Sustainability Reporting Guidelines
Promoting better corporate practices in response to growing market expectations by enhancing environmental, social and governance (ESG) reporting in the Czech Republic
Disclaimer

These Guidelines are informed by the Czech and European legislative landscapes and international standards and frameworks on sustainability reporting available by the cut-off date of the publication (13 February 2023). As the relevant ESG reporting standards and legal framework develop over time, the contents of these Guidelines may need to be updated in the future.

These Guidelines have been produced by the Prague Stock Exchange (PSE), jointly with the European Bank for Reconstruction and Development (EBRD) and with technical cooperation support from the TaiwanBusiness – EBRD Technical Cooperation Fund (TB). The consultancy companies, Deloitte Sustainability Consulting Central Europe Team operating under Deloitte Advisory s.r.o. and Frank Bold, assisted with the development of the Guidelines.

The contents of these Guidelines do not necessarily reflect the views of the PSE, EBRD and TB. Whilst every effort is taken to avoid errors, EBRD, PSE, TB, Deloitte Sustainability Consulting Central Europe and Frank Bold cannot accept responsibility for the accuracy of any statement or information contained within these Guidelines nor for any decision made on the basis of any statement or information included herein. PSE reserves the right to modify, amend or adapt the Guidelines or to limit or cease their accessibility. The document has been prepared in the English and Czech language. If any text of the original edition in English is inconsistent with the text of the Czech translation, the original edition in English shall govern.
Foreword

Petr Koblic, CEO and Chairman, Prague Stock Exchange

Sustainable investment has been attracting more attention in recent years. We are witnessing increasing pressure to implement environmental, social, and governance (ESG) criteria in investment strategies throughout European markets. Identification, management, and disclosure of climate-related risks, as well as development of forward-looking strategies are now becoming part of a prudent business decision-making process. Institutional investors have already embarked on a sustainability journey driven by enhanced regulation, stakeholder activism, and reputational concerns, among other factors. Other capital market participants will join them on the basis of forthcoming legislation.

This sustainable trend is supported by the global market shift to financing green and sustainable assets, which has accelerated in the last few years. A combination of growing awareness of the severity and urgency of the world’s sustainability crisis and consequent government policy, stakeholder pressure, and increased scrutiny from institutional investors is driving global financial flows towards sustainable investment. We are also grateful to the European Union’s (EU) policy and strategic agenda. The shift towards mandatory sustainability reporting is critical to the transition to a net-zero economy. It is also essential to unlocking new business opportunities at a time when the demands of investors, regulators and society are growing.

We are committed to supporting the Czech Republic in its transition to a low-carbon and climate-resilient economy, in line with the European Union’s (EU) sustainable finance agenda and international best practice. As part of our country policy engagement, the EBRD is pleased to have supported our partner, the Prague Stock Exchange (PSE), in developing these timely and informative sustainability reporting guidelines. PSE has a powerful role to play in facilitating the ESG data flow between companies and investors by fostering transparency and providing guidance to clients and wider stakeholders on the importance of harmonised and comparable ESG data reporting.

The main objectives of the Guidelines are to support issuers in their efforts to identify and manage ESG risks and opportunities and guide the development of their ESG reporting practices. The guidelines have been developed in line with the EU reporting requirements, including requirements under the Taxonomy Regulation, the Sustainable Finance Disclosure Regulation and the Corporate Sustainability Reporting Directive (as well as the related reporting standards prescribed in the draft European Sustainability Reporting Standards), while also considering the national context and current level of sustainability reporting.

We hope that these guidelines will contribute to the development of a well-functioning and more resilient market, steering investment towards climate and sustainable development priorities. We are confident that this milestone work by PSE will provide companies, investors and other market participants in the Czech Republic with a clear and practical guide on their journey to a more sustainable economy.

Henrik Linders, Managing Director, Environment and Sustainability, EBRD

Harry Boyd-Carpenter, Managing Director, Climate Strategy and Delivery, EBRD
1 Introduction

The aim of these Guidelines is to help companies in the Czech Republic to navigate through the new regulatory package on ESG reporting (CSRD, Taxonomy, SFDR, CSDDD) and understand their obligations under the first European Sustainability Reporting Standards (ESRS), in the context of a global shift towards transparency in ESG.

The Czech Republic, like the European Union (EU) and world financial markets, is currently experiencing a revolution of transparency similar to the one that took place 20 years ago when a unified set of accounting standards—the International Financial Reporting Standards (IFRS)—was introduced to the market. In the field of financial information, an intense international harmonising effort is already underway. These mandatory standards, which are published and continually updated by the International Accounting Standards Board (IASB), have been integrated into the regular practices of global and European listed companies, including those in the Czech Republic.

Similar to the process undertaken for financial information, progress is currently being made to integrate the reporting of sustainability-related information internationally. The IFRS Foundation has established the International Sustainability Standards Board (ISSB), responsible for delivering a global baseline of sustainability disclosures, bringing in a new way of integrating climate and other ESG matters into financial accounting.

In parallel, the EU has adopted a comprehensive framework to finance the transformation of the European economy to become sustainable and carbon-neutral by 2050. The framework for sustainable finance and corporate sustainability is underpinned by three interconnected building blocks, one of which forms the disclosure framework for sustainability-related information for both financial market participants and non-financial companies. The aim of the EU sustainability disclosure framework is to strengthen investor protection, reduce greenwashing and ensure reliable and comparable disclosures that meet the information needs of investors and other users.

To meet this aim, the European Commission has introduced the Corporate Sustainability Reporting Directive (CSRD) which sets disclosure rules—mandatory European Sustainability Reporting Standards, based on the technical advice provided by the European Financial Reporting Advisory Group (EFRAG). These European standards are aligned with the anticipated content of the reporting standards developed by the ISSB as well as key elements of the Global Reporting Initiative (GRI) Standards and international instruments and requirements of EU law.

Around 97% out of more than 1000 companies in Czech Republic falling under new legal ESG reporting framework are not prepared yet.
The implementation of new sustainability reporting obligations will affect both listed and non-listed companies in the Czech Republic with more than €20 million on their balance sheet, €40 million in turnover or 250 employees. These obligations will be phased in over time, with mandatory reporting beginning in 2025 (for the year 2024) for companies that are already reporting under the European Non-Financial Reporting Directive (NFRD). All other affected companies, including small and medium enterprises (SMEs) listed on regulated markets, will be required to comply in the following period depending on specific criteria.

However, investors and banks already need to collect sustainability information from investee companies for the year 2023 due to their own obligations, in particular under the EU Regulation on sustainability-related disclosures in the financial sector.

It is important for companies, listed and non-listed alike, to take note of these upcoming changes and begin preparations in a timely manner. This also applies to companies that are not subject to the new legal obligations, in particular non-listed SMEs. Large companies and banks will need key ESG data from all their business partners.

The Guidelines are a tool for various companies, and all those in charge of preparing, developing, overseeing, monitoring and reporting or those responsible for preparing companies for new expanded regulations that include the EU sustainability disclosure framework. These Guidelines are not a new standard, they do not replace legal obligations, nor do they introduce new indicators.

Rather the Guidelines as presented in this document aim to help companies listed on the Czech Republic stock exchange to enhance their ESG reporting practices.

Readers of the presented Guidelines may include:

- Supervisory boards,
- CEOs, CFOs and board members, i.e., those C-suite executives and board members who are typically involved in supervising the quality of presented analyses, targets and data, or planning the sustainability transition in the company,
- Directors responsible for sustainability matters, investor relations, public relations and marketing, strategy, risk, controlling and finance, environmental management/climate/energy, human resources, digital/IT and supply chain; directors responsible for communication with financial providers or contributing to the process,
- Managers responsible for ESG/sustainability strategy and reporting,
- Regulators deciding on their ambition and role in building capacity as well as supervision in the Czech Republic,
- All other stakeholders interested in sustainability strategy and reporting, trends and new regulatory frameworks.

The document provides cross-references between relevant regulatory frameworks that Czech companies need to apply and practical insights on how to design or update existing models of reporting in line with the ESRS. Readers will find additional boxes with key issues to consider as well as references to external links and documents where further information can be found.

In order to help Czech companies effectively integrate ESG considerations into their reporting, the Prague Stock Exchange (PSE) has taken steps proactively to address the challenges that unified sustainability reporting may pose for both listed and non-listed companies.
The European Union has adopted the Green Deal and continues to develop an ambitious policy and regulatory framework for sustainable finance to channel private investment into the transition to a climate-neutral, resilient and fair economy.

2 Sustainability reporting momentum

Sustainability-related risks and opportunities are quickly becoming financially material. Legislative, technological and market changes driven by climate change goals, soaring energy prices, and the physical impacts of climate change and loss of biodiversity pose major risks for companies and potential investments.

Institutional investors\(^1\) and credit institutions require equivalent, high-quality sustainability-related information to consider how sustainability matters may affect their investments, allowing them to account for key risks and impacts. Many investors find it important to inform end beneficiaries of the impact that their investments have on various issues of concern, including climate change, biodiversity degradation and respect for human rights across the value chain. Furthermore, investors and other interested stakeholders are calling for comprehensive, verifiable and material ESG data from companies that can help mitigate greenwashing risks.

Risks are matched by opportunities. Analysts predict sustainability investment may overtake conventional investment as soon as 2025.\(^2\) The European Union has adopted the Green Deal and continues to develop an ambitious policy and regulatory framework for sustainable finance to channel private investment into the transition to a climate-neutral, resilient and fair economy.

Efforts to improve the transparency of ESG information are necessary in order to:
- reap the benefits of providing consistent, decision-useful ESG information to investors,
- enable board members to make evidence-based strategic decisions,
- enable market participants to identify and manage risks and opportunities related to environmental and social impact,
- create a level playing field and help minimise the risk of greenwashing,
- create opportunities to show both the financial and sustainability value created by investments,
- improve access to finance,
- link with the most common reporting frameworks on sustainability reporting and sustainability guidance already in use by the Czech market (GRI, SASB, CDSB, IIRC, Value Reporting Foundation, UN, OECD) to make it easier for listed companies to add new elements of ESRS reporting to their existing lists of indicators, processes and strategic thinking (e.g. scenario modeling of impact on biodiversity or in relation to decarbonisation),
- assist in targeting the most urgent regional and national sustainability challenges as well as redirecting the flow of capital into green activities and investments to foster innovation and support reaching climate neutrality by 2050.

A responsible approach to the sustainability agenda and reporting can lead to improved financial performance, increased resilience to market fluctuations, and the ability to attract and retain socially responsible investors. Additionally, companies can demonstrate their compliance with the EU regulatory framework and improve their overall credibility. It is strategic for companies to weigh the benefits against the costs associated with sustainability compliance and reporting.

---

1 When referring to investors, this guidance means financial market participants as defined in Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, Article 2(1).

3 EU legislative framework

What are European Sustainability Reporting Standards (ESRS) based on?

EU Green Deal & EU Transparency on Sustainability
The CSRD and ESRS were formulated to enable the European Green Deal and aligned with other EU sustainability frameworks such as the EU Taxonomy and SFDR.

International alignment with IFRS
EFRAG and the ISSB are working together to ensure the alignment and interoperability of the ESRS and IFRS Sustainability Disclosure Standards.

Existing frameworks
EFRAG aligned its disclosure requirements with the GRI Standards and the TCFD's recommendations.

EU Green Deal & EU Transparency on Sustainability

International alignment with IFRS

Existing frameworks

CSRD/ESRS

NAVIGATION

• In this chapter, we present the regulatory framework for sustainability and sustainable finance, including the EU Taxonomy for sustainable activities, Corporate Sustainability Reporting Directive, Sustainable Finance Disclosure Regulation (which applies to the financial sector). In the future, large companies will be subject to the Corporate Sustainability Due Diligence Directive (CSDDD), and listed companies may also need to report according to the anticipated IFRS for Sustainability-related disclosures.

• Mandatory disclosures requirements applicable to all listed and large non-listed companies in the Czech Republic and in the EU as a whole.

• Understanding the interconnectedness of all elements of the sustainability reporting and sustainable finance framework will help companies to develop existing reporting practices further towards full compliance. The full package sets clear, cohesive expectations for the quality of ESG strategic management within the entity and its value chain, decarbonisation, risk management and business conduct.
3.1. The EU Green Deal & reporting requirements

The EU framework for corporate sustainability transparency and sustainable finance is underpinned by three interconnected building blocks:

1. A disclosure framework for sustainability-related information for both financial market participants and non-financial companies, credit institutions and insurance undertakings provided under the Corporate Sustainability Reporting Directive (CSRD), which aims to strengthen investor protection, reduce greenwashing, and ensure reliable and comparable disclosures that meet the information needs of investors and other users.

Furthermore, EU legislators are discussing a proposal for a new Corporate Sustainability Due Diligence Directive (CSDDD), which would complement the disclosure rules with mandatory requirements for the largest corporations to address severe impacts on people and the planet across their value chain.

2. A classification system, or ‘taxonomy’, of sustainable activities, which aims to facilitate sustainable investment by providing a common definition of environmentally sustainable activities across the economy.

3. Standards and tools to develop sustainable investment solutions which further support the framework, including the EU Climate Benchmarks Regulation and the proposed standard for European green bonds, as well as criteria and transparency requirements for sustainable financial products in the Sustainable Finance Disclosure Regulation (SFDR).

In addition, the EU incentives and increasingly require large financial institutions, in particular banks, to consider sustainability risks. In 2022, the European Banking Authority (EBA) published binding standards on Pillar 3 disclosures on ESG risks. EU policy makers are considering integrating ESG factors into the prudential regulations.

Legislative package regarding the integration of sustainability factors

Proposes measures to foster sustainable investment and corporate sustainability practices by providing a framework for the integration of sustainability factors into financial market practices and corporate sustainability strategies. The package aims to enhance transparency and comparability of sustainability-related information provided by financial market participants, including investment firms and other non-financial entities.

- Introduces mandatory sustainability disclosure requirements for financial market participants, including investment firms and other non-financial entities.
- Establishes a classification system (‘taxonomy’) of sustainability activities, which aims to facilitate sustainable investment by providing a common definition of environmentally sustainable activities across the economy.
- Requires firms to disclose their sustainability-related risks and opportunities, as well as their strategies and targets for integrating sustainability considerations into their decision-making processes.
- Introduces new reporting requirements for credit institutions and investment firms, including mandatory sustainability due diligence assessments.

Preferences regarding sustainability investments:

- Customers are to provide their preferences based on ESG and impact criteria.
- Only products that meet these preferences can be offered.

SPDR (Sustainable Finance Disclosure Regulation):

Applies to financial institutions that structure financial products (investment funds, pension funds, insurance-based investment products, etc.) and makes them subject to mandatory ESG disclosures.

Entity disclosure:

- Sustainability risk policy
- Principal Adverse Impacts
- Integration of sustainability risks in remuneration policy

Pre-contractual disclosures for products promoting environmental/social characteristics or having sustainable investment as objective:

- PKS considerations
- Asset allocation, including taxonomic alignment

Periodic disclosures for products promoting environmental/social characteristics or having sustainable investment as objective:

- PKS considerations
- OECD/IEG/UNGAP alignment
- Asset allocation
- Taxonomy
- Types of engagement to support characteristics

- Application to certain non-EU entities is envisaged

CSDDD (Corporate Sustainability Due Diligence Directive):

Applies to entities engaged in non-financial/sustainability reporting under CSRD.

- Non-financial entities:
  - Split of supervision: CSP, CSPPs, and non-aligned activities.
  - Disclosures on procedures for minimum safeguards.
- Financial entities:
  - Special disclosures for asset managers, credit institutions, investment firms and insurance firms.
- New KPIs reflecting types of businesses, including Green Asset Ratio (GAR).
- Disclosures on fulfilsment of taxonomic criteria.

Figure 1: How regulatory landscape influencing reporting in the Czech Republic looks like?

Environmental taxonomy package

CSRD (Corporate Sustainability Reporting Directive), ESRS (European Sustainability Reporting Standards)

Applies to large entities (2 of 3): average number of employees: >250 employees, EUR 40 million turnover, and >3 years from the entry into force of the Directive.

Major entities:

- Mandatory reporting based on ESRS with double materiality assessment
- Identifying taxonomic reporting
- ESRS covering data for SFDR PMS calculations
- Limited assurance at the beginning (reasonable assurance likely after 2028)

Listed SMEs:

- Mandatory reporting based on simplified ESRS
- Possibility to opt-out for initial period
- Potentially incorporating taxonomic reporting
- Simplified ESRS covering data for SFDR PMS calculations
- Limited assurance at the beginning (reasonable assurance probability after 2028)

Similarly, MiFID, UCITS and AIFMD directed acts integrate sustainability factors and risks in operational requirements and conditions for investment firms. It also requires investment firms to collect information from their clients on their preferences as regards the extent to what they want to invest in different types of sustainable investment products with reference to criteria set out in the SFDR and EU Taxonomy.

To whom and when does each regulation apply?

The main sustainability reporting requirements for companies and investors are provided in three instruments: CSRD, SFDR and to a limited extent the EU taxonomy. Table 1 provides an overview of the requirements.

Note:

1. Also provided in the SFDR.
3. Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1938, COM(2022)77 final. The rules apply to large EU companies and to non-EU companies active in the EU (the scope of which is as follows: those EU companies with more than 1000 employees and €300 million net worldwide turnover or for non-EU companies, €300 million net turnover generated in the EU). 3 years from the entry into force of the Directive.
5. On this note, the EBA in May 2022 published a Discussion Paper on the role of environmental risks in the EU Pillar 1 micro prudential framework for credit institutions and investment firms. The EBA expresses its view that the purpose of the prudential framework is to strengthen the financial resilience of credit institutions and investment firms, including by considering relevant environmental risks.
### Table 1: EU sustainability disclosure requirements for financial and non-financial companies

<table>
<thead>
<tr>
<th>Area</th>
<th>Sustainability disclosure framework for investors and companies</th>
<th>EU taxonomy for sustainable activities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Instrument</strong></td>
<td>Corporate Sustainability Reporting Directive (CSRD)</td>
<td>Regulation on the establishment of a framework to facilitate sustainable investment (EU taxonomy)</td>
</tr>
<tr>
<td><strong>Scope</strong></td>
<td>01. All companies and groups which meet 2 of the following 3 criteria: • 250 employees • £20 million balance sheet • £40 million turnover 02. All companies listed on a regulated market except micro enterprises 03. Non-EU companies with branches or subsidiaries in the EU which generate a net turnover of more than £150 million in the Union</td>
<td>01. Financial market participants 02. All companies subject to NFRD and in future CSRD 03. Issuers of green bonds (as per the proposal of the European Green Bonds Standard Regulation)</td>
</tr>
<tr>
<td><strong>Disclosure requirements</strong></td>
<td>Sustainability disclosures in specific section of the annual management report Disclosure requirements specified in the mandatory European Sustainability Reporting Standards (ESRS) - sector agnostic and sector specific Requirements for entity-specific disclosures to be developed by each company based on their specific material matters</td>
<td>Entity and product level disclosures on sustainability risks and principal adverse impacts (PAIs) Additional disclosures on any green investment products For non-financial companies: disclosure of turnover, capital and operating expenditures from products or activities associated with the taxonomy For financial companies: green asset ratio from 2023; since 2021 regulations were limited to certain information</td>
</tr>
</tbody>
</table>

### Sanctions and oversight

- **Sanctions** Limited assurance by statutory auditors or other external assurance providers if provided by the Member States. Reasonable assurance by 1 October 2028 if determined feasible by the European Commission. The general provisions of the Accounting Directive regarding public oversight, sanctions, and the collective responsibility of the members of the administrative, management and supervisory bodies apply.

- **Application** Phased entry into application: • NFRD companies - FY 2024, first reports published in 2025; • Other large companies - FY2025, reporting in 2026; • SMEs listed on a regulated market - FY 2026, reporting in 2027 (possible opt-out for 2 years); • Subsidiaries of non-EU companies - FY 2028, reporting in 2029. Applies from 10 March 2021. Delegated Regulation which specifies mandatory disclosure templates and key performance indicators (KPIs) applies from 1 January 2023. Reporting on taxonomy eligibility applies from January 2021, followed by reporting on alignment from 2023 by non-financial undertakings and from 2024 by financial undertakings. Detailed technical criteria have been adopted for climate change mitigation and adaptation. Further criteria for: • pollution prevention and control, • the sustainable use of water and marine resources, • the protection and restoration of biodiversity, and • the transition to a circular economy are expected to be adopted.

---

5 The SFDR provides the following definition: ‘financial market participant’ means: (a) an insurance undertaking which makes available an insurance-based investment product (IBIP); (b) an investment firm which provides portfolio management; (c) an institution for occupational retirement provision (IORP); (d) a manufacturer of a pension product; (e) an alternative investment fund manager (AIFM); (f) a pension personal pension product (PEPP) provider; (g) a manager of a qualifying venture capital fund registered in accordance with Article 14 of Regulation (EU) No 345/2013; (h) a manager of a qualifying social entrepreneurship fund registered in accordance with Article 15 of Regulation (EU) No 354/2013; (i) a management company of an undertaking for collective investment in transferable securities (UCITS management company); or (j) a credit institution which provides portfolio management.

6 The Regulatory Technical Standards were adopted by the European Commission on 06.04.2022. Commission Delegated Regulation (EU) 2022/288 of 6 April 2022 supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of ‘no significant harm’, specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports.

---

8 The SFDR provides the following definition: ‘financial market participant’ means: (a) an insurance undertaking which makes available an insurance-based investment product (IBIP); (b) an investment firm which provides portfolio management; (c) an institution for occupational retirement provision (IORP); (d) a manufacturer of a pension product; (e) an alternative investment fund manager (AIFM); (f) a pension personal pension product (PEPP) provider; (g) a manager of a qualifying venture capital fund registered in accordance with Article 14 of Regulation (EU) No 345/2013; (h) a manager of a qualifying social entrepreneurship fund registered in accordance with Article 15 of Regulation (EU) No 354/2013; (i) a management company of an undertaking for collective investment in transferable securities (UCITS management company); or (j) a credit institution which provides portfolio management.

---

The SFDR provides the following definition: ‘financial market participant’ means: (a) an insurance undertaking which makes available an insurance-based investment product (IBIP); (b) an investment firm which provides portfolio management; (c) an institution for occupational retirement provision (IORP); (d) a manufacturer of a pension product; (e) an alternative investment fund manager (AIFM); (f) a pension personal pension product (PEPP) provider; (g) a manager of a qualifying venture capital fund registered in accordance with Article 14 of Regulation (EU) No 345/2013; (h) a manager of a qualifying social entrepreneurship fund registered in accordance with Article 15 of Regulation (EU) No 354/2013; (i) a management company of an undertaking for collective investment in transferable securities (UCITS management company); or (j) a credit institution which provides portfolio management.
3.2. Sustainability disclosure for companies

The Corporate Sustainability Reporting Directive (CSRD) sets disclosure rules for all non-financial and financial companies that meet certain thresholds. The CSRD is supported by mandatory European Sustainability Reporting Standards (ESRS) which specify disclosure requirements and application rules.

The CSRD, which was adopted on 28 November 2022, replaces previous reporting requirements in the Accounting Directive13 introduced by the Non-Financial Reporting Directive (NFRD), and further amends the Audit Regulation,14 Audit Directive15 and Transparency Directive.

The CSRD requires large and non-listed companies, banks and insurers and large groups (including foreign groups with large branches or subsidiaries in the EU), as well as small and medium companies trading their securities on a regulated market to publish information in their annual reports regarding their impacts on sustainability matters and on their sustainability-related risks and opportunities.

The application of CSRD to these different categories of companies will be phased in between 2024 and 2028, as outlined in Figure 2.

Subsidiaries of companies which provide a consolidated report on behalf of the entire corporate group are exempted from the obligation, unless the subsidiary is listed on a regulated market. However, the consolidated report of the parent company must include data from subsidiaries and explain any specific sustainability impacts, risks and opportunities of the consolidated subsidiaries. The CSRD is expected to apply to hundreds16 of Czech companies, which will be obligated to include the information required by the CSRD and the ESRS in their own annual reporting and/or to report such information to the parent companies responsible for the preparation of the consolidated reports.

The CSRD requires companies to have their sustainability statements audited, based on limited assurance standards, and digitally ‘tag’ the disclosures to make them machine-readable and enable their entry into the European single access point (ESAP).17 The disclosure of sustainability information is subject to the same sanctions that apply to annual reporting as a whole.

The EU adopted a second interconnected sustainability disclosure framework setting disclosure rules and criteria for sustainable investment products for investors and other financial market participants. The Sustainable Finance Disclosure Regulation (SFDR) ‘regulatory technical standards’18 specify a detailed set of KPIs regarding principal adverse impacts of financial investment on ‘sustainability factors’. These KPIs are mandatory for investors with 500+ employees and applicable on a comply-or-explain basis for smaller investors. Investors also have to inform their clients of their assessment of sustainability-related financial risks linked to their products and of due-diligence policies to address the adverse impacts. The SFDR does not apply to non-financial companies directly; however, investors will request that investee companies disclose sustainability data, which they need for their own disclosure obligations.

Companies reporting in accordance with the ESRS do not need to make additional disclosures to meet investors’ information needs stemming from the SFDR.


16 Fewer if consolidation exemption is taken into account. Exempted companies will still have to provide information to their parent companies.

17 ESAP should be established by 2024 according to the Proposal for a regulation 2021/0378 (COD) of November 25, 2021.

18 Commission Delegated Regulation (EU) 2021/1288 of 6 April 2022 supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principles of ‘no significant harm’, specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports.
3.2.1. The EU Taxonomy for Sustainable Activities

The EU taxonomy\(^\text{1}\) is a robust system of classification and standardisation of activities that aims to unify the criteria for determining whether an economic activity is environmentally sustainable. It enables to determine eligibility for sustainable finance. Taxonomy aims to protect private investors from greenwashing, help companies become more climate-friendly, mitigate market fragmentation and help shift investments to where they are most needed. The Taxonomy Regulation establishes six environmental objectives related to the protection and restoration of biodiversity and ecosystems. The transition to a circular economy, protection of water and marine resources, adaptation, the sustainable use and management of forests and other ecosystems, mitigation and adaptation to climate change, and the protection of the marine environment in all its aspects.

Companies that are undertaking activities under the scope of the EU Taxonomy are required to disclose whether their activities are associated with the taxonomy’s objectives and provide information on how and to what extent their activities are aligned with these objectives. The transition to a circular economy will help companies become more climate-friendly, mitigate market fragmentation and help shift investments to where they are most needed.

The taxonomy may support companies in materiality assessment to illustrate their environmental impacts (impact materiality), and how those matters affect a company’s performance, risk, financial, development and position (financial materiality).

Financial undertakings must disclose:
- their proportion in total assets of exposures to taxonomy aligned activities.

See Chapter: 4.5.4 Metrics and targets: Climate change, “Tips – Taxonomy indicators”

4.4.2 Sustainability and diligence and minimum safeguards assessment

The criteria for EU Green Bonds and those set in the Sustainable Finance Disclosure Regulation for financial products that are marketed as either promoting sustainability characteristics (“light green”) or having sustainability objectives (“dark green”) require alignment or at least transparency on alignment of the investments with the taxonomy. Companies will find it easier to access sustainable finance if they are able to show alignment with the taxonomy.

TIPS

- The ESRS specify the location of the disclosures required by the Taxonomy Regulation. Additional technical details are provided in specific Delegated Acts to the Taxonomy, as referenced in the ESRS.
- The taxonomy may support companies in materiality assessment to illustrate their environmental impacts (impact materiality), and how those matters affect a company’s performance, risk, financial, development and position (financial materiality).
- Minimum safeguards defined by the taxonomy require from companies management processes focused on human rights due diligence, which are presented in OECD Guidelines for Multinational Enterprises and United Nations Guiding Principles for Business and Human Rights, but also covered more broadly by draft ESRS 1. The forthcoming CSDD will introduce rules for the sustainable due diligence process in the value chain. Following these regulations step-by-step helps companies eventually evolve their business conduct and ensure safe investment for capital providers.

4.5.4 Metrics and targets: Climate change, “Tips – Taxonomy indicators”

4.4.2 Sustainability and diligence and minimum safeguards assessment

The criteria for EU Green Bonds and those set in the Sustainable Finance Disclosure Regulation for financial products that are marketed as either promoting sustainability characteristics (“light green”) or having sustainability objectives (“dark green”) require alignment or at least transparency on alignment of the investments with the taxonomy. Companies will find it easier to access sustainable finance if they are able to show alignment with the taxonomy.

TIPS

- The ESRS specify the location of the disclosures required by the Taxonomy Regulation. Additional technical details are provided in specific Delegated Acts to the Taxonomy, as referenced in the ESRS.
- The taxonomy may support companies in materiality assessment to illustrate their environmental impacts (impact materiality), and how those matters affect a company’s performance, risk, financial, development and position (financial materiality).
- Minimum safeguards defined by the taxonomy require from companies management processes focused on human rights due diligence, which are presented in OECD Guidelines for Multinational Enterprises and United Nations Guiding Principles for Business and Human Rights, but also covered more broadly by draft ESRS 1. The forthcoming CSDD will introduce rules for the sustainable due diligence process in the value chain. Following these regulations step-by-step helps companies eventually evolve their business conduct and ensure safe investment for capital providers.

3.2.2. Tools for sustainable investment

The two main EU tools aiming to facilitate the development of sustainable investment solutions are the EU Climate Transition Benchmarks Regulation\(^\text{2}\) and the proposed European Green Bonds Regulation.\(^\text{3}\) The Sustainable Finance Disclosure Regulation (SfDR) complements these tools by providing a classification of sustainable financial products.

The EU Climate Transition Benchmarks Regulation requires all benchmark disclosures to specify how their methodologies reflect ESG factors, and creates two new labels for climate-related benchmarks:
- The EU climate transition benchmark, which sets the resulting benchmark portfolio on a decarbonisation trajectory;
- The EU Paris-aligned benchmark, which brings the resulting benchmark portfolio’s carbon emissions in line with the Paris Agreement target to limit the global temperature rise to 1.5°C compared to pre-industrial levels.

According to the European Green Bond Standard proposal, the funds raised by a bond marketed as a “European green bond” should be fully allocated to projects that are aligned with the taxonomy. Other bonds marketed as environmentally sustainable will have to declare the level of alignment of the use of proceeds with taxonomy activities.

The Sustainable Finance Disclosure Regulation, in addition to specifying sustainability disclosure obligations of financial market participants, defines two categories of sustainable financial products:
- Products that promote environmental and social characteristics, among others.
- Products that have sustainable investment as their objective.

For both types, the Regulation prescribes precontractual disclosures as well as requirements which need to be disclosed on websites and in periodic reporting, including on how the characteristics and objectives, respectively, have been met. The main difference between the two types of sustainable products is that those that have sustainable investment as their objectives must focus on investments in economic activities that contribute to specific environmental or social objectives that correspond to EU policies and goals and that such investments must not significantly harm any of the other objectives.


\(^\text{3}\) Until the new Corporate Sustainability Reporting Directive becomes applicable, this obligation concerns the undertakings subject to Art 19a or 29a of the Non-Financial Reporting Directive (Directive 2014/95 of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups). EUR-Lex: 52019R0189 - EN - EUR-Lex (europa.eu)


3.2.3. Proposal for a Corporate Sustainability Due Diligence Directive (CSDDDD)

On 23 February 2022, the European Commission published the proposal for EU-wide rules for mandatory corporate sustainability due diligence.24 If adopted as proposed by the Commission, the legislation will oblige the largest EU companies (approximately 13,000 firms)25 and non-EU companies operating in the EU (approximately 4,000 firms) to address adverse impacts across the value chain on:
- human rights, including workers’ rights;
- health;
- climate;
- environment.

The rules will be mandatory for companies with >500 employees and a net turnover of over €40 million worldwide by means of national transposition laws two years after the CSDDDD enters into force. Additionally, after two more years, it will also become mandatory for companies with >250 employees and a net turnover of over €40 million worldwide from sectors where a high risk of human rights violations or harm to the environment has been identified (e.g. in agriculture, textiles or minerals).

In addition, the new proposal requires companies to adopt a plan to ensure that their business strategy is compatible with limiting global warming to 1.5°C, in line with the Paris Agreement. The CSDDDD will rely on the CSRd for public reporting on the implementation of the CSDDDD obligations related to identifying and reporting on adverse impacts and their management by adopting appropriate actions and tracking their effectiveness.

Furthermore, the CSDDDD is conceptually connected with the Taxonomy Regulation, which stipulates that sustainable activities must be supported by minimum social safeguards in line with the international standards on sustainability due diligence, and with the SFDR, which requires large investors to develop and disclose their due diligence policies to manage principal adverse impacts. In this regard, the CSDDDD will indirectly help clarify what is expected of companies and investors when implementing these due diligence obligations.

Member States could impose fines on companies or issue orders requiring companies to comply with the due diligence obligation. Victims of harm which could have been prevented or mitigated may bring a civil liability claim before the competent national courts.

3.3. Frameworks in use and international alignment

The ESRS integrate GRI indicators to the extent they are applicable to all sectors and intend to integrate sectoral GRI indicators in future sector-specific standards. The ESRS also incorporate the basic concept of impact materiality assessment from GRI. GRI standards include useful additional guidance, which can further assist companies.

The ESRS integrate the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)26 and supportive guidelines.27 The ESRS are aligned with the anticipated IFRS standards on sustainability-related financial disclosures, which are developed by the International Sustainability Standards Board under the IFRS Foundation. The financial materiality assessment in the ESRS double materiality concept follows the investor materiality assessment of IFRS. The architecture of the ESRS mirrors the IFRS (and TCFD) architecture. The ESRS integrate all of the proposed IFRS disclosures and principles, subject to specifications to ensure alignment with requirements stemming from EU legislation. Large listed companies can consult the IFRS standards to ensure that they present sustainability information in a format that allows international investors to easily locate the information required by the IFRS standards.

25 Except when value chain data are needed to enable users to comply with the requirements of other pieces of EU legislation.
Introduction

4 Detailed overview of the new European Sustainability Reporting Standards (ESRS)

To meet the CSRD requirements, companies must apply the European Sustainability Reporting Standards (ESRS), which the European Commission will gradually adopt and expand in the form of delegated acts supplementing the CSRD.

The sector-agnostic ESRS consist of 84 disclosure requirements that specify 1144 datapoints. Companies will always have to report on 398 of these datapoints, whilst the rest are applicable if material. Though this number may appear overwhelming, the datapoints concern granular quantitative and qualitative aspects of disclosure requirements that help companies define the content and ensure comparability.

Datapoints and required categories of information may refer to any of the following:

- Description of management structure.
- Description of the company’s market position, its sector and or exposure to specified high-risk activities such as fossil fuels, and business model and value chain.
- Approach and data inputs for the assessment of impacts, risks and opportunities and their results.
- KPI presenting value (financial, such as effects of plans on cash flows, or ESG such as emissions) or estimation e.g. spend-based scope 3 emissions.
- Models of future trends, e.g. biodiversity or climate change scenarios and their impact on the operations.

The nature and level of detail of datapoints varies according with the subject matter of the disclosure.

The sector-agnostic ESRS consist of 84 disclosure requirements that specify 1144 datapoints. Companies will always have to report on 398 of these datapoints, whilst the rest are applicable if material. Though this number may appear overwhelming, the datapoints concern granular quantitative and qualitative aspects of disclosure requirements that help companies define the content and ensure comparability.

Datapoints and required categories of information may refer to any of the following:

- Description of management structure.
- Description of the company’s market position, its sector and or exposure to specified high-risk activities such as fossil fuels, and business model and value chain.
- Approach and data inputs for the assessment of impacts, risks and opportunities and their results.
- KPI presenting value (financial, such as effects of plans on cash flows, or ESG such as emissions) or estimation e.g. spend-based scope 3 emissions.
- Models of future trends, e.g. biodiversity or climate change scenarios and their impact on the operations.

The nature and level of detail of datapoints varies according with the subject matter of the disclosure.

---

29 https://www.efrag.org/About/Facts
30 As of January 2023
4.1. The ESRS architecture and how to navigate it

The CSRD and ESRS establish the sustainability information that undertakings are required to include in their sustainability statements. Entities are required to provide qualitative, quantitative, forward-looking and retrospective information related to their impacts, including the value chain, covering short-, medium- and long-term time horizons. The reported information should enable readers to understand how sustainability-related issues may affect the entity’s development, performance, position and financial capital (financial risks and opportunities). The information provided is subject to the application of double materiality in relation to environmental, social, and governance matters.

More information:

4.4.1. Double materiality assessment as the basis for sustainability disclosures

5.5. Materiality assessment

The disclosure requirements are organised in cross-cutting (or “general”) standards and topical standards, which address a number of sustainability matters in three overarching reporting areas:

- Environment (ESRS E)
- Social (ESRS S)
- Governance (ESRS G)

Each is divided into specific topics. Sustainability reporting based on the ESRS consists of three layers:

- sector-agnostic (mandatory cross-cutting disclosures (ESRS1 and ESRS2) and topical disclosures (ESRS E1-E5, ESRS S1-S4, ESRS G1) – applicable to all companies under CSRD regardless of their sector of activity)
- entity-specific (additional disclosures determined by the company to provide material information in relation to an entity’s unique business context, impacts and risks)
- sector-specific (additional disclosures provided by the EU32 – addressing relevant sustainability risks, impacts and opportunities, metrics and targets)

EFRRG has approved and presented to the European Commission drafts of the 12 sector-agnostic standards:

- ESRS 1 General requirements
- ESRS 2 General disclosures
- ESRS E1 Climate change
- ESRS E2 Pollution
- ESRS E3 Water and marine resources
- ESRS E4 Biodiversity and ecosystems
- ESRS E5 Resource use and circular economy
- ESRS S1 Own workforce
- ESRS S2 Workers in the value chain
- ESRS S3 Affected communities
- ESRS S4 Consumers and end-users
- ESRS G1 Business conduct

The CSRD and the first set of ESRS, which includes a full set of sector-agnostic standards, will be mandatory from the financial year 2024 with the report issued in 2025. It will be followed by multiple sets of sector-specific standards for 41 identified sectors.33 The sector-specific standards are expected to set sector-specific requirements and provide additional disclosures related to the determination of material impacts, risks and opportunities, metrics and targets.

The European Commission plans to adopt a simplified standard for SMEs listed on regulated markets. The Commission will adopt a standard for reasonable assurance in 2028. It will also adopt a standard for reporting by non-EU corporate groups.

How are the ESRS relevant for SMEs listed on regulated markets?

The ESRS aim to standardise key sustainability information needs for the market as a whole.

SMEs—regardless of whether they are directly subject to the CSRD—can use the ESRS to prepare sustainability data that their larger business partners and banks will need from them.

In this regard, SMEs should pay particular attention to the indicators in the Metrics section.41 See Chapter 4.5.4 Metrics and targets.

Furthermore, from 2026,33 the CSRD will apply directly to SMEs trading their securities on a regulated market in the EU (except micro-enterprises). The European Commission will adopt a special standard which will be mandatory for these SMEs. The standard will be aligned in structure and content with the main ESRS presented below, but it will provide more flexibility based on the simplified requirements.

The SME standard will include a set of key indicators and metrics similar to the main ESRS. This is because the ESRS metrics are based on the indicators provided in the SFDR for financial market participants, who will need the corresponding information from all their investee companies.

The CSRD allows SMEs to limit their disclosures to the following areas:

- a brief description of the undertaking’s business model and strategy;
- a description of the undertaking’s policies in relation to sustainability matters;
- the principal actual or potential adverse impacts of the undertaking on sustainability matters, and any actions taken to identify, monitor, prevent, mitigate or remedy such actual or potential adverse impacts;
- the principal risks to the undertaking related to sustainability matters and how the undertaking manages those risks;
- key indicators necessary for the disclosures in the material areas.

Figure 3: Overview of the scope of disclosure and the ESRS architecture
How and what should the company report?

Our guidance on key questions addressed by the ESRS

4.2. Key rules to ensure quality of the content and data

The ESRS respond to increasing demands of analysts and capital market participants, and it is important for issuers to respond to these information needs accordingly. Decision-useful ESG disclosure has several key characteristics. It should be relevant, useful, comparable, verifiable and understandable.

**TIPS**

- The ESRS emphasise the importance of reliability, risk awareness and the implementation of strategic ambitions. ESRS includes new characteristics of investor-oriented ESG reporting compared to existing market guidelines like GRI standards and the NFRD. It values the concise and cohesive presentation of strategic management for each material area (measures, risk assessment, strategic targets, actions, policies and governance).

### Key rules for ensuring the quality of the content and data

#### Feature

<table>
<thead>
<tr>
<th>Requirements</th>
<th>Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RELEVANT</strong></td>
<td>Sustainability information is relevant when it:</td>
</tr>
<tr>
<td>- may make a difference in the decisions of stakeholders (to invest, to become an employee, to create business relations, etc.)</td>
<td></td>
</tr>
<tr>
<td>- has confirmatory value</td>
<td></td>
</tr>
<tr>
<td>- has predictive value</td>
<td></td>
</tr>
<tr>
<td>- may be used in further analysis and forecasting</td>
<td></td>
</tr>
</tbody>
</table>
| **FAITHFUL REPRESENTATION = USEFUL** | Sustainability information is neutral when it:
| - material: it refers to negative and positive material impacts from both a sustainability and a financial perspective. | |
| - balanced: the entity presents both favourable/positive and unfavourable/negative aspects of its impacts, position and performance without bias. It presents not only successes, but also challenges. | |
| - reliable: not slanted, weighted, emphasised, or de-emphasised to make it more likely that the users will receive the information favourably or unfavourably. | |
| - oriented towards real implementation - the entity presents not only commitments, aspirations, plans and goals, but also factors that could prevent them from achieving them. | New |
| - prudent: opportunities are not overstated, risks are not understated and vice versa. | |

#### How to ensure the quality of the content and data reported?

**KEY RULES**

- Relevance
- Faithful representation
- Verifiability
- Comparability
- Understandability

**TIPS**

- The ESRS emphasise the importance of reliability, risk awareness and the implementation of strategic ambitions. ESRS includes new characteristics of investor-oriented ESG reporting compared to existing market guidelines like GRI standards and the NFRD. It values the concise and cohesive presentation of strategic management for each material area (measures, risk assessment, strategic targets, actions, policies and governance).

#### How to ensure the quality of the structure and selection of indicators?

**KEY RULES**

- Basic list of mandatory disclosures and data points for:
  - All companies regardless of materiality assessment
  - Companies with >250 or more employees only
- List of additional disclosures and data points that companies may add depending on their materiality assessment or their own selection.

**TIPS**

- The ESRS emphasise the importance of reliability, risk awareness and the implementation of strategic ambitions. ESRS includes new characteristics of investor-oriented ESG reporting compared to existing market guidelines like GRI standards and the NFRD. It values the concise and cohesive presentation of strategic management for each material area (measures, risk assessment, strategic targets, actions, policies and governance).

#### How to ensure quality of the process?

**KEY ELEMENTS OF THE PROCESS**

- Double materiality assessment (range of the value chain)
- Sustainable due diligence
- Assurance

**TIPS**

- The ESRS emphasise the importance of reliability, risk awareness and the implementation of strategic ambitions. ESRS includes new characteristics of investor-oriented ESG reporting compared to existing market guidelines like GRI standards and the NFRD. It values the concise and cohesive presentation of strategic management for each material area (measures, risk assessment, strategic targets, actions, policies and governance).

#### How to ensure necessary degree of reporting on the quality of sustainability strategy and management processes within material topics?

**KEY ELEMENTS TO DEEP DIVE**

- Governance
- Strategic goals
- Future outlook
- Risk management
- Financial implications
- Metrics

**TIPS**

- The ESRS emphasise the importance of reliability, risk awareness and the implementation of strategic ambitions. ESRS includes new characteristics of investor-oriented ESG reporting compared to existing market guidelines like GRI standards and the NFRD. It values the concise and cohesive presentation of strategic management for each material area (measures, risk assessment, strategic targets, actions, policies and governance).

#### How to ensure compliance with technical requirements?

**KEY REQUIREMENTS**

- Time horizons
- Links, interconnections

**TIPS**

- The ESRS emphasise the importance of reliability, risk awareness and the implementation of strategic ambitions. ESRS includes new characteristics of investor-oriented ESG reporting compared to existing market guidelines like GRI standards and the NFRD. It values the concise and cohesive presentation of strategic management for each material area (measures, risk assessment, strategic targets, actions, policies and governance).
### Feature Requirements

**COMPLETE**

Sustainability information is complete when it:
- presents the full spectrum of management quality within the main material areas—where the negative and positive impacts of the entity are, what the associated risk or opportunity is and if the company addresses this context in a complete way—through strategy (business, sustainability or integrated), governance, risk management, metrics to measure performance and whether strategic targets or goals are reached.

**FREE FROM ERROR**

Sustainability information is accurate and free of error or misstatement when:
- areas of uncertainty are openly reported.
- the entity presents limitations of data quality, availability and methods of calculation (e.g. possible limitations of estimation).
- the entity presents implemented internal and external controls to ensure certainty of reported data.

**COMPARABLE**

Sustainability information is comparable when it can be compared with information provided:
- in previous reporting periods (approaches or methods of reporting must be consistent from period to period, changes must be reported and referral data adjusted).
- by peers.
- in benchmarks and ratings.

**VERIFIABLE**

Verifiability helps give users confidence that information is complete, neutral and accurate.
External assurance of reported data helps increase its credibility, allowing for more effective integration by investors.

**UNDERSTANDABLE = CLEAR**

Sustainability information is understandable when:
- any user readily comprehends the information being communicated.
- it is communicated in clear language, avoiding:
  - generic "boilerplate" information
  - unnecessary duplication of information (including information provided in financial statements)
- it is provided in well-structured sentences and paragraphs.
- it is provided with a focus only on material information. Complementary information should be provided in a way that avoids obscuring material information.

Clarity might be enhanced by distinguishing information about developments in the reporting period from “standing” information that remains relatively unchanged from one period to the next. For example, this can be done by describing features of the undertaking’s sustainability-related governance and risk management processes that have changed since the previous reporting period separately from those that remain unchanged.
4.3. Mandatory disclosures

Some ESRS disclosures are always mandatory irrespective of the outcomes of the company’s materiality assessment. They are:

- All information covered in ESRS 2 General disclosures (named as cross-cutting)
- All information covered in ESRS E1 Climate change
- Information on policies, actions and targets as outlined in ESRS S1 Own workforce if the company has 250 or more employees (S1-1 up to S1-9)
- Specific data points across other topical standards that are required by SFDR and other EU law are presented in Appendix C to ESRS 2

The map of data requirements outlined in this chapter presents an overview of ESRS standards, with a special focus on its alignment with the minimum list of SFDR PAI indicators, as the mandatory obligations which may influence listed companies preparing for new obligations which may influence SFDR PAI indicators, as the mandatory.

In their general disclosures pursuant to ESRS 2, the companies should reflect all material sustainability matters, taking into account guidance in both cross-cutting and topical standards. The general disclosures should be provided in a cross-cutting section of the sustainability statement, except for disclosures on policies and actions as well as metrics and targets, which companies should include in topical sections in accordance with the disclosure requirements in the topical standards.

**Topical standards**

Topical standards provide disclosure requirements for specific environmental, social, and governance matters, organized in the reporting areas set out in the cross-cutting standards.

**Cross-cutting standards**

Cross-cutting standards provide sector-agnostic general requirements that are mandatory for all undertakings to which the CSRD applies regardless of the results of their materiality assessment. See Double materiality principle.

ESRS 1 provides general requirements and principles applicable to all ESRS, but it does not include any specific disclosure requirements. The cross-cutting disclosure requirements are provided in ESRS 2.

The map of data requirements outlined in this chapter presents an overview of ESRS standards, with a special focus on its alignment with the minimum list of SFDR PAI indicators, as the mandatory obligations which may influence listed companies preparing for new obligations which may influence SFDR PAI indicators, as the mandatory.
ESRS 2 – General Disclosures
CSRD and ESRS: requirements to anticipate from the standard

Mandatory for all falling under CSRD

Basis for preparation
BP-1: General basis for preparation of the sustainability statements
BP-2: Disclosures in relation to specific circumstances

Governance
GOV1: The role of the administrative, management and supervisory bodies
GOV2: Information provided to and sustainability matters addressed by the undertaking’s administrative, management and supervisory bodies
GOV3: Integration of sustainability strategies and performance in incentive schemes
GOV4: Statement on sustainability
GOV5: Risk management and internal controls
SDR: Over sustainability reporting

SDR reference (PAI)
- Gender diversity of the board (GOV1)

Strategy
SBM1: Market position, strategy, business model(s), and value chains
SBM2: Interests and views of stakeholders
SBM3: Material impacts, risks, and opportunities and their interaction with strategy and business model(s)

Cross-cutting requirements to ESRS 1
- Intellectual property, know-how or results of innovation

SDR reference (PAI)
- Information if company is active in fossil fuel sector through operating model, information if company is active in chemicals production, Exposure to controversial weapons, Activities negatively affecting biodiversity – risks and sensitive areas (SBM 1)
- Operations, geographies or commodities at significant risk of incidents of forced, compulsory or child labour (SBM 3)

IRO management
IRO1: Description of processes to identify and assess material impacts, risks and opportunities
IRO2: Disclosure Requirements in ESRS covered by the undertaking’s sustainability statements

Disclosure on the materiality assessment process
DC: M: Metrics in relation to material sustainability matters
DC1: Tracking effectiveness of policies and actions through targets (sustainability strategy goals, ESG performance – covering all material topics)

Cross-cutting requirements on policies and actions
DC1: Policies adopted to manage material sustainability matters
DC2: Actions and resources in relation to material sustainability matters

Other references:
- GRI

ESRS E1 – Climate change
CSRD and ESRS: requirements to anticipate from the standard

Mandatory for all falling under CSRD

General requirements
E1-1: Transition plan for climate change mitigation
- DR related to ESRS 2 GOV1: The role of the administrative, management and supervisory bodies (AM & SB) in decarbonization, climate change adaptation and mitigation
- DR related to ESRS 2 SBM 3: Climate resilience of strategy and business model
- DR related to ESRS 2 GOV3: Integration of climate change strategies and performance in incentive schemes

Cross-cutting requirements
- DR related to ESRS 2 IRO1: Cross-cutting requirements on target setting and assessment processes to identify and assess material climate-related risks, impacts, and opportunities
- DR related to ESRS 2 SBM 3: Climate-related impacts, risks, and opportunities

Cross-cutting requirements on targets
- CER1: Tracking effectiveness of policies and actions through targets
- CER2: Energy consumption reduction targets
- CER3: Emission reduction targets
- CER4: Energy consumption and mix (inc intensity)
- CER5: Cross-cutting requirements on targets
- CER6: Cross-cutting requirements on targets
- CER7: Cross-cutting requirements on targets
- CER8: Cross-cutting requirements on targets
- CER9: Cross-cutting requirements on targets

Cross-cutting requirements on targets
- CER1: Tracking effectiveness of policies and actions through targets
- CER2: Energy consumption reduction targets
- CER3: Emission reduction targets
- CER4: Energy consumption and mix (inc intensity)
- CER5: Cross-cutting requirements on targets
- CER6: Cross-cutting requirements on targets
- CER7: Cross-cutting requirements on targets
- CER8: Cross-cutting requirements on targets
- CER9: Cross-cutting requirements on targets

Other references:
- Taxonomy
- TCFD
- IFRS (SB)
- GRI

Mandatory Disclosure requirement
## CSRD and ESRS: Requirements to Anticipate from the Standard

### E3-1: Policies related to pollution

- **E3-1**: Policies related to pollution
- **E3-2**: Pollution-related impacts, risks, and opportunities

### E3-2: Pollution-related impacts, risks, and opportunities

- **E3-2**: Pollution-related impacts, risks, and opportunities

### E3-3: Targets related to pollution

- **E3-3**: Targets related to pollution

### E3-4: Substances of concern and substances of very high concern

- **E3-4**: Substances of concern and substances of very high concern

### E3-5: Potential financial effects from pollution-related impacts, risks, and opportunities

- **E3-5**: Potential financial effects from pollution-related impacts, risks, and opportunities

### Cross-cutting Requirements

#### E3-6: Tracking effectiveness of policies and actions through targets

- **E3-6**: Tracking effectiveness of policies and actions through targets

### Other References

- **Taxonomy**
- **GRI**
- **Mandatory Disclosure Requirement**
- **Only Some Datapoints are Mandatory**

---

## CSRD and ESRS: Requirements to Anticipate from the Standard

### E4-1: Transition plan for biodiversity and ecosystems

- **E4-1**: Transition plan for biodiversity and ecosystems

### E4-2: Policies related to biodiversity and ecosystems

- **E4-2**: Policies related to biodiversity and ecosystems

### E4-3: Objectives and targets

- **E4-3**: Objectives and targets

### E4-4: Cross-cutting requirements

- **E4-4**: Cross-cutting requirements

### E4-5: Impact metrics related to biodiversity and ecosystems change

- **E4-5**: Impact metrics related to biodiversity and ecosystems change

### E4-6: Potential financial effects from biodiversity and ecosystems-related risks and opportunities

- **E4-6**: Potential financial effects from biodiversity and ecosystems-related risks and opportunities

### Cross-cutting Requirements

#### E4-7: Tracking effectiveness of policies and actions through targets

- **E4-7**: Tracking effectiveness of policies and actions through targets

### Other References

- **Taxonomy**
- **TNFD**
- **GRI**
- **Mandatory Disclosure Requirement**
- **Only Some Datapoints are Mandatory**

---

## CSRD and ESRS: Requirements to Anticipate from the Standard

### E5-1: Policies related to resource use and circular economy

- **E5-1**: Policies related to resource use and circular economy

### E5-2: Action plans and resources related to resource use and circular economy

- **E5-2**: Action plans and resources related to resource use and circular economy

### E5-3: Targets related to resource use and circular economy

- **E5-3**: Targets related to resource use and circular economy

### E5-4: Resource inflows

- **E5-4**: Resource inflows

### E5-5: Resource outflows (products and services + waste)

- **E5-5**: Resource outflows (products and services + waste)

### E5-6: Cross-cutting requirements

- **E5-6**: Cross-cutting requirements

### Cross-cutting Requirements

#### E5-7: Tracking effectiveness of policies and actions through targets

- **E5-7**: Tracking effectiveness of policies and actions through targets

### Other References

- **Taxonomy**
- **GRI**
- **Mandatory Disclosure Requirement**
- **Only Some Datapoints are Mandatory**
### CSRD and ESRS: requirements to anticipate from the standard

<table>
<thead>
<tr>
<th>General requirements</th>
<th>IRO management</th>
<th>Metrics and Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CROSS-CUTTING REQUIREMENTS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• DR related to SBM-3: Material impacts, risks and opportunities and their interaction of impacts and the undertaking’s strategy and business model(s)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• IRO management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Metrics and Targets</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| **CROSS-CUTTING REQUIREMENTS TO SFDR** | | |
| - Information on Violations of UNGC principles and OECD guidelines | | |
| - Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises | | |

### General requirements

**Mandatory Disclosure requirement**

**Only some Datapoints are mandatory**

### CSRD and ESRS: requirements to anticipate from the standard

<table>
<thead>
<tr>
<th>General requirements</th>
<th>IRO management</th>
<th>Metrics and Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CROSS-CUTTING REQUIREMENTS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• DR related to SBM-2: Views and interests of stakeholders</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• DR related to SBM-3: Material impacts, risks and opportunities and their interaction of impacts and the undertaking’s strategy and business model(s)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| **CROSS-CUTTING REQUIREMENTS ON TARGETS** | | |
| - CCR3: Tracking effectiveness of policies and actions through targets | | |

### Other references:

- GR3

---

40
### ESRS S1 - Own workforce

CSRD and ESRS: requirements to anticipate from the standard

<table>
<thead>
<tr>
<th>General requirements</th>
<th>IRO management</th>
<th>Metrics and Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CROSS-CUTTING REQUIREMENTS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DR related to SBM-3: Material impacts, risks and opportunities and their interaction of impacts and the undertaking’s strategy and business model(s)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>MANDATORY FOR MEDIUM AND SMALL ENTITIES FAILING UNDER CSRD (250 employees+)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CUTTING REQUIREMENTS TO SFDR</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Information on Violations of UNGC principles and OECD guidelines</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CROSS-CUTTING REQUIREMENTS ON TARGETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CCR3: Tracking effectiveness of policies and actions through targets</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Other references:** GRI

---

### ESRS S1 - Own workforce

CSRD and ESRS: requirements to anticipate from the standard

<table>
<thead>
<tr>
<th>General requirements</th>
<th>IRO management</th>
<th>Metrics and Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CROSS-CUTTING REQUIREMENTS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DR related to SBM-2: Views and interests of stakeholders</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DR related to SBM-3: Material impacts, risks and opportunities and their interaction of impacts and the undertaking’s strategy and business model(s)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>MANDATORY FOR LARGE ENTITIES FAILING UNDER CSRD (250 employees+)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CUTTING REQUIREMENTS TO SFDR</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Information on Violations of UNGC principles and OECD guidelines</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CROSS-CUTTING REQUIREMENTS ON TARGETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CCR3: Tracking effectiveness of policies and actions through targets</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Other references:** GRI

---

**Mandatory Disclosure requirement**

**Only some Datapoints are mandatory**
### ERS S2 - Workers in the value chain

**CSRD and ERSs: requirements to anticipate from the standard**

<table>
<thead>
<tr>
<th>General requirements</th>
<th>IRO management</th>
<th>Metrics and Targets</th>
<th>CROSS-CUTTING REQUIREMENTS</th>
<th>S2-1: Policies related to value chain workers</th>
<th>S2-2: Processes for engaging with value chain workers about impacts</th>
<th>S2-3: Processes to remediate negative impacts and channels for value chain workers to raise concerns</th>
<th>S2-4: Taking action on material impacts on value chain workers, and approaches to mitigating material risks and pursuing material opportunities related to value chain workers, and effectiveness of those actions</th>
</tr>
</thead>
</table>

**Cross-cutting requirements to SFDR**

- Information on Violations of UNGC principles and OECD guidelines, processes of monitoring and compliance

SFDR Focus areas referring to OECD Guidelines and UN Global Compact:

- Human rights
- Workforce

**Other references:** GRI

### ERS S3 - Affected communities

**CSRD and ERSs: requirements to anticipate from the standard**

<table>
<thead>
<tr>
<th>General requirements</th>
<th>IRO management</th>
<th>Metrics and Targets</th>
<th>CROSS-CUTTING REQUIREMENTS</th>
<th>S3-1: Policies related to affected communities</th>
<th>S3-2: Processes for engaging with affected communities about impacts</th>
<th>S3-3: Processes to remediate negative impacts and channels for affected communities to raise concerns</th>
<th>S3-4: Taking action on material impacts on affected communities, and approaches to mitigating material risks and pursuing material opportunities related to affected communities, and effectiveness of those actions</th>
</tr>
</thead>
</table>

**Cross-cutting requirements to SFDR**

- Information on Violations of UNGC principles and OECD guidelines, processes of monitoring and compliance

SFDR Focus areas referring to OECD Guidelines and UN Global Compact:

- Human rights

**Other references:** GRI

---

**Appendixes**

- How to prepare a sustainability report
ESRS S4 – Consumers and end-users

CSRD and ESRS: requirements to anticipate from the standard

**MANDATORY FOR ALL FALLING UNDER CSRD**

<table>
<thead>
<tr>
<th>General requirements</th>
<th>IRO management</th>
<th>Metrics and Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>CROSS-CUTTING REQUIREMENTS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DR S4-1: Policies related to consumers and end-users</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DR S3-2: Processes for engaging with consumers and end-users about impacts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DR S3-3: Processes to remediate negative impacts and channels for consumers and end-users to raise concerns</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DR S3-4: Taking action on material impacts on consumers and end-users, and approaches to mitigating material risks and pursuing material opportunities related to consumers and end-users, and effectiveness of those actions</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**ESRS G1 – Business conduct**

CSRD and ESRS: requirements to anticipate from the standard

**MANDATORY FOR ALL FALLING UNDER CSRD**

<table>
<thead>
<tr>
<th>General requirements</th>
<th>IRO management</th>
<th>Metrics and Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>CROSS-CUTTING REQUIREMENTS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DR G1-1: Corporate culture and business conduct policies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DR G1-2: Management of relationships with suppliers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DR G1-3: Prevention and detection of corruption/bribery</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SFDR Focus areas referring to OECD guidelines and UN Global Compact:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Information on Violations of UNGC principles and OECD guidelines, processes of monitoring and compliance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Consumer interest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CROSS-CUTTING REQUIREMENT TO SFDR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SFDR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Anticorruption</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Competition</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Tax</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Science and technology</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Other references: GRI

Only some Datapoints are mandatory
Additional mandatory indicators - SFDR and investors’ information needs

Large investors—financial market participants—have a legal obligation to report on principal adverse impacts of their investment. The SFDR provides investors with detailed regulatory technical standards which include mandatory indicators for reporting such impacts. In turn, investors are required to collect the relevant data from their investee companies.

In order to address this information need, the ESRS are closely aligned with the SFDR. To comply with ESRS requirements, the company will provide data which the SFDR requires investors to collect.

01. General disclosure requirements in ESRS 2 concerning governance and strategy, which are always mandatory. The scope of ESRS requirements is broader than that of SFDR. Therefore, by complying with ESRS requirements, the company will provide data which the SFDR requires investors to collect.

02. Disclosure requirements on policies, metrics and targets that are applicable regardless of the outcome of the company’s materiality assessment. These disclosure requirements are always mandatory because their purpose is to facilitate disclosures required from investors under the SFDR.

Large investors have a legal obligation to report on principal adverse impacts and with related sustainable finance legislation, especially the EU Benchmarks Regulation. The SFDR’s principal adverse impact indicators are incorporated in:

- Environmental
- Social
- Corporate investments
- Real estate investments
- Corporate investments
- Real estate investments

4.4. How to ensure the quality of the process

4.4.1. Double materiality assessment as the basis for sustainability disclosures

ESRS require companies to disclose material information regarding their sustainability impacts, risks and opportunities, in accordance with applicable topical ESRS. In the first step, companies need to carry out a materiality assessment following the double materiality requirements in ESRS 1 and describe the process and the outcomes of the materiality assessment in the general disclosures in ESRS 2.

See Chapter 3.2.3

Figure 4: How materiality assessment determines the application of disclosure requirements

Double materiality assessment based on ESRS 1 requirements

1. Reflecting results of materiality assessment in mandatory disclosures
   - Sector-agnostic and sector-specific

2. Application of topical disclosure requirements that correspond to the identified material impacts, risks and opportunities
   - Entity-specific

In the second step, ESRS require companies to apply those topical standards (ESRS E, S, G) and the individual disclosure requirements therein which correspond to material impacts, risks and opportunities.

In the last step, companies need to complement the standardised disclosures with additional entity-specific information, where the topical standards do not provide disclosure requirements concerning the company’s material matters or where they do so in insufficient detail to enable the understanding of those matters.
Double materiality

The CSRD and ESRS require companies to identify and assess their sustainability-related material impacts, risks, and opportunities by applying the double materiality principle, which has two interrelated dimensions: impact materiality and financial materiality. In general, the starting point is the assessment of impacts, which is followed and complemented by an assessment of whether such impacts—and matters other than company’s impacts such as physical risks of climate change—may be financially material. The ESRS require companies to identify and report on matters that are material for them from either of the two perspectives or both.

The ESRS define the two dimensions of double materiality based on the following criteria:

• A sustainability matter is material from a financial perspective if it triggers or may trigger material financial effects on the undertaking’s development, including cash flows, financial position and financial performance, in the short, medium- or long-term. This is the case, in particular, when it generates or may generate risks or opportunities that significantly influence or are likely to significantly influence its future cash flows.

• 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 over the short-, medium- or long term. A material sustainability matter from an impact perspective includes impacts caused or contributed to by the undertaking and impacts which are directly linked to the undertaking’s own operations, products and services and through its business relationships. Business relationships include the undertaking’s upstream and downstream value chain and are not limited to direct contractual relationships.46

The financial materiality perspective is aligned in terms of concepts and terminology, as well as related disclosures in general (ESRS 2) and climate change (ESRS ET) disclosures, with the IFRS investor materiality assessment. It is expected to correspond to the requirements in future IFRS S1 and S2.

In line with the CSRD requirements, impact materiality is based on the sustainability due diligence concept defined in the international instruments, particularly in the UN Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidance for Responsible Business Conduct. In this way, it is conceptually aligned with the OECD and is defined in the international instruments, particularly in the UN Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidance for Responsible Business Conduct. In this way, it is conceptually aligned with the OECD and is conceptually aligned with the OECD.

Financial materiality

Matters triggering financial effects on the undertaking

Outside-in Perspective

Sustainability matters material from the financial materiality perspective

Impact materiality

Actual and potential impacts on people or the environment.

Inside-out Perspective

Sustainability matters material from the impact materiality perspective

Figure 5: Double materiality

Value chain

ESRS require companies to identify, assess and report on their material impacts, risks and opportunities across their entire value chain.

The financial materiality of a sustainability matter is not constrained to matters that are attributable to the company. Companies can be affected by changing regulatory and market expectations regarding sourcing of materials or products from supply chains, and geographies known for high-risk of negative impacts.

Similarly, a company’s assets can be exposed to increasing risks of floods, heat waves and other effects of climate change, regardless of its contribution to global greenhouse gas emissions.

Impact materiality is determined by the severity and likelihood of impacts, and not by the proximity of impacts or the company’s control over them.

In this regard, topical ESRS provide companies with guidance on how to identify and assess impacts and risks in the sub-topics they cover. The future sector-specific standards will provide additional guidance and potentially some value chain metrics.

In order to determine relevant issues and value chain information, companies may also consult available guidance applicable to their sector, activities, geographic locations and value chains.
4.4.2. Sustainability due diligence and minimum safeguards assessment

The CSRD requires undertakings to provide a description of the due diligence process implemented with regard to sustainability matters. As set out in draft ESRS 1, sustainability due diligence is the process by which companies identify, prevent, mitigate and account for material actual and potential negative impacts on the environment and people connected with their business.

These include impacts directedly caused by the undertaking and impacts to which the undertaking contributes through its activities, as well as impacts that are otherwise directly linked to the undertaking’s own operations, its products or services through its business relationships.

Large investors who report on their principal adverse impacts in line with the Taxonomy requirements also request information on sustainability due diligence from their investee companies. The ESGRs ensure transparency on the extent and quality of companies’ due diligence. These disclosures will be increasingly important in light of new regulations which will set mandatory due diligence rules, in particular the CSDDD.

Similarly, EU Taxonomy requires assessing compliance with the minimum safeguards as part of the taxonomy-alignment analysis. An economic activity can only be counted as Taxonomy-aligned if it is carried out in compliance with the minimum safeguards, which are defined in article 18 of the Taxonomy and further explained by the EU Platform on Sustainable Finance. Non-compliance with minimum safeguards is determined if one of the following criteria applies to the company:

- The company has not established adequate sustainability due diligence process, as outlined in the UN Guiding Principles for Business and Human Rights and OECD Guidelines for Multinational Enterprises.
- There are clear indications that the company does not adequately implement human rights due diligence – for example it does not take appropriate action to address identified potential and actual impacts this could be, but does not need to be confirmed by final court rulings, OECD National Contact Point cases.
- The EU Taxonomy minimum safeguards refer to the same process of sustainability due diligence as the CSRD and ESGRs, and CSDDD, which is defined in the international instruments. Sustainability due diligence is an ongoing process of identifying, assessing and preventing negative human rights and environmental impacts in companies’ own operations and business relationships, including the value chain. The main elements of human rights due diligence include:
  - Embedding a commitment to respect human rights into policies and procedures.
  - Identification and assessment of adverse impacts including through stakeholder engagement.
  - Taking actions to cease, prevent, and mitigate adverse impacts.
  - Tracking implementation effectiveness.
  - Communication on human rights impacts.
  - Remediation, including the establishment of a grievance mechanism.

Sustainability due diligence is an ongoing practice that responds to changes in an undertaking’s strategy, business model, activities, business relationships, operating, sourcing and selling contexts. ESRS 1 provides a comprehensive framework for reporting on the core elements of sustainability due diligence, which include:

<table>
<thead>
<tr>
<th>Figure 6: Sustainability Due Diligence</th>
</tr>
</thead>
</table>

- Embed responsible business conduct into policies & management systems
- Communicate how impacts are addressed
- Identify & assess adverse impacts in operations, supply chains & business relationships
- Provide for or cooperate in remediation when appropriate
- Track & communicate the effectiveness of these efforts


<table>
<thead>
<tr>
<th>Embed due diligence and responsible business conduct in governance, strategy, policies and management systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Due diligence should be embedded in the organization from the top and across all functions</td>
</tr>
<tr>
<td>• Mindsets, behaviours and practices necessary to minimise impacts on human rights and the environment should be grounded</td>
</tr>
<tr>
<td>• It is expressed in coherence of strategy with human rights and environmental commitments, allocation of responsibilities, integration in decision-making, budget allocations and oversight, and effective information flows to the senior management and the board of the company.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Engage with affected stakeholders in all steps of the due diligence (ongoing process)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Engage stakeholders to identify, address and remediate actual and potential impacts</td>
</tr>
<tr>
<td>• Provide necessary information to the stakeholders</td>
</tr>
<tr>
<td>• Listen to their views and experiences</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Identify and assess adverse impacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Identify instances where the company is, or is at risk of being, involved with negative impacts on the environment or people</td>
</tr>
<tr>
<td>• Assess the nature of those actual or potential impacts (context, causes, severity etc.)</td>
</tr>
<tr>
<td>• Assess how the company is involved with the impact and how severe it is in order to determine adverse impacts. The company can be involved with an impact by causing it, contributing to it, or being linked to it. Causation means that its actions (or omissions) on their own result in the impact. Contributing means that the company facilitates or incentivises a third party to cause an impact, or that its actions (or omissions), combined with those of others, result in the impact. Direct linkage means that, while the company does not cause or contribute to it, an impact is nevertheless directly linked to its operations, products or services through a business relationship (which may be a direct or remote relationship in the value chain). The severity of an impact is informed by how grave the harm is or would be, how widespread the harm is or would be, and how hard it is or would be to put the harm right. Any one of these factors may be sufficient to judge the impact to be severe.</td>
</tr>
</tbody>
</table>
The company can be involved with an impact by causing it, contributing to it, or being linked to it. Causing means that its actions or omissions on its own result in the impact. Contributing means that the company facilitates or incentivizes a third party to cause an impact, or that its actions (or omissions), combined with those of others, result in the impact. Direct linkage means that, while the company does not cause or contribute to it, an impact is nevertheless directly linked to its operations, products or services through a business relationship (which may be a direct or remote relationship in the value chain). In situations that appear to be limited to direct linkage, companies need to consider whether the company’s own business model, decisions or practices may play a role, even if the impact appears to be caused by a third party.

The severity of an impact is informed by how grave the harm is or would be, how widespread the harm is or would be, and how hard it is or would be to put the harm right. Any one of these factors may be sufficient to judge the impact to be severe. For potential impacts, an assessment of their likelihood is also important.

Due diligence requires that action be taken to address negative impacts that have been identified. Due diligence specifies that the nature of the appropriate action to prevent and/or mitigate an impact depends on the nature of the company’s involvement with the impact:

- If there is no contribution by the company, but the impact is directly linked to its operations, products or services, the company should first and foremost use its leverage with third parties to seek to prevent or mitigate the impact. The more complex or systemic the issue, or the more remote in an company’s value chain, the more likely that exercising leverage will require some form of collaboration with others, whether industry peers or other public, private, international or civil society organisations. It may also require forms of collective action.

- Action to verify whether negative impacts are being addressed effectively is an integral part of due diligence. Processes to track effectiveness are expected to be based on a mix of qualitative and quantitative indicators and draw on internal as well as external feedback, including from affected stakeholders. While it can be important to measure the quality or reach of an company’s activities or the outputs they produce, tracking effectiveness is focused on evaluating whether these are leading to better outcomes for stakeholders.

- Companies are expected to be prepared to communicate externally about how they address their environmental and human rights impacts, to provide some transparency and accountability to stakeholders—in particular affected stakeholders. Meaningful, ongoing stakeholder engagement can play a significant role in this element of due diligence.

Pursuant to the EU taxonomy, SFDR and EFRS, companies should disclose how and to what extent they comply with minimum safeguards and international documents referring to human and labour rights such as:

- The UN Guiding Principles on Business and Human Rights, guiding principles covering the corporate responsibility to respect human rights and human rights due diligence.
- The Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, a set of recommendations for responsible business conduct in a global context. The OECD Guidelines incorporate UN Guiding Principles and extend the human rights due diligence concept to employment and industrial relations, environment, bribery, consumer interests, science and technology, and competition and taxation.
- The eight fundamental conventions of the International Labour Organisation, legal instruments covering fundamental principles and rights at work (such as freedom of association, elimination of all forms of forced or compulsory labour, effective abolition of child labour, and the elimination of discrimination in respect of employment and occupation). The UN Guiding Principles and the OECD Guidelines also refer to these international human rights.
- The International Bill of Human Rights.

To help companies comply with the EFRS, reporting requirements from all standards (EFRS 2, EFRS E1-5, EFRS S1-4; EFRS G1) have been aggregated into clusters: governance, strategic goals, IRO management, and metrics. Requirements have been integrated across the regulation, instead of presenting each standard separately. In each cluster, the reader may find which datapoints are mandatory stemming from other EU legislation55—SFDR, Benchmarks, Pillar III, and EU Climate Law. These indicators are also of great importance for investors.

This section enables primary, high level gap assessment in line with new regulation. We advise conducting a proper health check (detailed gap analysis) and due diligence as the next steps.

The original structure of the EFRS, presenting each standard and a list of mandatory indicators, See in Chapter 4.3

---

55 Data points from topical EFRS listed in Appendix D of EFRS 2; disclosure of EFRS datapoints in accordance with EU laws and SFDR 1 chapter 3 listed in Appendix E
In this section we present practical examples and guidance on how to address this part of the regulation with a special focus on climate issues. ESRS E1 (Climate change) is interconnected with ESRS 2 (on governance, strategy, risk management, and metrics). Both ESRS E1 and ESRS 2 are mandatory for all undertakings to which the CSRD applies, regardless of materiality assessment. Analysis of the status of current reporting practice shows that those standards will pose the greatest challenge for companies. In this chapter, we present practical examples of decarbonisation transition planning and other technicalities.

The disclosures on governance are mandatory, which means that the individual data points cannot be omitted. Therefore, the current reporting practice shows that those dependencies are a challenge, as the current reporting practice shows that there are still many companies who have not integrated the requirements.

Accordingly, the ESRS require the following disclosures:

- The composition and diversity of the company’s administrative, management, and supervisory bodies and their roles and responsibilities.
- The percentage of independent board members.
- Expertise and skills they can leverage with regard to the company’s material sustainability matters.
- How the administrative, management, and supervisory bodies are informed about material impacts, risks and opportunities. How they consider them, and which specific matters they address.
- Integration of sustainability strategies in incentive schemes for the management, advisory and supervisory bodies.
- Mandatory due diligence, including an overview of the location of information in the sustainability due diligence processes, this information reflects the investor’s needs due to the SFDR requirements.
- Risk management and internal controls over sustainability reporting.

Additionally:

- A statement on sustainability due diligence, which includes an overview of the location of information about the sustainability due diligence process.

As an issuer, you should explain the relevance of ESG factors to your business model and strategy. You should make clear how your company is positioning itself to benefit from these factors or to manage and mitigate associated risks.
Based on the determination of material impacts, risks and opportunities, the ESRS require an explanation of how the material impacts, risks and opportunities interact with a company’s strategy and business model. The ESRS require companies to provide the following disclosures:

- Market position
- Business model and value chain with
- provide the following disclosures:

  - How the risks and opportunities relate to the company, where in the value chain materiality risks and opportunities are concentrated, and which of them could affect its business model, strategy, cash flows, access to finance and cost of capital
  - The effects of impacts, risks and opportunities on the company’s strategy and decision-making, including changes to the business model
  - The current and anticipated effects of risks and opportunities, reflecting the company’s investment plans, on the company’s financial position, performance, cash-flows and financial planning
  - The assessment of the resilience of the company’s strategy and business model with respect to the risks
  - The types of stakeholders affected by impacts and whether the impacts are systemic or related to particular incidents

The information needs to be sufficiently granular to enable the readers to understand the identified material impacts, risks and opportunities. The detailed information may be provided in the topical disclosures, while the cross-cutting section of the sustainability statement can focus on high-level summary.

Companies should consider listing business activities, site locations and business relationships associated with the identified impacts, risks and opportunities, and providing relevant contextual information. Based on SFDR requirements, the ESRS require companies to describe specifically:

- Activities negatively affecting biodiversity-sensitive areas, whether they have identified material negative impacts with regards to land degradation, desertification or soil sealing, and whether they or their operations affect threatened species
- Own operations at significant risk of incidents of forced or compulsory or child labour either in terms of types of operations or countries and geographic areas, as well as any geographies (at country level or other levels) or commodities for which there is a significant risk of child labour, or of forced or compulsory labour, among workers in the undertaking’s value chain
- The assessment of the resilience of the company’s strategy and business model with respect to the risks

ESRS E1 provides further specifications and requirements which companies need to disclose regarding their strategy in relation to climate change. These disclosures are also mandatory. The main specifications are as follows:

- Transition plan—or a statement that the company has not adopted one—to ensure the company’s strategy and business model are compatible with limiting global warming to 1.5°C in line with the Paris Agreement and with the objective of achieving climate neutrality by 2050, including explanations of:
  - The alignment of the company’s climate targets and action plans with the above goals, the decarbonisation levers, investment and funding of the transition plan, how the plan and the targets are
  - Whether and when it will adopt a transition plan, in the case that the company does not or not yet have a transition plan.

Targets: Companies shall specifically report on their targets—or the absence thereof—for the reduction of GHG emissions in scopes 1, 2 and 3, in five-year rolling periods and include target values for at least the years 2030 and 2050. The information shall be presented over the target period with reference to a cross-sector or sector-specific emission pathway in line with limiting global warming to 1.5°C.

How can a company develop climate mitigation targets?

The ESRS recommend using the One Earth Climate Model (OECM) and Science Based Targets initiative (SBTI) Net Zero Standard for defining reference values for targets. In this regard, the CSRD requires companies to disclose their plans for ensuring that their business model and strategy are compatible with limiting global warming to 1.5°C and other scenarios of climate change. The CSRD proposes a legal obligation for very large companies to adopt such climate transition plans. The SBTI offers practical guidance on setting emission reduction targets, including how to select the temperature goal for aligning scope 1 and scope 2 targets, how to identify the target time frame, and whether sector-specific guidance is available for the company or if the target should use a sector decarbonisation approach or other requirements. Science-based targets must cover scopes 1 and 2. For companies whose scope 3 emissions cover more than 40% of their combined scope 1, 2 and 3 emissions, targets must cover scope 3.
Figure 9: Example of practical target setting

- **tCO2eq**
- **Base year**
- **2025**
- **GHG**
- **Growth/scope**
- **Extension**
- **2025-30**
- **Activity**
  - Efficiency
  - Energy
  - Transport
  - Fuel
- **In own operations**
- **Efficiency Industrial buildings Energy**
- **• Explaining how the company uses**
- **Considering at least high emissions**
- **ESRS E1 provides further instructions on key**
- **Short-, medium- and long-term, including**
- **ESRS instruct companies that they**
- **When conducting scenario analysis, the ESRS instruct companies that they**
- **ESRS 2 IRO-1 [description of processes to**
- **In the area of IRO management, the cross-cutting ESRS include mandatory**
- **policies and actions, as well as how**
- **assess and prioritise potential and actual**
- **sustainability-related risks relative to**
- **external stakeholders how the undertakings sustainability**
- **sustainability risks and opportunities through**
- **ESRS 1**
- **ESR**
- **Impact, risk and opportunity management**

**Assessment of the resilience of the company’s strategy and business model** in relation to climate change over the short, medium- and long-term, including critical assumptions, and specification of scenarios considered for determining physical and transition risks and targets. ESRS E1 provides further instructions on key elements of these disclosures, including:

- Considering at least high emissions scenarios for physical risks and 1.5°C scenarios for identification of climate-related transition events.
- Explaining how the company uses the scenario analysis, including the specification of scenarios and their alignment with state-of-the-art science, narratives, time horizons, and endpoints used with a discussion of why it believes the range of scenarios used covers its plausible risks and uncertainties; key forces and drivers taken into consideration in each scenario and why these are relevant to the undertaking (e.g., policy assumptions, macroeconomic trends, technology assumptions and energy usage and mix); key inputs and constraints of the scenarios, including their level of detail (e.g., whether the analysis of physical climate-related risks is based on geospatial coordinates specific to the undertaking’s locations or national- or regional-level broad data).

- When conducting scenario analysis, the ESRS instruct companies that they may consider the following guidance: TCFD Technical Supplement on “The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities” (2017); TCFD “Guidance on Scenario Analysis for Non-Financial Companies”; ISO 14091:2021 “Adaptation to climate change—Guidelines on vulnerability, impacts and risk assessment”; any other recognised industry standards; and EU, national, regional and local regulations.

Please note that the above summary does not include all details of ESRS E1’s specifications of cross-cutting disclosures. The reader is advised to consult the full standard.
The information on policies should consist of a brief overview of the management approach as a whole, rather than a description or a list of internal policies or codes of conduct. Similarly, companies are expected to disclose key actions, rather than a detailed list of all actions to address the sustainability matter.

Summary of cross-cutting disclosure requirements for policies and actions:

- For policies adopted by the undertaking to manage its material sustainability-related impacts, risks and opportunities.
- The ESRS disclosures require descriptions of:
  - key contents and general objectives of the policy, the scope of the policy in terms of activities, value chain, geographies and, if relevant, affected stakeholder groups
  - the most senior level in the organisation accountable for the implementation
  - if relevant, third-party standards of conduct that the company commits to respect through the implementation of the policy, the consideration given to the interests of stakeholders in setting the policy and if and how the undertaking makes the policy available to potentially affected stakeholders and stakeholders who need to help with implementation.
- For actions and resources in relation to sustainability matters, the ESRS specify the following disclosures:
  - a list of key actions in the reporting year and those planned for the future, their expected outcome, their scope and the time horizon, including—if applicable—actions taken to provide or cooperate in the provision of a remedy for those harmed by impacts,
  - if applicable, information on the progress of the actions and action plans disclosed in previous periods and
  - where the implementation of an action plan requires significant operational expenses and/or investments, the type and amount of current and future financial resources allocated to the action plan.

If the company has not adopted relevant policies and/or actions, it can comply with ESRS requirements by disclosing this to be the case and providing the reasons and plans for future implementation. Some matters may be immaterial to companies in the Czech Republic, for example, they will not find a strong connection between their business models and the topic of sustainable oceans. Companies need to state that the matter is not material (and why) and because of this no policies nor actions are needed.

### Potential financial effects from material climate-related physical and transition risks and opportunities

#### CHALLENGE

- Understanding the financial impact of climate-related risks and opportunities requires careful planning and analysis.

#### TIPS

- For each material topic, the ESRS require companies to explain how they address the underlying impacts, risks and opportunities through policies and actions. Companies shall provide these disclosures, as well as corresponding disclosures on targets, in the topical section of the sustainability statement for each topic or cluster of topics E, S and G and subtopics identified by the company as material, and furthermore—irrespective of the materiality assessment—for:
  - **Climate change mitigation** (i.e. the management of the undertaking’s GHG emissions, GHG removals and transition risks) and **adaptation** (i.e. the management of the undertaking’s physical climate risks and climate change adaptation-related transition risks).

### ESRS 2 provides cross-cutting disclosure considerations (CCR1: Policies adopted to manage material sustainability matters. CCR2: Actions and resources in relation to material sustainability matters; applicable to the disclosure of policies and actions across all topics, which are further specified in topical standards, e.g. within climate standards E1-2 (standards, e.g. within climate standards E1-3 (Action plans and resources in relation to climate change policies) and targets. See Mandatory European Sustainability Reporting Standards

- IRO - Climate risk assessment with financial impacts
  - Environmental

Company needs to conduct and report on climate risk assessment due to taxonomy as well as ESRS E1 requirements. One of the main challenges of the market currently is to embed climate risk assessment into financial valuations.

### Potential financial effects from material climate-related physical and transition risks and opportunities

- **Environmental**
  - the monetary amount and proportion (percentage) of assets at material physical and transition risk
  - the proportion of assets at material physical and transition risk addressed by the climate change adaptation and mitigation actions, respectively
  - the locations of significant assets at material physical risk

For the disclosure of potential to pursue climate-related opportunities, the company shall consider its expected cost savings from climate change mitigation and adaptation actions as well as the potential market size or expected charges to net revenue from low-carbon products and services or adaptation solutions to which the undertaking has or may have access.

- **Economic**
  - a breakdown of the carrying value of its real estate assets by energy-efficiency classes
  - liabilities due to the transition risks that may have to be recognised in financial statements over the short-, medium- and long-term time horizons
  - the monetary amount and proportion (percentage) of net revenue from its business activities at material physical and transition risk, respectively, over the short-, medium- and long-term time horizons, including, where relevant, the net revenue from the undertaking’s customers operating in coal, oil and gas-related activities.

For the disclosure of potential to pursue climate-related opportunities, the company shall consider its expected cost savings from climate change mitigation and adaptation actions as well as the potential market size or expected charges to net revenue from low-carbon products and services or adaptation solutions to which the undertaking has or may have access.

- **Social**
  - a description or a list of internal policies or codes of conduct that the company commits to implement and that are material to the undertaking.

- **Internal codes of conduct**
  - the undertaking makes the policy available to potentially affected stakeholders and stakeholders who need to help with implementation.

- **For actions and resources in relation to sustainability matters, the ESRS** specify the following disclosures:
  - a list of key actions in the reporting year and those planned for the future, their expected outcome, their scope and the time horizon, including—if applicable—actions taken to provide or cooperate in the provision of a remedy for those harmed by impacts,
  - if applicable, information on the progress of the actions and action plans disclosed in previous periods and
  - where the implementation of an action plan requires significant operational expenses and/or investments, the type and amount of current and future financial resources allocated to the action plan.

If the company has not adopted relevant policies and/or actions, it can comply with ESRS requirements by disclosing this to be the case and providing the reasons and plans for future implementation. Some matters may be immaterial to companies in the Czech Republic, for example, they will not find a strong connection between their business models and the topic of sustainable oceans. Companies need to state that the matter is not material (and why) and because of this no policies nor actions are needed.
Companies need to assess materiality of impacts, risks and opportunities across all topics and subtopics covered by the topical ESRS. The ESRS guide companies to consider material risks and opportunities in the following categories:

- Transition risks and opportunities in own operations and upstream and downstream value chains, including:
  - Policy and legal: e.g. introduction of regulation, exposure to sanctions and litigation (e.g. negligence towards ecosystems).
  - Technology: e.g. substitution of products or services with a lower impact.
  - Market: e.g. shifting supply, demand and financing, volatility or increased costs of resources.
  - Reputation: e.g. changing societal, customer or community perceptions.

- Physical risks, such as extreme weather events, access to resources and pollution incidents.

- Opportunities, including resource efficiency, markets (diversification of business activities), access to (green) financing, resilience and reputation.

Further guidance and materials on this approach can be found in the TNFD Nature-Related Risk & Opportunity Management and Disclosure Framework.

In the Metrics and targets section, the ESRS define common cross-cutting content requirements complemented by a detailed list of specific metrics with application guidance in the topical standards. For all topics determined to be material, the cross-cutting requirements require companies to disclose:

- Whether and how the undertaking tracks the effectiveness of its actions and implementation of policies, including the metrics it uses to do so.
- The overall progress over time towards the adopted measurable time-bound outcome-oriented targets set by the undertaking.

Measurable, outcome-oriented targets should not be confused with general policy commitments or aspirations, which should be included instead in the description of policy objectives. Similarly, targets should not be mistaken for the company’s plans that are not directly related to impacts or risks, for example the training of employees or suppliers or implementation of certain processes. Disclosure of such plans belongs with the description of key actions, if material.

If companies do not comply with these requirements, they need to disclose that they have not adopted targets and what future plans they have to do so, or if other ways of tracking effectiveness and measuring progress are in place.
How can a company measure its GHG emissions broken down by scope 1, 2, and 3?

In the presentation of GHG emissions and GHG emission reduction targets, the ESRS do not allow the netting of GHG emissions and reduction targets with GHG removals and carbon credits.

For quantifying GHG emissions, the GHG Protocol provides the world’s most widely used GHG accounting standards, which classify a company’s emissions into three scopes. The ESRS, as well as ESG exposure drafts, explicitly rely on the GHG Protocol.

GHG Protocol divides scope 3 emissions into 15 categories covering both upstream emissions, e.g., from purchased goods and services, and downstream emissions, e.g., use and end-of-life of solid products, transportation of goods, travel, and financial investments.

For many undertakings, scope 3 GHG emissions are the main component of the GHG inventory and an important driver of their transition risks. The disclosure required by ESRS shall include GHG emissions from all significant scope 3 categories.

The regulation establishes a methodology for calculating and reporting on key performance indicators (KPIs) related to the EU taxonomy, which companies must provide in their reports. The ESRS recommend that companies include taxonomy disclosures alongside the environmental section of the sustainability statement. The ESRS further refer to the taxonomy disclosures on two occasions:

- Companies shall relate the information on significant monetary amounts of CapEx and OpEx required to implement their climate mitigation and adaptation actions to the taxonomy KPIs (proportion of CapEx and OpEx) and, if applicable, the CapEx plan mentioned by Commission Delegated Regulation (EU) 2021/2178.

- If applicable, companies should explain in the descriptions of their climate transition plans their objectives for aligning their economic activities (revenues) with the Taxonomy Regulation and their plans for future taxonomy alignment (revenues, CapEx and OpEx plans).

The thresholds set for sustainable activities in the Taxonomy Regulation are generally very high, and therefore companies and investors can expect that initially only a small percentage of their economic activities and investments will meet those criteria. Nevertheless, the taxonomy criteria provide a useful benchmark which economic activities should meet in the long-term horizon, in particular with a view to the EU’s objective to reach climate neutrality by 2050.

Taxonomy reporting requires cooperation between the financial controlling department, sustainability experts and business strategy unit. Companies therefore need to approach the taxonomy assessment needs from a strategic perspective. Below, we provide practical guidance for calculating the required KPIs. At the same time, we recommend that reporters consult more comprehensive guidance that is fully focused on the taxonomy requirements.
EU Taxonomy turnover = \( \frac{A}{B} \)

A

For 6 environmental objectives turnover can be counted where the economic activity meets:

- The criterion of making a substantial contribution to one or more of those environmental objectives, including by meeting the technical screening criteria;
- The criterion of not doing significant harm to any of the other environmental objectives, including by meeting the technical screening criteria; and
- The criterion of Minimum Safeguards

B

- “Net turnover” defined in Article 2(5) of the Accounting Directive as the reference point.
- Non-financial undertakings applying IFRS Standards should be required to count the amounts that are presented as “revenue” according to IAS 1 paragraph 82(a).

EU Taxonomy CapEx = \( \frac{X}{Y} \)

X

Count CapEx where the costs incurred relate to assets or processes which meet or are part of a plan to meet the criteria for environmentally sustainable economic activities under Article 3 of the Taxonomy Regulation.

- “Plan” should meet the following conditions for the capital expenditure to be eligible:
  - Make the economic activity taxonomy-aligned within a 5-year max period (unless a longer period of maximum 10 years can be justified on the basis of the features of the concerned investments);
  - Approval by the management body either directly or by delegation

Y

- Additions to tangible and intangible assets during the financial year before any remeasurements (including revaluations and impairments), depreciation and amortization charges for the year and excluding fair value changes and
- additions resulting from acquisitions through business combinations.*

EU Taxonomy OpEx

Count OpEx where the costs incurred relate to assets or processes which meet or are part of a plan to meet the criteria for environmentally sustainable economic activities under Article 3 of the Taxonomy Regulation.

In this regard, “plan” should meet the following conditions for the operational expenditure to be eligible:

- related to assets or processes associated with taxonomy-aligned economic activities;
- part of the CapEx plan to expand taxonomy-aligned economic activities or allow taxonomy-eligible economic activities to become Taxonomy-aligned within a predefined timeframe;
- related to the purchase of output from Taxonomy-aligned economic activities.

---

*Non-financial undertakings applying IFRS should define CapEx as the costs accounted for on the basis of: IAS 16 Property, Plant and Equipment paragraphs 73 (e) (i) and (iii); IAS 38 Intangible Assets paragraphs 118 (e) (i), IAS 40 Investment Property paragraphs 76 (a) and (b) (for the fair value model), IAS 40 paragraphs 79 (b) (i) and (ii) (for the cost model), IAS 41 Agriculture paragraph 50 (b) and (e), and IFRS 16 Leases paragraph 53(b).
Metrics in other ESRS standards

**Mandatory for all**

**Metrics and targets:**
- **Pollution, water and marine resources and circular economy**
- **Resource use and circular economy**

**ESRS E2**
- Pollution

**ESRS E3**
- Water and marine resources

**ESRS E5**
- Resource use and circular economy

**Mandatory sector-agnostic metrics:**
- Emissions of air pollutants
- Emissions to water
- Emissions of inorganic pollutants
- Emissions of ozone-depleting substances
- Total water consumption per net revenue
- Total water recycled and reused
- Total amount and % of non-recycled waste
- Total amount of hazardous and radioactive waste

**Sector-agnostic metrics depend on materiality assessment:**
- Microplastics generated or used by the undertaking
- Substances of concern and substances of very high concern
- Total water consumption

**Navigational guide:**

- To facilitate initial high-level gap assessment for companies, indicators are aggregated for presentation:
  - Environmental indicators - ESRS E2, E3, E4 are presented together.
  - Social - ESRS E2, E3, E4 are presented together.
  - Governance - ESRS E1.

- Elements that are new compared to existing market practice or may be challenging in the data gathering process have been highlighted, as they are worthy of attention.

- Within each area, there is a division of indicators required by the SFDR and other EU regulations.**

**Challenge:**

A key challenge is that the ESRS encourage companies whose activities are subject to the Industrial Emission Directive (IED) and relevant Best Available Techniques Reference Documents (BREFs), irrespective of whether the activity takes place within the European Union, to disclose additional information, including:

- A list of installations operated by the undertaking that fall under the IED and EU BAT conclusions;
- A list of any non-compliance incidents or enforcement actions necessary to ensure compliance in case of breaches of permit conditions;
- The actual performance, as specified in the EU BAT conclusions for industrial installations, and comparison of the undertaking’s environmental performance against “emission levels associated with the best available techniques” (associated emission levels, BAT-AEL) as described in EU-BAT conclusions;
- The actual performance of the undertaking against “environmental performance levels associated with the best available techniques” (associated environmental performance levels, BAT-APL) provided that they are applicable to the sector and installation;
- A list of any compliance schedules or derogations granted by competent authorities according to Art. 15(4) IED that are associated with the implementation of BAT-AEL.

Companies may find it challenging to report on the potential financial effects from environmental impacts, risks and opportunities (if material) such as:

- A quantification of the potential financial effects in monetary terms, or where impracticable, qualitative information, including:
  - The share of net revenue made with products and services that are or that contain substances of concern and substances of very high concern separately;
  - The operating and capital expenditures which occurred in the reporting period in conjunction with major incidents and deposits;
  - The provisions for environmental protection and remediation costs, e.g. for rehabilitating contaminated sites, recultivating landfills, removing environmental contamination at existing production or storage sites and similar measures.

- A description of the effects considered, the related impacts and the time horizons in which they are likely to materialise;
- A critical assumptions used in the estimate, as well as the sources and level of uncertainty attached to those assumptions;
- A contextual information including a description of material incidents and deposits whereby pollution had negative effects on the environment and/or had or is expected to have negative effects on the undertaking’s financial cash flows, financial position or financial performance within short-, medium- and long-term time horizons.

41 Datapoints which are mandatory stem from other EU legislation—SFDR, Benchmarks, Pillar II, and EU Climate law. Mandatory datapoints from topical ESRS are listed in Appendix D of ESRS 2; those from ESRS 1 chapter 3 are listed in Appendix E of ESRS 2.
Whether the set targets are following disclosures influencing the decision-making processes regarding Nature-related Financial Disclosures. The targets and transition plan should ensure that the company’s business model and strategy are compatible with respecting planetary boundaries, biodiversity indicators are highly dependent on the entity’s sector and individual context. Their application depends on the undertaking’s contribution to biodiversity impacts and impact drivers. Therefore, the ESRS on biodiversity and ecosystems adopt a more guidance-based approach in line with the most recent draft of the recommendations of the Taskforce on Nature-related Financial Disclosures “See ’TNFD’. The ESRS provide extensive guidance for materiality assessment and explain specific triggers for a number of biodiversity impact metrics.

- If the company directly contributes to impact drivers of the accidental or voluntary introduction of invasive alien species, the undertaking shall report relevant metrics or (if impracticable) qualitative information on the management of the issue.
- If the undertaking identifies material impacts related to the state of species and extinction risks, it should consider reporting relevant metrics concerning:
  - changes in the number of individuals of a species within a specific area
  - information on species’ global extinction risk
- If the undertaking identifies material impacts related to ecosystems, it shall consider:
  - ecosystem extent: area coverage of a particular ecosystem
  - ecosystem condition: indicators that measure multiple species
  - one or more indicators that may also reflect structural components of conditions such as habitat connectivity.

As in other areas, the ESRS require companies to assess their impacts, risks and opportunities across the entire value chain, and specifically with regard to the concrete affected stakeholder groups addressed in the respective social standards.

**Mandatory sector-agnostic metrics:**
- **Characteristics of the undertaking’s employees:** data on the company’s employees, broken down by gender and by country for countries in which they have 50 or more employees; the data should be further broken down for permanent, temporary, and non-guaranteed hours employees and for full-time and part-time employees.
- **Characteristics of the undertaking’s non-employee workers, including their total number, alongside a description of the most common types of workers and their relationship with the company.**

**Sector-agnostic metrics dependent on materiality assessment:**
- **Adaptation to climate change:**
  - the number of fatalities as a result of work-related accidents, work-related ill health and fatalities from ill health
  - the number of days lost to work-related injuries and fatalities from work-related accidents, work-related ill health and fatalities from ill health
  - Annual total compensation ratio of the highest paid individual to the median annual total compensation for all employees (excluding the highest paid individual)
  - Work-related incidents and complaints and severe cases of human rights issues and incidents
  - Gender pay gap

The ESRS provide specific sector-agnostic metrics only for a company’s own workforce. These metrics are highly aligned with GRI standards.

**TIPS**

- The extent of collective bargaining coverage and the extent to which its employees are covered in social dialogue in the EU at the establishment and European level
- Diversity indicators, including at least the gender distribution of its top management and the age distribution of its employees
- Health and safety indicators, including:
  - the percentage of own workers who are covered by the undertaking’s health and safety management system based on legal requirements and/or recognised standards or guidelines;
  - the number of fatalities as a result of work-related injuries and work-related ill health
  - the number and rate of recordable work-related injuries;
  - the number of cases of recordable work-related ill health; and
  - the number of days lost to work-related injuries and fatalities from work-related accidents, work-related ill health and fatalities from ill health

**BioDiversity anD ecosystems**

**ESRS S1**

- **Workers in the value chain**
- **Consumers and end-users**
- **S Social**

**As in other areas, the ESRS require companies to assess their impacts, risks and opportunities across the entire value chain and specifically with regard to the concrete affected stakeholder groups addressed in the respective social standards.**

**Mandatory sector-agnostic metrics:**

- **Characteristics of the undertaking’s employees:** data on the company’s employees, broken down by gender and by country for countries in which they have 50 or more employees; the data should be further broken down for permanent, temporary, and non-guaranteed hours employees and for full-time and part-time employees.

**Characteristics of the undertaking’s non-employee workers, including their total number, alongside a description of the most common types of workers and their relationship with the company.**

**Sector-agnostic metrics dependent on materiality assessment:**

- **Adaptation to climate change:**
  - the number of fatalities as a result of work-related accidents, work-related ill health and fatalities from ill health
  - the number of days lost to work-related injuries and fatalities from work-related accidents, work-related ill health and fatalities from ill health
  - Annual total compensation ratio of the highest paid individual to the median annual total compensation for all employees (excluding the highest paid individual)
  - Work-related incidents and complaints and severe cases of human rights issues and incidents
  - Gender pay gap

The ESRS provide specific sector-agnostic metrics only for a company’s own workforce. These metrics are highly aligned with GRI standards.
Relying only on a country’s GDP as the measure of advancement provides an incomplete picture of human, societal and environmental progress — all aspects of our quality of living. Relying only on company’s financial profit does not cover it’s full value – social, human, relational and intelectual, as well as natural and manufactured capital.

**TIPS**

**How can a company report on social capital, social investments and positive impact related to affected communities, consumers and workers in the value chain?**

The ESRS do not require the use of specific pre-defined indicators. However, reporting should focus more on social and relational capital created by the company (directly or indirectly) in line with the business context and areas of risk of negative impact. Companies should define quantitative KPI’s, for example:

- % reduction in health and safety incidents affecting contractors and delivery drivers
- % of affected community members whose livelihoods were restored after resettlement
- % of online services accessible to people with disabilities

To quantify positive impact and the value of investment in the community, a company may refer to other global frameworks, e.g. LBG Model (See the link) or methods of assessment used in economics (e.g. input-output using Leontief analysis).

**TIPS**

**Who are non-employee workers, according to the ESRS?**

Regulation requires companies to report detailed information on human capital considering total workforce — not only employees but also non-employee workers. Non-employee workers are either individuals with contracts with the undertaking to supply labour (“self-employed workers”) or workers provided by undertakings primarily engaged in “employment activities” (NACE Code N78). Companies may check whether data concerning non-employee workers are already gathered to the necessary degree.

**TIPS**

**How to calculate gender pay gap?**

The male-female pay gap is defined as the difference between average gross hourly earnings of male paid own employees and of female paid own employees expressed as a percentage of average gross hourly earnings of male paid own employees.

\[
\text{Gender Pay Gap} = \frac{(\text{average gross hourly earnings of male employees} - \text{average gross hourly earnings of female employees})}{\text{average gross hourly earnings of male employees}} \times 100
\]

The pay gap can might result from two groups of factors:

- Differences in actual characteristics of evaluated groups that were not captured when defining male-female comparison groups (such as differences in experience, level of education or skills and as a result difference in productivity)
- Unjustified differences that result from conscious and unconscious prejudices

In order to identify actual source of inequity, company in practice decide to conduct deeper statistics-based surveys than the ESRS recommendation. Whereas unjustified differences in salaries are clear red light for employers also the differences resulting from characteristics of groups should be analysed (e.g. while particular group of employees has lower skills, additional trainings may be needed to even the level of skills and productivity as a result).

Closing gender pay gaps is not only regulatory obligation (ESRS, SFDR) but has a proven impact on business performance, below are listed key reasons why decision makers in companies take special care about it:

- **Talents’ acquisition**: Employees, especially women, but also man, prefer employers who care about equality. Good performance in Diversity and Inclusion area gives access to a larger talent pool and improves employee welfare
- **Clients’ acquisition**: Surveys show that clients believe that a sustainable product or service is characterized by social responsibility in the production process (equal pay, employee inclusion, etc.)
- **Investors’ acquisition**: The relationship between the company and its employees is vital to investors. This is reflected in the ratings, e.g. in MSCI, S&P or Sustainalytics. Improvements in the areas of equal pay, diversity of the management team, and linking their compensation to ESG goals will translate into better performance of the firm/group in ESG ratings.
Addressing complex societal challenges requires collaboration and no company nor sector can do it alone.

The ESRS oblige companies with 250 employees and more to at minimum report on their policies, actions and targets—or the absence thereof—concerning their own workforce. Most companies will find themselves connected to material impacts in one of the aspects of their value chain covered by Workers in the value chain (ESRS S2), Affected communities (ESRS S3) and Consumers and end-users (ESRS S4) respectively, and therefore required to consider adopting and reporting on policies and actions towards those impacts as well.

All four social standards include the following specifications of cross-cutting disclosures on policies and actions:

- Statement of human rights commitments with respect to the relevant stakeholder group
- Summary of how the policy is communicated in an accessible form to the potentially affected stakeholders and—in the case of value chain-related policies—to business partners
- Processes for engaging with the affected stakeholders about actual and potential material impacts
- Processes to remediate negative impacts and channels for the affected stakeholders or their representatives to raise concerns
- Taking action on impacts and approaches to mitigating risks, including assessing the effectiveness of these actions, programmes and processes in delivering intended outcomes for affected stakeholders

Furthermore, due to the SFDR requirements, the ESRS require companies to report on the extent to which violations in relation to the UN Global Compact principles and the OECD Guidelines for Multinational Enterprises that involve workers in the value chain have been reported in its upstream and downstream value chain. These disclosure requirements are based on international norms for human rights due diligence, in particular on the UN Guiding Principles for Business and Human Rights and the OECD Guidelines for Multinational Enterprises and related OECD Responsible Business Conduct and Due Diligence guidance.

Human rights due diligence procedures are also at the core of minimum safeguards (taxonomy). In order to report minimum safeguards alignment companies need to establish adequate human rights due diligence processes, as outlined in the UNGPs and OECD Guidelines for MNEs. It is essential to realise that accordance with minimum safeguards is a requirement of alignment with the taxonomy. This means lack of adequate human rights processes in place determines lack of taxonomy aligned activities.

Companies should therefore consider these instruments when developing their policies and sustainability due diligence processes. Companies may also consult other public and private recommendations applicable to their sector and their identified material impacts, that are aligned with the above international instruments. For example, in July 2021, the European Commission published guidance on due diligence for EU businesses to address the risk of forced labour in their operations and supply chains.
**Challenges**

Companies shall disclose the role of board members and key management representatives (supervisory, management and administrative bodies) in forming a proper corporate culture, such as how they are engaged in promoting expected values and behaviours.

---

**Metrics and Targets: Governance and Business Conduct Matter**

**ESRS G1**

Governance

ESRS G1 provides for transparency in the area of business conduct with a special focus on corporate culture, ethics, prevention of corruption and relations with business partners (suppliers, SMEs, etc.). It specifies a number of metrics, most of which will be triggered by underlying material impacts, risks and opportunities.

**Mandatory sector-agnostic metrics**

- Number of convictions and the number of fines for violating anti-corruption and anti-bribery laws
- Whether the company has identified insufficiencies in actions taken to address breaches in procedures and standards of anti-corruption and anti-bribery

**Sector-agnostic metrics dependent on materiality assessment**

- **Political influence**
  - the total monetary value of financial and in-kind political contributions made directly and indirectly by the company, as well as type of recipient/beneficiary; the company may also disclose lobbying expenditures
- the main topics covered by its lobbying activities and the undertaking’s main positions on these, in brief
- information about the appointment of any member of the administrative, management and supervisory bodies or senior executives who previously held a comparable position in public administration, including regulators
- **Payment practices**
  - the average time the company takes to pay an invoice
  - description of the company’s detailed standard payment terms and % of payments aligned with those terms, broken down by significant categories of suppliers
  - number of legal proceedings for late payments
- **Corruption and bribery**
  - information on confirmed incidents of corruption or bribery during the reporting period, including their number and nature and details of public legal cases brought against the undertaking and its own workers during the reporting period and the outcomes of such cases
  - number of confirmed incidents in which own workers were dismissed or disciplined for corruption or bribery-related incidents
  - number of confirmed incidents related to contracts with business partners that were terminated or not renewed due to violations related to corruption or bribery

---

**What should companies consider when developing and disclosing the expected quality of governance?**

ESRS G1 further provides standardised data points to help companies report comparable information on their policies and processes with regard to several key governance topics. In principle (with two exceptions noted below), these disclosures are applicable if a company identifies material impacts, risks or opportunities related to such topics. However, in practice, investors and other business partners will expect companies to disclose most of the information addressed in ESRS G1 irrespective of the company’s materiality assessment. Listed companies will be expected to treat ESRS G1 as material. 

**ESRS G1** sets the following disclosure requirements concerning management (policies and processes):

**On corporate culture and business conduct**, the company should consider reporting on:

- Whether the company has a whistleblowing protection policy (mandatory disclosure due to the SFDR)
- Mechanisms for identifying, reporting and investigating concerns about unlawful behaviour, and whether they accommodate whistleblowing from internal and/or external stakeholders
- The company’s safeguards for its own workers for reporting irregularities, including whistleblowing protection and protection for workers refusing to act unethically
- A commitment to investigate business conduct incidents promptly, independently and objectively
- Whether the company has a policy on animal welfare, if applicable
- Strategy for training on business conduct within the organisation

**On prevention and detection of corruption and bribery**, the company should consider reporting on:

- Whether the company has policies on anti-corruption or anti-bribery consistent with the United Nations Convention Against Corruption (mandatory disclosure due to the SFDR)
- Its system to prevent and to detect, investigate and respond to allegations or incidents related to corruption and bribery
- How the company communicates its policies to those for whom they are relevant to ensure that the policy is accessible and that its implications are understood
- The nature, scope and depth of specific anti-corruption/anti-bribery training programmes offered or required by the undertaking

**On management of relationships with suppliers**, the company should consider reporting on:

- The company’s strategy with respect to its relationships with suppliers, in the context of the risks of the supply chain specifically and sustainability in general
- Whether and how it takes into account social and environmental criteria for selecting its supply-side contractual partners (procurement criteria)
- A description of the undertaking’s practices implemented to support vulnerable suppliers and improve their social and environmental performance
5 How to prepare a sustainability report

Sustainability reports are not only useful tools for companies to address and communicate sustainability information and manage sustainability-related risks that surround their business, they are also being demanded by investors, regulators and stakeholders.

As mentioned in the previous chapters, in the EU, the expectation for companies to report on their sustainability performance is reinforced by several key legislative frameworks, such as the Corporate Sustainability Reporting Directive (CSRD), European Sustainability Reporting Standards (ESRS), Sustainable Finance Disclosure Regulation (SFDR), EU taxonomy for sustainable activities and the proposed Directive on Corporate Sustainability Due Diligence (CSDD). See Chapter 3.

Companies should be prepared for new developments in the EU, such as the increasing integration of sustainability metrics into financial reporting and the use of digital platforms to enhance the comparability and transparency of sustainability reports.

It is important to understand how to approach the creation of a sustainability report without the process becoming overwhelming.

The time allocated for each step in the reporting roadmap (mapped in relation to the other steps) may differ. For example, data collection and content consultation are likely to be the most time-consuming parts of the process. However, this will depend on the approach, tools and timeframe applied. This chapter serves as a starting point, as well as a point of reference for a high-level assessment of the current reporting practice and readiness for CSRD/ESRS.

- This chapter aims to provide an overview of best practices for sustainability reporting, including a recommended approach of 10 steps and practical tips to help companies navigate the complexities of sustainability reporting and its transition towards CSRD/ESRS and the new regulatory package on sustainability reporting.
- Each of the 10 steps in the reporting roadmap is a subchapter which further describes its added value in the entire process as well as how to successfully approach and complete the step. Each subchapter is accompanied by common challenges and tips to help avoid or address them.
The seventh step, "Data collection," is ongoing throughout the whole reporting period. In the simplified reporting roadmap, this part represents only the data aggregation and consolidation process.

### Table 2: Overview and content of the sustainability reporting roadmap

<table>
<thead>
<tr>
<th>REPORTING PHASE</th>
<th>10 REPORTING STEPS</th>
<th>OVERVIEW OF STEP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preparation</td>
<td>Responsibility and management</td>
<td>• Aligning internally with top management and establishing internal roles prior to commencing the reporting process.</td>
</tr>
<tr>
<td></td>
<td>Identifying the audience</td>
<td>• Identifying the intended audience of the report, to better set the expectations for the report content.</td>
</tr>
<tr>
<td>Analysis</td>
<td>Business strategy alignment</td>
<td>• Benefits of and approach to integrating sustainability strategy with business strategy; establishing links with sustainability reporting.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• AS-IS gap analysis based on ESRS requirements and mandatory disclosures to check the readiness of the company in terms of processes and data availability.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Identifying new ESRS requirements on governance, decarbonisation scenarios and implementation plan, strategy and impact/risk management.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Embedding new required processes—sustainability due diligence (ESRS), minimum safeguards assessment (taxonomy), and assessing whether the company does significant harm to the environment (taxonomy).</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Integrating new requirements on climate risk assessment (ESRS, taxonomy) into risk management and financial valuations.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Identifying data availability, potential for automation and mapping new reporting process.</td>
</tr>
<tr>
<td>Stakeholder engagement</td>
<td></td>
<td>• Gathering information from relevant stakeholders and establishing an engagement plan.</td>
</tr>
<tr>
<td>Materiality assessment</td>
<td></td>
<td>• Determining which sustainability matters to address in the sustainability report, mainly through the method of applying double materiality.</td>
</tr>
<tr>
<td>Data collection</td>
<td>Selection of indicators</td>
<td>• Selecting the relevant indicators on which to report, and what to consider when selecting indicators.</td>
</tr>
<tr>
<td>Data collection</td>
<td></td>
<td>• Design and implementation of ESG data management. Collecting and aggregating relevant data, supported by a suggested approach to the collection process and an overview of sustainability data solutions.</td>
</tr>
<tr>
<td>Drafting the report</td>
<td>Drafting the report</td>
<td>• Creating the report, with emphasis on considerations of scope, format and accessibility.</td>
</tr>
<tr>
<td>Assurance</td>
<td>Third-party assurance</td>
<td>• Seeking third-party assurance (limited vs. reasonable) and its added benefits.</td>
</tr>
<tr>
<td>Communication &amp; Evaluation</td>
<td>Review and feedback</td>
<td>• Concluding the reporting process with a final review that considers internal and external feedback.</td>
</tr>
</tbody>
</table>

---

The seventh step, "Data collection," is ongoing throughout the whole reporting period. In the simplified reporting roadmap, this part represents only the data aggregation and consolidation process.
5.1. Responsibility and management

Regulations are gradually coming into effect, and issuers need to get ready now.

Companies have less than 2 years to design and implement their ESG reporting processes—plus assign responsibilities, train staff and put the missing strategies and governance processes in place.

Effective governance of sustainability issues, a decarbonisation plan and ESG reporting are essential for meeting the expectations of stakeholders and regulators. This includes setting goals, targets and objectives, as well as processes for oversight and control.

The board of directors plays a key role in integrating sustainability into the company’s strategy, decision-making and overall risk management. It is important for board members to take ownership of the sustainability agenda and transition towards the new regulatory package in order to adhere to new standards and enhance the credibility of disclosed information.

After the board establishes ownership of the sustainability agenda, it is helpful to identify appropriate personnel and determine their responsibilities related to sustainability. This facilitates coordinating various departments and teams, ensuring consistency in the application of sustainability throughout the organisation, managing the sustainability reporting process, and communicating with external stakeholders such as investors, banks, rating agencies, regulators, civil society, press and affected stakeholders.

In order to meet these expectations, it is essential for board members to be familiar with relevant laws, regulations and guidelines such as the CSRD, EU taxonomy, EFRS and CSDD, and to allocate responsibility for the design and implementation of the decarbonisation plan, sustainability strategy, social due diligence, new calculations and proper internal control. This may require creating new roles in the organisation as well as defining who should be responsible for ensuring compliance with laws and regulations, evaluating impacts, risks and opportunities for financial valuations and providing guidance for improvement.

See Chapter: 4.5.1 Governance 4.5.2 Strategy

---

CHALLENGES

- Implementing a holistic approach.
- Actively engaging with the board and top management; building a business case for sustainability-related activities and their integration into decision-making.
- Poor ownership of the sustainability-related agenda by top management.
- Insufficient internal experience and skills to manage topics related to sustainability, decarbonisation and ESG reporting.
- ESG department is solely responsible for the ESG agenda.
- Large number of people contributing to the project from almost all departments of the organisation.

TIPS

- Internally educate and upskill personnel on sustainability-focused topics and provide educational sessions for the board.
- Define a sponsor of the transition towards new regulations and the ESG reporting project at the Board level—most often CFO.
- For top management, consider sustainability-related topics in decision-making and MBO.
- Establish an information mechanism on sustainability-related agenda and issues.
- Establish a sustainability team or group of knowledgeable staff that report directly to top management. Map internal stakeholders and allocate roles and responsibilities for gathering ESG data, acceptance, internal audit, content creation and sign-off.
- Establish cooperation between the main departments responsible for compliance with each of the new regulations (CSRD/ESRS, taxonomy, SFDR, CDDO, etc.) to promote knowledge sharing, understanding purpose, defining and overlaps and ensuring the effectiveness of the reporting process.
- Define the main departments responsible for CSRD/ESRS gap analysis and integrating ESG into business strategy, financial reporting and risk. Ensure the engagement of IR, strategy, ESG/climate, compliance and risk departments.
- Define roles that are lacking (e.g. climate and decarbonisation officer, diversity officer, circularity and biodiversity officer).
- Engage internal audit to be responsible for ensuring the quality of the ESG data gathering process.

Figure 15: Example of responsibilities and management structure related to corporate sustainability and reporting. ³²

³² Please note that while this example is based on common practices, it is important to recognise that the responsibility and preparation of sustainability reports may vary by company and may shift to different departments.
5.2. Business strategy alignment

The sustainability agenda is not a stand-alone element of the business. New regulatory requirements indirectly impose the thorough integration of sustainability into an organisation’s mechanisms.

Processes connected to preparing sustainability reports can improve internal reporting systems related to financial and sustainability performance and identify new gaps, which leads to better management and control. Management of an organisation should establish strong cohesion between business strategy, sustainability strategy and risk management, as well as between ESG reporting and financial reporting.

This can further improve decision-making and identify new business challenges and opportunities.

Companies are obliged to present strategic targets, management and effects of implementation in all important sustainability areas (usually integrated in the sustainability strategy or business strategy).

To ensure strong cohesion between business strategy and sustainability reporting, management should take into account the key considerations outlined in figure 16.

By following these key considerations, companies can ensure their sustainability reporting is in line with the necessary regulatory requirements and provides a clear understanding of their business operations and sustainability efforts.

See Chapter: 4.3. Mandatory disclosures 4.5. Disclosures on the quality of management 4.5.1 Governance 4.5.2 Strategy 4.5.3. Impact, risk and opportunity management 4.4.2. Sustainability due diligence and minimum safeguards assessment

87

Figure 16: Key considerations for aligning business strategy with sustainability reporting. This approach is based on draft ESRS 2 General disclosures.

**CHALLENGE**

- Linking the influence of CSRD/ESRS/taxonomy minimum safeguards with strategic processes in the organisation.
- Setting realistic sustainability goals in line with business strategy.
- Continuing implementation and being able to show whether the company is advancing.
- Taking sustainability commitments seriously.
- Integrating ESG factors into strategy and risk assessment.

**TIPS**

- Establish sustainability ownership among top management so that leaders feel comfortable communicating internal commitments.
- Consider sustainability aspects at the inception of new activities and services.
- Set SMART goals as well as a proper plan for implementation and monitoring.
- Engage HR and the board and embed sustainability targets into MBO of the board and top management.
- With the board representative, consider embedding new processes required by regulation into the overall strategic management of the organisation, such as:
  - Identifying new ESRS requirements on governance, decarbonisation scenarios and implementation plan, strategy and impact risk management.
  - Sustainability due diligence (ESRS) including human rights due diligence (minimum safeguards as outlined in the taxonomy), as well as assessing whether the company does significant harm to the environment (taxonomy).
  - Integrating new requirements towards climate risk assessment (ESRS, taxonomy) into risk management and financial valuations.
5.3. Identifying the audience

There are arguably two main groups of stakeholders related to sustainability reporting in line with the CSRD/ESRS:

- Direct users of the report (e.g. existing and potential investors, lenders and other creditors, including asset managers, credit institutions, and insurance undertakings), and
- Other stakeholders who are often the audience of sustainability communication (e.g. employees, workers in the value chain, consumers and end users, local communities and suppliers).

The purpose of a sustainability report is to transparently communicate material information related to sustainability that can impact the decision-making of its intended audience. It is essential to first identify the relevant audience and understand their expectations and needs. This can simplify the process of developing the report’s content to serve multiple purposes. Understanding the expectations of investors, shareholders, and other key stakeholders can also drive changes in the company’s value creation and influence its business strategy.

<table>
<thead>
<tr>
<th>SUPPORTIVE QUESTION</th>
<th>RESULT</th>
<th>EXAMPLES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Who are the most important stakeholders?</td>
<td>Initial list of stakeholders</td>
<td>Investors, shareholders, banks, employees, workers in the value chain, consumers and end users, customers, local communities, press, business partners, suppliers, competitors, industry experts, government, regulators, NGOs</td>
</tr>
<tr>
<td>Who will be the main audience of the sustainability report?</td>
<td>Prioritised list</td>
<td>Primary audience: investors, banks, analysts, regulators. Secondary audience: consumers, media</td>
</tr>
<tr>
<td>What are the needs of the identified audience?</td>
<td>List of needs, priorities and KPIs</td>
<td>Financial and sustainability performance (KPIs), risk management, decarbonisation strategy, due diligence, effectiveness of actions to address severe impacts, commitments and responsibilities of the board</td>
</tr>
</tbody>
</table>

### Table 3: Audience identification process with examples

**CHALLENGE**
- Audience identification is often skipped because the added value is overlooked.
- Identification of some stakeholder groups (e.g. stakeholders related to the organisation’s value chain).
- Ambiguous terms are often used; stakeholder mapping, stakeholder analysis, stakeholder assessment usually mean the same process.

**TIPS**
- Assess peers’ stakeholder lists to create or update an initial list of stakeholders.
- Prioritise important stakeholders and focus on their interest in reading the report.
- At the beginning of the process, ensure the understanding of how the final content of the report will be used by which channels of communication it will be shared, and how different information needs will be addressed.
- For example, investors have different expectations for data and the manner of presentation than consumers and clients.
- Use the answers to the questions from Table 3 to identify:
  - report format
  - report content
  - report scope
- Plan efficient stakeholder engagement to gather expectations from the priority stakeholders defined as the target audience.
5.4. Stakeholder engagement

Stakeholder engagement is an essential process for gathering information and building relationships with relevant parties. It enables organisations to manage risks, minimise obstructions, and build trust. Engagement with affected stakeholders is central to the organisation’s ongoing sustainability materiality assessment and due diligence process. It also provides valuable insights for management and improves decision-making. The main goals of stakeholder engagement include:

- Understanding the relationship between an organisation and its stakeholder groups.
- Comparing stakeholder and organisational interests.
- Identifying and assessing stakeholders’ concerns related to materiality assessment.

After identifying and selecting stakeholders, organisations can design a suitable stakeholder engagement plan. The results of this engagement should be clearly presented, including a description of the process and methods used.

Additionally, international instruments such as the UN Guiding Principles on Business and Human Rights and the OECD Guidance on Due Diligence emphasise engagement with stakeholders as a crucial aspect of due diligence. This is because it enables companies to understand their impacts, determine appropriate actions to address those impacts, and track the effectiveness of those actions.

Reporting may provide a basis for wider dialogue with investors and other stakeholders.

### Table 4: Engagement plan

<table>
<thead>
<tr>
<th>SUPPORTIVE STEP</th>
<th>EXAMPLES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Set engagement objectives</td>
<td>Understanding of employee needs</td>
</tr>
<tr>
<td>Define questions or topics for discussion</td>
<td>Potential risks and problems perceived by employees, work-life balance, employee development, decarbonisation, workplace relationships, company’s investments, new business plan, digitalisation</td>
</tr>
<tr>
<td>Choose engagement method</td>
<td>Interviews, focus groups, workforce representatives, anonymised surveys and questionnaires</td>
</tr>
<tr>
<td>Choose engagement channels</td>
<td>Websites, podcasts, webinars, workshops, social media, newsletters, calls, meetings</td>
</tr>
<tr>
<td>Prepare logistics of each engagement</td>
<td>Resources needed, date, time, location, materials</td>
</tr>
<tr>
<td>Engage personnel to conduct engagement activities</td>
<td>Specific departments, sustainability working group, designated executive management</td>
</tr>
</tbody>
</table>

### CHALLENGE

- Meaningfully engaging in dialogue with all relevant stakeholders.
- Coordinating stakeholder dialogues can be quite overwhelming.
- All stakeholder interests cannot be satisfied.
- One-off dialogue session instead of long-term, ongoing process with strategic value.

### TIPS

- Map stakeholders in a detailed way, integrating the perspectives of different departments.
- Utilise relevant standards such as “AA1000 Stakeholder Engagement Standard (SES) 2015”.
- Engage continuously with stakeholders, not only during the reporting process.
- Build on existing stakeholder dialogue channels to form a dialogue process.
- Engage indirect stakeholders, ensure representation of the value chain—engage suppliers, contractors, partners, representatives of societal partners, NGOs, and regulators.
- Ensure outcomes of the dialogue are capitalised upon by the organisation and contribute to real risk assessment, product and customer experience, strategic target setting, etc.
- Provide training and tools to those internally responsible for stakeholder engagement.
- Where direct consultation is not possible, consider reasonable alternatives, such as consulting credible independent experts and organisations.
5.5. Materiality assessment

Materiality assessment is a crucial step in determining which sustainability matters to address in sustainability reporting. With so many impacts, risks, and opportunities to consider in sustainability reporting, it is essential to prioritize. Materiality can be seen as a filter for identifying the most relevant impacts, risks, and opportunities to disclose. To accomplish this, companies should apply the principle of double materiality. It involves looking at both how the company affects the environment and society (impact materiality or inside-out perspective) and how sustainability affects the company (context materiality or outside-in perspective).

5.5.1. Preliminary mapping of impacts

When identifying impacts, organisations should consider ESRS topics, subtopics, and sub-subtopics, and detailed guidance in topical ESRS, in addition to various sources of information and channels highlighted in Figure 17. This approach will help to produce a list of predictable impacts, risks, and opportunities. Additionally, organisations should have a comprehensive approach to considering topics such as physical risks from climate change, even if the organisation does not make a significant contribution to GHG emissions.

5.5.2. Materiality assessment

During this step, the organisation aims to evaluate the relevance and severity of the impacts identified in the previous step. This includes considering the organisation’s context and circumstances, as well as engaging with stakeholders to identify and assess its impacts on them. The organisation should prioritise engagement with stakeholders who are most severely affected or potentially affected.

Impact materiality

The assessment of impact materiality involves identifying and addressing potential negative impacts related to sustainability topics that may be associated with an organisation’s products, services, operations, or value chain. Organisations can use various guidelines such as the UN Guiding Principles on Business and Human Rights, OECD Guidelines for Multinational Enterprises and Responsible Business Conduct Due Diligence guidance, or the Global Reporting Initiative’s Universal Standards for detailed guidance on determining material topics and assessing the severity of impacts. It is recommended that companies follow a four-step process outlined in Figure 18.

Figure 18: GRI approach to impact materiality.

48 The preliminary mapping of impacts should subsequently be replaced by ongoing sustainability due diligence processes.
The organisation may identify many actual and potential impacts. The step of prioritisation based on the severity of these impacts enables the organisation to 1) address the most significant impacts through appropriate action and 2) determine which impacts to report on. The appropriate action will depend on the organisation’s relationship to the impact, including impacts caused by the organisation, contributed to by the organisation, and connected to the organisation via business relationships anywhere in the value chain.

### Financial materiality

The principle of financial materiality involves assessing the economic consequences of an organisation’s material sustainability impacts and the potential financial effects of sustainability matters on the organisation. This includes evaluating both the resources the organisation has at its disposal and the relationships it has with stakeholders and its value chain. For example, it includes assessing how an organisation’s assets and business activities may be affected by climate-related hazards. Financial materiality should be considered alongside impact materiality as part of the broader principle of double materiality.

See Chapter: 4.4.1. Double materiality assessment

### 5.5.3. Determining applicable disclosures

The final step is to identify disclosures that are relevant for reporting purposes. The organisation should analyse relevant reporting standards (e.g. ESRS, GRI, SASB) and determine which disclosures are applicable based on the results of the materiality assessment. The organisation should also consider any additional entity-specific disclosures that should be included in the report. It is important to review the materiality assessment regularly and update it to reflect any changes in the organisation’s context and circumstances, as well as stakeholder expectations and emerging risks and opportunities.

**TIPS**

- Hold a workshop or discussion with top management to showcase material topics (how they emerged and how they will be communicated in the report).
- Consult general, sector-, and activity-specific guidance on known risks, including recommendations and reports by international human rights bodies and non-governmental organisations.
- Consider the organisation’s risks and opportunities and test the resilience of the organisation’s strategy against various climate scenarios.
- In the report, focus only on material indicators; do not hesitate to present both data that are positive and those that show challenges.
5.6. Selection of indicators

Embedding the indicators needed to comply with new regulatory requirements into the organisation is challenging. It entails simultaneously redesigning existing processes of data gathering and control, tracking KPIs, and ensuring business and strategic value from the process for the board of directors and top management. Proper transition time is needed for planning, discussion, design, and implementation. Start the process as soon as possible.

The organisation should identify all indicators it should report, considering legislation and standards as well as measures set for strategic targets in the sustainability area. This group of indicators can also be expanded based on information gathered during stakeholder engagement to satisfy their demands. The final list of all required indicators should be analysed from these perspectives:

- Indicators the organisation already uses for different purposes
- Resources needed for measuring indicators (time, financial and human resources)
- Value and importance of information provided by the indicators

The organisation should set up internal data dashboards for different purposes and needs. An absence of robust indicators in the social areas relevant to a company can lead to unintentional misjudgments within the sustainability agenda. If robust indicators are not available for the organisation’s sustainability topics, it should seek alternative supporting information and utilise existing scientific knowledge and relevant frameworks.

The organisation is not obliged to collect and provide data for all relevant indicators at all costs. Therefore, the indicator analysis can inform the organisation about which indicators have strategic priority and are easy to measure, and which indicators provide insignificant value while being cost-intensive.

Figure 20: Subjects to consider when selecting indicators, with examples.

### CHALLENGE

- Understanding which KPIs among all those required by regulations and guidelines are of strategic value for the organisation
- Without an existing management process (policy, process, implementation, monitoring), the organisation cannot report on it or its effects
- Understanding which KPIs are mandatory under the European framework while also including those that relate to the organisation’s sustainability goals and commitments
- Knowing which KPIs beyond the European framework will be referenced by the main stakeholders of the report (e.g., the scope of indicators that banks reference vary based on industry and main areas of business)

### TIPS

- Conduct a CSRD/ESRS health check to define which data are missing
- Engage CFO, strategy, and IR as well as financial department to choose which indicators should be monitored more frequently (monthly, quarterly, yearly); set a process of reviews at the board level
- Ensure cooperation between Finance, IR, ESG department, strategy, and climate/decarbonisation department to start working with an integrated perspective, linking financial and ESG data
- Consider the reporting scope when selecting indicators
- Ensure education on methods of estimation and calculation in new areas indicated by ESRS—GHG, scope 3 (e.g., the difference between spend-based and other methods), gender pay gap, etc
- Consider creating a manual that defines and provides supporting information on all selected indicators

Figure 21: Main information related to indicators: example of water intensity.

<table>
<thead>
<tr>
<th>Name</th>
<th>Water intensity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Definition &amp; calculation</td>
<td>Definition: the amount of water a company withdraws per unit of financial output. Calculation: total water intake / normalisation factor (monetary unit)</td>
</tr>
<tr>
<td>Units</td>
<td>Total water withdrawal in m³ per monetary unit of sales</td>
</tr>
<tr>
<td>Reporting frequency</td>
<td>Annually</td>
</tr>
</tbody>
</table>

---

23 If the data are impossible to collect, the organisation should maximise transparency and provide all contextual information, including the reasons for omission and the mitigation steps.
5.7. Data collection

While data are crucial for reporting purposes, their utility extends beyond to support informed decision-making and strategic planning for companies, ultimately leading to a more stable and responsible business model. Data gathering is often the most resource-intensive and time-consuming step in the reporting process. The sustainability agenda requires both inputs from diverse departments and stakeholders and collection of indicators related to various topics.

The data collection process is costly and inseparable from other data cycle components, and thus an organisation should consider this process in all stages of sustainability reporting.

Prior to performing data collection, the organisation should:
- Define the scope of reporting (what is included).
- Determine a collection timeframe.
- Define data owners and data sources.
- Educate data owners on the required information needs.
- Select appropriate data solutions.
- Establish a proper quality check and control process.

The assessment of an organisation’s data management needs to determine the selection criteria for the most effective data solution.

Figure 22: Sustainability data cycle.

### Challenge

- Multiplication of effort and lack of reliable and consistent data—the same data are often gathered in different formats for different reporting purposes (e.g., statement of the management board, non-financial statement of the management board, financial report, corporate report, ESG report, marketing communication, internal communication, internal audit reporting, internal monitoring of strategy implementation).
- Data management for some indicators/topics requires several years, including:
  - identification and analysis of value chain impacts
  - calculation of scope 3 GHG emissions
- Analysis of long-term sustainability data to support decision-making and management of underlying impacts, risks, and opportunities
- Development and approval of climate transition plan
- Lack of an established and verifiable data collection process that allows for consistent collection of quality data.
- Lack of adequate tools and systems in the organisation to collect indicators.
- Time-consuming, especially if it is the first time data is collected or the report scope is extensive.

### Tips

- Utilise existing channels of data collection.
- Prepare explanations of identified data collection gaps.
- Analyse data sources and potential for automating ESG and integrated reporting.
- Define a “single source of truth” for individual data elements.
- Identify and utilise specialised data management tools and software to support the process of data collection and data management.
- As they occur, prepare explanatory notes on data collection methodology and any significant trends to include in the report.

Figure 23: Sustainability data solutions.50

<table>
<thead>
<tr>
<th>Data cycle element</th>
<th>Resources</th>
<th>Traditional data tools</th>
<th>Specialised ESG data tools</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generation</td>
<td>Business activities and relationships, first-party and third-party data</td>
<td>Usually based on simple tools such as MS Excel or Google Sheets</td>
<td>Diverse platforms usually based on subscription</td>
</tr>
<tr>
<td>Collection</td>
<td>Responsible personnel, reporting team</td>
<td>Low initial costs</td>
<td>Long-term cost-effective</td>
</tr>
<tr>
<td>Processing, storage, &amp; management</td>
<td>Data solution</td>
<td>Easy to implement</td>
<td>Automated data processing including data collection</td>
</tr>
<tr>
<td>Analysis</td>
<td>Data analysts, reporting team</td>
<td>Suitable for small data volumes and small organisations</td>
<td>Lower error rates</td>
</tr>
<tr>
<td>Visualisation &amp; interpretation</td>
<td>Data analysts, reporting team, graphic designers</td>
<td>Time-consuming process</td>
<td>Flexibility and adaptability of the system (new regulations or methodologies)</td>
</tr>
</tbody>
</table>

50 The figure represents an example of categorisation and general overview.
5.8. Drafting the report

Sustainability reports should provide quantitative and qualitative information relevant for decision-making by stakeholders, including board statements that are linked to sustainability strategy, management approach, and sustainability-related governance processes. Content should fulfill certain quality requirements.

See Chapter 4.2. Key rules to ensure quality of the content and data.

5.8.1. Scope and boundary

Reporting scope is usually determined at the beginning of the reporting process. The organisation should explain reporting boundaries and list the entities included in the report. If it reports according to the ESRS, it must apply the same consolidation scope used for financial reporting. Consequently, the information and data provided should be aligned with the issuer’s fiscal year and business ownership model. Attributes such as size, location, or business activity are commonly used in the consolidation process. The extent of the report’s coverage of the organisation’s value chain should also be described.

The reporting period for the company’s sustainability statements should be consistent with its financial statements. The company needs to adopt the following time intervals as of the end of the reporting period:
- Short-term: the period adopted in the financial statements
- Medium-term: from the end of the short-term reporting period to five years
- Long-term: more than five years.

5.8.2. Story

In this step, the organisation can present its current and upcoming opportunities and challenges and demonstrate its ability to generate value in a responsible way. The organisation should determine the principal message of the report while considering its audience and main stakeholder groups. Analysis of gathered data, averages, trends, materiality assessment, and other results can assist with storytelling. In this step, it is crucial to remain transparent and avoid greenwashing. There should be a clear distinction between mandatory information required by a reporting standard and additional information related to the desired story.

See Figure 24: Example of creating the narrative.
5.8.3. Transparency and accuracy

Users of sustainability reports expect the provided information to be timely, correctly computed, and comparable between peers and industries, such as by using widely recognised methodologies and standards. This facilitates accurate assessments and decision-making. While organisations are inclined to present an optimistic picture, the ESRS require an organisation to show stakeholders that it understands and addresses all relevant impacts. Neutral language and a more scientific approach can improve trust and minimise potential reputational risks.

Data collection, normalisation methods, and calculations should remain consistent throughout all reporting periods. Any changes require appropriate explanations. Any data gaps, including missing, estimated or inaccurate data or material information should be disclosed with transparent clarification and management measures. Irrelevant information should be excluded rather than disclosed. Other reasons for not disclosing certain information in the report include confidentiality constraints and legal prohibitions.

Companies are required to disclose one year of comparative information in respect of all metrics disclosed in the current period, and for narrative sustainability disclosures when relevant to an understanding of the current period’s sustainability disclosures. In the year of adoption, an undertaking may defer the presentation of comparative information by one year.

5.8.4. Format

According to Regulation EC 2019/815, companies are obligated to prepare reports on their sustainability information, including environmental, social and governance matters, in a way that is relevant and useful for investors. The report format may vary according to the extent to which financial and sustainability information is integrated. However, under the new CSRD rules, companies will have to disclose all necessary sustainability information in a separate section of the management report. Companies are advised to streamline their reporting into one integrated report. This ensures that the information reaches the intended stakeholders and complies with regulations. It is important to note that companies must prepare these reports in accordance with the NFRD and the guidelines of the European Securities and Markets Authority (ESMA) to ensure that the information is of high quality and comparable across companies.

The report should be easily accessible from the issuer’s website and through other channels, depending on the preferences of the audience. Organisations reporting under the CSRD will have to prepare sustainability reports in the European Single Electronic Format (ESEF), which is required for financial statements, digitally tag sustainability information, and upload it to the proposed European Single Access Point (ESAP). The goal is to build a singular database of categorised sustainability information which can support high-level decision-making and further research in related areas.

Table 5: Overview of sustainability report formats

<table>
<thead>
<tr>
<th>STAND-ALONE SUSTAINABILITY REPORT</th>
<th>FINANCIAL REPORTING WITH MATERIAL SUSTAINABILITY-RELATED TOPICS</th>
<th>INTEGRATED REPORTING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Now widely used</td>
<td>Will be required by CSRD</td>
<td></td>
</tr>
<tr>
<td>Detailed sustainability-related material topics</td>
<td>Limited sustainability-related material topics</td>
<td>Detailed sustainability-related material topics</td>
</tr>
<tr>
<td>Limited financial information</td>
<td>Detailed financial information</td>
<td>Detailed financial information</td>
</tr>
<tr>
<td>Sustainability-related information relevant to investors and other stakeholders</td>
<td>Financial information and management report with some complementary sustainability-related information</td>
<td>How strategy, governance, performance, and context contribute to short- and long-term value creation</td>
</tr>
</tbody>
</table>

5.8.5. Accessibility

The report should be easily accessible from the issuer’s website and through other channels, depending on the preferences of the audience. Organisations reporting under the CSRD will have to prepare sustainability reports in the European Single Electronic Format (ESEF), which is required for financial statements, digitally tag sustainability information, and upload it to the proposed European Single Access Point (ESAP). The goal is to build a singular database of categorised sustainability information which can support high-level decision-making and further research in related areas.

CHALLENGE

• When there are multiple data contributors, ensuring standardisation and cohesiveness of the content and storyline can be difficult and overwhelming.
• Understandability if the issues are sector-specific (e.g., language used or approach to chapter layouts).
• Achieving a balance between sufficient detail and sufficiently short report length.

TIPS

• Define roles for content approval at the beginning of the reporting process. Ensure engagement with board representatives as well as investor relations, legal, and communication departments (not only ESG).
• Ensure representatives of the board and top management review key ESG data trends periodically, not just once a year for the purpose of publication. Ensure strategic understanding and the opportunity to add comments on ESG data trends.
• Benchmark main ESG values with peers, sector average.
• Define the structure, key information and KPIs before drafting the report.
• Internally, request supporting information (e.g., case studies) early in the process.
• Identify relevant people who will provide feedback on the report narrative to avoid the process becoming protracted.
• Report on challenges and mistakes as well as accomplishments—be transparent and avoid greenwashing.

11 ESAP should be established by 2024 according to the Proposal for a Regulation 2021/0378 (COD) of November 25, 2021.
5.9. Third-party assurance

To ensure that the information provided in non-financial, sustainability, and integrated reports is reliable, a third-party auditor should review both sustainability and annual reports.

The European Council’s Corporate Sustainability Reporting Directive (CSRD) introduces an EU-wide requirement for limited assurance of sustainability data. More comprehensive assurance may be required in the future.

External assurance can be provided by statutory auditors and audit firms who are already experienced in auditing financial statements, as well as sustainability experts who have expertise in the reporting standard. In the sustainability report audit, they can provide detailed explanations of how financial data and sustainability performance are interconnected.

The main goal of the CSRD is to ensure consistency across EU reporting, so it establishes a new framework for EU-wide assurance. It sets guidelines for reporting in accordance with the proposed IFRS framework, including the process for evaluating data included in the report.

Methodology for non-financial assurance

The most widely used standard for the assurance of non-financial information is the International Standard on Assurance Engagements (ISAE) 3000 (Revised), issued by the International Auditing and Assurance Standards Board.

Table 6: Limited vs Reasonable assurance

<table>
<thead>
<tr>
<th>LIMITED ASSURANCE</th>
<th>REASONABLE ASSURANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>What do limited and reasonable assurance have in common? An external practitioner concludes, based on sufficient appropriate evidence, that the risk of material misstatement has been reduced to an acceptably low level in the context of the engagement.</td>
<td></td>
</tr>
<tr>
<td>Limited assurance allows for the assurance of subject matter which is less well-defined and for which the control environment is less mature and robust.</td>
<td></td>
</tr>
<tr>
<td>The assurance provider performs different or fewer tests than those required for reasonable assurance or uses smaller sample sizes for the tests performed. As a result, the risk of a material misstatement of the subject matter is reduced, but not to the low level required by reasonable assurance.</td>
<td></td>
</tr>
<tr>
<td>The auditor focuses on understanding the process used to compile the reported information and also on inquiry, observation, and analytical procedures (e.g. observing the data at an aggregated level).</td>
<td></td>
</tr>
<tr>
<td>Based on the procedures performed and evidence obtained, the auditor expresses a conclusion in a negative manner, such as, ‘Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the subject matter information has not complied, in all material respects, with XYZ law or applicable criteria’.</td>
<td></td>
</tr>
<tr>
<td>Reasonable assurance is a more comprehensive process than a limited assurance engagement.</td>
<td></td>
</tr>
<tr>
<td>The assurance provider must conduct extensive procedures as described in the standard. This includes identifying risks and assessing the possibility that any matters may be unfairly represented; testing the operating effectiveness of the organisation’s internal controls on which the auditor intends to rely; and substantive procedures.</td>
<td></td>
</tr>
<tr>
<td>The auditor’s conclusions are stated in a positive manner, such as, ‘In our opinion, the [appropriate party’s] statement that the key performance indicators are presented in accordance with XYZ criteria is, in all material respects, fairly stated’. As in an audit of financial statements, this is the highest level of assurance, but it is still not absolute.</td>
<td></td>
</tr>
</tbody>
</table>

Key benefits of third-party assurance

Improving the quality of the report:
+ Correct mistakes and add information before publishing.
+ Assess and strengthen internal procedures for sustainability-related data collection, management, and reporting.
+ Get valuable guidance from an experienced auditor.
+ Ensure content meets regulatory requirements or reporting standards, such as CSRD, IFRS, GRI Standards, TCFD, or SASB.

Increasing the report’s usefulness for external users:
+ Increase the credibility of the report in the eyes of the company’s stakeholders, such as shareholders, analysts, customers, cooperating entities, and lending institutions, which may use the information in decision-making.
+ Improve the company’s position in ESG rankings and stock exchange indices that take external verification of sustainability-related factors into account.
5.9.1. How to prepare for assurance

The assurance process depends on the maturity of ESG governance within the company and its level of preparedness. Here are some tips for organisations that are preparing for assurance for the first time.

Develop and implement a consistent system for collecting data for the report and gathering supporting documentation.

Maintain information on the methodology, assumptions made, and data collection process for each reported indicator.

Communicate with those responsible for individual indicators and aspects to ensure that data is collected for the period covered by the report.

Prior to verification, the data should be reviewed internally by the coordinator responsible for the subject matter.

Retain the source files and working spreadsheets used for the calculation and consolidation of data.

5.10. Review and feedback

Even after drafting, finalising and communicating the report, we recommend not to end the process there. As a final step, organisations can benefit from concluding the process with a final review that incorporates both internal and external feedback (if applicable). The aim is to continue learning by reflecting on the current approaches to the reporting process and improve them for future reporting periods. Additionally, this process can help identify targets for addressing current gaps in the reporting process and establish next steps for the following report.

5.10.1. Internal feedback

The aim of internal feedback is to receive recommendations from those involved in the process of creating the report. This can occur in many formats, most commonly an internal survey or questionnaire and an internal workshop or interactive discussion.

It does not matter which method is used to gather internal feedback; what matters is obtaining feedback from all relevant parties and gathering feedback that is constructive. Including all stakeholders who were involved in any aspect of the reporting process not only helps to collect first-hand information, but also shows that the organisation values the time they spent to help produce the report. This encourages them to continue being involved in future reporting processes and invest the time required to draft the reports.

Table 7: Pros and cons of feedback formats

<table>
<thead>
<tr>
<th>MEANS OF COMMUNICATION</th>
<th>SUGGESTED FORMAT</th>
<th>PROS</th>
<th>CONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal survey or questionnaire</td>
<td>Make the process easy for the respondent, while collecting useful and constructive information (on which practical actions can be based).</td>
<td>Convenient: the respondent can fill it out when time permits.</td>
<td>Does not allow for an interactive discussion, therefore it is not possible to follow up with questions or to engage further. Respondents tend to be less engaged because it requires more effort to write responses. Greater likelihood of having to prod respondents to receive feedback; responses may not be collected from everyone.</td>
</tr>
<tr>
<td>Internal workshop or interactive discussion</td>
<td>Have something or someone to guide the in person discussion. A good tool to use is a presentation with slides to give an overview of the reporting phases.</td>
<td>Engaging: those involved can bounce ideas off each other, as they understand first-hand what works within the process and why.</td>
<td>More difficult to host because a convenient time for all parties involved must be determined. Must be well-organised and structured to ensure that discussions stay relevant and focused; therefore someone must lead the discussion.</td>
</tr>
</tbody>
</table>

Assurance will be required at the limited level in the first stages, but a requirement for reasonable assurance is expected after some time.
Table 8: Example of internal feedback, supported by a sample questionnaire.

<table>
<thead>
<tr>
<th>REPORTING PHASE</th>
<th>SUMMARY OF TASKS AND OUTCOMES</th>
<th>IDENTIFIED GAPS OR ISSUES</th>
<th>RECOMMENDATIONS FOR IMPROVEMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preparation: Establishing roles and responsibilities</td>
<td>Core ESG team was established and internally, contact points were determined in each company department.</td>
<td>Missing contact point for overall data collection and verification.</td>
<td>Appoint someone from the finance department as the contact for data collection and verification; they should already be familiar with data collection for annual reporting.</td>
</tr>
<tr>
<td>Preparation: Business strategy alignment</td>
<td>Sustainability strategy was established so that it is aligned with and supports the business strategy.</td>
<td>Short-term targets: completed</td>
<td>Long-term targets: to be approved</td>
</tr>
<tr>
<td>Analysis: Identifying the audience</td>
<td>Main users of the report identified as:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Banks</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Investors</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Pre-filled if relevant to the respondent, they complete

5.10.2. External feedback

External feedback is received from third parties, most commonly from ESG rating agencies, banks, investors, and shareholders. Additionally, organisations can anticipate scrutiny by NGOs, especially within publicly sensitive areas. This information may help to address concrete gaps within the report that can be especially important when securing finances.

After internal and external feedback is obtained, it is important to create a plan of action based on the recommendations received. Actions should be prioritised (e.g. short- and long-term) and responsibility for addressing each task allocated to the responsible personnel.

**CHALLENGE**

- Coordinating review and feedback, including input from everyone involved in the reporting process, can become overwhelming and ineffective.
- Keeping the feedback constructive can be difficult if the process was more demanding than expected.

**TIPS**

- Bring structure to the discussion.
- To keep the discussion constructive, focus on recommendations.
- Throughout the year, try to focus on recommendations that can be addressed ahead of time (e.g. drafting internal policies or developing a sustainability strategy).
List of figures

Figure 1: Regulatory landscape influencing reporting in Czech Republic. PSE operates two regulated markets, namely the Prime Market and the Standard Market ...................................................... 17
Figure 2: Phase-in of CSRD and ESRS requirements ................................................................................. 20
Figure 3: Overview of the scope of disclosure and the ESRS architecture ....................................................... 28
Figure 4: How materiality assessment determines the application of disclosure requirements ....................... 49
Figure 5: Double materiality ......................................................................................................................... 50
Figure 6: Sustainability Due Diligence .......................................................................................................... 52
Figure 7: Reporting areas - Governance ......................................................................................................... 57
Figure 8: Reporting areas - Strategy ............................................................................................................. 58
Figure 9: Deloitte Climate & Sustainability practice - example of practical target setting ................................. 60
Figure 10: Reporting areas - IRO management ............................................................................................... 61
Figure 11: Reporting areas - Metrics and targets ............................................................................................ 65
Figure 12: Overview of GHG Protocol scopes and emissions across the value chain ....................................... 66
Figure 13: EU taxonomy alignment and environmental objectives ................................................................. 67
Figure 14: Sustainability reporting roadmap in 10 steps ............................................................................... 82
Figure 15: Example of responsibilities and management structure related to corporate sustainability and reporting .................................................................................................................. 85
Figure 16: Key considerations for aligning business strategy with sustainability reporting ................................. 86
Figure 17: Preliminary identification of impacts .............................................................................................. 92
Figure 18: GRI approach to impact materiality ............................................................................................... 93
Figure 19: Financial materiality concept: what to consider ............................................................................... 94
Figure 20: Subjects of consideration when selecting indicators, with examples ................................................ 95
Figure 21: Main information related to indicators: example of water intensity ................................................ 97
Figure 22: Sustainability data cycle .................................................................................................................. 98
Figure 23: Sustainability data solutions .......................................................................................................... 99
Figure 24: Example of creating the narrative ................................................................................................... 101
Figure 25: Recommendations for preparing for assurance for the first time .................................................. 106

List of tables

Table 1: EU sustainability disclosure requirements for financial and non-financial companies .......................... 18
Table 2: Overview and content of the sustainability reporting roadmap ......................................................... 83
Table 3: Audience identification process with examples .................................................................................. 88
Table 4: Engagement plan ............................................................................................................................... 90
Table 5: Overview of sustainability report formats .......................................................................................... 102
Table 6: Limited vs Reasonable assurance ..................................................................................................... 104
Table 7: Pros and cons of feedback formats .................................................................................................... 107
Table 8: Example of internal feedback, supported by a sample questionnaire ................................................... 108
Table 9: Example of internal feedback, supported by a sample questionnaire ................................................... 108
Table 10: Example of internal feedback, supported by a sample questionnaire ................................................ 108
Table 11: Example of internal feedback, supported by a sample questionnaire ................................................ 108
Table 12: Example of internal feedback, supported by a sample questionnaire ................................................ 108
Table 13: Example of internal feedback, supported by a sample questionnaire ................................................ 108
Table 14: Example of internal feedback, supported by a sample questionnaire ................................................ 108
Table 15: Example of internal feedback, supported by a sample questionnaire ................................................ 108
Table 16: Example of internal feedback, supported by a sample questionnaire ................................................ 108
Table 17: Example of internal feedback, supported by a sample questionnaire ................................................ 108
Table 18: Example of internal feedback, supported by a sample questionnaire ................................................ 108
Table 19: Example of internal feedback, supported by a sample questionnaire ................................................ 108
Table 20: Example of internal feedback, supported by a sample questionnaire ................................................ 108
Table 21: Example of internal feedback, supported by a sample questionnaire ................................................ 108
Table 22: Example of internal feedback, supported by a sample questionnaire ................................................ 108
Table 23: Example of internal feedback, supported by a sample questionnaire ................................................ 108
Table 24: Example of internal feedback, supported by a sample questionnaire ................................................ 108
Table 25: Example of internal feedback, supported by a sample questionnaire ................................................ 108
Table 26: Example of internal feedback, supported by a sample questionnaire ................................................ 108
Table 27: Example of internal feedback, supported by a sample questionnaire ................................................ 108
Recently, we have observed a significant increase in interest in the subject of ESG. This is due to new regulations and growing expectations from investors, financial institutions, business partners and consumers. The requirements concern the inclusion of ESG considerations in the business strategy, goal setting, performance indicators, risk management, decision-making, as well as responsibility in the organization for considering ESG factors and sustainability-related disclosures. Meeting these requirements remains a challenge for most companies in the Czech Republic. We estimate that less than 1% of companies are currently prepared for the package of new regulations enhancing ESG transparency (CSRD/ESRS, EU taxonomy, SFDR, CSDDD). Out of more than 1000 companies in the Czech Republic to which the new ESG reporting requirements will apply, around 97% will be implementing ESG reporting for the first time.

The most frequently indicated obstacles are the complexity of new regulations on ESG reporting, lack of knowledge about the process and methodologies as well as its strategic value, difficulties in defining the structure of responsibility and effective governance, as well as the lack of tools and data. Many companies stop at the level of declarations within climate and environmental issues. Deloitte research shows that just a few ESG leaders in the Czech Republic calculate GHG emissions (carbon footprint) and very few submit their ESG data or indirect carbon footprint (scope 3) for external verification. Although, the majority of leading companies have started to consider or declare the adoption of reduction plans in line with the Paris Agreement, few of them certify the targets through the methodology of Science Based Targets. Still less attention is paid to social due diligence embedded in risk management and corporate governance.

Meaningful actions in the area of ESG are needed here and now. Compliance with regulations, including the Corporate Sustainability Reporting Directive (CSRD), new European Sustainability Reporting Standards (ESRS), and EU Taxonomy is a necessary minimum; companies can also use market guidelines, sector standards, and certification. There is a strong group of ESG leaders – mainly listed companies – that have already started to incorporate ESG factors into business decision-making and operations. Such companies can play a significant role in driving the transition of the whole market to the new regulatory landscape. Key success factors may include:

- Ensuring strong governance and climate governance is necessary – big roles of Management Boards and Non-Executive Boards
- Detailed gap analysis with respect to the new regulatory landscape
- Advancement of ESG strategy implementation and decarbonisation
- Focus on gathering basic data to conduct evidence-based decisions
- Focus on climate risks, financial valuation, and double materiality – linking sustainability with financial performance will become critical
- Data collection and management throughout the value chain and scopes using technology and AI will become crucial

ESG is not only about expectations and regulations, but also about business opportunities – e.g. lowering costs, obtaining better financing conditions, or accessing new sources of income. The green transformation can form the basis of building long-term value. And real change requires the cooperation of businesses, investors, public administration, NGOs and society – including clients and employees.
## 6 Appendices

### 6.1.1. List of relevant EU legislation

<table>
<thead>
<tr>
<th>SHORTCUT</th>
<th>FULL NAME</th>
<th>DESCRIPTION</th>
<th>LINK TO LEGISLATIVE ACT</th>
<th>EU COMMISSION WEBSITE</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESR</td>
<td>European Sustainability Reporting Standards</td>
<td>EU standards for sustainability reporting developed by EFRAG, required for reporting under the EU Corporate Sustainability Reporting Directive (CSRD).</td>
<td><a href="https://www.efrag.org/lab6">https://www.efrag.org/lab6</a></td>
<td></td>
</tr>
</tbody>
</table>
### 6.1.2. List of stock exchanges providing ESG reporting guidance in Central Europe and the EU

<table>
<thead>
<tr>
<th>MARKET</th>
<th>STOCK EXCHANGE</th>
<th>YEAR</th>
<th>ESG GUIDANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>Euronext Brussels</td>
<td>2022</td>
<td>ESG Reporting Guide - Target 1.5°C</td>
</tr>
<tr>
<td>Denmark</td>
<td>Nasdaq Copenhagen</td>
<td>2019</td>
<td>ESG Reporting Guide 2.0: A Support Resource for Companies</td>
</tr>
<tr>
<td>Estonia</td>
<td>Nasdaq Tallinn</td>
<td>2019</td>
<td>ESG Reporting Guide 2.0: A Support Resource for Companies</td>
</tr>
<tr>
<td>Finland</td>
<td>Nasdaq Helsinki</td>
<td>2019</td>
<td>ESG Reporting Guide 2.0: A Support Resource for Companies</td>
</tr>
<tr>
<td>France</td>
<td>Euronext Paris</td>
<td>2022</td>
<td>ESG Reporting Guide - Target 1.5°C</td>
</tr>
<tr>
<td>Germany</td>
<td>Deutsche Börse</td>
<td>2013</td>
<td>Communicating sustainability: Seven recommendations for issuers</td>
</tr>
<tr>
<td>Greece</td>
<td>Athens Exchange Group</td>
<td>2022</td>
<td>ESG Reporting Guide</td>
</tr>
<tr>
<td>Hungary</td>
<td>Budapest Stock Exchange</td>
<td>2021</td>
<td>ESG Reporting Guide</td>
</tr>
<tr>
<td>Iceland</td>
<td>Nasdaq Iceland</td>
<td>2019</td>
<td>ESG Reporting Guide 2.0: A Support Resource for Companies (Also in Icelandic)</td>
</tr>
<tr>
<td>Italy</td>
<td>Borsa Italiana (Euronext)</td>
<td>2022</td>
<td>ESG Reporting Guide - Target 1.5°C</td>
</tr>
<tr>
<td>Latvia</td>
<td>Nasdaq Riga</td>
<td>2019</td>
<td>ESG Reporting Guide 2.0: A Support Resource for Companies</td>
</tr>
<tr>
<td>Lithuania</td>
<td>Nasdaq Vilnius</td>
<td>2019</td>
<td>ESG Reporting Guide 2.0: A Support Resource for Companies</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>Luxembourg Stock Exchange</td>
<td>2019</td>
<td>2019 Guide to ESG Reporting</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Euronext Amsterdam</td>
<td>2022</td>
<td>ESG Reporting Guide - Target 1.5°C</td>
</tr>
<tr>
<td>North Macedonia</td>
<td>Macedonian Stock Exchange</td>
<td>2021</td>
<td>ESG reporting guidelines</td>
</tr>
<tr>
<td>Norway</td>
<td>Oslo Børs (Euronext)</td>
<td>2022</td>
<td>ESG Reporting Guide - Target 1.5°C</td>
</tr>
<tr>
<td>Poland</td>
<td>Warsaw Stock Exchange</td>
<td>2021</td>
<td>ESG Reporting Guidelines</td>
</tr>
<tr>
<td>Portugal</td>
<td>Euronext Lisbon</td>
<td>2022</td>
<td>ESG Reporting Guide - Target 1.5°C</td>
</tr>
<tr>
<td>Romania</td>
<td>Bucharest Stock Exchange</td>
<td>2022</td>
<td>ESG Reporting Guidelines</td>
</tr>
<tr>
<td>Spain</td>
<td>Bolsas y Mercados Españaes</td>
<td>2016</td>
<td>Voluntary Market Guidance for Listed Companies for Corporate Reporting on ESG Information</td>
</tr>
<tr>
<td>Sweden</td>
<td>Nasdaq Stockholm</td>
<td>2017</td>
<td>ESG Reporting Guide 2.0: A Support Resource for Companies</td>
</tr>
<tr>
<td>Turkey</td>
<td>Borsa Istanbul</td>
<td>2020</td>
<td>Sustainability Directory for Companies</td>
</tr>
</tbody>
</table>

---

### Delegated Act supplementing Article 8 of the Taxonomy Regulation

Article 8 of the Taxonomy Regulation requires undertakings covered by the Non-Financial Reporting Directive (NFRD) to publish information on how and to what extent their activities are associated with economic activities that qualify as environmentally sustainable under the Taxonomy Regulation. The Delegated Act specifies the content, methodology, and presentation of information to be disclosed by financial and non-financial undertakings concerning the proportion of environmentally sustainable economic activities in their business, investments, or lending activities.


### EU taxonomy Complementary Climate Delegated Act

Specifies, under strict conditions, nuclear and gas energy activities that are in line with EU climate and environmental objectives.


### CSRD Corporate Sustainability Reporting Directive

A comprehensive set of measures aimed to help improve the flow of capital towards sustainable activities across the EU. The CSRD is a central part of the EU Sustainable Finance package. It amends the NFRD, the Accounting Directive, the Transparency Directive, the Audit Directive, and the corresponding Audit Regulation. It aims to strengthen investor protections, reduce greenwashing, and ensure reliable and comparable disclosures that meet the information needs of investors and other users.


---

**Shortcut**

**Full Name**

**Description**

**Link to Legislative Act**

**EU Commission Website**

**Delegated Act supplementing Article 8 of the Taxonomy Regulation**

- Article 8 of the Taxonomy Regulation requires undertakings covered by the Non-Financial Reporting Directive (NFRD) to publish information on how and to what extent their activities are associated with economic activities that qualify as environmentally sustainable under the Taxonomy Regulation. The Delegated Act specifies the content, methodology, and presentation of information to be disclosed by financial and non-financial undertakings concerning the proportion of environmentally sustainable economic activities in their business, investments, or lending activities.


**EU taxonomy Complementary Climate Delegated Act**

- Specifies, under strict conditions, nuclear and gas energy activities that are in line with EU climate and environmental objectives.


**CSRD Corporate Sustainability Reporting Directive**

- A comprehensive set of measures aimed to help improve the flow of capital towards sustainable activities across the EU. The CSRD is a central part of the EU Sustainable Finance package. It amends the NFRD, the Accounting Directive, the Transparency Directive, the Audit Directive, and the corresponding Audit Regulation. It aims to strengthen investor protections, reduce greenwashing, and ensure reliable and comparable disclosures that meet the information needs of investors and other users.


6.1.3. Glossary

CAPEX Capital expenditures
CDP Carbon Disclosure Project
CDSB Carbon Disclosure Standards Board
CSDDDD Corporate Sustainability Due Diligence Directive
CSR Corporate social responsibility
CSRD Corporate Sustainability Reporting Directive
DNSH Do No Significant Harm
E Environmental
EBRD European Bank for Reconstruction and Development
EFRAG European Financial Reporting Advisory Group
EPRA European Public Real Estate Association
ESAP European Single Access Point
ESEF European Single Electronic Format
ESG Environmental, Social and Governance
ESMA European Securities and Markets Agency
ESRS European Sustainability Reporting Standards
EU European Union
EUGBS EU green bond standard
FRC Financial Reporting Council
FTSE Financial Times Stock Exchange
G Governance
GAR Green asset ratio
GHG Greenhouse gas
GRI Global Reporting Initiative
IAS International Accounting Standards
IASB International Accounting Standards Board
IFRS International Financial Reporting Standards
IIRC International Integrated Reporting Council
INREV Investors in Non-Listed Real Estate Vehicles
IOSCO International Organization of Securities Commissions
ISAE International Standard on Assurance Engagements
ISS International Sustainability Standards
ISSB International Sustainability Standards Board
KPI Key performance indicator
MSCI Morgan Stanley Capital International
MVO Movement for entrepreneurs in the New Economy
NFRD Non-Financial Reporting Directive
OECD Organization for Economic Co-operation and Development
OPEX Operational expenditures
PAI Principal adverse impact
PRI UN Principles for Responsible Investment
PSE Prague Stock Exchange
RTS Regulatory Technical Standards
S Social
SASB Sustainability Accounting Standards Board
SBTi Science Based Targets initiative
SFDI Sustainable Finance Disclosure Regulation
SMI Sustainable Finance Strategy
SME Small and medium-sized enterprises
SSE Sustainable Stock Exchanges
TCFD Task Force on Climate-related Financial Disclosures
UK United Kingdom
UN United Nations
UNCTAD United Nations Conference on Trade and Development
UNEP FI United Nations Environment Programme Finance Initiative
UNGP United Nations Guiding Principles on Business and Human Rights
US United States
WRI World Resources Institute
WWF World Wide Fund for Nature
Project Execution

These Guidelines have been produced by the Prague Stock Exchange (PSE), jointly with the European Bank for Reconstruction and Development (EBRD), and with technical cooperation from the Taiwan Business – EBRD Technical Cooperation Fund. The consultancy companies Deloitte and Frank Bold assisted with the development of the Guidelines.

Project supervision was performed by Irena Pichola, Partner, Leader of Sustainability Consulting Central Europe, and Raúl García Rodríguez, Director, Leader of Sustainability Consulting in the Czech Republic.

The lead authors of the Guidelines are Maria Ibisz, Deloitte, member of EFRAG Expert Working Group on ESRS, Lead of ESG strategy, Integrated reporting and ESG cloud in CE, and Filip Gregor, Frank Bold, Head of the Responsible Companies Section at Frank Bold, Member of EFRAG Sustainability Reporting Board.

Acknowledgements

The authors would like to thank the Taiwan Business – EBRD Technical Cooperation Fund for their support in the development of these Guidelines. These Guidelines are also the product of extensive cooperation by many external stakeholders in the Czech Republic. More than 15 representatives of government ministries, banks, investment funds, regulators, and supervisory authorities took part in the stakeholder engagement consultation process. More than 30 listed companies participated in an online survey and interviews for the analysis of the maturity of ESG reporting in the Czech Republic. We would like to thank all respondents and participants for their participation and open contribution, as well as the following Czech public institutions for their contributions towards developing these Guidelines:

- Ministry of Finance
- Ministry of Environment
- Ministry of Justice
- Ministry of Industry and Trade
- Ministry of Regional Development
- Office of the Government of the Czech Republic

We would also like to extend our special thanks to the following individuals for their support and guidance in the development of these Guidelines:

- Petr Koblic, CEO, Prague Stock Exchange, President of FESE
- Jiří Čipeta, Deputy CEO, Prague Stock Exchange
- Jiří Kovařík, Director of Communication, Prague Stock Exchange
- Radan Marek, Head of Legal department, Prague Stock Exchange
- Luboš Mazanec, Listing and Trading department, Prague Stock Exchange
- Irena Švarcová, Legal Counsel, Prague Stock Exchange
- Kateřina Benešová, Trading and Listing department, Prague Stock Exchange
- Robert Adamczyk, EBRD (Associate Director), EFRAG Expert Working Group on ESRS (Member)
- Vesselina Haralampieva, EBRD (Associate Director), EFRAG Expert Working Group on Governance (Member)
- Divya Chawla, EBRD (Counsel)
- Viktoriya Protsenko, EBRD (Analyst)
- Matthew Townsend, Allen & Overy (Partner and Co-Head of the International Environmental, Climate and Regulatory Law Group)
- Elena Philipova, London Stock Exchange Group (Global Head ESG), Technical Expert Group on Sustainable Finance (Member)