

EU legislative tsunami

- Lela Mélon -



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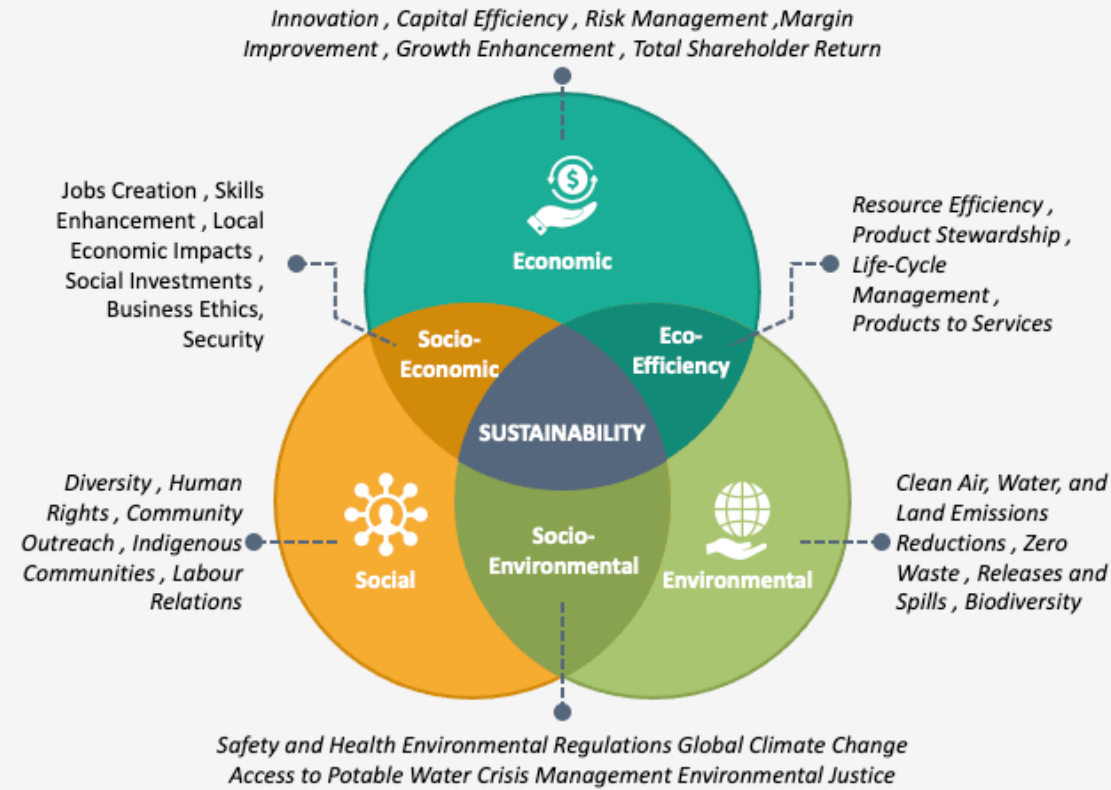
1. Corporations

Corporations

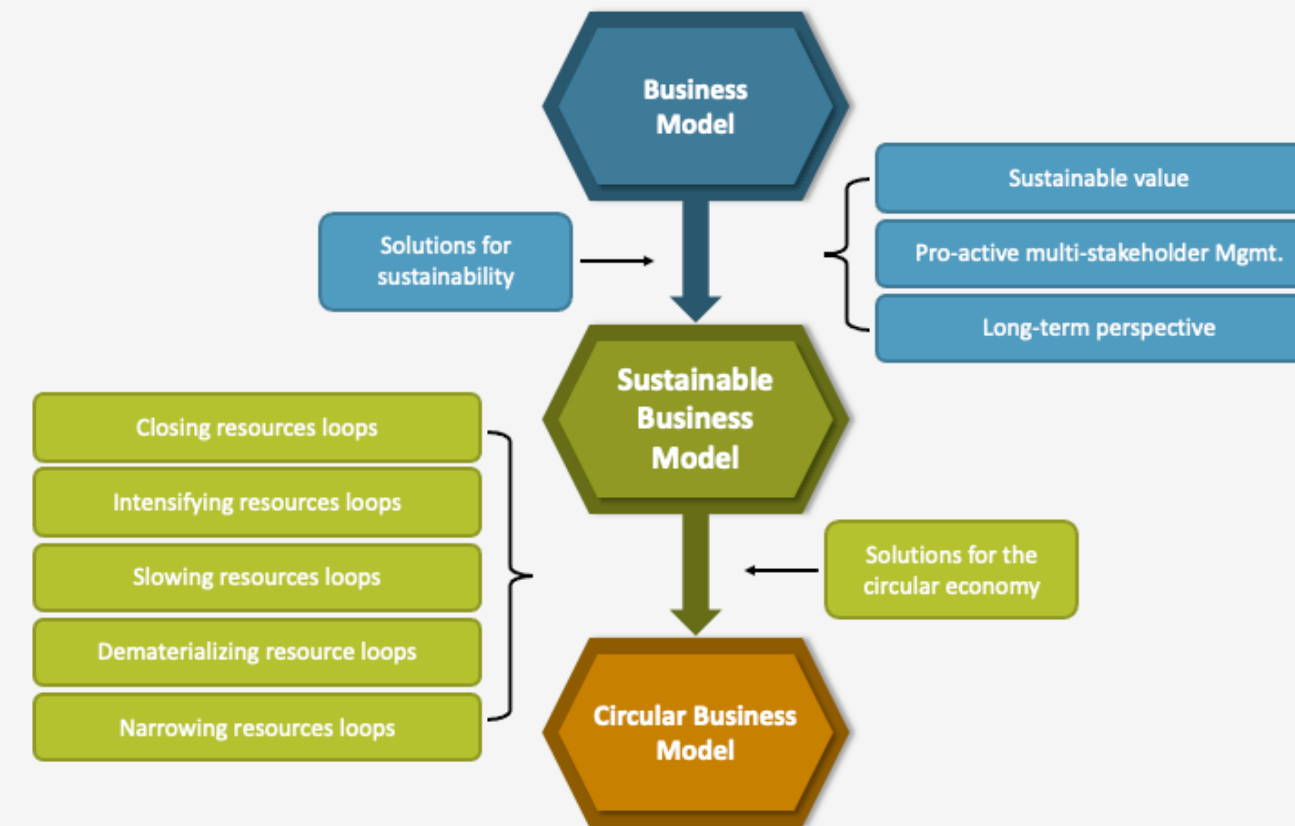
CORPORATE SUSTAINABILITY

What is Corporate Sustainability?

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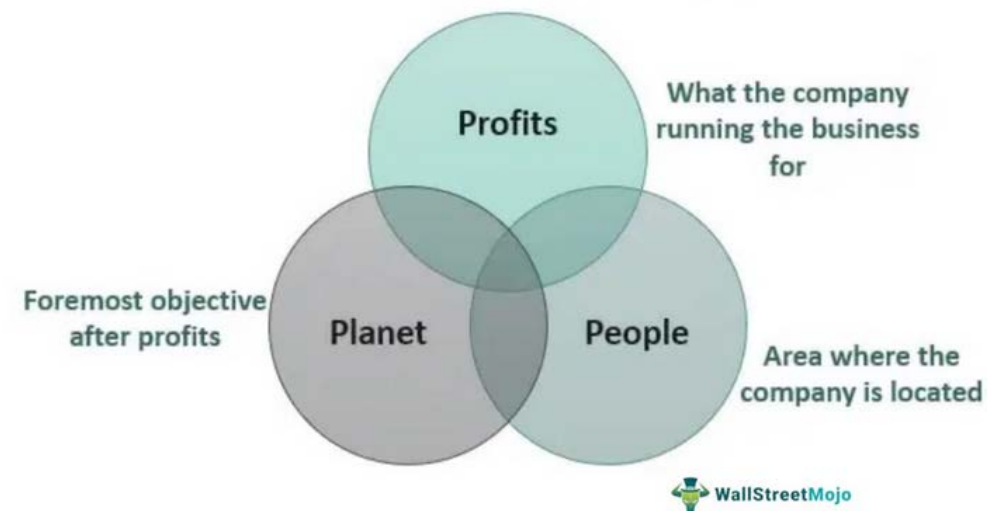


SUSTAINABLE BUSINESS MODEL



- Corporate Knights - 100 most powerful economies in the world
- The size of corporations
- The influence of corporation
- The focus on regulating corporate behaviour in the EU

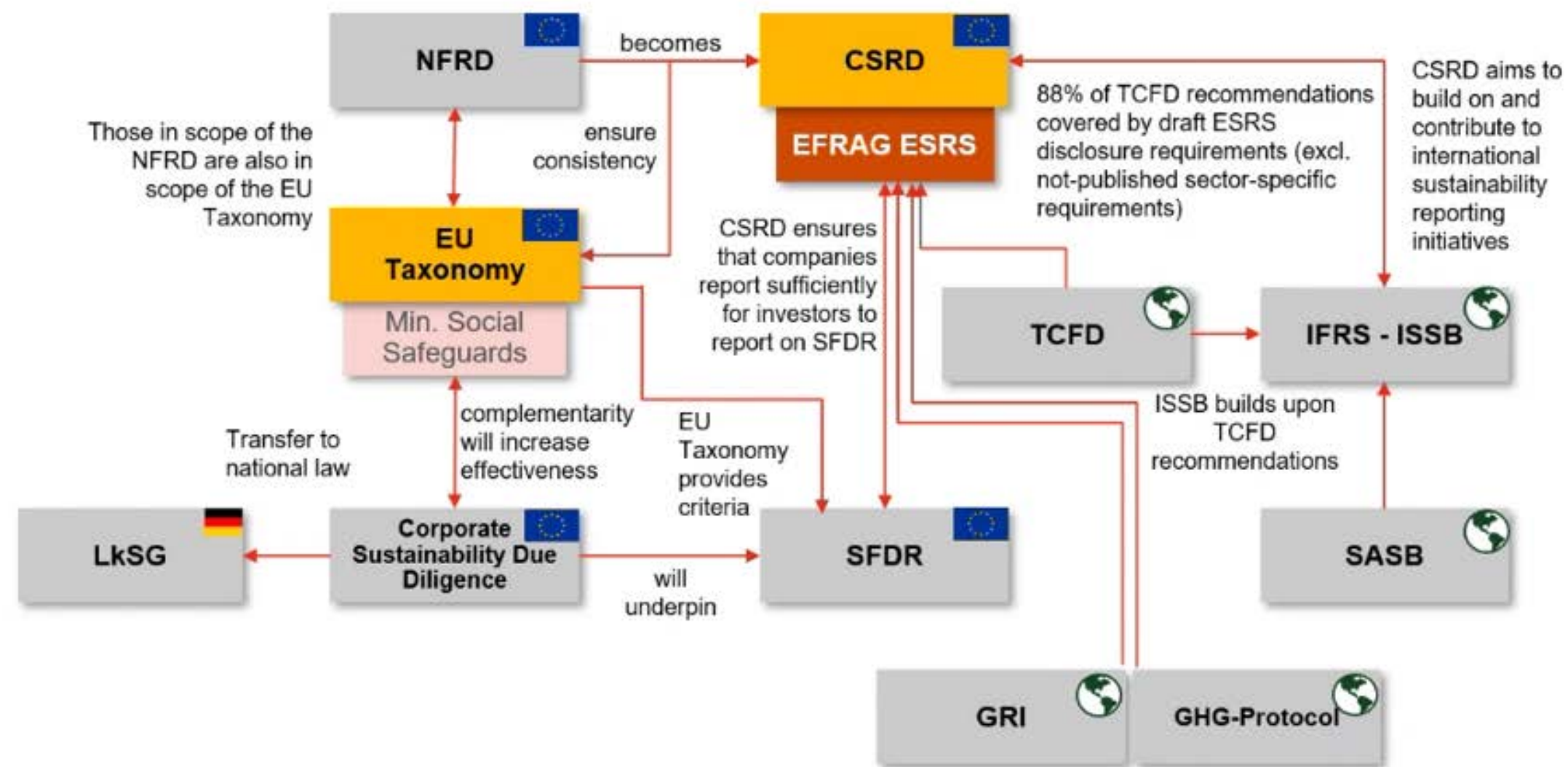
Triple Bottom Line



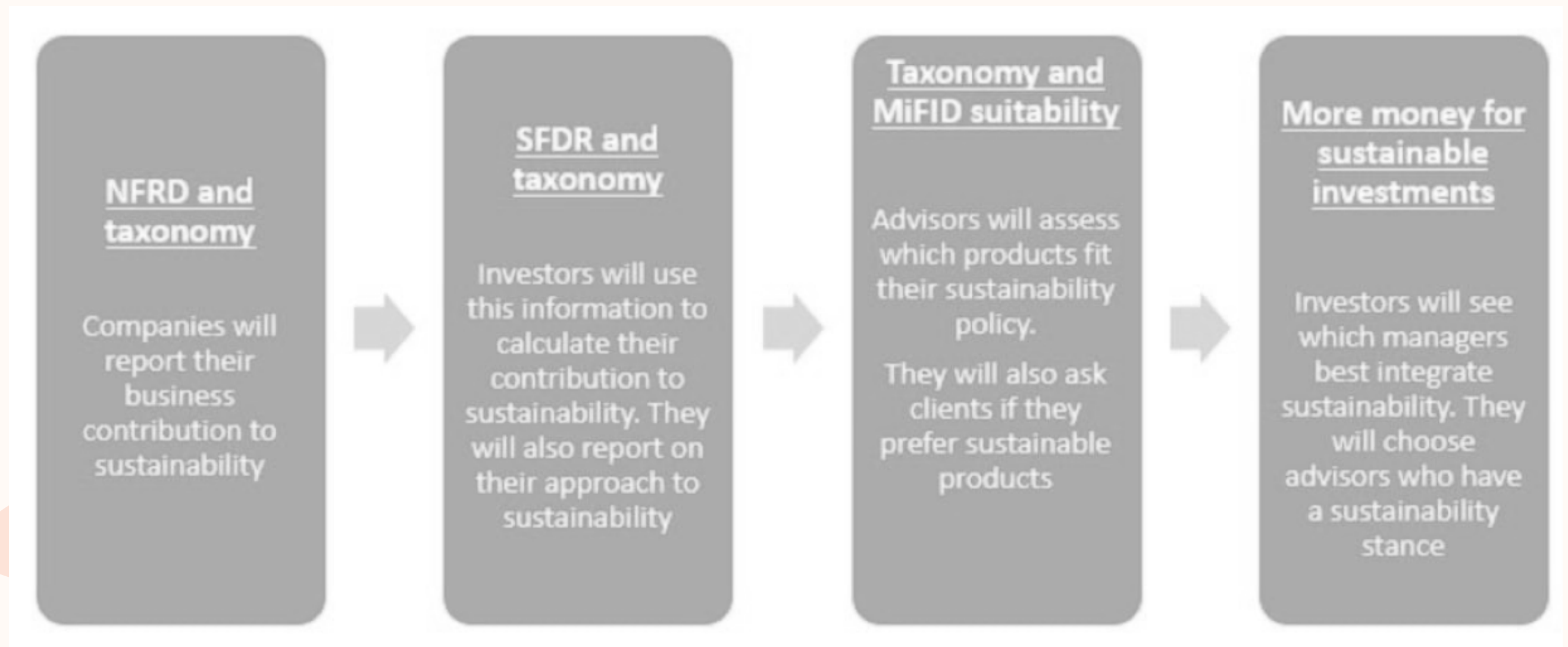
2. Corporate Sustainability Reporting Directive



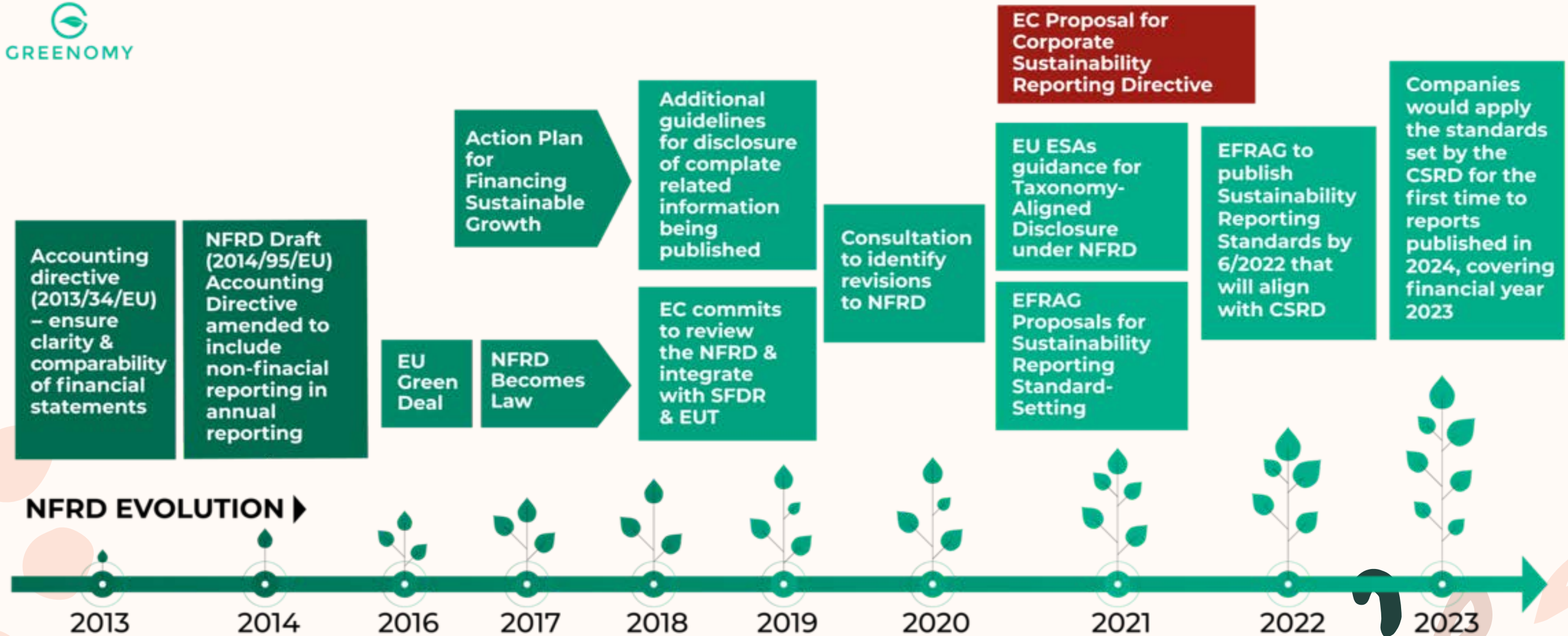
CSRD context



CSRD context



From NFRD to CSRD



Corporate Sustainability Reporting Directive

The Corporate Sustainability Reporting Directive (CSRD) requires companies to report on the impact of corporate activities on the environment and society, and requires the audit (assurance) of reported information.

	Corporate Sustainability Reporting Directive	Non-Financial Reporting Directive (EU Directive 2014/95/EU)
Which companies are concerned?	<p>All large companies meeting at least 2 out of 3 criteria:</p> <ul style="list-style-type: none"> • 250 employees and/or • EUR 40M Turnover and/or • EUR 20M Total Assets <p>Listed companies on EU regulated markets (SMEs get 3+ years to comply)</p> <ul style="list-style-type: none"> • Except listed micro-companies (less than 10 employees or below EUR 20M in turnover) 	<p>Large “public interest entities” with more than 500 employees</p> <ul style="list-style-type: none"> • Listed companies • Banks and insurance companies
Timeline	<p>Application on 1st January 2024 for the 2023 financial year (SMEs 2027)</p> <ul style="list-style-type: none"> • Concerned companies will have to submit their report in compliance with the CSRD by 2023 • For SMEs more detailed reporting requirements and delayed timelines are available <p>Different phases:</p> <ul style="list-style-type: none"> • 2023: the first set of Sustainability Reporting Standards (draft standards open mid-2022) • 2024: the second set of Sustainability Reporting Standards <p>Adoption of the EU Directive in MS legislation: 1st December 2022</p>	<p>In application since 2018</p>
No of companies concerned	49.000 (75% of total EU's companies turnover)	11.600

Corporate Sustainability Reporting Directive

The Corporate Sustainability Reporting Directive (CSRD) requires companies to report on the impact of corporate activities on the environment and society, and requires the audit (assurance) of reported information.

	Corporate Sustainability Reporting Directive	Non-Financial Reporting Directive (EU Directive 2014/95/EU)
Scope of reporting requirements	Additional requirements on: <ul style="list-style-type: none"> Double materiality concept: <ul style="list-style-type: none"> Sustainability risk: including climate change, affecting the company Companies' impact on society and environment Process to select material topics for stakeholders More forward-looking information, including targets and progress thereon Disclose information relating to intangibles (social, human and intellectual capital) Reporting in line with Sustainable Finance Disclosure Regulation (SFRD) and the EU Taxonomy Regulation 	<p>Companies to report on the following 5 dimensions:</p> <ul style="list-style-type: none"> Environmental protection Social responsibility and treatment of employees Respect for human rights Anti-corruption and bribery Diversity on corporate boards (age, gender, educational and professional background) <p>Companies need to report on the following item on each of the dimensions:</p> <ul style="list-style-type: none"> Policy Outcomes of policy Risks KPIs
Reliability of reporting (Third party assurance)	<p>Mandatory (planned end of 2022)</p> <p>Reporting must include:</p> <ul style="list-style-type: none"> Integration in auditor's report Involvement of key audit partner Scope to include EU Taxonomy and process to identify key relevant information 	<p>Non-mandatory</p>
Where to report	<p>Included in the Management Report</p> <p>A single report in a "digital machine-readable format"</p>	<p>Included in the Annual Report</p> <p>The sustainability report can be disclosed separately with a clear reference to the financial report and management report.</p>

Corporate Sustainability Reporting Directive






The Corporate Sustainability Reporting Directive (CSRD) requires companies to report on the impact of corporate activities on the environment and society, and requires the audit (assurance) of reported information.

	Corporate Sustainability Reporting Directive	Non-Financial Reporting Directive (EU Directive 2014/95/EU)
Reporting format	Electronic format (in XHTML format in accordance with ESEF regulation)	Online, PDF format
Alignment with other EU legislation	<ul style="list-style-type: none">• EU Taxonomy: all companies concerned by the CSRD will have to report on their alignment with the EU Taxonomy• SFRD: the indicators of the standards will be aligned with the reporting of the CSRD• It takes into consideration other frameworks (TCDR, GRI, SASB)	<p>The EU Taxonomy and its objectives</p> <ul style="list-style-type: none">• 2021: climate change mitigation and adaptation• 2022: all environmental objectives

Examples of sustainability reporting

The Top Five Sustainability Frameworks You Should Know



STANDARD	FOCUS	WHY REPORT	SCORING	WHO REPORTS	REPORTING PERIOD
	GHG emissions as well as governance actions and business strategies to mitigate climate change and deforestation and promote water security.	CDP holds the largest repository of GHG emissions and energy use data in the world. In 2021, more than 590 investors with over US\$110 trillion in assets requested companies disclose through CDP. CDP's transparent scoring methodology helps respondents understand exactly what's expected of them.	Companies are scored based on four criteria: Disclosure, Awareness, Management, and Leadership. CDP recognizes top scoring companies in the Carbon Disclosure Leadership Index (CDLI).	Cities and companies	For companies, CDP's online reporting system opens in early April and responses are due in late July.
	Industry-specific criteria considered material to investors, including economic, social, and environmental indicators	Members of DJSI represent the top 10% of the 2,500 largest companies in the S&P Global Broad Market Index. The Corporate Sustainability Assessment (CSA) brings a sector-specific focus and need-to-know simplicity to disclosure for public companies.	Companies receive a total Sustainability Score between 0-100 and are ranked against peers. Those with scores in the top 10% are included in the index.	The 2,500 largest public companies in the world.	April 6 - July 13
	Corporate social responsibility with an equal weight on environmental, social and governance factors. Heavy on stakeholder engagement to determine materiality	GRI was announced as the official reporting standard of the UN Global Compact, making it the default reporting framework for the compact's more than 5,800 associated companies. It's among the oldest, most widely adopted and most widely respected reporting methodologies in the world. Its thorough focus on social and governance aspects of ESG is unparalleled.	The GRI Standards - A constantly updated set of guidelines focusing on transparency and accountability rather than a set score. Designed to give a high level look as well as a more detailed breakdown depending on your organization's material topics	Public and private companies, cities, government agencies, universities, hospitals, NGOs	Anytime, but typically integrated into a company's traditional annual report.
	Environmental, social and governance performance in the global commercial real estate sector only. Includes asset- and entity-level disclosures	Private and public institutional investors look to GRESB's annual survey as the barometer of sustainability performance in the commercial real estate industry. Its niche target audience allows it to give deeper and more accurate insights into industry performance and reveal "investment grade" results.	Responses scored out of a possible 100 points distributed across three data components which are then divided into multiple aspects. More weight is attributed to performance and development components.	Commercial real estate owners, asset managers and developers.	April 1 - June 30
	SASB aims to align organizations and investors on the financial impacts of ESG. Industry-specific standards focus on material aspects of an organization's sustainability performance.	SASB offers disclosure standards for more than 75 industries to ensure information disclosed is most relevant to the financial performance of an organization's industry. The standards focus on financially material aspects so that the disclosure can help drive business and investment decisions.	SASB Standards offer guidelines on material information to report and can be used in conjunction with other frameworks.	Any corporation can use SASB to guide its disclosure.	No specific reporting period, but this framework may be complemented by other organizational disclosures.



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EFrag and European Sustainability Reporting Standards

- On April 29 2022, the European Financial Reporting Advisory Group (EFRAG) issued **the first draft** of sustainability reporting standards for public comment.
- The new rules are part of Europe's proposed Corporate Sustainability Reporting Directive (CSRD)
- **EFrag** was established in 2001 by the European Union (EU) and the private sector to provide technical advice to the European Commission on accounting matters.
- Charged with providing input into the development of IFRS sustainability standards

- **Mission:** to serve the European public interest by developing and promoting European views in financial and sustainability reporting.
- **April 2021:** CSRD proposal, which appointed EFRAG as the technical advisor to the Commission responsible for developing **the European Sustainability Reporting Standards (ESRS)**.

The European Sustainability Reporting Standards (ESRS) were released as a set of exposure drafts that outline reporting requirements across 13 EGS issues, categorized into **four areas**:

1. **Cross-cutting:** General principles, general, strategy, governance, and materiality assessment.
2. **Environment:** Climate change, pollution, water and marine resources, biodiversity, resource use and circular economy.
3. **Social:** own workforce, workers in the value chain, affected communities, consumers, and end-users.
4. **Governance:** governance, risk management, internal control and business conduct



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Cross-cutting Exposure Drafts

ESRS 1	General principles
ESRS 2	General, strategy, governance and materiality assessment

Topical standards - Environment

ESRS E1	Climate change
ESRS E2	Pollution
ESRS E3	Water and marine resources
ESRS E4	Biodiversity
ESRS E5	Resource use and circular economy

Topical standards - Social

ESRS S1	Own workforce
ESRS S2	Workers in the value chain
ESRS S3	Affected communities
ESRS S4	Consumers & end-users

Topical standards - Governance

ESRS G1	Governance, risk management and internal control
ESRS G2	Business conduct

Companies will have to disclose how **sustainability is embedded across the business** and how material ESG impacts, risks, and opportunities **are identified and managed**.

- This includes policies, targets, action plans, and performance measurement metrics. More details on what will be required are available in EFRAG's "**Appendix I – Navigating the ESRS.**"

A few key features of the ESRS to be aware of include:

- They may change before being adopted into the final CSRD, pending ongoing legislative negotiations.
- They take existing European law and initiatives into account such as the March 2018 EU action plan financing sustainable growth, SFDR, EU Taxonomy Article 8, the Benchmark Regulation, the GHG allowance Directive, Corporate Sustainability Due Diligence, and more.
- Lessons learned and best practices from European and other international standards and frameworks were considered during development, including those from **NFRD, GRI, IFRS, SEC, TCFD**, and more.
- They are designed to ensure that sustainability information is reported in accordance with CSRD, can be easily navigated, and has maximum comparability across sectors while allowing flexibility for sector-specific information.
- Audited assurance of reported information will be required.
- Companies will have to prepare the information **in a digital format** that is machine readable and tagged, so it can be fed into the EU single access point envisioned in the capital markets union action plan.



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ESRS

Climate Change

Objective

Proposed ESRS E1: Climate Change

To enable users of sustainability statements to understand the company's **risks, opportunities, impacts associated with climate change**, mitigation efforts aligned with the Paris Agreement, and business plans or actions taken to prevent, mitigate, or remediate adverse impacts.

Key Disclosure Topics

- *General, strategy, governance, and materiality assessment* — Transition plan for climate change.
- *Policies, targets, and action plans and resources* — Policies to manage climate change, targets for mitigation and adaptation, and associated action plans and resources.
- *Performance management* — Energy metrics, GHG metrics, taxonomy regulation for climate change mitigation and adaptation, and potential financial effects of material physical and transition risks and opportunities.

Environmental

Proposed ESRS E2: Pollution

Proposed ESRS E3: Water and Marine Resources

Proposed ESRS E4: Biodiversity and Ecosystems

Proposed ESRS E5: Resource Use and Circular Economy

Cross-Cutting

Proposed ESRS 1: General Principles

Proposed ESRS 2: General, Strategy, Governance and Materiality Assessment

Social

Proposed ESRS S1: Own Workforce

Proposed ESRS S2: Workers in the Value Chain

Proposed ESRS S3: Affected Communities

Proposed ESRS S4: Consumers and End-Users

Governance

Proposed ESRS G1: Governance, Risk Management and Internal Control

Proposed ESRS G2: Business Conduct



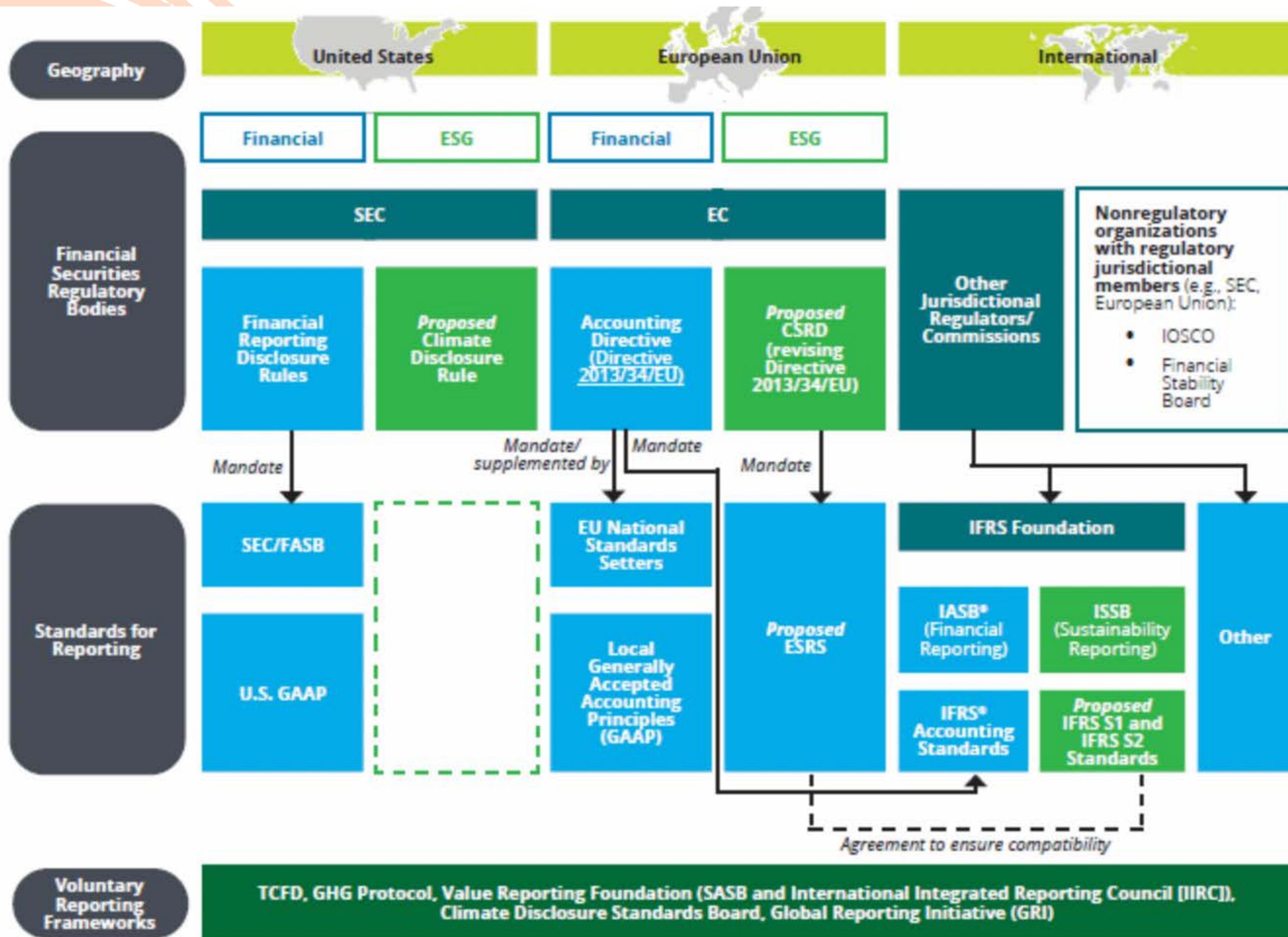
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School of International Studies

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3. Corporate Sustainability Due Diligence Directive



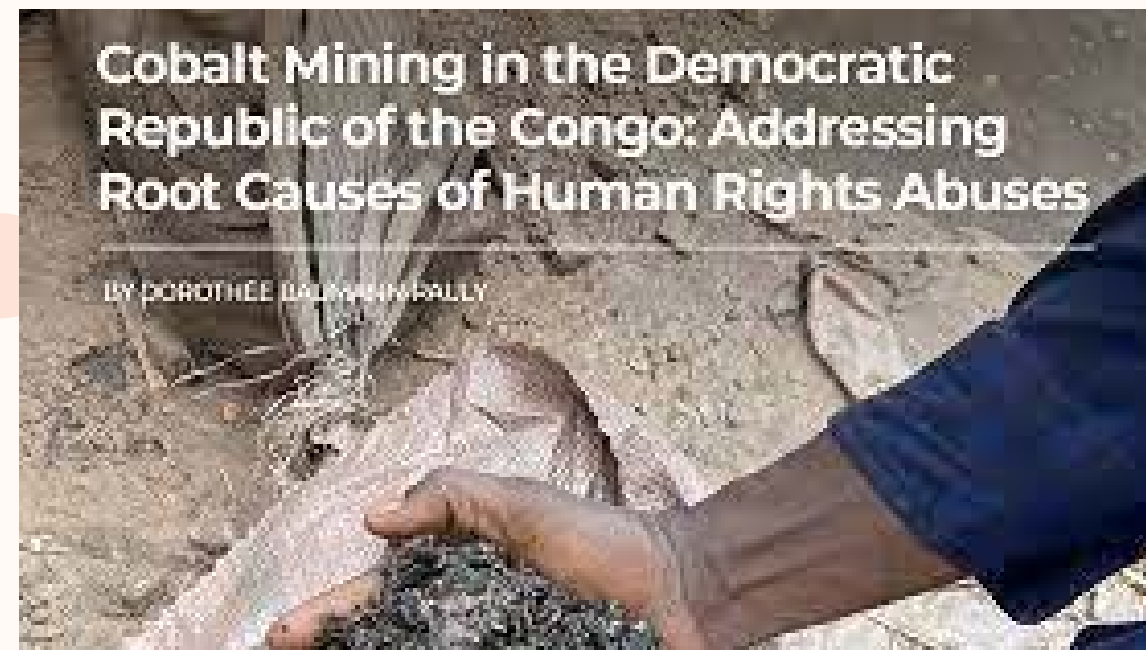
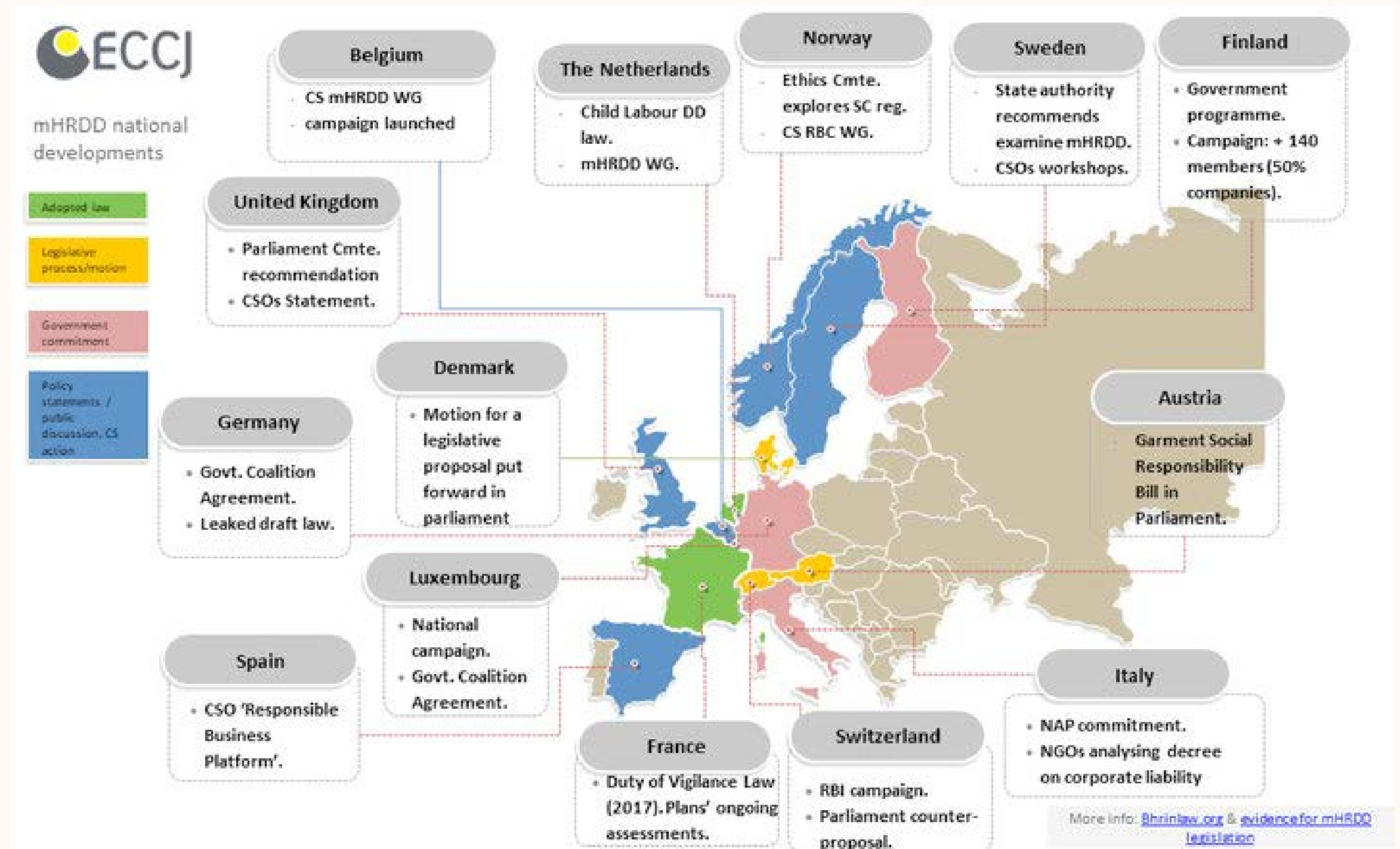
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Due diligence

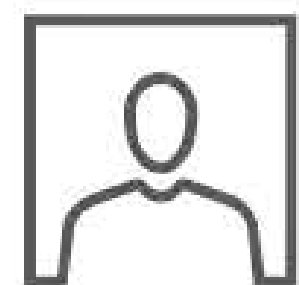


CSDDD Directive

Article 4

Due diligence integration

Intend/Adapt company policies to embed due diligence requirements on human rights and environment

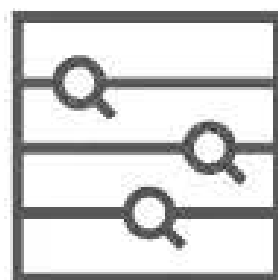


Adverse impacts identification

Implement appropriate measures to identify actual or potential adverse impacts on human rights and environment for their own operations or those of their subsidiaries

Bring actual adverse impact to an end

Neutralise the identified adverse impact or minimise its extent by developing and implementing a corrective action plan with defined timeline



Prevention of potential adverse impacts

Take appropriate measures to prevent or adequately mitigate potential adverse impacts on human rights and environment (i.e prevention action plan development)

Complaints procedure

Provide the possibility for persons or companies to submit complaints with appropriate follow up and competent instances

Communication

Publicly communicate on due diligence on 30 April each year - specifications information on the expected description will be clarified in delegated acts.



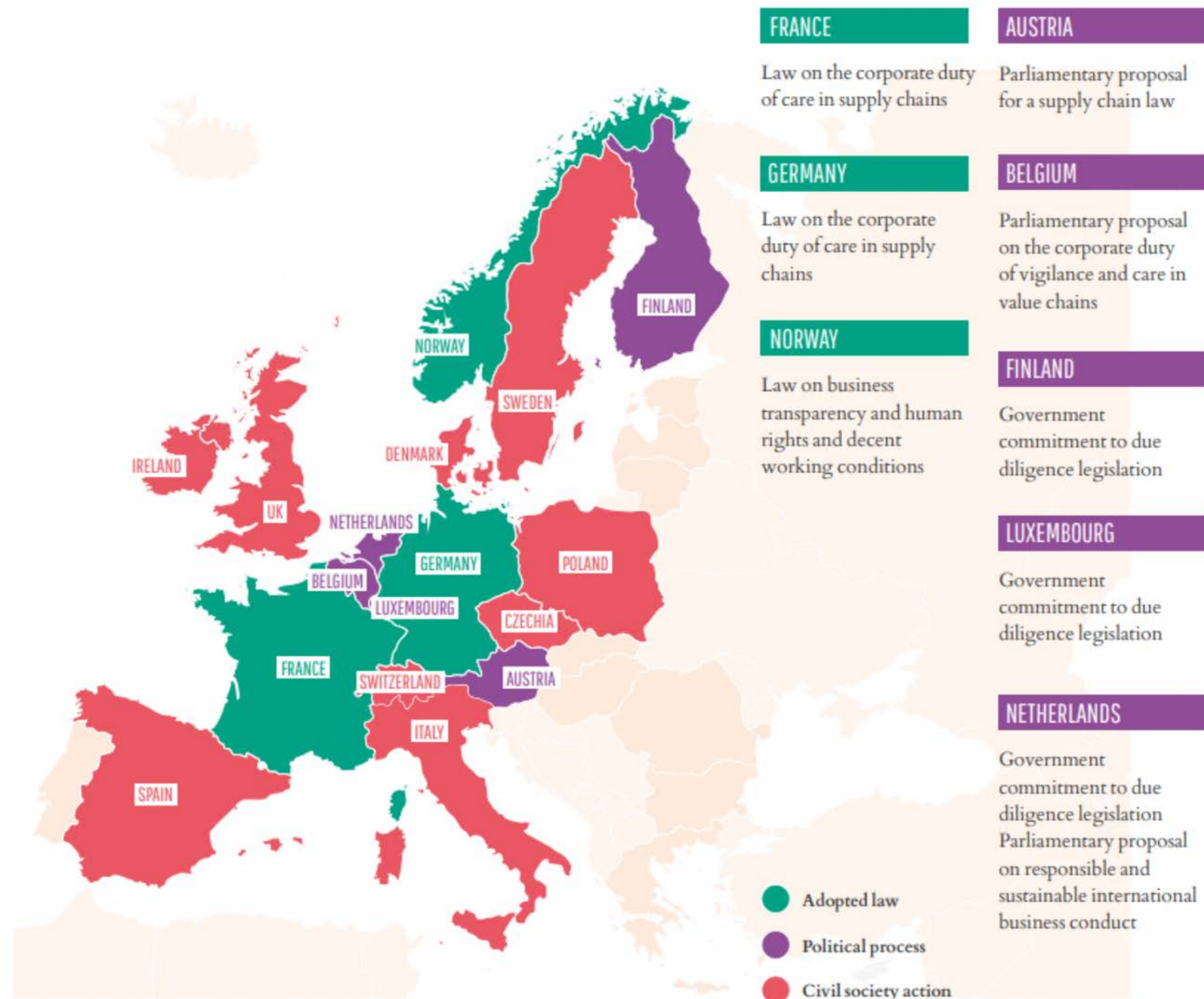
Monitoring

Carry out periodic assessment of companies operations or those of their subsidiaries to monitor effectiveness of identification, prevention, mitigation, ending or minimisation of the extent of the human rights and environment adverse impacts.



CSDDD Directive


Figure 1– EU countries' national corporate due diligence legislation



Source: [Unpacking the upcoming EU law to stop corporate abuse. Press kit](#), joint NGOs, November 2021.

A large, hand-drawn style orange circle with a white outline, partially overlapping the top left corner of the slide.

CSDDD Directive

- Organisations **within the scope** of the Proposed Directive will be required to **identify, prevent, mitigate and account for their “adverse impacts” on human rights and the environment.**
 - Adverse impacts as violations of prohibitions, obligations and rights enshrined in the international conventions listed in the Annex to the Proposed Directive.
 - The Proposed Directive is intended to complement those international conventions and other existing and proposed EU laws and policies **on human rights issues.** These include
 - forced labour,
 - child labour,
 - inadequate workplace health and safety, and
 - exploitation of workers.
 - They also extend to **environmental issues** such as
 - greenhouse gas emissions,
 - pollution,
 - biodiversity loss and
 - ecosystem degradation.
- 
- A collection of abstract, hand-drawn style shapes in various colors (orange, teal, dark green, light green) scattered in the bottom right corner of the slide.

CSDDD Directive

Scope

Scope of the Proposed Directive

- The Proposed Directive will apply to the following categories of companies, which is broadly defined and includes regulated financial undertakings (In Scope Companies):

Large companies

- EU companies having more than 500 employees, including part-time and temporary agency workers, and a net worldwide turnover of greater than €150 million in the last financial year for which annual financial statements have been prepared
- Non-EU companies which generated a net turnover of more than €150 million in the EU in the financial year preceding the last financial year

Designated sector companies

- EU companies with more than 250 employees and a net worldwide turnover of greater than €40 million in the last financial year for which annual financial statements have been prepared, provided that at least 50% of that net turnover was generated in one or more of a specified list of high-impact sectors (Designated Sectors)
- Non-EU companies which generated a net turnover of more than €40 million but not more than €150 million in the EU in the financial year preceding the last financial year, provided at least 50% of its net worldwide turnover was generated in one or more Designated Sectors

CSDDD Directive

Obligations

Corporate policies

- In Scope Companies will be required to integrate due diligence into their corporate policies and to adopt a due diligence policy, including a code of conduct for employees and subsidiaries. They must keep it under review and up to date.

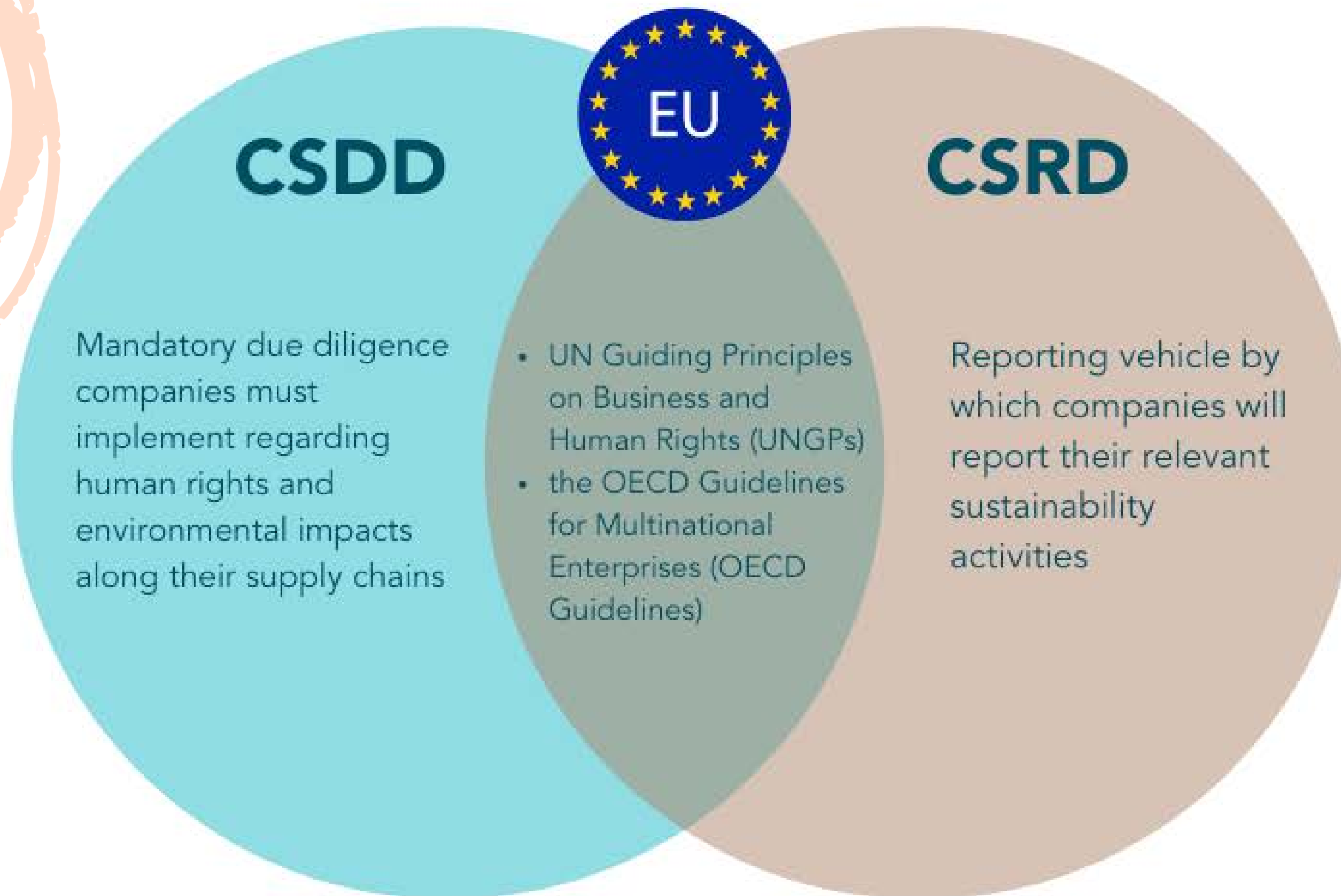
Adverse impacts

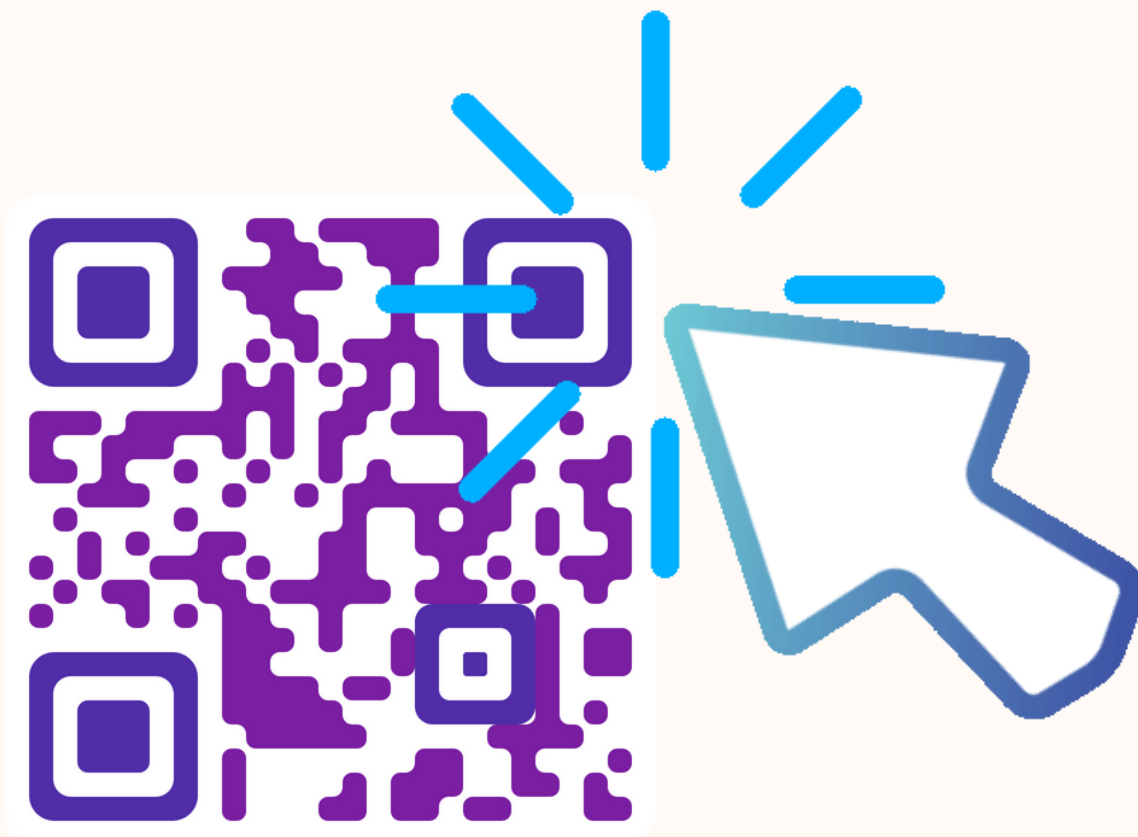
- In Scope Companies will be required to take “appropriate measures” to **(i) identify, (ii) prevent and mitigate and (iii) bring to an end** all adverse impacts arising from their own operations, those of their subsidiaries and those of the entities:
 - In their “value chains” ie carrying on activities related to the production of goods or the provision of services, and
 - With which they have an “established business relationship” ie a relationship which is or is expected to be lasting in view of its intensity or duration and is not a negligible or ancillary part of the value chain
- “**Appropriate measures**” will vary on a case-by-case basis having regard to the severity and likelihood of the adverse impact. However, they can be far-reaching and may result in significant expense and administrative burden for an In Scope Company. They may include, for example, a requirement for an In Scope Company to:
 - Develop and implement prevention and/or corrective action plans
 - Seek contractual assurances from the business partners with which it has an established business relationship to ensure compliance with the In Scope Company’s code of conduct and any prevention and/or corrective action plans. They must also monitor compliance with those contractual assurances.
 - Make necessary investments, for example into management or production processes and infrastructures
 - Provide targeted and proportionate support to SMEs with which it has an established business relationship where compliance by the SME with the In Scope Company’s code of conduct and any prevention and/or corrective action plans would jeopardise the viability of the SME
- In the case of identified actual adverse impacts, pay damages and financial compensation to affected persons and communities, and
- Suspend or terminate relevant business relationships where adverse impacts are severe and have not been prevented, adequately mitigated or brought to an end by other measures
 -

4. Recaps



HOW THE EU CSDD AND CSRD INTERACT





*Keep
in touch*

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The background features a large, soft watercolor splash in shades of orange and peach, centered on a light cream background. In the top-left and bottom-right corners, there are clusters of small, rounded, brushstroke-like shapes in muted teal and dusty rose colors.

*Thank
you*