster reputation and increase competitive advantage** – decrease reputational risks and enhance consumer and employee loyalty
- **Finance opportunities** – easier and cheaper access to financing

Challenges

- **Designing tighter governance** – a high degree of governance is required to tackle the requirements of the new directive, this may be especially challenging for SMEs with fewer resources
- **Data collection** – appropriate data collection processes can be tricky (availability of data, security, accuracy and completeness of data)
- **Monitoring progress** – requires extra time and resources
- **Ensure high senior management fully onboard** – directors' remuneration will have to be adapted to align to the climate, environment and human rights objectives, this could face some backlash

Corporate Sustainability Reporting Directive (CSRD)

Objective

How companies will be required to report on due diligence obligations. Bringing sustainability reporting in line with financial reporting. Expanding on the Non-Financial Reporting Directive (NFRD).

Scope

- Network of mandatory reporting and disclosure requirements on a range of sustainability issues
- A reframing of reporting obligations from collection of non-financial topics to mandate to report on sustainability matters and the principal impacts these have on their business and how their operations in turn affect people and planet ('double materiality')
- All relevant company information including information on sustainability activities will have to be published in the management report and must also be disclosed and accessible in a digital, machine-readable format
- Who?
  - Any large company in the EU: those with €40m+ net turnover, €20m+ on their balance sheet or 250+ employees
  - Listed SMEs
  - Non-EU companies with branches/subsidiaries in the EU
    - The subsidiary will be obligated to report on its parents company who then has to provide information for its global practices
      - The parent company can refuse to hand over the information to the subsidiary
      - However, the EU will record who complies and who does not. In the case of the above, the subsidiary will be deemed non-compliant.

Timeframe

2025 CSRD reporting (FY2024) for companies subject to NFRD; 2026 CSRD reporting (FY2025) other large EU companies not subject to NFRD and listed large non-EU companies; 2027 opt-in CSRD reporting (FY2026) for public-interest SMEs; 2029 CSRD reporting (FY2028) for non-EU companies with branches or EU subsidiaries and first mandatory CSRD reporting (FY2028) for public interest SMEs.

Guidance

- Directive
- Explained

Benefits

- **Streamlining and transparency** – reduces the risk of greenwashing and provides clarity for external stakeholders
- **Enhanced credibility** – and the chance to attract external investment and comparability in the market
- **Standardises climate reporting** – making it part of everyday business and meaning companies can play a part in taking tangible climate action, and prove their plans are based on science-based parameters while also tracking their implementation

Challenges

- **Administrative challenges** – the CSRD requires far more ESG performance data across a wider range of topics to be reported, this is especially challenging for SMEs with less resources to dedicate to ESG data collection, analysis etc. and those new to reporting (but who are now covered under the CSRD) who have had little to no previous experience

HOW CAN YOU PREPARE?

5 Top Tips

1. **Don't wait for sustainability reporting to be mandated**
    - Companies have an opportunity to prepare for new regulations, and commit to transparency and accountability before they fall under the regulatory scope. This will allow you to be prepared and comfortable with the reporting regulations for when you eventually are required to report.
    - Consider reporting across a range of ESG areas.

      – Gather information, in order to inform company strategies, manage risks and achieve a stronger, more sustainable performance over the long term.

      – Identify metrics most relevant to your sector, strategy and stakeholders.
2. **Put ESG reporting on the board's agenda**
    - Boards must understand how ESG investing and stewardship trends are impacting access to capital and relationships with investors.
    - Boards need to be aware of private market and regulatory initiatives relating to ESG areas.
    - Boards should monitor international developments in sustainability reporting and keep track of how ESG data providers view their company.
    - Boards should assess which ESG areas are most relevant to their company and integrate them into the company's broader strategy and enterprise risk management.
3. **Prioritise building trust in sustainability reporting**
    - Companies need to build trust by ensuring that their sustainability reporting has robust processes and controls with a supporting audit trail, similar to those for financial reporting.
4. **Integrate the finance function**
    - Finance departments can play a key role in preparing for sustainability reporting. They will need to understand what the public and investors need to know about sustainability, and translate that into the most relevant metrics and disclosures.
    - To make reporting trusted, credible and relevant to stakeholders, there must be a clear link between financial and non-financial information. CFOs and financial controllers can use their experience and knowledge to shape non-financial reporting processes and controls.
5. **Contribute to the process of standard setting**
    - Companies should not just wait on the side lines while the process of setting standards take place around them – they should be actively involved, contributing and learning valuable lessons from the experience.
    - Respond to consultations, participate in meetings with regulators, and start to disclose sustainability metrics now.

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