



EU SUSTAINABILITY REPORTING

Navigating Sustainability Legislation: A Comprehensive Guide

A guide to get you started



1. Green Deal

The European Green Deal represents the European Union's response to the pressing climate crisis. To address this emergency, the European Parliament urged the European Commission to align all its proposals with the target of limiting global warming to 1.5°C and substantially reducing greenhouse gas emissions.

In answer to this call, the European Commission introduced the European Green Deal, a comprehensive plan outlining the path towards achieving a climate-neutral Europe by the year 2050.

On June 24th 2021, the European Parliament approved the EU Climate Law, which enforces a legally binding goal of reducing emissions by 55% by 2030 and achieving climate neutrality by 2050. This decisive action brings the EU closer to its long-term objective of achieving negative emissions and reaffirms its leadership in the global fight against climate change.


The adoption of the EU Climate Law is expected to facilitate the implementation of the emission reduction targets into legislation, leading to several benefits. These benefits include improved air, water, and soil quality, reduced energy costs, upgraded and energy-efficient homes, enhanced public transportation with increased charging infrastructure for electric vehicles, decreased waste generation, healthier food, and improved health outcomes for current and future generations.

Furthermore, businesses stand to gain advantages as the EU sets global standards in various sectors. Opportunities are expected to arise in areas like renewable energy and energy-efficient buildings and processes, which are likely to create job opportunities, promoting economic growth within the EU.



1.1 CSRD - Corporate Sustainability Reporting Directive

The Corporate Sustainability Reporting Directive (CSRD) is an EU standard designed to make corporate sustainability reporting more common, consistent, and standardized. CSRD was adopted on the 21st of April 2021 in the wake of the EU Green Deal. It updates and strengthens rules introduced by the existing Non-Financial Reporting Directive (NFRD).

 Picture: CSRD vs. NFRD comparison

	NFRD	CSRD
Which companies are concerned?	Large public interest entities with 500+ employees; Banks, insurance companies, listed companies, but non mandatory in most countries.	1. All large companies meeting at least 2 out of 3 criteria: 250 employees and/or €40M turnover and/or €20M total assets; 2. Listed companies on EU regulated markets (micro companies excluded)
Timeline	Since 2018	Application on 1 January 2024 for 2023; for SMEs there will be delayed timelines (2028)
No. of entities	Approximately 11,000	Approximately 50,000 – 75% of total EU companies turnover
Audit	Non-mandatory	Mandatory
Scope of requirements	Five dimensions: environmental protection, social responsibility and treatment of employees, respect of human rights, anticorruption and bribery and diversity on company boards.	General disclosures: Business model, strategy and policies, KPIs, targets, company governance, double materiality assessment* and due diligence. Topic-specific disclosures: environmental, social, governance, sector-specific standards.
Where to report?	Included in the Annual report	Included in the Management report
Format	Online and PDF format	Electronic format (in XHTML)

In January 2023, the CSRD came into effect – making it mandatory for around 50,000 companies operating in the European Union (EU) to adhere to a new set of sustainability reporting requirements. The first batch of companies subject to CSRD is obligated to start their reporting in 2024. But who is actually within this scope?

The scope of the new directive applies to all companies that match two out of three criteria:

- ◆ More than 250 employees and/or
- ◆ More than €50M turnover (before €40M) and/or
- ◆ More than €25M (before €20M) total assets

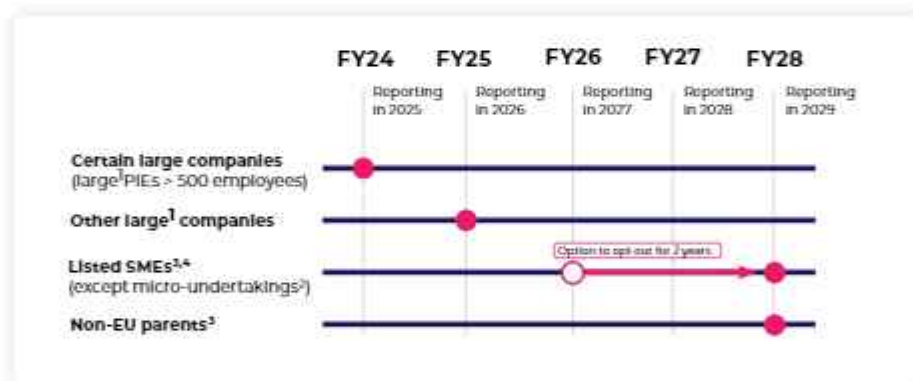
Key CSRD requirements:

- ◆ Double materiality assessment: Double materiality assessment takes into account two aspects: impact on people and the planet and impact on company value.
- ◆ Yearly reporting: Companies will have to publicly report their ESG performances aligned to the ESRS each year.
- ◆ Mandatory due diligence.
- ◆ Reporting scope: The CSRD is required to report on the entire value chain.
- ◆ Mandatory audit: Companies need to get "limited" assurance for their sustainability information from a trustworthy third party. They'll review the data to make sure it's accurate and legitimate.

Timeline:

Once implemented, companies previously subject to the NFRD and large non-EU listed companies employing over 500 people will be obliged to adopt ESRS reporting for the financial year 2024, with initial reports due in 2025. Other significant companies will commence reporting a year later. For listed SMEs, including non-EU-listed SMEs, their inaugural ESRS sustainability statements will be issued in 2027, though they may choose to defer participation for up to two years. Non-EU companies generating more than €150 million in EU revenue annually and operating a branch or subsidiary with revenue exceeding €40 million will have reporting obligations beginning in the financial year 2028, with the first reports due in 2029. **2023:** The CSRD entered into force

- ◆ **2023:** The CSRD entered into force
- ◆ **2024:** Reporting starts for all large companies already covered by the NFRD that meet at least two of the following three requirements: 500 or more employees; 40 million EUR in net turnover; and 20 million EUR in assets. Reports to be published in 2025.
- ◆ **2025:** All large companies that meet at least two of the following three requirements: 250 or more employees; 40 million EUR in net turnover; and 20 million EUR in assets, start reporting in 2025 and publish reports in 2026.
- ◆ **2026:** Listed small and medium-sized enterprises (SMEs)* that meet at least two of the following requirements: Over 10 employees; Over 700 000 EUR net revenue; Over 350 000 EUR in assets.
- ◆ **2028:** Non-EU companies that have: 150 million EUR in net turnover in the EU if they have at least one subsidiary or branch in the EU.



1. Large companies are those which, on the balance sheet date, exceed two of the following three criteria: 20 employees, 40m EUR net revenue and 20m EUR assets. Including EU and non-EU subsidiaries.
2. Companies that do not exceed the following three criteria: 10 employees, 700,000 EUR net revenue and 350,000 EUR assets.
3. There will be separate standards for SMEs.

The primary objective is to achieve standardized and comparable reporting of environmental, social, and governance (ESG) performance. For this reason, all companies falling under CSRD's scope must report according to the European Sustainability Reporting Standards (ESRS).

1.2 ESRS – European Sustainability Reporting Standards

The draft European Sustainability Reporting Standards (ESRS) set out the rules and requirements for companies to report on sustainability-related aspects under the Corporate Sustainable Reporting Directive (CSRD). EFRAG was appointed technical adviser to the European Commission developing draft ESRS.

The ESRS is designed to make corporate sustainability and environmental social governance (ESG) reporting within the EU more accurate, common, consistent, comparable, and standardized, just like financial accounting and reporting.


ESRS distinguishes itself from other voluntary reporting standards through its distinctive double materiality perspective. Companies must now provide reports on their effects on people and the environment, and how social and environmental issues influence the company’s financial risks and opportunities. This all-encompassing approach encourages businesses to consider the wider consequences of their actions, fostering more responsible and sustainable practices.

Standards are divided into general standards, topic standards, and sector-specific standards. The standards organizations need to follow depend on factors like their operations, size, and sector.


 *Picture: European Sustainability Reporting Standards structure*



The General requirements standards are the basis of the reporting. They tell you what information to include in the report and how to present it.

-  *July 2023 update:* According to the EU's latest changes, the "General disclosures" standard is the only one that everyone must follow. To figure out the other disclosures that apply to you, you'll need to do a double materiality assessment.

Topical standards cover 5 environmental, 4 social, and 1 governance topic for the time being.

-  *July 2023 update:* According to the EU's latest changes, companies with less than 750 employees now have the option to exclude certain disclosure requirements. For the first two years, they are only required to report on biodiversity, scope 3 emissions data, and their workforce.

1.3 CSDDD – Corporate Sustainability Due Diligence Directive

The Corporate Sustainability Due Diligence Directive (CSDDD) will require companies within the scope to carry out environmental and human rights due diligence throughout their supply chains, including direct and indirect suppliers, their operations, products, and services.

Importantly, the directive will cover value chains inside and outside of Europe, impacting corporations globally. It builds on and interacts with other regulations that focus on supply chain ESG, such as the SFDR, which aims to improve transparency in the sustainable investment product market.

The directive covers a broad range of issues: human rights, social and labor rights, and environmental impacts – essentially the entire ESG spectrum.

Who is within the Scope of EU CSDD?

It will be applicable for companies with:

- ◆ 500 employees + worldwide Turnover €150M
- ◆ 250 employees + worldwide Turnover €40M, if over 50% is generated in high-risk sectors
- ◆ Third-country (i.e., non-EU) companies + net Turnover €150M in the EU
- ◆ Third-country companies + net Turnover €40 million in the EU and over 50% generated in high-risk sectors

Small and medium-sized companies do not fall directly within the scope of the EU CSDD, but they are impacted indirectly, as they will need to meet standards in their role as suppliers to larger, in-scope businesses.

1.4 EU Taxonomy

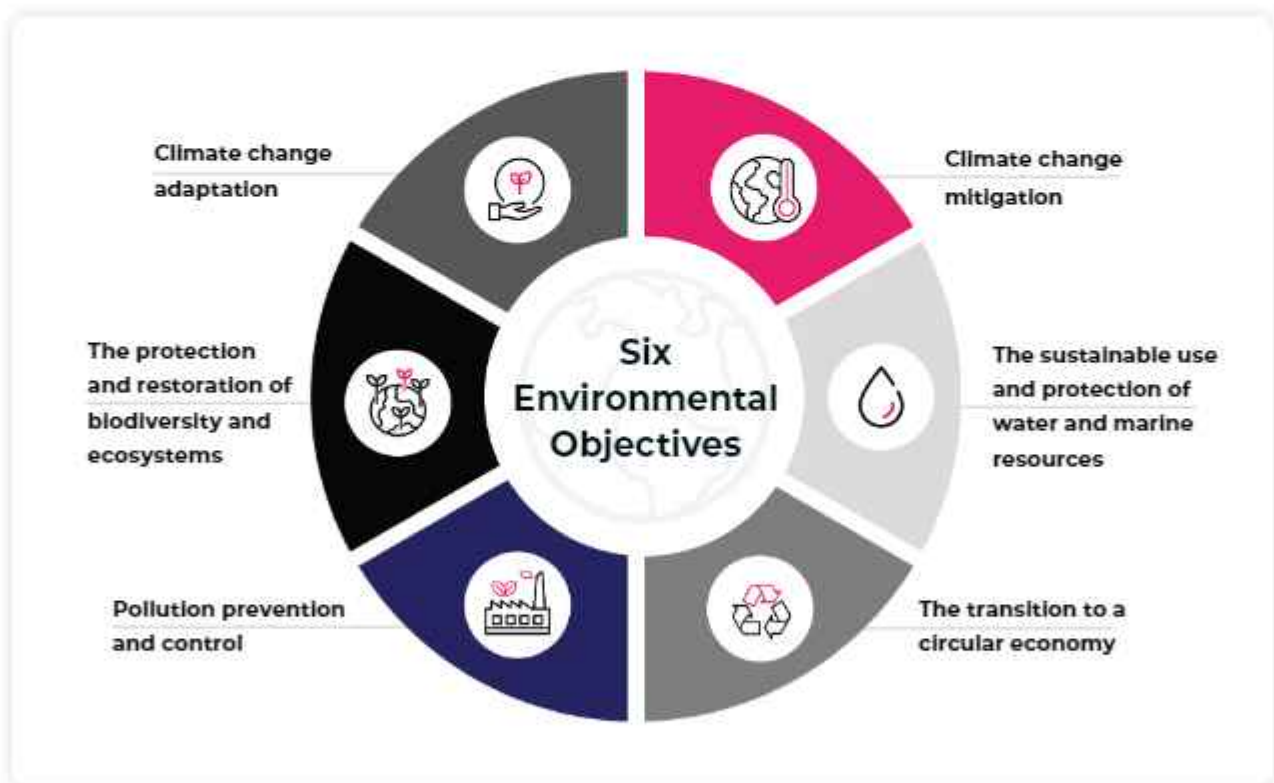
What is the EU taxonomy?

The EU taxonomy is a classification system, which establishes a list of environmentally sustainable economic activities. It classifies business activities based on their contribution to the green transition.

It should create security for investors (help investors direct funds toward more sustainable businesses), protect private investors from greenwashing, help companies to become more climate-friendly, mitigate market fragmentation, and help shift investments, where they are most needed.

There are six environmental objectives, which an economic activity must adhere to, for it to be included in the EU Taxonomy. For economic activity to be certified as being environmentally sustainable in keeping with the Taxonomy, a substantial contribution must be made to at least one of the objectives and simultaneously have no significant detrimental impact on the other five.

 Picture: The 6 EU environmental objectives laid out by the Taxonomy Regulation



Why do we need an EU taxonomy?

To meet the EU's climate and energy targets for 2030 and achieve the objectives of the European Green Deal.

EU Taxonomy activity evaluation

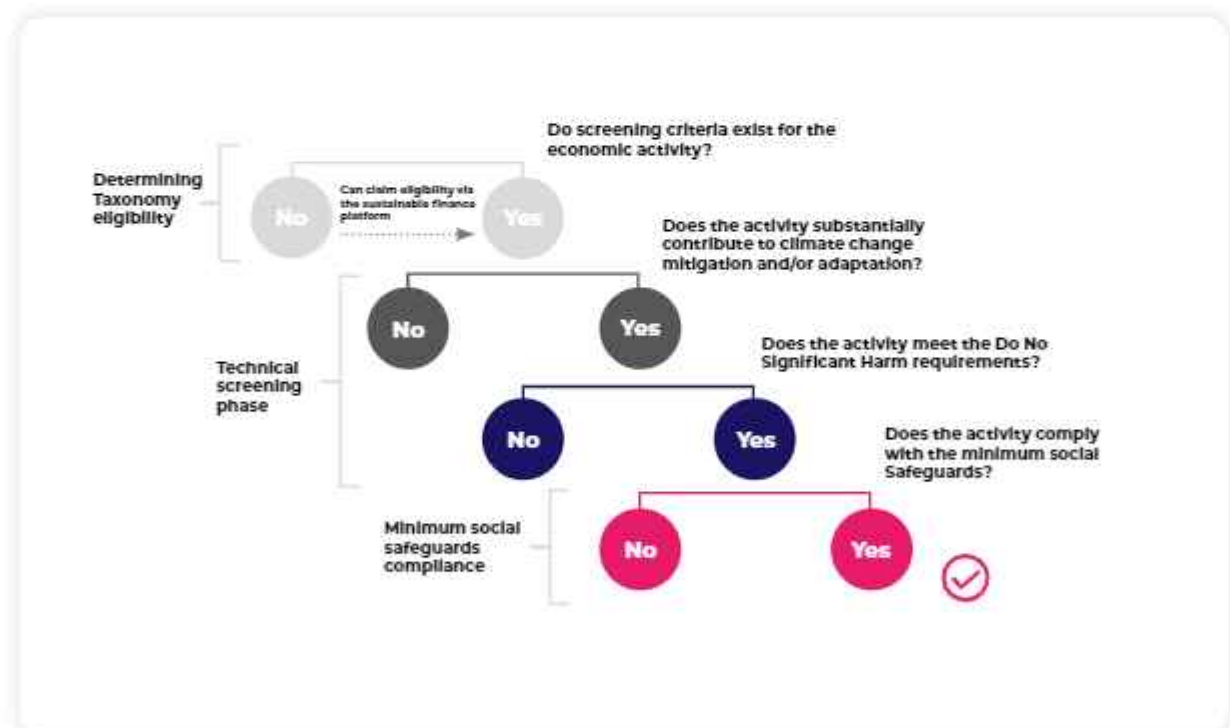
Aside from the 6 environmental objectives, the EU taxonomy also sets 4 overarching conditions that economic activity must meet to qualify as environmentally sustainable.

The classification system has 4 conditions:

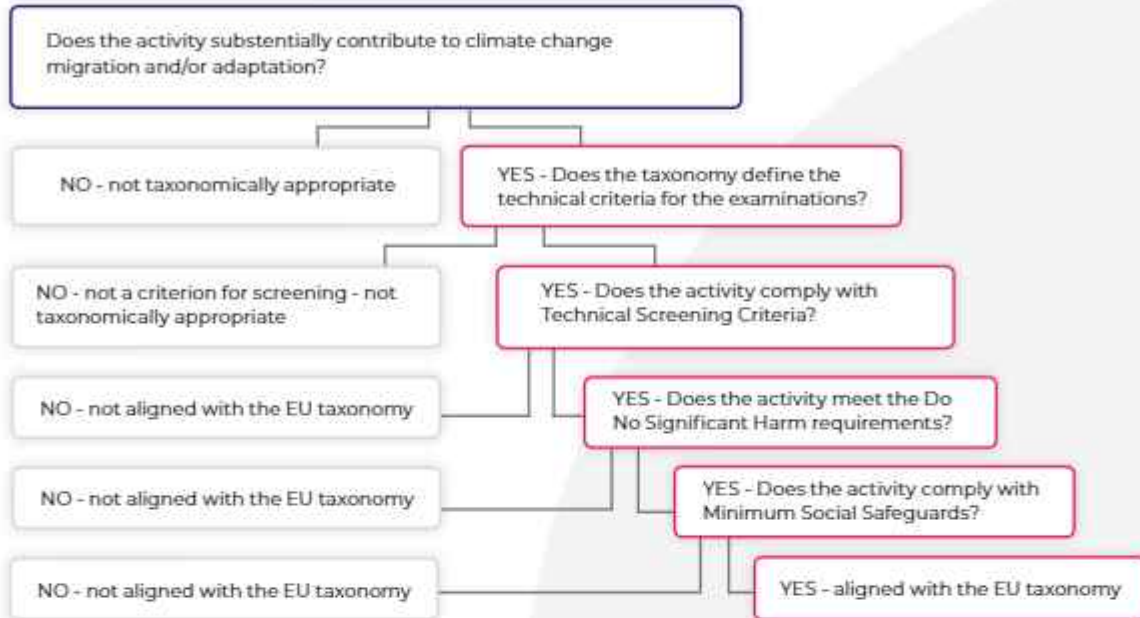
1. Does the activity substantially contribute to climate change mitigation and/or adaptation?
2. Does the activity meet the technical criteria?
3. Does the activity meet the Do No Significant Harm requirements?
4. Does the activity comply with Minimum Social Safeguards?

If we can answer "Yes" to these four conditions, the activity is aligned with the EU taxonomy. If any of the criteria are not met, then the activity can't be regarded as sustainable.

 *Picture: The 4-step process to determine if an activity is taxonomy-aligned:*



Picture: Technical screening phase: check if the economic activity meets the EU Taxonomy's criteria



Picture: Standards Timeline




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