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● **Sustainability in Europe:  
a pressing regulatory  
environment**

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- **Europe, a pressing regulatory environment**
- **Snapshot of some key regulations**
- **The EU's Corporate Sustainability Reporting Directive (CSRD) and its impact:**
  - **Key elements**
  - **EFRAG and the the European Sustainability Reporting Standards (ESRS)**

## ● Key trends and drivers

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- Increasing **regulations**, and **requirements on reporting, transparency for ESG**, in particular on:
  - *Reporting on ESG impacts* – (e.g., the just adopted EU Corporate Sustainability Reporting Directive (CSRD))
  - *Environment* – Minimize environmental impacts along all value chain (e.g., Eco Design Directive)
  - *Supply chain* - Manage ESG impacts along all value chain (existing regulations and coming EU Supply Chain Act)
- **Increasing pressure on business leaders from the market, information to multiple stakeholders – consumers, clients**
- **Beyond regulation:** Organizations are becoming increasingly aware of the **benefits of sustainability:**
  - efficient business processes
  - brand protection and recognition, public image
  - fiscal benefits (e.g., recently in Italy for D&I)
  - market opportunity
  - ESG as a driver of innovation & creative destruction

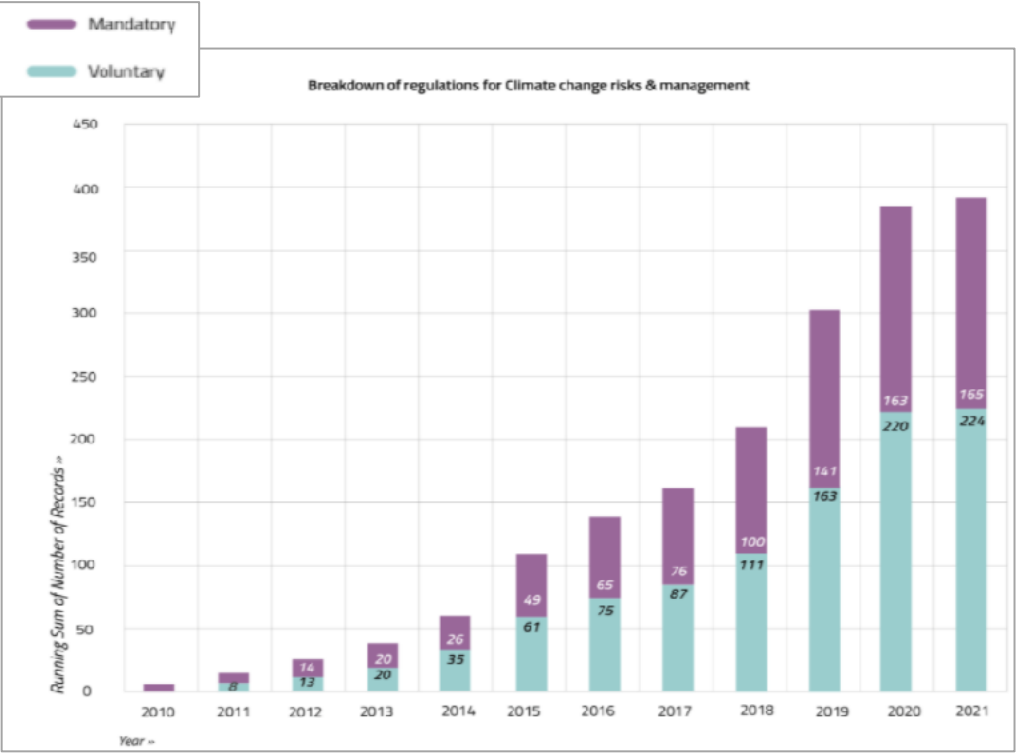
# Mandatory Human Rights and Environmental Due Diligence

## Consistency with existing policies and strategies in Europe

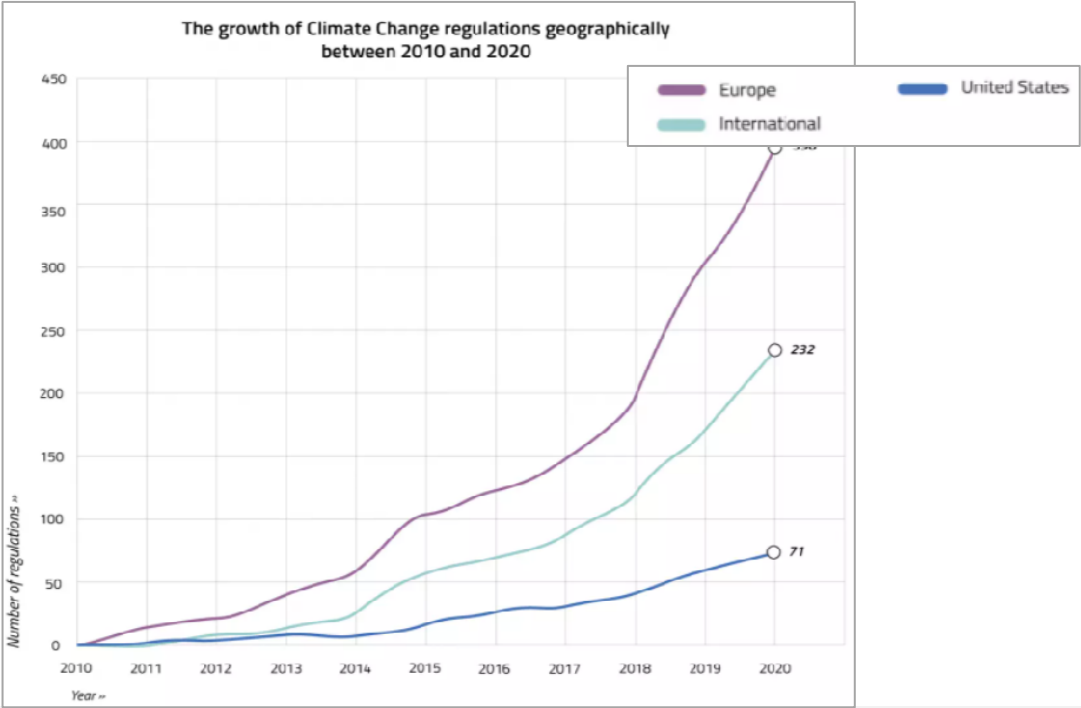


The number of **ESG regulations and standards** has nearly **doubled in the last six years**, with more than 600 ESG reporting provisions globally and myriad interpretations of how sustainability is defined.

# Climate-related regulations

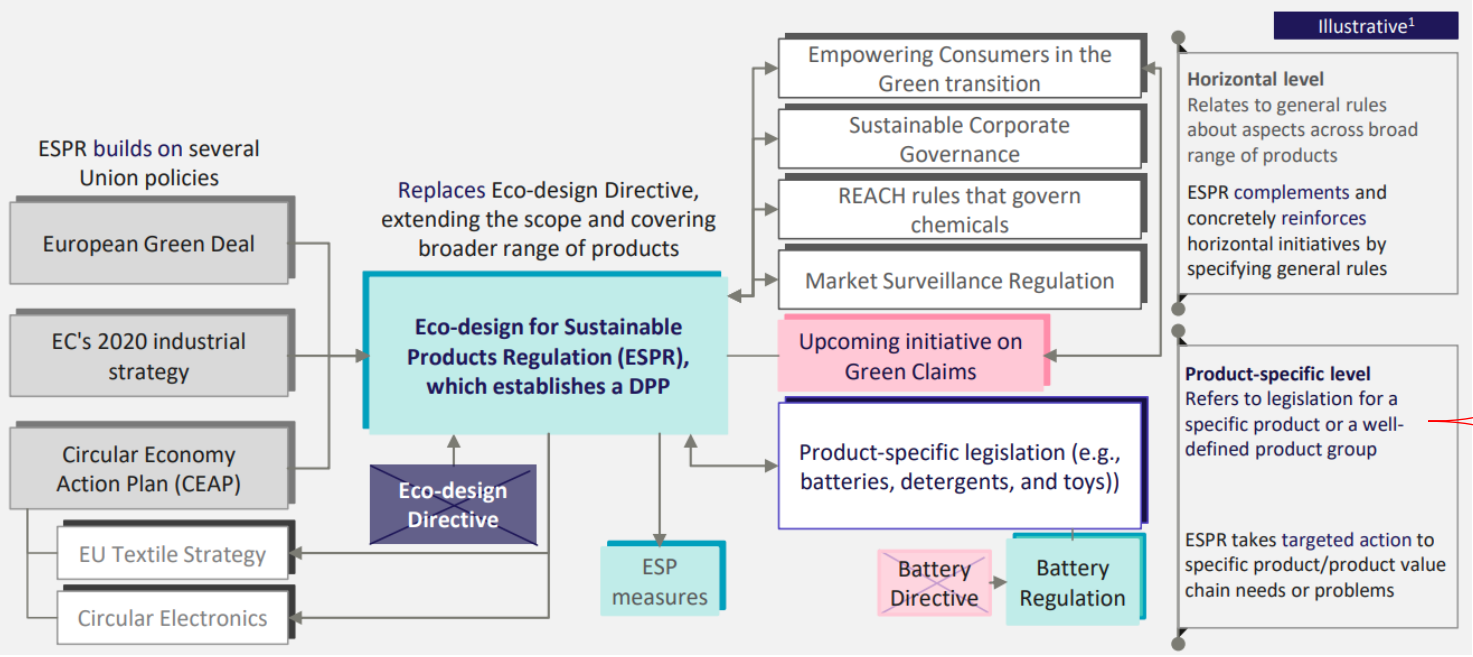


Between **2015 and 2021**, the number of climate-related regulations **increased by 254%**. The regulatory uptake follows the adoption of the Paris Agreement in 2015 and Financial Stability Board's (FSB) Task Force on Climate-Related Financial Disclosures (TCFD) in 2017.



**European Union takes a leadership position on climate change** - with five times more regulations on this issue than in the United States as of 2020.

# Key regulations build on EU policies such as the EU Green Deal



SOME RELEVANT REGULATION	KEY DATES
<a href="#">Corporate Sustainability Reporting Directive (CSRD)</a>	Approved in December 2022
<a href="#">EU's New Regulation to Halt Greenwashing</a>	Proposed in March 2023
<a href="#">New EU Battery Regulation</a>	To be implemented in 2026
<a href="#">Ecodesign for Sustainable Products Regulation</a>	Draft proposal published March 2022. First delegated acts adopted in 2024.
<a href="#">Construction Products Regulation</a>	Proposed in March 2022

- **Some** regulations do **focus** at accountability, reporting **at organization level and value chain, others at product life cycle.**

## CSRD

- EU adopted in November 2022 the Corporate Sustainability Reporting Directive (CSRD) extending the existing non-financial reporting requirements in the EU significantly from around 10,000 to around 50,000.
- CSRD will impact beyond EU.
- Mandatory European Sustainability Reporting Standards (ESRS) are introduced.
- CSRD implements a mandatory external assurance.

## Directive on Sustainable Corporate Governance

- The Directive is expected to come into force in 2024.
- It establishes a corporate responsibility and due diligence duty across business operations and the supply chain.
- The scope of the Directive covers:
  - EU companies with more than 500 employees with a global revenue greater than €150 million, or non-EU companies with revenue greater than €150 million in the EU market in the last financial year.
  - For companies operating in high-impact sector – EU companies with more than 250 employees with global revenue of more than €40 million, and non-EU companies with revenue greater than €40 million in EU market in the last financial year.
  - Non-EU companies: Third country companies active in the EU with turnover threshold aligned with Group 1 and 2, generated in the EU.

## Green Claims Directive

- The proposed directive requires companies to back up green claims about their products with evidence, in a bid to fight greenwashing and misleading advertisements.
- In particular products claiming as "climate neutral" or "containing recycled materials".
- Each government will have to set up a "system of verification for the substantiation of environmental claims" and inspections will have to be carried out by "independent verifiers".

## Ecodesign for Sustainable Products Regulation

- **The proposal extends the existing Ecodesign Directive**, which currently only covers energy-related products, to **all products on sale in the EU market, including imported ones**. It **also broadens the scope** of requirements, **setting criteria not only for energy efficiency, but also for circularity and an overall reduction of the environmental and climate footprint of products**.
- An important instrument is the **introduction of the “Digital Product Passport”**: a passport that requires to collect data and communicate on products’ value chain.
- Data requirements for digital product passports are still being determined and will be set for each individual product category based upon a process of industry-wide stakeholder consultation.

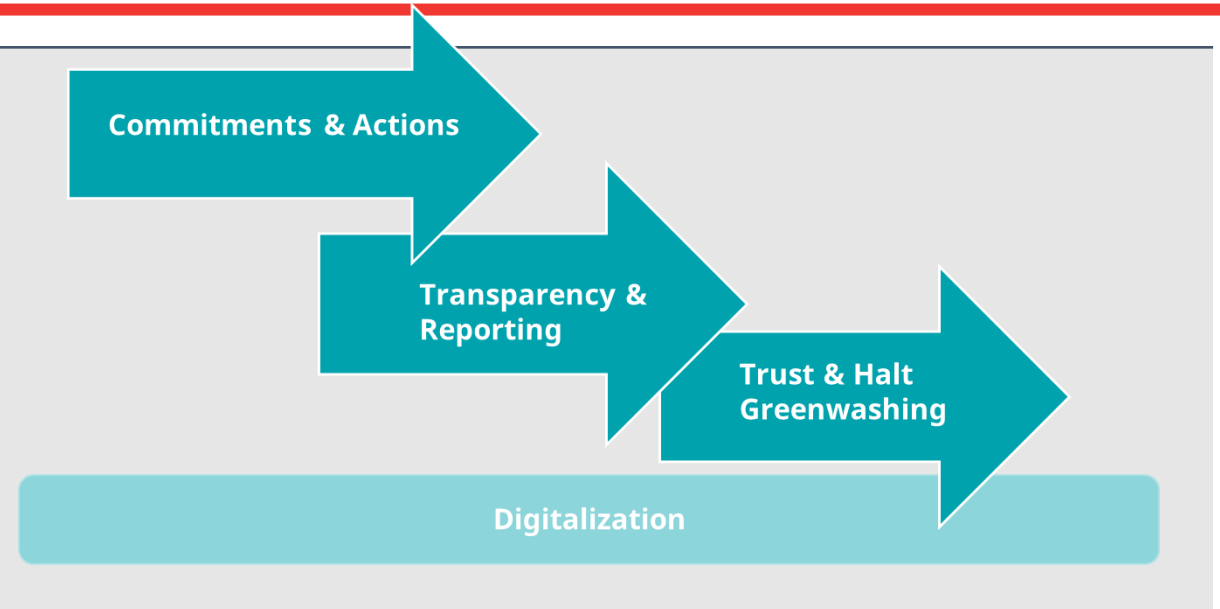
## Carbon Border Adjustment Mechanism (CBAM)

- CBAM will **apply to the import of certain product groups to the EU starting end of 2023**. It is **aimed at equalizing the price of carbon paid for EU products operating under the EU Emissions Trading System and imported goods**.
- **During the transitional phase** (end 2023 – end 2025), there will only be a requirement for the quarterly reporting of the greenhouse gas footprint of certain products imported to the EU. **From 2026** the importers will need to declare each year the quantity of goods imported into the EU in the preceding year and their embedded GHG. They will then surrender the corresponding number of CBAM certificates.



# Some key takeaways

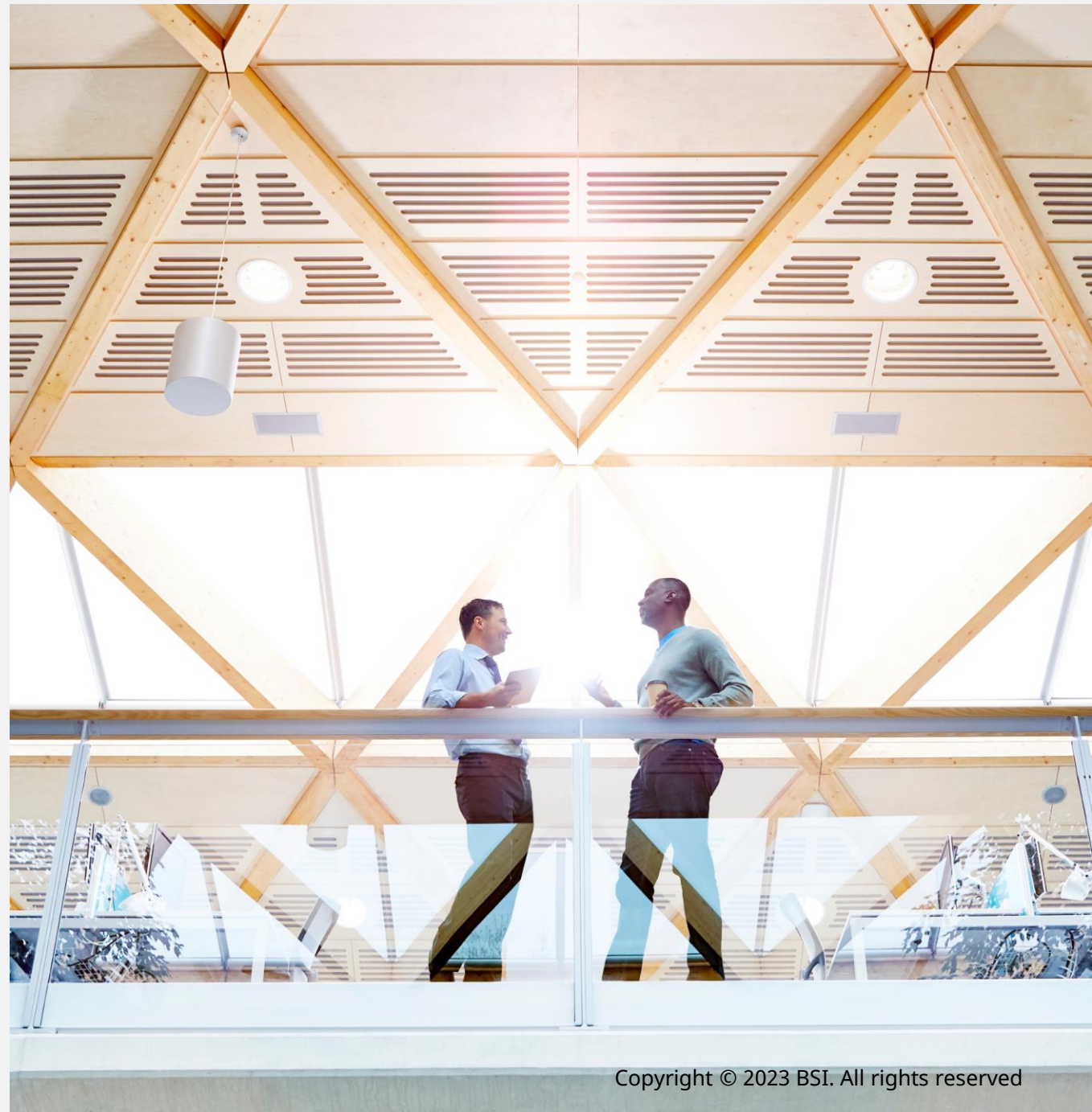
**Organizations:** a journey through regulations and stakeholders expectations



- For organizations has **became challenging to keep up to date to regulations, how to interpret** their requirements and interconnection.
- At the same time these regulations aim **to increase accountability, transparency, create consistency** and make the ESG performance of companies easily understandable to investors and stakeholders.
- **Most of the regulations** on the horizon will/can represent **a game changer**.
- Europe is leading with a pressing regulation environment that will have **an impact beyond EU**.



## ● The Corporate Sustainability Reporting Directive (CSRD)



# CSRD: key facts

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- The Corporate Sustainability Reporting Directive (**CSRD**) **final text was finally adopted** by the European Parliament in November 2022. It complements two other regulations which go in the same direction: the Sustainable Finance Disclosure Regulation (SFDR) and the EU Taxonomy.
- **Extension of scope:** Compared with the existing Non-Financial Reporting Directive (NFRD), CSRD will significantly expand the scope of sustainability reporting at both the individual entity and group level. The new CSRD applies to a drastically **larger scope of companies - from around 10,000 to around 50,000** -across all sectors.
- The scope of application **also includes companies outside the EU.**
- Through the CSRD, **mandatory European Sustainability Reporting Standards (ESRS) are introduced**, based on the European Financial Reporting Advisory Group's (EFRAG) recommendations.
- The CSRD includes a **mandatory external assurance obligation for the reported sustainability information** and the requirements begin with limited assurance and expand to reasonable assurance at a later date.

	Current Regulation NFRD	CSRD Scope
Scope	<p>Listed and large public interest companies with more than 500 employees.</p>	<ul style="list-style-type: none"><li>■ All listed companies in EU (including listed SMEs*, but excluding the micro-undertakings)</li><li>■ All large undertakings, as well as all parent undertakings of a large group, which exceed two of the three criteria during the financial year in two consecutive financial years:<ul style="list-style-type: none"><li>□ € 20 million balance sheet total,</li><li>□ € 40 million net turnover,</li><li>□ average number of 250 employees</li></ul></li><li>■ Companies outside the EU if they generate a net turnover in the EU of more than € 150 million (in the last two consecutive years) and have at least one large or EU-listed subsidiary or a branch that generates minimum revenue of €40 million in the EU.</li></ul>

*\*Listed SMEs have the possibility to postpone the first-time application by two years.*

# CSRD: adoption

The CSRD will be applicable at 4 different dates depending on the undertaking status:

- **FY 2024:** Large EU PIE entities (already under NFRD).
- **FY 2025:** All large undertakings, as well as all parent undertakings of a large group, as described above.
- **FY 2026:** Listed SMEs (with an opt out option until FY 2028).
- **FY 2028 :** All non EU undertakings as described above.



\***Large undertakings** defined as exceeding at least two of the following metrics on two consecutive annual balance sheet dates:  
– Total assets of €20 million or more  
– Net turnover (revenue) of €40 million or more  
– Average of 250 or more employees

\*\***Small and medium-sized entities (SMEs)**, provided they are listed on regulated markets have the possibility of postponing the first-time application by two years and on the basis of their own reporting standards.

# The European Sustainability Reporting Standards (ESRS)

- Based on the European Financial Reporting Advisory Group's (EFRAG) recommendations, the **ESRS will be mandatory** for use. By requiring the use of common standards, the Directive aims to ensure that companies across the EU report **comparable and reliable sustainability information**.



- The ESRS consist of a set of:
  - 12 sector agnostic standards, approved July 2023. They are **categorized into: "Cross-cutting standards" and "Topical standards"** for all sustainability ESG topics
  - by 30 June 2024:
    - sector-specific standards
    - proportionate standards **for listed SMEs**
    - standards **for non-EU companies** exceeding EU turnover thresholds

# ESRS: What to report



The ESRS take a “double materiality” perspective so:

- **ESRS 1** (“General Requirements”) sets general principles to be applied when reporting according to ESRS and **does not itself set specific disclosure requirements.**
- **ESRS 2** (“General Disclosures”) specifies essential information to be disclosed irrespective of which sustainability matter is being considered. **ESRS 2 is mandatory for all companies under the CSRD scope.**
- **All the other standards** and the individual disclosure requirements and datapoints within them **are subject to a materiality assessment.** This means that the company will report only relevant information and may omit the information in question that is not relevant (“material”) for its business model and activity.
- As other information, materiality assessment process is subject to external assurance

# Double Materiality and other notable points

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- The **“double materiality”** principle: it refers to two dimensions of materiality – ‘financial’ (“outside-in”) and ‘impact (“inside-out” )’. Companies will need to perform materiality assessments for both dimensions and report matters that are material in either dimension for all sustainability-related topics.
- **General disclosures** (ESRS2) cut across the entire report and – like with the TCFD framework – align closely with the typical structure of an annual report. This section should cover a **company’s governance; strategy; impact, risk and opportunity management; and metrics and targets**.

Companies will **also need to share information regarding due diligence policies across ESG**, alignment with the EU taxonomy, stakeholder engagement inclusion practices, and critically, how the company assessed the material impact of each environmental, social and governance standard.

- Reporting on **policies, action plans and targets**: providing detailed disclosures about policies, action plans and targets across all material topics.
- **Reporting** on impacts, risks and opportunities **across the value chain**.
- The **Climate Change standard** (ESRS E1) **includes Scope 1, 2, & 3 emissions**, climate related risks, carbon pricing, energy mixes, and a credible transition plan to align with the Paris Agreement.



## Other notable points

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- **Alignment and with other global standards:** the Commission has worked to **ensure a very high level of alignment between ESRS and the standards** of the International Sustainability Standards Board (**ISSB**) and the Global Reporting Initiative (**GRI**).
- **Phase-in reliefs:** to give companies, especially smaller companies, more time to implement the data collection and reporting processes, the first set of ESRSs introduces relief measures for first years. For examples: certain disclosures related to own workforce, companies with less than 750 employees may also omit the disclosure of Scope 3 emissions and biodiversity.
- To enhance the reliability of reported information, CSRD has introduced an **assurance obligation** for sustainability information, including ESRS compliance. **Initially, limited assurance** will be required, with a planned transition to reasonable assurance in following years.

The assurance requirement will be a new motion for **many companies who will need high levels of data accuracy, completeness, and controls.**

# Getting ready for CSRD

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- AS per CSRD **scope, identify expected timeline** for reporting.
- Evaluate **your current status of reporting practices** and competence.
- **Boards buy-in**, ensure **financial and human resource** to address CSRD implications and actions needed.
- **Engage multiple stakeholders** within the organization, allocate **responsibilities** and communicate clear **objectives, plans, targets and timelines**.
- **Align risk management** with the business' sustainability strategy.
- Keep **up to date with ESRS standards** and publication of final requirements. Develop a comprehensive understanding.
- Set an **effective process to collect and monitor data**, set controls to **ensure reliability**. Reporting and data collection needs to be robust, transparent, and verifiable.
- Identify **areas of challenges** and how to overcome, begin the process as soon as possible.
- Start taking action: the sooner the better!

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**Thank you**