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# Corporate Sustainability Reporting Directive (CSRD)

# The Corporate Sustainability Reporting Directive (CSRD) introduces a fundamental change in companies' disclosure requirements

The overall objective of the CSRD is to drive positive change. It enables companies to fully understand and act on their impacts, dependencies, risks and opportunities. It enables companies to build resilience, inform strategy, strengthen governance and identify and manage risks. It is much more than reporting. It is about understanding impacts and the financial exposure associated to such impacts. The CSRD will ultimately test a companies business model and strategy but also create tangible and long lasting business opportunity.

The CSRD has far-reaching implications for companies. Reporting according to the CSRD will be complex and extensive and preparing for its implementation will require significant time and resources.

The CSRD requires the disclosure of detailed and diverse information over approximately 85 disclosure requirements and more than 1100 data points, depending on which sustainability topics are material to a particular business.

The CSRD streamlines and harmonises non-financial reporting requirements with existing international frameworks. This ambition dovetails with the broader movement to harmonise the GRI, SASB, IIRC, CDP, TCFD and CDSB[1].

The CSRD, for example, builds upon the conceptual framework created by the TCFD i.e. governance, strategy, risk management, metrics, targets and financial materiality. However, the CSRD extends the topic areas beyond climate disclosures and integrates, for example, social-related disclosure requirements, for which reporting standards are less developed.

In addition, the CSRD integrates the concept of impact materiality defined in the GRI, and reporting under the GRI can be used as the basis for disclosure under the CSRD. This is also the case for reporting under the SASB, but in both cases, harmonisation with the CSRD is necessary.

1. GRI: Global Reporting Initiative. SASB: Sustainability Accounting Standards Board. IIRC: International Integrated Reporting Framework. CDP: Carbon Disclosure Platform. TCFD: The taskforce for Climate related Financial Disclosures. CDSB: Climate Disclosure Standards Board.

# Why should you take note of the CSRD?

## 01

### Compliance with the CSRD

The CRSD is mandatory for a large number of undertakings. It will impact EU entities – first large undertakings and at a later stage, listed SMEs.

It will also apply to certain non-EU entities. For non-EU entities that operate within the EU, their EU subsidiaries will also, in time, be obliged to comply with the requirements of the CSRD.

## 02

### Alignment with other EU legislation

The CSRD ensures alignment with other EU legislation. An example relates to Sustainable Finance. Disclosure on eligibility and alignment with the EU Taxonomy Regulation is mandatory under the CSRD.

The CSRD also includes disclosures on the indicators of the Sustainable-Finance Disclosure Regulation (SFDR) to make sure undertakings report the information that investors need for their decision-making.

## 03

### Improve assessment of sustainability

The CSRD helps companies gain a better understanding of their ESG-related risks, opportunities and impacts and, therefore, of their sustainability performance through annual measurement and disclosure.

The concept of double materiality – a cornerstone of the CSRD – offers a new perspective on companies' sustainability performance, as companies must assess both how they are affected and how they affect people and the environment.

## 04

### Reputation & risk management

The CSRD aims to increase transparency and protect against greenwashing by streamlining sustainability reporting standards.

By enhancing clarity around companies' sustainability performance, the CSRD empowers stakeholders to compare companies' performance which may affect an entity's reputation.

Ultimately, as the CSRD becomes the mainstream framework for reporting, it will provide a license to operate and grow.

## 05

### Inform strategic decision-making

Finally, by bringing together key information about a company's sustainability performance, the CSRD empowers corporate management to make informed decisions and to be proactive in mitigating risks in relation to a company's cash flows, cost of capital, access to finance, brand, reputation, & ultimately its competitive position.

Hence the CSRD can be leveraged to create a future-proof business that is more attractive to investors and customers.

# The CSRD replaces the Non-Financial Reporting Directive (NFRD) and introduces new binding reporting standards

### The regulatory context of the Corporate Sustainability Reporting Directive

The European Green Deal, via the Action Plan for Financing Sustainable Growth, introduces concrete measures to reorient capital flows towards sustainable activities, mainstream sustainability into businesses' risk management and foster transparency and long-term thinking.

The Corporate Sustainability Reporting Directive (CSRD), the EU Taxonomy and the Sustainable Finance Disclosure Regulation (SFDR) form an integral part of the Action Plan.

The CSRD replaces the Non-Financial Reporting Directive (NFRD), and expands reporting requirements on non-financial information and enlarges the scope to cover more companies.

### The ambition is to streamline reporting and provide standardisation and common criteria

The CSRD introduces binding reporting standards, the European Sustainability Reporting Standards (ESRS), which comprehensively cover ESG sustainability topics, double materiality and require that the reported information is audited by external third parties.

The ESRS will improve the comparability, reliability, and relevance of reported data and help investors and other stakeholders make informed decisions.

# What exactly is the Corporate Sustainability Reporting Directive?

The Corporate Sustainability Reporting Directive (CSRD) is a new regulatory framework for sustainability reporting.
The objective of the directive is to:

1. Strengthen the existing rules on non-financial (sustainability) reporting introduced by the Non-Financial Reporting Directive (NFRD).

2. Ensure the availability and comparability of sustainability information and bring reporting standards of non-financial information to the level of quality to that of financial information.

3. Improve transparency on companies' sustainability performance to ensure that investors and other stakeholders have access to information on investment risks and opportunities arising from sustainability issues and on businesses' impacts on people and the environment.

4. Drive positive change and the transition to a sustainable, low carbon, circular economy.

The CSRD introduces new requirements for non-financial reporting.

1. Third-party assurance. The CSRD requires the audit (assurance) of reported sustainability information.

2. Integrated reporting. Entities shall gather financial and non-financial data in one 'consolidated management report.

3. Digital tagging. Entities shall digitally tag disclosures in a machine-readable 'XHTML' format.

4. Standardised reporting. Companies must report according to the disclosure requirements defined in the European Sustainability Reporting Standards.

5. Double materiality. Disclosures are based on the double materiality principle[1].

1. Double materiality encompasses the impact of a business' activities on the environment, economy, and society, and the impact of the environment, economy, and society on the business.

# What are the European Sustainability Reporting Standards?

The European Sustainability Reporting Standards (ESRS) specify the non-financial information that business entities will have to disclose under the CSRD.

In total, 12 sector-agnostic standards apply, as visible on the right. The standards are grouped into general cross-cutting standards and topical standards on environmental, social, and governance (ESG) topics.

Each ESRS specifies the detailed disclosure requirements that should be included in the companies' annual report, accompanying the reported financial information.

The standards include disclosures on: a) governance processes, strategy, and business model in relation to material sustainability topics, b) policies and action plan to identify, assess, and manage material topics, and c) performance metrics and targets for measuring progress.

## European Sustainability Reporting Standards[1]

| Cross-cutting standards | Environmental standards | Social standards | Governance standards |
|---|---|---|---|
| ESRS1<br>General requirements | ESRS E1<br>Climate change | ESRS S1<br>Own workforce | ESRS G1<br>Business conduct |
| ESRS2<br>General disclosures | ESRS E2<br>Pollution | ESRS S2<br>Workers in the value chain | |
| | ESRS E3<br>Water and marine resources | ESRS S3<br>Affected communities | |
| | ESRS E4<br>Biodiversity and ecosystems | ESRS S4<br>Consumers and end-users | |
| | ESRS E5<br>Resource use and circular economy | | |

1. These are the sector-agnostic ESRS applicable to companies across all sectors that were published by EFRAG in November 2022, and which are currently under review by the European Commission. The sector-specific ESRS are under development and are expected to be published in fall 2023.

# What is Double Materiality?

## Double materiality expands the scope of what is considered material

The CSRD expands the scope of what information is to be considered for reporting. Businesses are required to report publicly on the impact of their activities on the environment, economy & society and on how the environment, economy, and society have a significant effect on their business, i.e. their ESG related material impacts, risks, and opportunities.

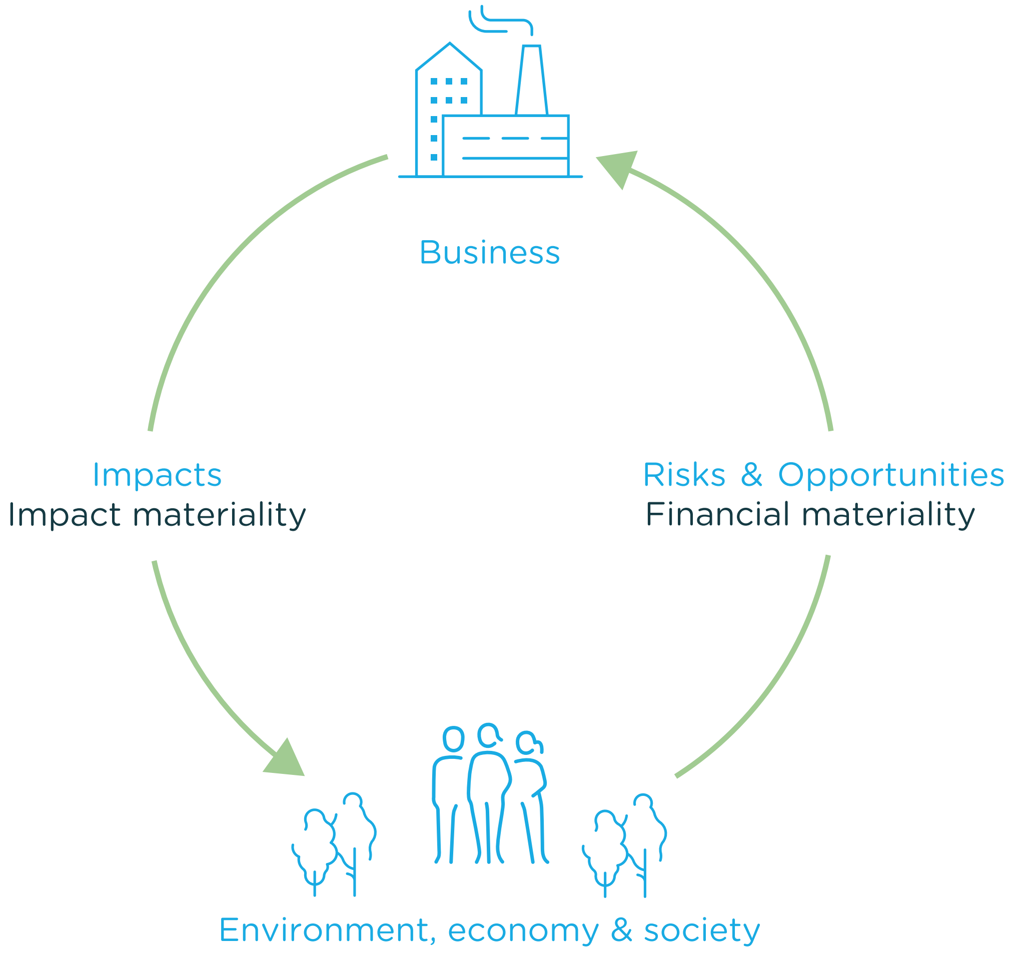
## Businesses have to assess what topics are material to them and report accordingly

Not all reporting standards i.e. ESRS and their underlying subtopics will necessarily be material to all businesses. Businesses have to assess whether a given sustainability topic is material from the perspective of financial materiality, impact materiality or both. Impact materiality is interlinked with the severity of impacts, and financial materiality refers to the financial effect of risks and opportunities on the company's ability to develop. If found material, the information has to be disclosed in line with the new European Sustainability Reporting Standards.

## The CSRD expands the audience for the reported information

Businesses have to report information to stakeholders who can affect the undertaking and to stakeholders who are affected by the undertaking. The reported information is targeted toward financial market participants (e.g., business partners, investors such as asset managers and insurance companies, etc.) and other stakeholders (e.g., civil society, consumers, affected communities, etc.)

The concept of double materiality is the cornerstone of the EU's Corporate Sustainability Reporting Directive (CSRD).



# Whom does the CSRD and the ESRS affect and when?

Compliance timelines for the CSRD depend on the size and ownership structure of business entities. The timeline below illustrates what types of companies will have to report by when.

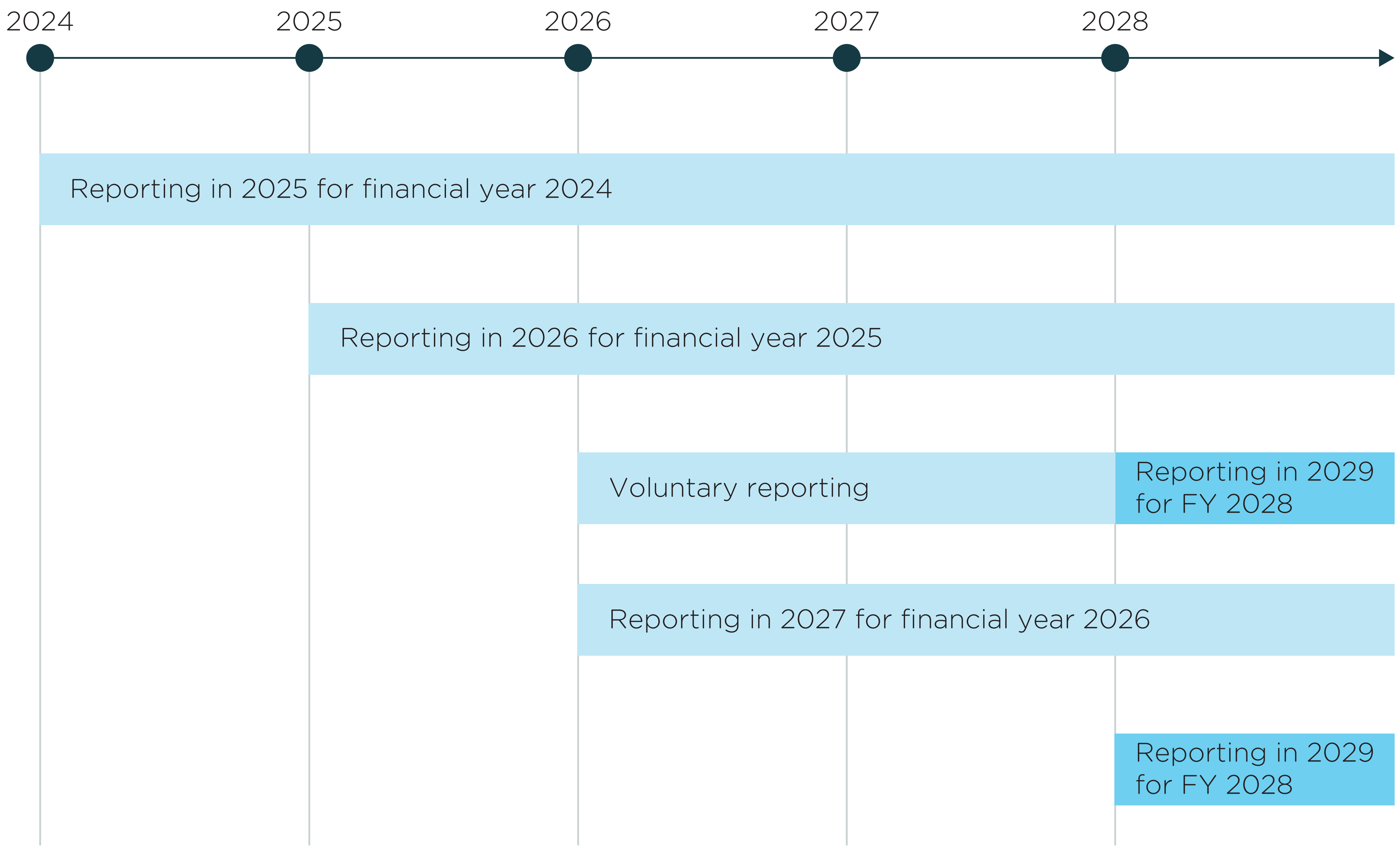
Undertakings already subject to the NFRD, including EU subsidiaries of non-EU entities[1]

'Large' undertakings´, i.e. EU entities not currently subject to the NFRD or EU subsidiaries of non-EU entities[2]

Listed companies on an EU regulated market, including SMEs, but excluding micro-enterprises

Small European credit institutions and insurance companies

Non-EU parent companies having a strong presence in the EU through branches or subsidiaries




1. With more than 500 employees and either a balance sheet of more than EUR 17 million or a net turnover of more than EUR 34 million.
2. Exceeding at least two of the following criteria: 250 employees on average, a balance sheet total of €20 million, a net turnover of €40 million.

# How to get started?

The Corporate Sustainability Reporting Directive and the European Sustainability Reporting Standards are complex and extensive. It is recommended that companies start preparing well before disclosures are due, indeed well before the financial year that the CSRD will cover. Ramboll has identified 5 steps to get ready for upcoming disclosure requirements, starting with a scoping phase to identify companies' ambitions and status quo – and finishing with the implementation of an elaborate action plan to not only satisfy disclosure requirements but to really drive positive change and build overall business resilience.

## 1 Scoping

The initial scoping phase involves identifying the boundaries of the overall assessment. Where does a company start geographically or product wise? It is important to set a scope, at least in the initial stage, that is realistic and meaningful.

The scope is also linked to the overall ambition of a company and the pace at which it wishes to progress with respect to incorporating the requirements of the CSRD across its operations.

## 2 Double materiality assessment

Step 2 involves performing a double materiality assessment, i.e., assessing both impact materiality and financial materiality to identify ESG-related impacts, dependencies, risks, and opportunities.

The insights generated from the investments can be used strategically to improve performance and will also inform disclosures under the CSRD.

## 3 Gap assessment

The third step involves conducting an ESRS gap assessment for those sustainability topics that are either mandatory or were identified as material in the double materiality assessment.

Based on the list of disclosures for mandatory and material topics companies can identify the documentation and data missing to comply with the disclosure requirements.

## 4 Roadmap and action plan

Based on the gap assessment, companies should determine how to bridge identified gaps and prioritize actions to comply with the required disclosures.

This will allow the creation of a roadmap and action plan to be able to reach – and potentially revisit – companies' ambition for reporting on the ESRS.

## 5 Implementation

In the final step, companies should get started on their action plan. This may include developing policies, targets, and new actions, as well as implementing new processes to improve the company's sustainability performance.

Companies will most likely have to start collecting new types of data, and assess and improve the quality and reliability of already collected data.

# How can Ramboll help?

## CSRD
## Scoping to Disclosure

Interpretation, application and indeed compliance of the CSRD is both complex and new, requiring a systematic and methodological approach. At Ramboll we have the requisite inhouse legal, regulatory, strategic and reporting expertise to ensure an accurate interpretation and systematic implementation of the CSRD.

### Scoping & Double Materiality Assessment
We guide our clients in understanding what exactly needs to be done and by when. Our financial and technical experts ensure that both scoping and double materiality is done in unison ensuring a robust and holistic approach/outcome.

### Gap assessment, Roadmapping & Action Planning
Scoping and double materiality will identify what needs to be done but not how it should be done. We specialise in carrying out detailed gap assessments and in providing realistic roadmaps & plans based upon technical, environment and social insight.

### Implementation & Integration
The CSRD, albeit a reporting directive, we believe to be much more. It combines all aspects of how a company behaves and operates and the resilience of its strategy and business model. As a result its implementation and integration is complex. Our specialists navigate our clients through this complexity.

### Reporting and disclosure
We provide expert assistance and guidance in all aspects of CSRD reporting and disclosure, combining both sustainability and financial data. Our reporting specialists couple data with accurate qualitive narrative ensuring our clients clearly articulate their sustainability performance.

## ESRS
## Enhancing Sustainability Performance

The CSRD is ultimately about improving sustainability performance via implementation of the ESRS. We draw upon our 15,000 strong technical, sustainability and social experts to ensure world class interpretation and implementation of each ESRS.

### Environment
Ramboll is recognised as a global leader in all aspects of environment from climate to biodiversity, circular economy to pollution. Our experts operate in an integrated fashion to ensure synergy between the environmental ESRS ensuring holistic application and integration.

### Social
Ramboll's social expertise covers all aspects of the social ESRS including internal workforce but also complex value & supply chains. Our inhouse social experts work across multiple sectors.

### Governance
Responsible business conduct, and what that entails, is growing in complexity due to the introduction of new standards and regulations. Our expertise covers all aspects including anti corruption & bribery, fair competition and taxation.

### Data Analysis & Interpretation
We understand the value and necessity of data. We have the inhouse expertise to provide in-depth guidance with respect to data identification, systems development and data analysis & interpretation.

# Who we are

Ramboll employs 17,000 people globally delivering bright ideas for sustainable change.

We are present in 35 countries and combine local experience with a global knowledge-base, constantly striving to achieve inspiring and exacting solutions that make a genuine difference to our clients, end-users, and society at large.

We work across the following markets: Buildings, Transport, Water, Environment & Health, Energy, Architecture & Landscape and Management Consulting.

To know more about what services Ramboll offers regarding the CSRD

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