PRESENTATION TO CIBO

CSRD Overview

AUGUST 6, 2024

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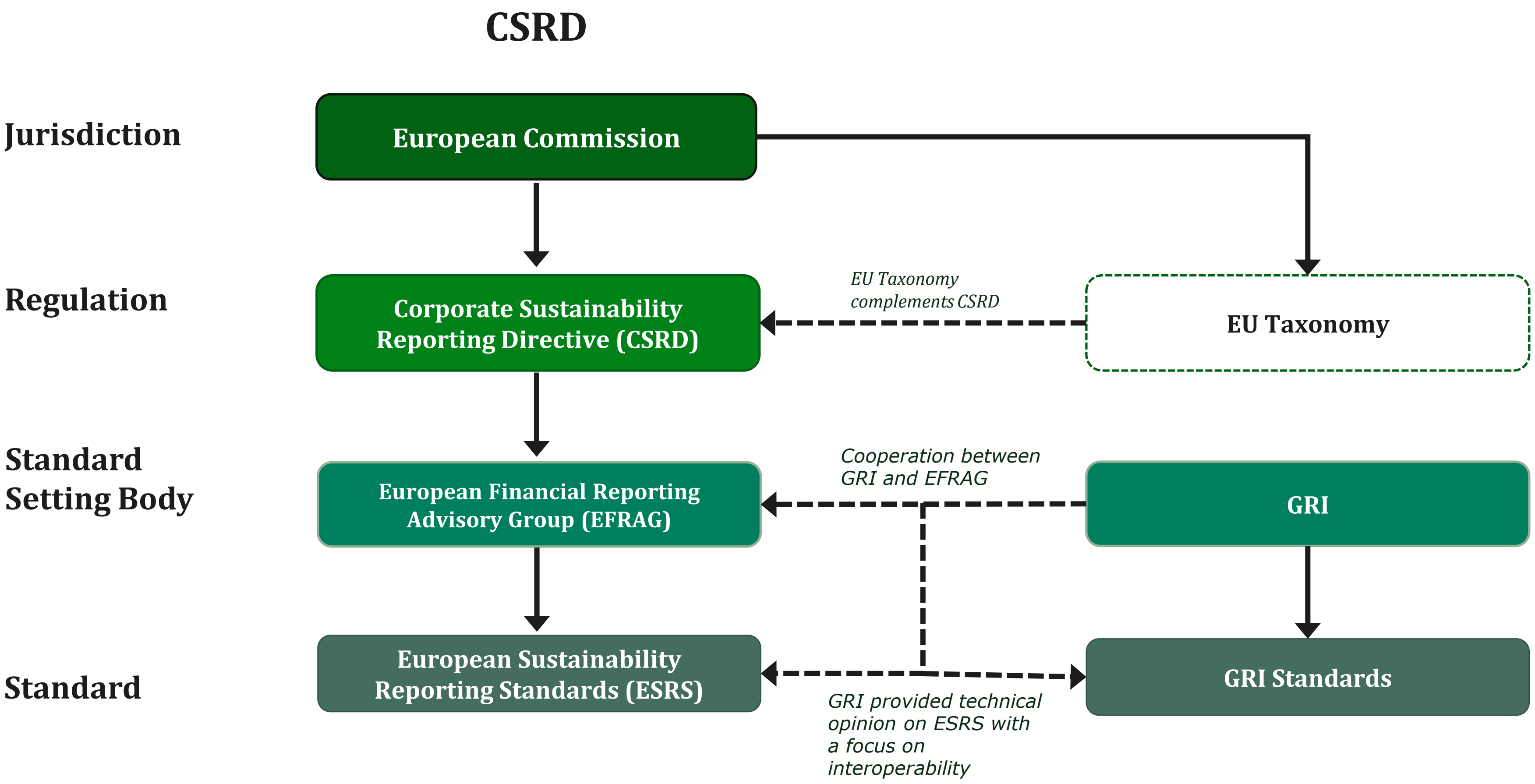
Sustainability is our business

CSRD is an EU law that requires companies to report on their environmental and social impact activities



CSRD is the most ambitious and comprehensive disclosure regulation to date

Its complexity arises from regulating content and format.

NFRD → CSRD

Increase in scope and reporting requirements

Applicability

All large EU companies and groups meeting at least 2 out of 3 criteria:

- 250 employees and/or
- €40m turnover and/or
- €20m balance sheet

Companies listed on EU regulated markets

Application to non-EU companies generating a net turnover of €150m in the EU with at least one subsidiary or branch in the EU*

Timing

Final European Sustainability Reporting Standards (ESRS) were adopted on **July 31, 2023.**

First application from reporting year 2024 onwards for companies meeting certain requirements.

Reporting requirements

CSRD makes **non-financial reporting** mandatory.

Sustainability statement is to be included in the **management report.**

Content-related audit/assurance requirement with **at least limited assurance** applies.

KPI reporting in line **ESRS.**

Mandatory EU Taxonomy reporting for companies in scope of CSRD.

Objective

Encourage responsible approaches to business
Legally oblige companies to report in compliance with European Sustainability Reporting Standards (ESRS)

Achieve greater transparency
Ensure corporate sustainability information can be comparable to help the evaluation of non-financial performance

Put sustainability reporting on par with financial reporting
Make companies more resilient and perform better, both in financial and non-financial terms

Align with broader legislative frameworks
Align with the European Green Deal initiatives, e.g., EU Taxonomy regulation

**This potential reporting obligation sits with the top EU affiliate (not on the non-EU parent) and is subject to the availability of information.*

What does the CSRD mean for non-EU companies?

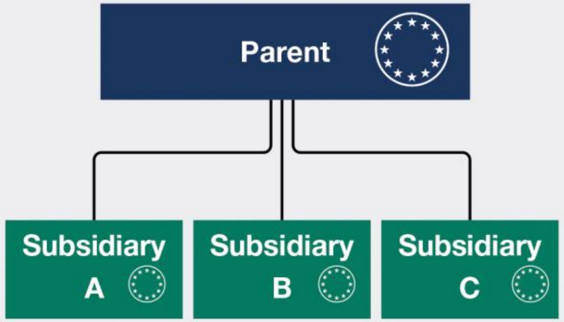
Companies within the CSRD's scope:

- **Companies currently subject to the EU Non-Financial Reporting Directive ("NFRD")**
- **"Large Undertaking" EU companies and groups:**
  - **Where at least two of the following apply:**
    - Balance sheet total exceeding EUR 20 million
    - Net turnover exceeding EUR 40 million
    - More than 250 employees
- **Other EU or non-EU companies:**
  - **With securities listed on EU regulated markets;**
  - **Non-EU companies with a net turnover of more than EUR 150 million in the EU and either of the following:**
    - An EU branch with revenue exceeding EUR 40 million; or
    - A subsidiary that meets the description of a Large Undertaking

**Assuming all EU entities meet the size requirement*

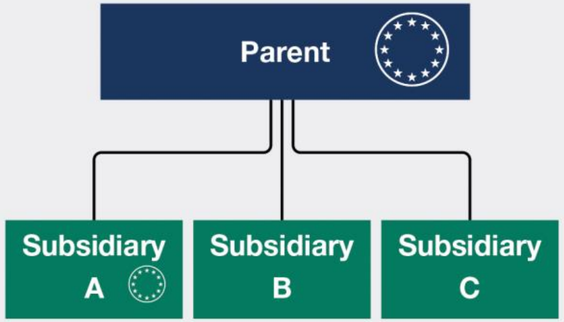
Example 1
EU HQ

All entities need to report; parent can report for subsidiaries



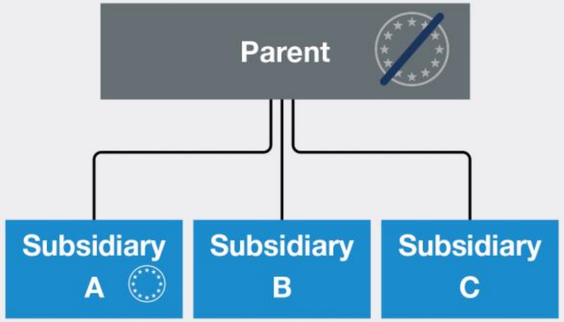
Example 2
EU HQ

Parent needs to report and must include all subsidiaries



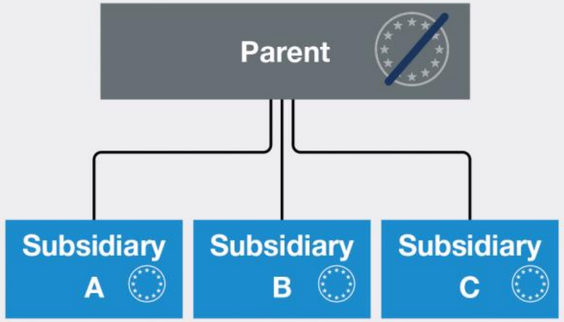
Example 3
Non-EU HQ

Only Subsidiary A needs to report initially, but group will have to report in 2029 on FY 2028 data

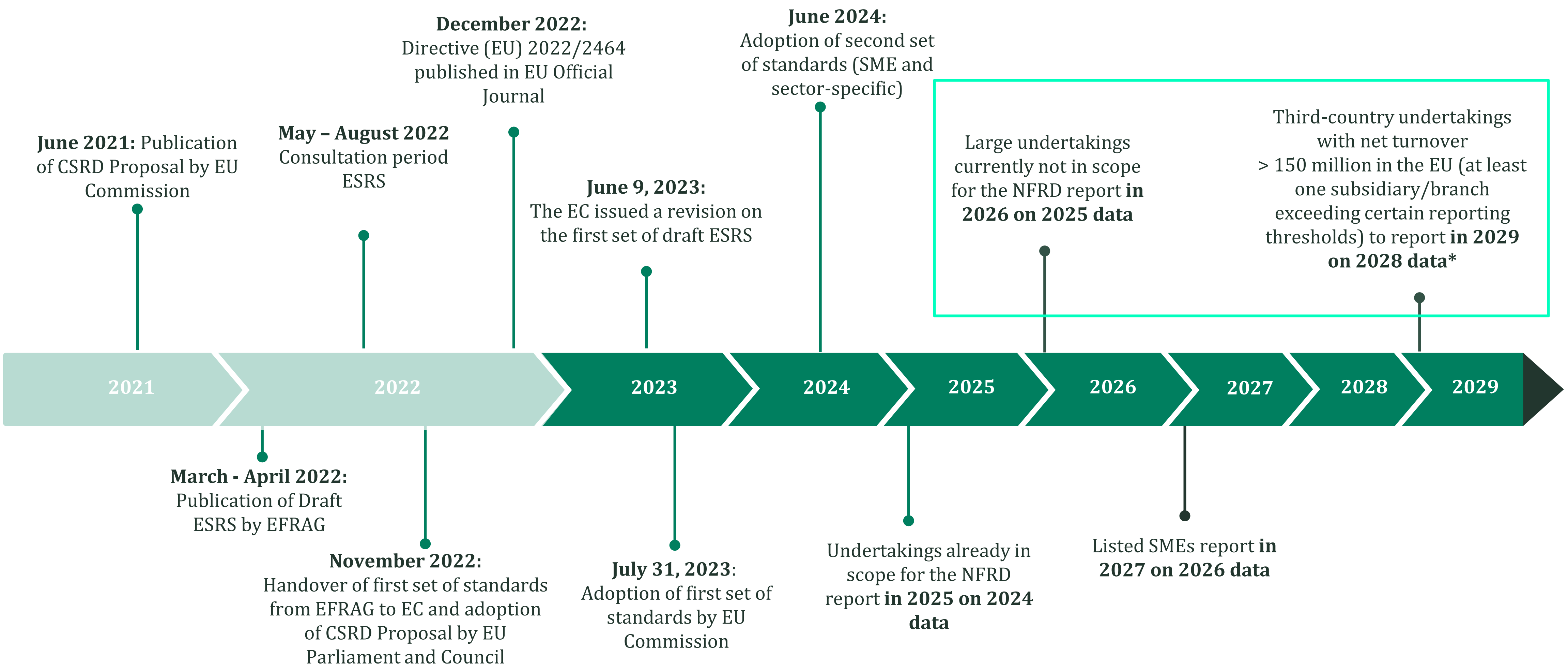


Example 4
Non-EU HQ

Subsidiaries will need to report initially, but group will have to report in 2029 on FY 2028 data



CSRD reporting is due in 2025-26 for many companies



This potential reporting obligation sits with the top EU affiliate (not on the non-EU parent) and is subject to the availability of information.

Some technical details on scoping

Financial years starting on or after 1 January 2024:

- Companies already in scope of **NFRD** (predecessor of CSRD):
  - Public-interest entities with over **500 employees**
    - balance sheet total: **EUR 20 000 000**, or
    - net turnover: **EUR 40 000 000**;

Financial years starting on or after 1 January 2025:

- **Large undertakings**:
  - Exceed two of the three following criteria:
    - balance sheet total: **EUR 20 000 000**;
    - net turnover: **EUR 40 000 000**;
    - **250 employees**

Financial years starting on or after 1 January 2026:

- **Listed SMEs** and public-interest entities that are **small and non-complex institutions** or **captive (re)insurance undertakings**
  - Exceed the limits of at least two of the three following criteria:
    - balance sheet total: **EUR 350 000**;
    - net turnover: **EUR 700 000**;
    - **10 employees**

Financial years starting on or after 1 January 2028

- **Third-country undertakings**
  - Net turnover: **EUR 150 million** in the Union, with
    - **Subsidiaries** that are large undertakings, or
    - **Branches** with a net turnover of more than EUR 40 million

CSRD double materiality

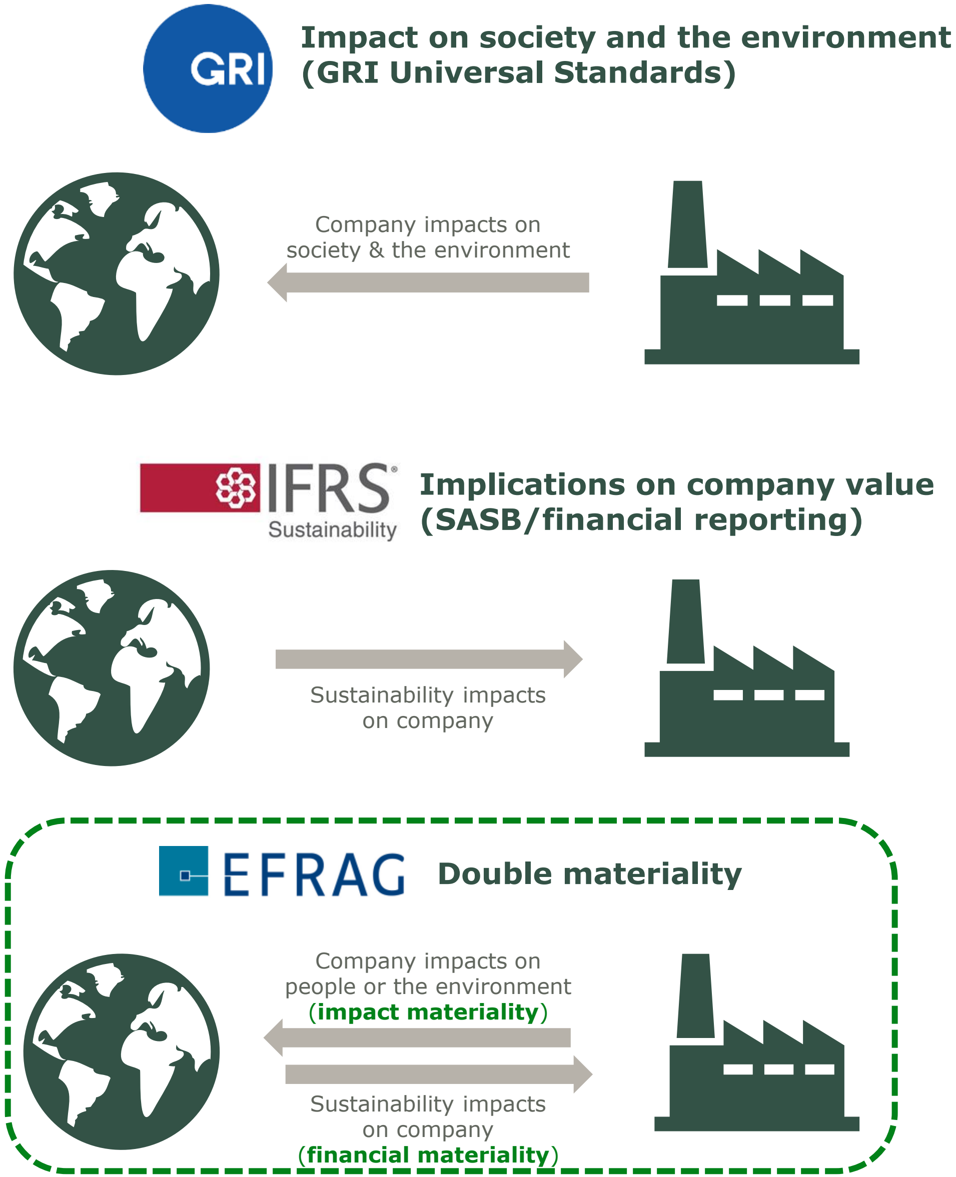
Double materiality is the foundation of CSRD alignment

Double materiality is a concept that provides criteria for determination of whether a sustainability topic or information has to be included in an organization's sustainability report. It is also the foundation for a stakeholder-informed sustainability strategy.

Double materiality is the combination of financial materiality and impact materiality.

- **Impact materiality** (traditional GRI definition of materiality) looks at a company's material impacts on people or the environment.
- **Financial materiality** (traditional SASB/ISSB definition of materiality) looks at sustainability matters that could trigger material financial effects on the company.

The ESRS requires companies to conduct a double materiality assessment.



Key procedural requirements for assessing double materiality under CSRD

Value Chain Mapping

Sustainability statements must include information on a company's material IROs in its upstream and downstream value chain.

"The information about the reporting undertaking provided in the sustainability statements shall be extended to include information on the material impacts, risks and opportunities **connected with the undertaking through its direct and indirect business relationships in the upstream and/or downstream value chain** ("value chain information"). In extending the information about the reporting undertaking, the undertaking **shall include material impacts, risks and opportunities connected with its upstream and downstream value chain**.

ESRS 1 §5.1 – General Requirements

Positive/Negative Impact Prioritization

Companies are required to develop and evaluate a list of positive & negative impacts *of the company* by assessing their severity and likelihood.

"For **actual negative impacts**, materiality is based on the **severity** of the impact, while for **potential negative impacts** it is based on the **severity and likelihood** of the impact. Severity is based on the following factors: **(a) the scale; (b) scope; and (c) irremediable character** of the impact. In the case of a potential negative human rights impact, the severity of the impact takes precedence over its likelihood.

For positive impacts, materiality is based on: **(a) the scale and scope of the impact** for **actual impacts; and (b) the scale, scope and likelihood of the impact** for **potential impacts**.

ESRS 1 §3.4 – General Requirements

Opportunity & Risk Prioritization

Companies are required to develop and evaluate a list of opportunities and risks *to the company* based on potential to trigger financial effects on the company.

"A sustainability matter is material from a financial perspective if it **triggers or could reasonably be expected to trigger material financial effects on the undertaking**. This is the case when a sustainability matter generates risks or opportunities that have a material influence, **or could reasonably be expected to have a material influence**, on the undertaking's **development, financial position, financial performance, cash flows, access to finance or cost of capital** over the **short-, medium- or long-term**. Risks and opportunities **may derive from past events or future events**. The financial materiality of a sustainability matter is **not constrained to matters that are within the control of the undertaking** but includes information on material risks and opportunities attributable to business relationships beyond the scope of consolidation used in the preparation of financial statements....

The materiality of risks and opportunities is assessed based on a combination of the **likelihood** of occurrence and the **size of the potential financial effects**.

ESRS 1 §3.5 – General Requirements

Disaggregation

Companies must provide disaggregated information by country or significant site/asset if presenting information at a higher level of aggregation would obscure material information.

"When needed for a proper understanding of its material impacts, risks and opportunities, **the undertaking shall disaggregate the reported information**: (a) **by country**, when there are significant variations of material impacts, risks and opportunities across countries and when presenting the information at a higher level of aggregation would obscure material information about impacts, risks or opportunities; or (b) **by significant site or by significant asset**, when material impacts, risks and opportunities are linked to a specific location or asset.

ESRS 1 §3.7 – General Requirements

What is an IRO?

Sustainability **impacts, risks, and opportunities** (IROs) have always been captured during the materiality process. However, the CSRD-aligned double materiality process seeks to create a formalized long list of IROs—the **IRO register**.

Impact: Effects on **people or the environment** due to a company's own operations and business relationships.[1] Impacts can be:

- Actual or potential
- Positive or negative
- Felt over short-, medium-, and long-term time horizons
- Directly linked to the company's operations, products, or services
- Caused or contributed to by the organization through its business relationships (across value chain)
- Intended or unintended
- Reversible or irreversible

Risk: Uncertain ESG events or conditions that, if they occur, could cause a **negative effect** [2] on the company's:

- Financial position
- Financial performance
- Cash flows
- Access to finance
- Cost of capital

Risks may derive from past or future events or may arise from dependencies on natural, human, and social resources.

Opportunity: Uncertain ESG events or conditions that, if they occur, could cause a **positive effect** [2] on the company's:

- Financial position
- Financial performance
- Cash flows
- Access to finance
- Cost of capital

Opportunities may derive from past or future events or may arise from dependencies on natural, human, and social resources.

1 Definition adapted from Final ESRS 3.4 Impact Materiality.
2 Definition adapted from Final ESRS 3.5 Financial Materiality.

Deeper dive into impact materiality

A sustainability matter is **material from an impact perspective** when it pertains to the undertaking's material actual or potential, positive or negative **impacts on people or the environment**.*

Impacts can be:

- Actual or potential
- Positive or negative
- Felt over short-, medium-, and long-term time horizons**
- Directly linked to the company's operations, products, or services
- Caused or contributed to by the organization (value chain)
- Intended or unintended
- Reversible or irreversible

ESRS alignment

"Impact materiality and financial materiality assessments are inter-related and the **interdependencies between these two dimensions shall be considered**. In general, **the starting point is the assessment of impacts**, although there may also be material risks and opportunities that are not related to the undertaking's impacts."

ESRS 1: General Requirements §3.3 – Double materiality

	ESRS definition
Short-term	The period adopted by the undertaking as the reporting period in its financial statements;
Medium-term	From the end of the short-term reporting period defined above, up to 5 years
Long-term	More than 5 years

** ESRS 1: General Requirements §3.4 – Impact materiality*

*** ESRS 1: General Requirements §3 6.4 Definition of short-, medium-, and long-term for reporting purposes. While GRI materiality captured a snapshot in time, CSRD materiality is meant to look over multiple time horizons and evolve over time like a risk management matrix.*

Deeper dive into financial materiality

A sustainability matter is **material from a financial perspective if it triggers** or could reasonably be expected to trigger **material financial effects** on the undertaking. **Dependencies** on natural, human and social resources can be sources of financial **risks** or **opportunities**.*

Risks

Risks are **uncertain ESG events or conditions** that, if they occur, **could cause a potential material negative effect** on the company's:

- business model
- strategy and sustainability strategy
- its capability to achieve its goals and targets and to create value

Therefore, risks may influence the company's decisions and those of its business relationships with regard to sustainability matters.

Opportunities

Opportunities are **uncertain ESG events or conditions** that, if they occur, **could cause a potential material positive effect** on the company's:

- business model
- strategy and sustainability strategy
- its capability to achieve its goals and targets and to create value

Therefore, opportunities may influence the company's decisions and those of its business relationship partners with regards to sustainability matters.

** ESRS 1: General Requirements §3.5 – Financial materiality*

Definitions adapted from ESRS Annex II: Acronyms and Glossary of Terms.

CSRD disclosure readiness

PHASE 5: VALIDATION

CSRD has translated its reporting requirements into the ESRS

The European Sustainability Reporting Standards (ESRS) cover certain reporting areas and require disclosure on certain data levels on cross-cutting ESG topics.

Cross-cutting standards

ESRS
- 1 General requirements
- 2 General disclosures

Environment

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

Social

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

Governance

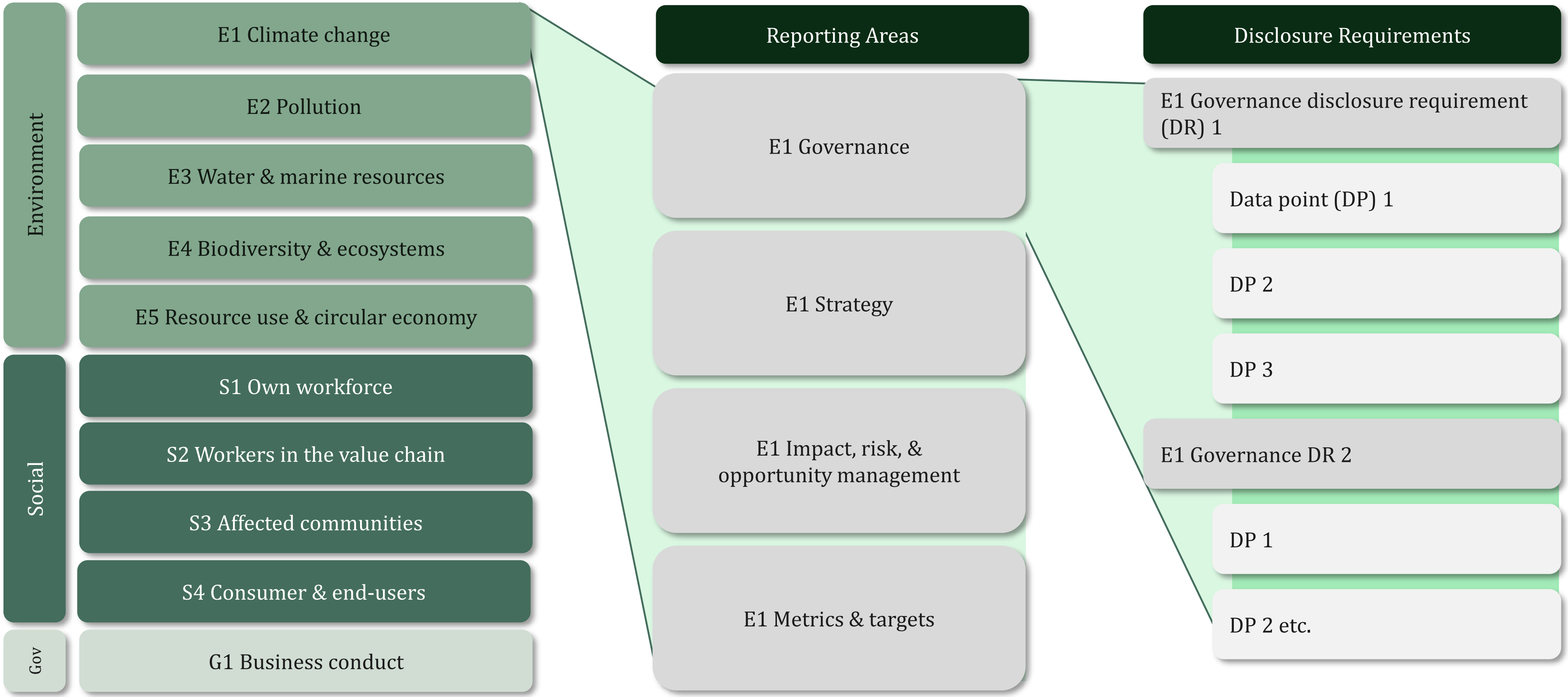
ESRS
- G1 Business conduct

Reporting areas
- Governance
- Strategy
- Impact, risk, and opportunity management
- Metrics and targets

Guideline | Mandatory regardless of materiality assessment | Mandatory if material. Include requirements mandatory by EU laws or CSRD

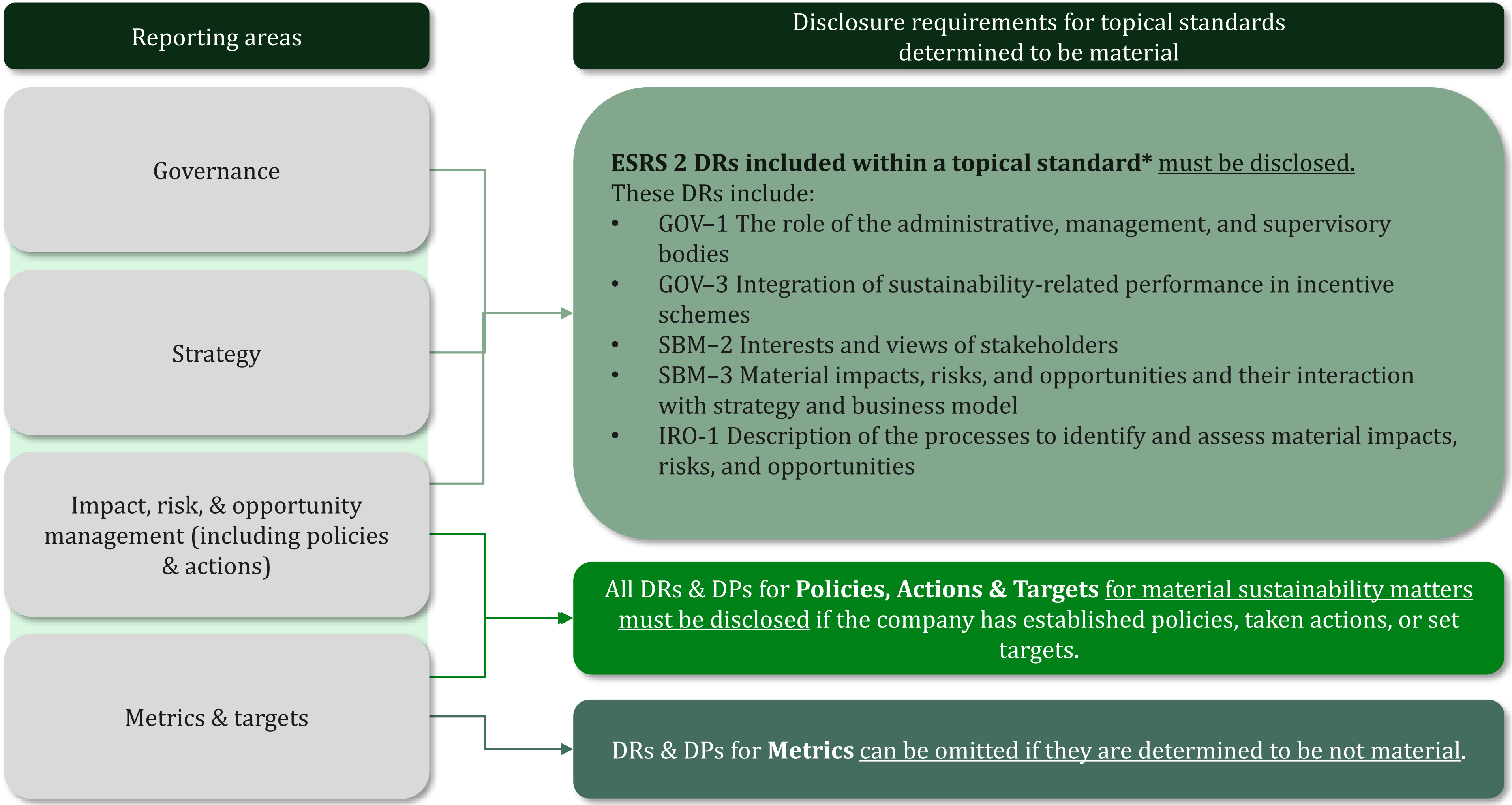
ESRS structure (2 of 2)

Each ESRS topical standard is structured into different Reporting Areas, which are comprised of various Disclosure Requirements (DRs). DRs are further broken into individual Data Points (DPs).



Determining disclosures under ESRS

Within each reporting area, ESRS provides different guidance regarding which Disclosure Requirements (DRs) and Data Points (DPs) must be reported.



ESRS Alignment

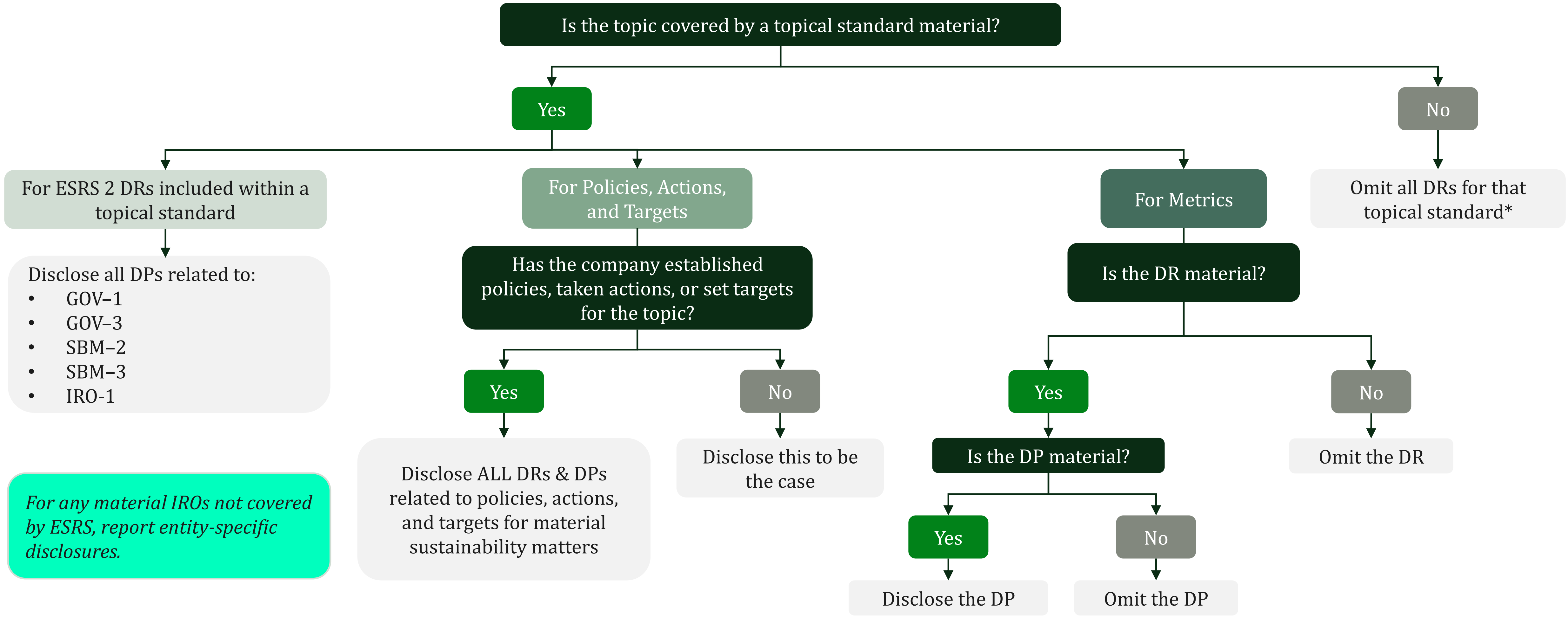
"The criteria to determine the materiality of information are based on relevance as described in ESRS 1 paragraph 31:

(a) the **significance** of the information in relation to the matter it depicts or
(b) its **decision-usefulness.**"

EFRAG Implementation Guidance for Materiality Assessment [DRAFT FOR APPROVAL] – 2.3 Criteria for the determination of material information, ¶ 50
ESRS 1 General Requirements – 3.1 Material matters and materiality of information , ¶ 31

Full process to determine disclosures

The process to determine disclosures for ESRS 2 DRs; Policies, Actions and Targets; and Metrics is shown below.



*If the company determined E1 Climate Change to be immaterial, it shall disclose a detailed explanation of why it is not material.

CSRD journey

Essential steps in planning your CSRD journey

ERM's approach allows our clients to prepare for mandatory ESG disclosures, including CSRD, while avoiding pitfalls and preparing for longer term transformation.

1. Frame the Current State — Discover & Assess

Task 1	Entity scoping & advisory support
Task 2	EU Taxonomy Eligibility and Applicability
Task 3	Double materiality assessment support
Task 4	CSRD disclosures gap assessment
Task 5	ESG control environment gap assessment
Task 6a	Integrated design workshops
Task 6b	Operating model assessment: key organizational structures and governance
Task 7	Business integration, implementation & disclosure plan
Task 8	Implementation roadmap development

2. Programs to Deliver Value — Design

- Target operating model (people, process, controls, technology)
- Business strategy, ambition and KPIs, ESG targets and defensible metrics
- Data model, governance structures and technology stack
- Organizational change management plan

3. Deliver Measurable Outcomes — Implement

- Test control environment and implement data management systems and controls, ESG performance management and regulatory planning
- Deploy new operating model
- Integrate risks into enterprise risk management model
- Finalize and publish CSRD-compliant reporting
- Multichannel ESG communications

Internal education on ESG data collection and controls

Digital implementation

Thank you

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