CSRD and ESRS

Questions and answers

version 8 November 2023

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Purpose of this document
The purpose of this document is to provide clarity on the Corporate Sustainability Reporting Directive (*CSRD*) and the related European Sustainability Reporting Standards (ESRS). Frequently asked questions with answers can be found per topic below.

Role of the SER and DASB
The SER and the DASB have drafted this document to support undertakings in the creation of their annual sustainability report.

The SER has committed itself to create a strong and sustainable economy for undertakings and their value chains, as well as support the advancement of mandatory sustainability reporting. Various SER advisory reports on sustainability and corporate social responsibility emphasize the importance of transparency and public reporting. The SER therefore considers it of importance to inform and involve as many different parties about these topics as possible.

The DASB is committed to promoting the quality of the external reporting of undertakings in the Netherlands. This includes sustainability reporting as it is an important component of the Management report. The DASB gives concrete substance to its objective by publishing 'Guidelines for Annual Reporting' ('*Richtlijnen voor de Jaarverslaggeving*') and 'DASB-Statements' ('*RJ-Uitingen*'). In addition, the DASB provides solicited and unsolicited advice to the government and other regulatory bodies such as the European Financial Reporting Advisory Group (*EFRAG*).

Web links
1. *CSRD* – click here for English
2. Implementing and delegated acts – *CSRD* website European Commission – click here
3. ESRS set 1 - Sector agnostic standards – applicable for all companies in all sectors – click here for English
4. ESRS set 1 - Datapoint overview: click here

Questions
Do you have questions about the *CSRD*, ESRS or are you missing a question in this list? Send us an *e-mail* and we will contact you as soon as possible. For technical questions, *EFRAG* has also set up an ESRS Q&A platform. Questions regarding individual facts or circumstances will not be answered via this platform.

Table of contents

Glossary

Below you will find a list of the abbreviations used in this document. These abbreviations will appear in *italics* throughout the document.

CSDDD	= Corporate Sustainability Due Diligence Directive
CSRD	= Corporate Sustainability Reporting Directive
EBA	= European Banking Authority
EFRAG	= European Financial Reporting Advisory Group
EIOPA	= European Insurance and Occupational Pensions Authority
ESAP	= European Single Access Point
ESG	= Environmental, Social en Governance
ESMA	= European Securities and Markets Authority
ESRS	= European Sustainability Reporting Standards
GOV	= Governance
GRI	= Global Reporting Initiative
IASB	= International Accounting Standard Board
IFRS	= International Financial Reporting Standards
IRO	= Impact, risk and opportunity management
ISSB	= International Sustainability Standards Board
L*SME*	= Listed small and medium enterprise standard
MT	= Metrics and Targets
NFRD	= Non-Financial Reporting Directive
NGO	= Non-governmental organisation
OECD	= Organisation for Economic Co-operation and Development
PIE	= Public interest entity
SBM	= Strategy and Business Model
SDG	= Sustainable Development Goals
SR TEG	= Sustainability Reporting Technical Expert Group
SFDR	= Sustainable Finance Disclosure Regulation
SME	= Small and Medium-sized Enterprises
SRB	= Sustainability Reporting Board
UNGP	= United Nations Guiding Principles
VSME	= Voluntary small and medium enterprise standard
XBRL	= eXtensible Business Reporting Language

1. Introduction

1.1 What is sustainability reporting?

In a sustainability report, the undertaking provides insight into its strategy and policy on sustainability, how it implements these and how it performs on the relevant performance measures. Sustainability is a broad concept that is often connected to *ESG*, which stands for Environment (E), Social (S) and Governance (G).

1.2 What are the goals of the *CSRD* sustainability reporting requirement?

The European Commission formulated three goals for sustainability reporting requirements. It is important to keep these in mind when reporting on the *CSRD* requirements.

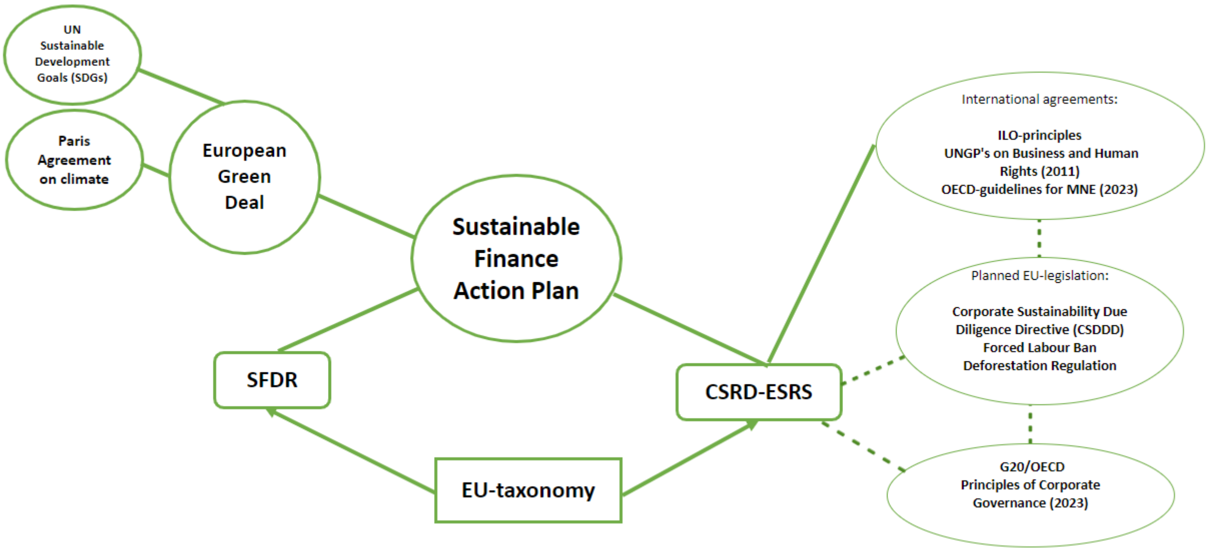
- Reduce systemic risks related to climate change and other sustainability topics such as human rights.
- Change capital flows, and ensure that more investments are made in sustainable activities, and less in unsustainable activities.
- Increase the responsibility of issues relating to their impacts on society and the environment.

1.3 Why sustainability reporting?

In the *Paris Agreement*, countries agreed to limit global warming to below 2 degrees Celsius. A number of measures and policy initiatives, the "*Green Deal*", should help the European Union with a green transition to be climate neutral by 2050.

In order to finance the green transition, public and private funds need be channeled to sustainable economic activities. This requires insight into the sustainability of undertakings so that investors or banks can make choices in where they invest, or to whom they grant loans and under what conditions. The *CSRD* contains the legal obligation to prepare and publish a sustainability report. That report contributes to insight in how sustainable an undertaking is and provides the foundation for a conversation with its stakeholders. The *CSRD* is not limited only to environmental matters, but also includes all aspects of *ESG*. Integration between the three subject is necessary to understand impact on society and the environment.

European ESG-landscape in which the sustainability reporting fits



See glossary for abbreviations used in above image.

1.4 Why is a sustainability report required?

There are several reasons why an undertaking should publish a sustainability report in accordance with the *CSRD* and ESRS. Here are some of the most common reasons:

- The legal obligation to publish in line with *CSRD* and ESRS. Undertakings that meet the requirements of the *CSRD* are required to publish a sustainability report. See Chapter 2 for more information on these requirements
- Anticipate future legal obligations for reporting in line with the *CSRD* and ESRS. It takes time and resources to report according to the *CSRD* and ESRS, so it is important to be proactive and being preparing already
- Create trust with the financial markets and improve access to capital
- Anticipate (future) requirements for information from customer and clients who fall under the *CSRD* / ESRS and proactively provide information toward them
- Competitive advantage – undertakings that are transparent on their sustainability performance can maximize their competitive advantage. Research suggests that undertakings that are transparent about their performance gain a competitive advantage and often outperform their peers
- Protect the undertakings reputation, build brand value, and improve trust with consumers
- Cooperation across the value chain. Value chain improvements are easier when there is transparency across them
- Take responsibility for sustainability performance. This transparency is relevant for a wide range of stakeholders, such as employees, unions, *NGO*s and value chain partners

1.5 Can the implementation of the *CSRD* lead to different requirements between member states?

A European Directive, such as the *CSRD*, must be implemented as accurately as possible in the laws of the member states. In this way, laws are comparable. A Directive can contain several choices. These are Member state options, where the member states have the freedom to make some choices within the provided framework. The *CSRD* contains several of these options, such as:

- Information may be omitted if its disclosure would jeopardise the commercial position of the undertaking
- The assurance of the sustainability reporting may be conducted by a different entity than the one who carries out the financial audit
- An independent assurance provider may assure the sustainability reporting

It is therefore not the case that there will be separate Dutch standards.

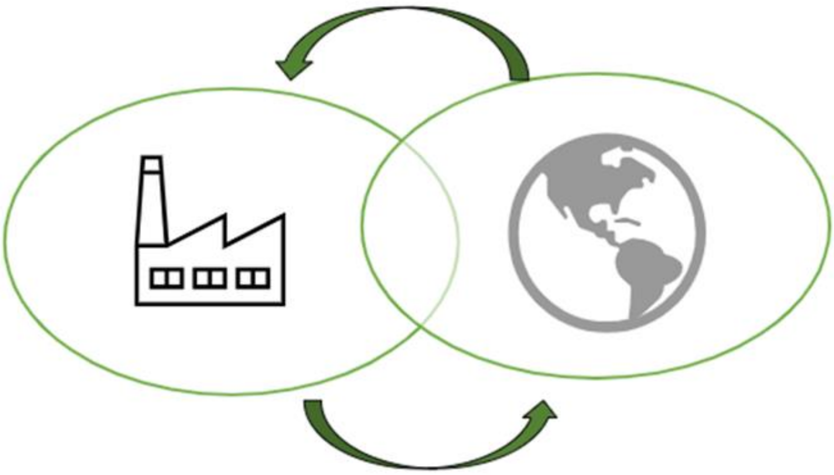
1.6 How will the *CSRD* be implemented in Dutch law?

It is not yet clear how the implementation of the *CSRD* will be done under Dutch law. The Ministry of Finance and the Ministry of Justice and Safety are currently busy with the implementation of the *CSRD* into Dutch law. They have until July 2024 to do so. Dutch lawmakers cannot change the content of the *CSRD* or the ESRS. However, Dutch lawmakers can add extra requirements into the national laws relating to the *CSRD*. The expectation is that Dutch lawmakers will not do this, but implement the *CSRD* rules as written.

1.7 The principle of 'double materiality' is the starting point of the sustainability report. What does that mean?

Double materiality has two perspectives – the impact **on**, and the impact **of** the undertaking. These are referred to as financial materiality and impact materiality, which together are double materiality.

Double materiality



By means of sustainability reporting, the undertaking provides insight into the how the undertaking is affected by the developments in the field of sustainability, for example the influence of climate change on the business model. This is called financial materiality.

On the other hand, the company reports on what kind of influence it has on its environment. Consider, for example, the effect of emissions from production processes on the air quality of local residents. This is called impact materiality, concerning people as well as the environment. These two perspectives (the impact on and the impact of the undertaking) together is called 'double materiality'. The sustainability report shall cover all material information.

In short, information is material if omitted or incorrectly displaying it could influence the user's judgment. A topic that is only material from a financial or impact point of view or material from both perspectives, therefore becomes part of the sustainability report. Undertakings should consider actual and potential impacts, as well as negative and positive impacts. Impacts should be considered over the short-, medium- and long-term.

A topic that is only material from a financial or impact perspective or is material from both perspectives becomes part of the sustainability report.

1.8 How to prioritize financial materiality and impact materiality based on double materiality principles?

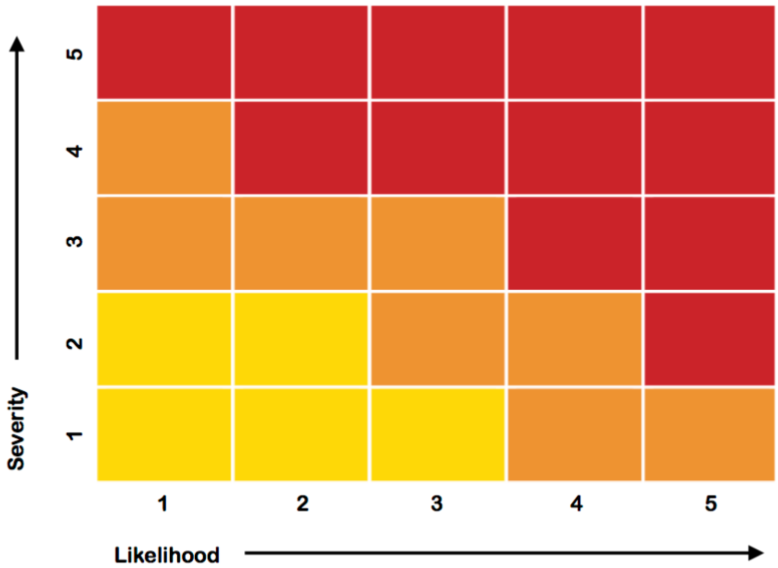
All material topics need to be included in the sustainability report. Financial materiality and impact materiality are not measured against one another. Therefore, the sustainability report could include topics that are (1) only material from a financial perspective, (2) only material from an impact perspective, and (3) material from both a financial and material perspective.

1.9 How to determine negative impact materiality?

To determine negative impact materiality, the likelihood of a risk occurring as well as the severity of the negative impact should be considered. Severity is determined based on scale, scope and irremediability:

- **Scale** refers to the gravity or seriousness of the potential or actual negative impact;
- **Scope** refers to the reach or extent of the potential or actual negative impact, for example the number of individuals that are or will be affected;
- **Irremediable character** refers to the irreversible nature of the negative impact, or any limits on the ability to restore the individuals or environment affected to a situation equivalent to their situation before the adverse impact.

Based on that, likelihood and severity of the negative impact could be ranked in a matrix to be able to determine which negative impacts are material.



1.10 How to report on financially material *ESG* topics which are also discussed in the annual financial statements?

This depends on the situation. A sustainability topic that is "financially" material is often, but not always, disclosed in the annual financial statements and could also be part of the corporate report (especially in integrated reporting structures).

An example regarding this has been discussed in the *webinar series by the SER and DASB*, and relates to the risk of flooding. That is a sustainability topic that is relevant from the financial materiality perspective within the sustainability report. However, in the annual financial statements of an undertaking, the direct impact of this risk will only be disclosed after the flood has occurred. It is usually not allowed to include forward looking statements such as this within the annual financial statements.

In fact, projects regarding connectivity between sustainability reporting and financial reporting has been started at both *EFRAG* (Connectivity Advisory Panel, *EFRAG* CAP) and *IASB/ISSB*, who are developing sustainability reporting standards. These projects are still in an early phase, and will receive increased attention as they progress. Most undertakings also evaluate whether climate change and the energy transition have impact on their annual financial statements. However, in general they conclude that until now this is not (yet) the case.

1.11 Who is the sustainability report for?

The information contained in the sustainability report provides insight into the sustainability risks and opportunities of the undertaking. It is intended primarily for financial stakeholders, such as shareholders, banks, creditors, and other financiers. In addition, there is also a large group of (affected) users/ stakeholders who will focus on the impact that the undertaking has on society and the environment. Examples are employees, unions, customers, local residents, and societal interest groups and *NGO*s that focus on the environment and human rights. Furthermore, the disclosures are also interesting to other parties such as an undertaking's business partners, governments, and analysts and academics who are interested in sustainability reporting.

2. Scope - to whom does the *CSRD* apply?

2.1 Who is obliged to report under the *CSRD*?

The *CSRD* applies to:

1. large undertakings and public interest entities
2. listed medium-sized and small enterprises
3. certain non-EU undertakings

See Article 1(1) of the *CSRD* and its references for the scope of the *CSRD* for large undertakings, public interest entities, and listed small and medium sized entities. See Article 1(14) of the *CSRD* for non-EU undertakings.

Undertakings that fall outside the scope of the *CSRD* may still expect some impact from the *CSRD*. See the question *'Does the reporting obligation from the CSRD have an impact on undertakings in the value chain of the reporting chain, such as suppliers or customers?'*

2.2 What is a large, medium, small, and micro undertaking?

The size of an undertaking is determined based on three criteria:

- balance sheet total (assets),
- net turnover, and
- number of employees.

To be categorized as a certain size is in line with the requirements for the annual accounts, an undertaking must meet at least two of the three criteria for two consecutive fiscal years.

The table below contains the criteria and references to the articles in the Dutch Civil Code (Burgelijk Wetboek) in which these limit amounts are stated:

	Micro Art. 2:395a BW	Small Art. 2:396 BW	Medium Art. 2:397 BW	Large
Assets	No more than € 350.000	No more than € 6 million	No more than € 20 million	More than € 20 million
Net turnover	No more than € 700.000	No more than € 12 million	No more than €40 million	More than € 40 million
Employees	Less than 10	Less than 50	Less than 250	250 or more

However, there is now a good chance that the criteria 'assets' and 'net turnover' will be increased by 25% based on a recent proposal from the European Commission to increase these limit amounts in the EU directive. Then it will become 'large': 25 million assets and 50 million net turnover. The European Commission has drawn up a delegated act for this purpose, but this is not yet published in the Official Journal of the EU, and is therefore not yet final/official.

To determine the number of employees, look at the average number of employees during the financial year (in line with annual accounting law). The DASB guidelines recommend determining the average number of employees based on person-years/full-time units (FTEs) with which an employment contract has been entered into. The implementation of the CSRD into Dutch law has yet to take place, so it is possible that the Dutch legislator will provide further clarification.

2.3 What is a public-interest entity?

Public interest entities (PIE), in short, are banks, insurers and listed entities. The *CSRD* applies to - regardless of their legal form - large banks, insurers, and large, medium, and small listed firms. Micro- listed entities are therefore excluded from the reporting obligation.

For more information see article 1 part 1 *CSRD* and the references for the definition.

2.4 Which undertakings from outside the EU are obliged to have to draft a sustainability report?

Undertakings from outside the EU are required to publish a sustainability report if the non-EU undertaking meets one of the following conditions:

- realized more than 150-million-euro net turnover within the EU for two consecutive fiscal years
- has a subsidiary that qualifies as a large-, medium- or small entity, and/or;
- has a branch with a net turnover of more than 40 million euros for the previous fiscal year.

For more information see Article 1 part 14 of the *CSRD*.

2.5 Does the reporting obligation under the *CSRD* affect undertakings in the value chain of the reporting chain, such as suppliers or customers?

Undertakings that do not themselves have an obligation to report can still expect consequences from the *CSRD* in one way or another. This is because undertakings required to report under the *CSRD* also have to report about their value chains. This means that undertakings who supply to an undertaking with a *CSRD*-reporting obligation may be asked to share information about various sustainability indicators with that undertaking.

2.6 When will the sustainability report become mandatory?

The obligation to draft and publish a sustainability report enters into force in different stages. Public-interest entities (PIEs) with more than 500 employees are the first group that are required to report. These undertakings already have a reporting obligation under the Non-Financial Reporting Directive (*NFRD*), which has been expanded under the *CSRD*. They will be required to provide a sustainability report on fiscal years beginning on or after 1 January 2024. This means that the first sustainability reports will be made public in early 2025.

Large undertakings follow a year after that with a report on the fiscal year that starts on or after 1 January 2025. Undertakings that are part of a group can make use of a reporting exemption under certain conditions. For more information, see the question *'Does the obligation to draw up a sustainability report apply if I am part of a group?'*

The reporting obligation for medium-sized and small listed entities starts for fiscal years starting on or after 1 January 2026, followed by non-EU undertakings with a reporting obligation for fiscal years on or after 1 January 2028. Below is a schematic overview of the dates of entry into force of the reporting obligation:

Financial years starting on or from	Who?
1 January 2024	Undertakings which currently have to publish a non-financial disclosure in their management report based on the EU Non-Financial Reporting Directive. These are large public interest entities (banks, insurance companies, listed firms) with more than 500 employees.
1 January 2025	Large undertakings with EU legal forms (unless exemption is considered)
1 January 2026	Medium and small listed firms
1 January 2028	Non-EU undertakings (without EU legal forms; for example originating from the United States or Japan). If the following conditions apply, undertakings from outside the EU are also obliged to report according to the *CSRD*. The company from outside the EU should have: - Two consecutive financial years with more than 150 million euro net turnover acquired within the EU - A subsidiary company which qualifies as a large firm or a medium-large or small listed firms and/or a branch office with a net turnover of more than 40 million euros based on the previous financial year

For more information, see article 5 *CSRD*.

2.7 What if a large undertaking has a different fiscal year, for example from 1 September 2024 till 31 August 2025?

Large undertakings will be required to draw up a sustainability report and make it public for fiscal years starting on or from 1 January 2025. This means that an undertaking with a different fiscal year ending on 31 August 2025, starts with the preparation of a sustainability report for the fiscal year starting on 1 September 2025. The fiscal year that starts on 1 September 2025 is then the first fiscal year for this undertaking starting after the reporting entry obligation comes into force under the *CSRD*.

2.8 Does the obligation to draw up a sustainability report also apply to large legal undertakings that are not PLC (such as a commercial foundation or a cooperative)?

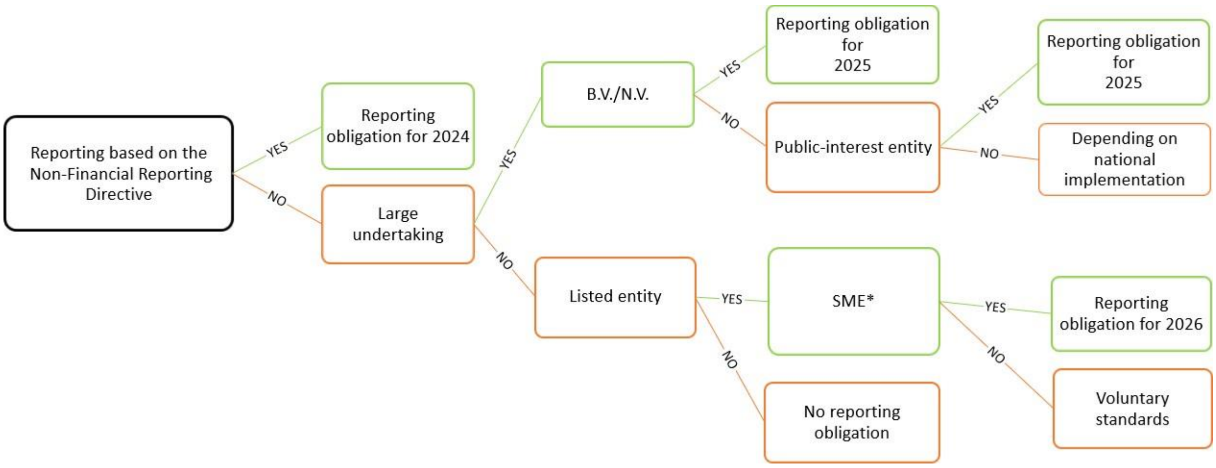
The *CSRD* applies to PLC and to public-interest entities (regardless of their legal form). It is still unclear whether other legal entities will also be required to prepare a sustainability report. This depends on how the National legislator will implement the *CSRD*. The legislator may extend the scope of application of the *CSRD* to, for example, cooperatives, foundations, associations, mutual guarantee societies, municipalities, government institutions, pension funds, investment institutions, housing corporations and care and educational institutions (in the long term) and require them to prepare a sustainability report as well.

Housing associations are not determined ‘undertakings’ (businesses) based on the directive for annual reporting. Therefore, based on the scope of the *CSRD*, which has not been implemented by the Dutch legislator yet, housing associations are not obliged to report according to the requirements of the *CSRD*.

2.9 Decision tree: does an undertaking meet the reporting requirements of the *CSRD* and when does the reporting obligation start?

The decision tree below is a schematic summary to answer the following questions:

- Who is obliged to report under the *CSRD*?
- When will the sustainability report become mandatory?
- Does the obligation to draft a sustainability report also apply to large legal entities that are not B.V. or N.V. (such as a commercial foundation or a cooperative)?



*The size of *SME*s are defined in the table on page 7.

2.10 Is there an obligation to draft a sustainability report if I am part of a group?

The purpose of annual reporting is that it provides insight into the performance of an undertaking, or a consolidated undertaking. However, there are exceptions. Many undertakings are part of a group. To reduce the administrative burden within a group, it is possible to be exempted from the reporting obligation as a group under conditions that are applicable to group undertakings. The sustainability information must then be included in the consolidated report of the parent of the group. In addition, exempted undertakings need to include a reference in their annual report to the consolidated sustainability report of the parent undertaking whose reporting contains the sustainability information of the group (Article 1(4) of the *CSRD* (Article 19a (9)). This exemption is comparable to the exemptions for the financial statements. Users of sustainability information gain access to the sustainability information and insight into the entire group by sustainability information that is shared by the parent undertaking.

2.11 Who proposed the *CSRD* and what is its status?

In April 2021 the European Commission presented a proposal for a European directive, the Corporate Sustainability Reporting Directive (*CSRD*). The *CSRD* was adopted on 10 November 2022 *by the European Parliament*. Following the approval by the European Council, the *CSRD* was published in the Official Journal on 14th of December. On the 5th of January 2023, the *CSRD* entered into force. From then onwards, the so-called implementation period started. This means that national legislators have 18 months to transpose the *CSRD* into national law.

2.12 What are European Sustainability Reporting Standards (ESRS), who makes them and what is their status?

The *CSRD* is further elaborated upon in the sustainability reporting standards, also known as the European Sustainability Reporting Standards (ESRS). The ESRS provide insight into the application and disclosure requirements of the sustainability report. They contain guidelines for what the sustainability report should look like. The European Financial Reporting Advisory Group (*EFRAG*) defines the ESRS and sent it as a proposal to the European Commission. The European Commission used *EFRAG*'s advice to establish the ESRS as Delegated Acts. The European Commission adopted the first set of ESRS in July 2023. The delegated acts are effective directly and do not need to be transposed into national law.

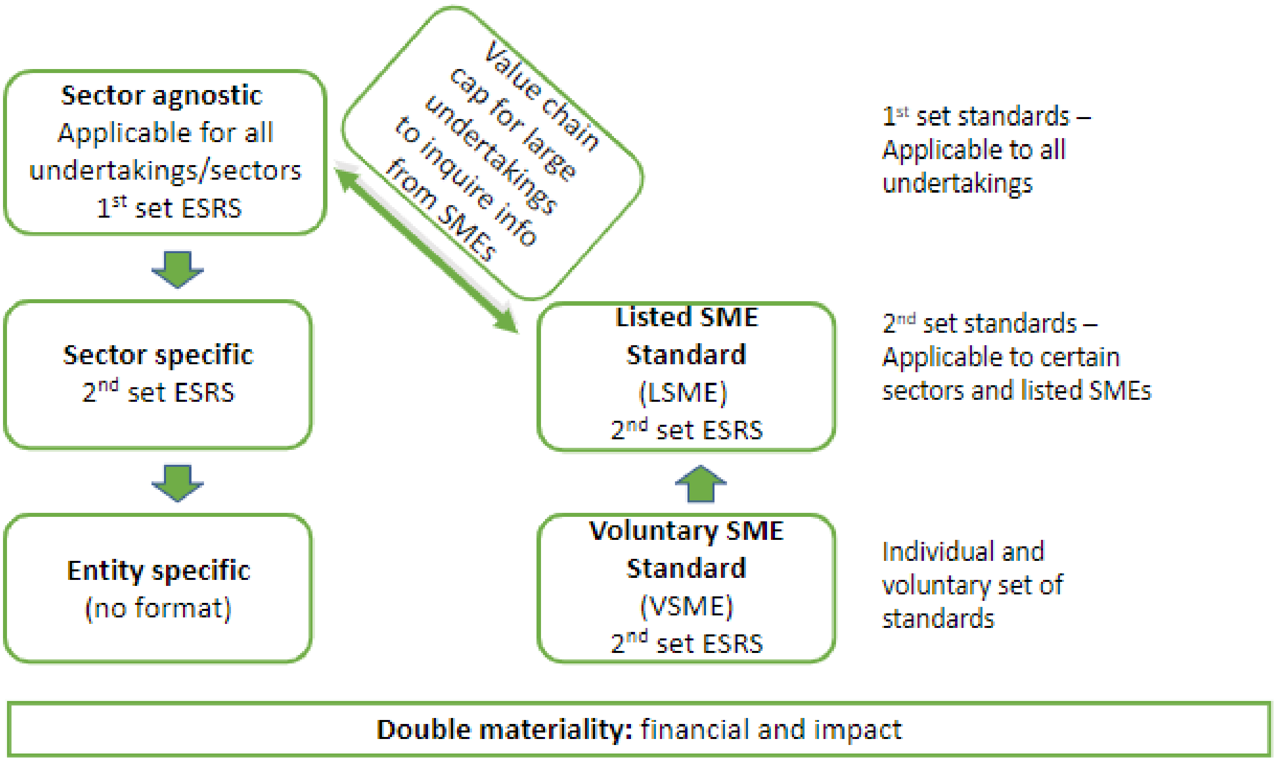
2.13 What is the impact of the *CSRD* on *SME*s?

The *CSRD* distinguishes between *SME*s with and without a public listing.

Listed SMEs
Listed *SME*s are obliged to report their sustainability performance over the fiscal year starting on or after the 1st of January 2026. For *SME*s, a set of adapted European sustainability reporting standards (the Listed-*SME* '*LSME'* Standard) will be developed. This means that there will be a lighter requirement that suits the smaller size of the undertaking. Listed *SME*s can also choose to use the more comprehensive Set 1 of the ESRS for their reporting.

Value chain cap
The *LSME* Standard is intended to provide a cap on reporting requests from large and listed companies toward *SME*s in the value chain. The *LSME* Standard can therefore be interesting for *SME*s to use regardless of their own reporting obligations. This enables *SME*s to proactively respond to questions from large and listed companies.

ESRS-architecture



Non-listed SMEs
Non-listed *SME*s fall outside the scope of the *CSRD*. They do not have to publish a sustainability report. However, they can voluntarily make use of the (yet to be drawn up) *SME* sustainability reporting standards (*VSME*) that are expected in the middle of 2024.

The large undertakings reporting under the *CSRD* must also report on different indicators in their value chain. *SME*s that are producers for an undertaking subject to reporting obligations could be asked by that undertaking to share sustainability information or, for example, could be imposed to sustainability requirements via contractual obligations.

2.14 How many European undertakings are expected to fall within the scope of the *CSRD*?

It is estimated that around 50,000 undertakings in the European Union will fall within the scope of the *CSRD*. This is an increase compared to the 11,000 undertakings that current operate under the Non-Financial Reporting Directive (NFRD) and who already have to publish a 'non-financial statement', the precursor of the sustainability report, in their management report. It is difficult to give an exact number, because under certain conditions exemptions can be used and the final way in which the *CSRD* is implemented in national law can influence the final scope.

For more information, see: *https://www.europarl.europa.eu/legislative-train/theme-a-european-green-deal/file-review-of-the-non-financial-reporting-directive*

3. The standards (ESRS)

3.1 What are the most significant changes in the management report initiated by the *CSRD* and the ESRS?

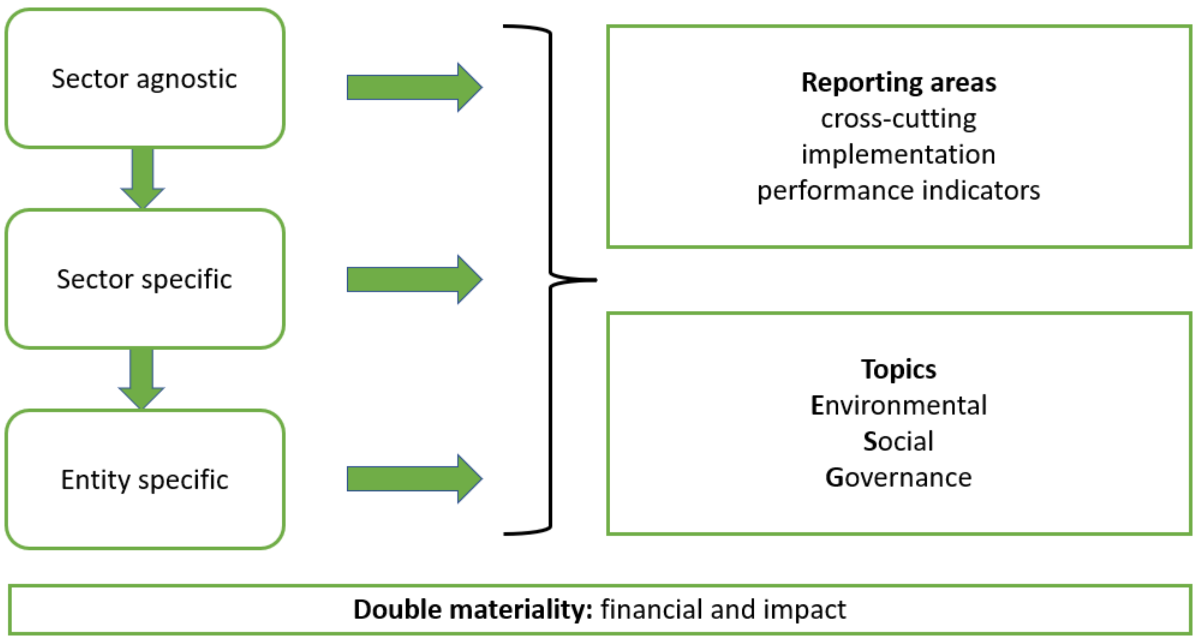
The following list contains some significant changes to the management report by the *CSRD* and ESRS:

- The management report is extended with a sustainability report.
- The sustainability report becomes a separate part of the management report, making it easy to find.
- The definition of sustainability from the *CSRD* focuses on three main themes: **E**nvironment, **S**ocial and **G**overnance. The detailed sustainability reporting standards are set out in the ESRS.
- Double materiality is the starting point of the report. The undertaking reports on the impact of sustainability factors on the undertaking and on the impact of the undertaking on the value chain, people, environment. The reporting addresses actual and potential impacts, and covers short-, medium- and long-term.
- An external assurance provider/accountant assesses the sustainability report.
- The sustainability report is made publicly available in a digital format.

3.2 Does every ESRS apply to every undertaking?

The ESRS are the sustainability reporting standards that define the reporting requirements of the *CSRD*. Part of the ESRS is relevant to all undertakings (independent of the sector in which they operate) and are called "sector agnostic" ESRS.

In addition, sector specific ESRS will be developed. The sector specific ESRS contain disclosure requirements appropriate for the different sectors. The agnostic and sector specific ESRS contain disclosure requirements, a part of which is mandatory for every undertaking. The materiality analysis determines which other disclosure requirements are required for the undertaking.

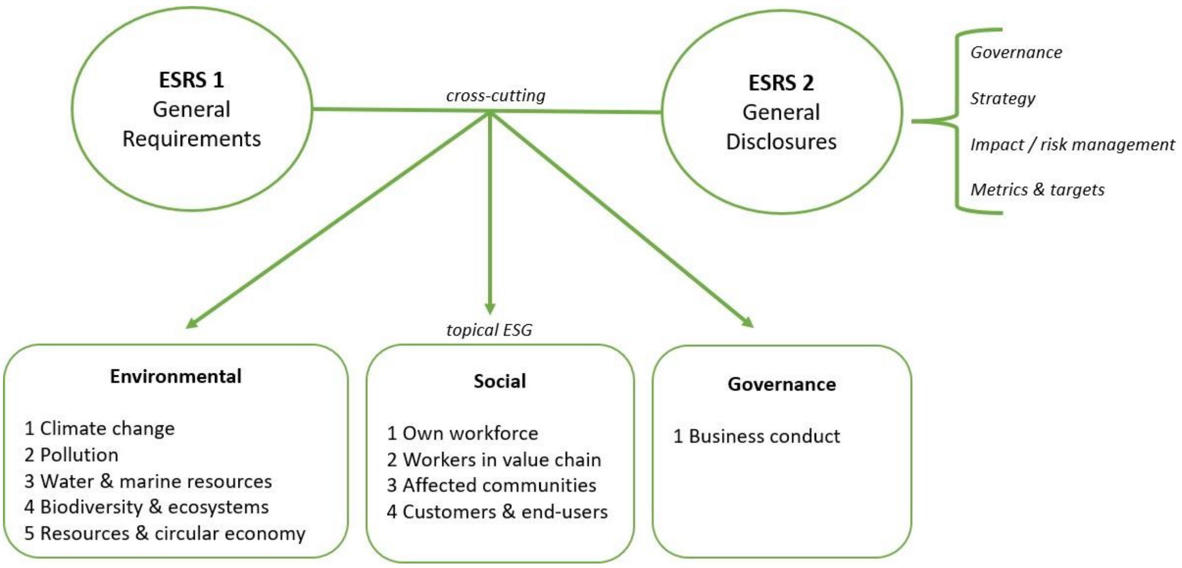


3.3 What does the first set of ESRS look like?

The first set of ESRS that have been drafted by *EFRAG* is a set of twelve standards that apply to all undertakings that fall under the *CSRD*. These standards are the sector agnostic standards.

The twelve ESRS are divided into two cross-cutting standards (ESRS 1+2) and ten topical standards (E1 to E5, S1 to S4 and G1). These 'topical' ESRS's contain the disclosure requirements for the Environmental, Social, and Governance (*ESG*) topics. Within each of the topics there are disclosure requirements for, inter alia, policy objectives, action plans, resources, and performance measures.

See below a schematic representation of these twelve sector agnostic standards divided into two cross-cutting standards and ten thematic standards **E**nvironment, **S**ocial, and **G**overnance (*ESG*).



Cross-cutting

3.4 Which cross-cutting standards are there?

There are two cross-cutting ESRS:
1. ESRS 1 General requirements
2. ESRS 2 General disclosures

These two 'cross cuttings' standards form the basis of the sustainability report and contain the 'playbook' and disclosure requirements for the sustainability report of any undertaking. The thematic **E**, **S** and **G**-ESRSs contain references to these cross-cutting standards.

Environmental

3.5 Which Environmental ESRS are there?

There are five environmental ESRS:
1. E1 Climate change
2. E2 Pollution
3. E3 Water and marine resources

4. E4 Biodiversity and ecosystems
5. E5 Resource use and circular economy

Each of these environmental standards contains disclosure requirements for, among other things, (1) governance (*GOV*), (2) strategy and business model (*SBM*), (3) impact and risk management (*IRO*) and (4) metrics and targets (*MT*).

Social

3.6 Which Social ESRS are there?

There are four social ESRS:
1. S1 Own Workforce
2. S2 Workers in the value chain
3. S3 Affected communities
4. S4 Consumers and end-users

Each of these social standards contains disclosure requirements for, among other things, (1) governance (*GOV*), (2) strategy and business model (*SBM*), (3) impact and risk management (*IRO*) and (4) metrics and targets (*MT*).

Governance

3.7 Which Governance ESRS are there?

There is one governance ESRS, Business conduct. The ESRS on business conduct consists of the following disclosure requirements:
1. Corporate culture
2. Procurement management
3. Prevention and detection of corruption/bribery
4. Confirmed incidents of corruption or bribery
5. Engagement to exert political influence and lobbying activities
6. Payment practices

In addition, the cross-cutting ESRS contain some mandatory disclosure requirements regarding governance which apply to every undertaking.

3.8 What are the most significant changes in the set of ESRS's that *EFRAG* recommended to the European Commission in November 2022 compared to the set of concept standards that *EFRAG* consulted earlier in spring/summer 2022?

- The number of disclosure requirements has been reduced significantly with about 45 percent, but the number of data points is still substantial.
- There is improved alignment with *GRI* and *IFRS* Sustainability Disclosure Standards.
- The meaning of the value chain is better defined, and the obligations in this respect will be in phases.

3.9 Which sector-specific ESRS are there?

The second set of ESRS that *EFRAG* will develop contains sector-specific standards. The sector-specific standards will be developed in phases.

Overview of the sectors:

- Textiles, accessories, footwear, jewellery
- Food and beverages
- Agriculture and farming
- Oil & gas (upstream & downstream)
- Motor vehicles
- Energy Production and Utilities
- Road Transport
- Coal Mining
- Energy Production and Utilities
- Metal Processing
- Forestry
- Water and Waste Services
- Real Estate and Services
- Information Technology
- Buildings Material
- Paper and Wood products
- Food and Beverage Services
- Tobacco
- Food and Beverages
- Pharma and Biotechnology
- Health Care and Services
- Medical Instruments
- Machinery and Equipment
- Electronics
- Chemical Products
- Accommodations
- Recreation and Leisure
- Media and Communication
- Gaming
- Constructions and Furnishing
- Construction and Engineering
- Sport Equipment and Toys
- Marketing
- Education
- Professional services (e.g., architects, accounting, photographic, legal, travel agencies, security, packaging)

4. Practical implementation and enforcement

4.1 How should the information be reported?

The sustainability report is part of the management report. The sustainability report should be a recognizable section of the management report. The management report, containing the sustainability report, must be submitted each year to the Chamber of Commerce (‘KvK’) and will probably be required to be available online. Undertakings are obliged to provide information in a digital format and deposit the sustainability report in *XBRL* format and the information contained therein should be tagged (Art. 29 d of the *CSRD*). Tagging means labelling data so that this information is automatically readable by machines (algorithms) and can be processed. The *XBRL* standard is an open source standard and the *CSRD*-specific *XBRL* language will be developed by *EFRAG*. Further elaboration of this will follow (including the creation of a taxonomy and elaboration on tagging requirements).

As of now, a central European Single Access Point (*ESAP*) is being developed. It aims to ensure that stakeholders have easy access to public financial and sustainability information on European undertakings.

4.2 Does the sustainability report have to be audited by an auditor?

The sustainability report must be assessed by an external assurance provider. This may be the external auditor that also audits the financial statements but may also be another external accountant. It is still unclear whether assurance providers other than an external accountant will soon be able to assess the sustainability report. This is a Member State decision and will become clear when the *CSRD* has been implemented in national law.

The minimum requirement for external assessment of the sustainability report ('limited assurance') under the CSRD is less thorough than an external audit of the financial statements ('reasonable assurance'). However, the required assessment of the sustainability report does go considerably beyond the effort currently required and conducted by an external auditor to assess the management report. An example of what the external assurance provider is looking for is in the selection of stakeholders as part of the materiality analysis. A way in which they execute assurance procedures would be to look into the value chain of the undertaking and see if important stakeholders in this process are included in the materiality analysis. Through this, they see if an undertaking’s stakeholders who may be directly or indirectly impacted by the activities of the undertaking play a role in the analysis.

For the external assessment of the sustainability report, the external auditor/assurance provider shall perform an audit of all required information presented in the sustainability report and whether it corresponds to the company’s actual sustainability performance and the completeness thereof. The external auditor will provide a limited content-related assessment on what is reported.

4.3 Who can provide an assurance opinion on the *CSRD*-related sustainability reporting?

The *CSRD* outlines 3 options for assurance provision:

1. De statutory auditor who audits the financial statements
2. Another external auditor or accountant who does not perform the financial audit
3. An independent assurance provider as designated by the member state. As this is a Member state option, it is not clear if this will be permitted under Dutch law.

4.4 What if you do not or do not fully comply with the *CSRD* and the ESRS?

The *CSRD* obliges undertakings to provide insight into the impact of sustainability factors on the undertaking and the impact of the undertaking on society and the environment. The ESRS set out the disclosure requirements for the sustainability report on the themes Environment, Social and Governance (*ESG*) about which the undertaking needs to provide information. An undertaking complies with the disclosure requirements where the undertaking discloses all material information. Even if the undertaking is not (fully) sustainable, the undertaking can still comply with the *CSRD* and ESRS when the sustainability report accurately reflects how sustainable the undertaking is.

An undertaking does not fully comply with the *CSRD* and the ESRS when material information is missing from the sustainability report. The auditor will report this in his statement. Failure to file the sustainability report or not filing it in time, is an economic offence.

4.5 What are the effects of the *CSRD* on annual reporting?

By making a sustainability report mandatory, the content of the management report will expand significantly. Undertakings subject to reporting requirements shall have to report the material sustainability information in their management report.

The material sustainability information is determined on the basis of the 'double materiality' principle. This means that materiality is determined both from a financial materiality perspective (what is the impact of, for example, climate change on the undertaking) as well as an impact materiality perspective (what is the impact of the undertaking on the environment). This additional sustainability information may have no direct impact on the financial statements, however, it is to be expected that (internal and external) developments in the area of sustainability can have an impact on the financial statements (e.g., the shortening of the remaining service life of machines that will be replaced earlier than expected by more sustainable machines). The additional sustainability information may also have no direct impact on taxation, but broader sustainability developments can have an impact (think of additional subsidies or levies).

4.6 What is the effect of mandatory reporting on sustainability in the value chain?

The *CSRD* and ESRS request information from the undertaking's value chain, see ESRS S2 about employees in the value chain. This means that undertakings need to have insight into their entire value chain. It requires knowledge of the products or services they purchase, where and how their product or service is created and what happens after they have sold a product or service. This means that additional information is needed from value chain parties and including from parties where they do not directly deal with. It is important that partners are included on time in the reporting requirements of the *CSRD* and the ESRS which apply to the undertaking with reporting obligations.

4.7 Are undertakings within a group, including parent or subsidiary undertakings, considered part of the value chain?

It is expected that the sustainability reporting is provided at the parent undertaking level. In a consolidated sustainability report at the parent level, all subsidiaries are included in the reporting boundaries of the report, as part of an undertakings' own operations. The value chain refers primarily to business partners, such as suppliers and customers, that are not part of the undertaking.

If a European subsidiary of for example, an American parent undertaking (with no *CSRD* reporting obligations), is obliged to report under *CSRD*, the American parent undertaking might be considered part of the value chain depending on the value chain relationship it has with the European subsidiary.

4.8 What should be done if value chain partners cannot provide the necessary sustainability information supply?

Obtaining sustainability information from the value chain is more difficult than obtaining information from one's own undertaking. The *CSRD* takes this into account by allowing the use of estimates and assumptions when primary supply-chain information is unavailable. Consider estimates, sector averages, or other indirection information sources. The undertaking should clearly identify what estimates and assumptions have been used in the preparation of the sustainability information and what measures have been taken to ensure accuracy.

When information from the value chain is not available in the first three years after entry into force, then the undertaking also complies with the *CSRD* when the undertaking explains why the information is not (yet) there and what the undertaking is doing to ensure that this information will become available in the future (Art. 19a(3)).

4.9 Can software suppliers respond to *CSRD* reporting obligations with regards to administrative software, such as accounting and reporting software?

The sustainability report must also be filed digitally. That offers possibilities for the optimization of data management processes and systems within the undertaking subject to reporting obligations. For example, software vendors could develop software that optimizes the mandatory tagging. Consider, for example, existing accounting software in which the tags are integrated so that the data from the accounting system can be implemented automatically and simultaneously in an internal reporting system using an API (a digital connection between software) systems). In addition, software vendors could also develop reporting tools that automatically (re)organize the internally collected data in the *CSRD* publication format and build in notification systems that indicate when the required information is missing.

4.10 Where should the sustainability report be filed?

The management report, containing the sustainability report, must also be filed with the Chamber of Commerce (in Dutch KvK), and is probably going to be required to be available online.

4.11 What reporting requirements will be phased in?

The European Commission has included phased in requirements into the *CSRD* / ESRS. This is primarily for undertakings with less than 750 employees. This provides these undertakings with more time to prepare for the requirements and spreads the reporting burden over a longer time frame. These phase ins primarily relate to disclosures on the value chain, as well as Standards such as biodiversity and certain social themes. The phase in requirements provide an additional period of 2 to 3 years from the initial reporting deadline for the undertaking

4.12 Why are stakeholders relevant to the materiality assessment process and how do you involve them in a meaningful way?

Companies report on sustainability matters based on the double materiality principle. Stakeholders are those who can affect or be affected by the undertaking. There are two main groups of stakeholders:

(a) affected stakeholders: individuals or groups whose interests are affected or could be affected – positively or negatively – by the undertaking's activities and its direct and indirect business relationships across its value chain;

Examples include own employees and employees in the value chain, suppliers, customers, consumers, end users, local communities, people in vulnerable situations, public institutions. But also: representatives of affected stakeholders, such as employee organisations, trade unions and other experts.

(b) users of sustainability statements: primary users of general-purpose financial reporting (existing and potential investors, lenders and other creditors, including asset managers, credit institutions, insurance undertakings), and other users of sustainability statements, including the undertaking's business partners, trade unions and social partners, civil society and non-governmental organisations, governments, analysts and academics.

To help companies with meaningfully involving stakeholders, the SER runs the project meaningful dialogue in international chains. Within this project, the concept design meaningful dialogue has been drawn up.

5. What are the steps that you could take now?

5.1 How can an undertaking prepare for the approaching sustainability reporting obligations?

Sustainability reporting may be relatively new for many undertakings, and the sustainability report will become a comprehensive part of the management report. In short, it is a challenge and it takes time to get it (right). And therefore, the key advice is: start and start now. But... not everything has to be done at once.

For example, one could start as follows:

1. Map out how your undertaking affects the environment and how the environment has an impact on the undertaking. To understand this, it is necessary that to have insight into where, what, and how the undertaking purchases and sells goods or services.
2. Identify which people within your undertaking are involved with (aspects of) sustainability.
3. Map blind spots: what do you already know (and/or measure) in the field of *ESG* and what topics are new to you? Who is responsible in your organization for these topics?
4. Learn from others. Look into *ESG* reports from undertakings in your industry that are already reporting on sustainability. What do they publish? Discuss it with an advisor, or your accountant.
5. Join existing initiatives where undertakings can get practical tools. The sector covenants for international RBC, for example, developed various instruments, such as an example policy plan and a practical guide to applying the *OECD* guidelines, with many examples on how undertakings are reporting. But also, organizations such as UN Global Compact and SER can help you further.
6. Reporting on sustainability indicators often requires a thorough system to collect information. Which information systems are already available within the undertaking and do they meet your reporting requirements? And what information is needed from value chain parties? It is also important to inform those parties about the impending reporting obligation.

5.2 What are possible challenges for undertakings in the upcoming mandatory sustainability report?

The lack of a solid IT system complicates the reporting process and makes reporting labour-intensive. For the sustainability report, reliable sustainability data is needed. Good IT systems to improve filing the sustainability data of one's own organization and value chain information (upstream and downstream) will be helpful.

The lack of knowledge about the value chain can be a challenge as well. Undertakings need insight into the products or services they purchase, where and how their product or service is created and what happens after they sell the product or service. That means that information is needed, also from value chain parties with whom no business is done directly. It is important to perform a good materiality analysis, because this analysis determines what you need to report on.

Simultaneously becoming more sustainable and reporting on sustainability can be a challenge. The new sustainability reporting obligation may lead to a desire to become more sustainable (faster). To make sustainable improvements, and deliver a good sustainability report, sufficient attention and time within the entire organization as well as buy-in from top management is needed.

5.3 How can an undertaking start to fulfil the obligations arising from the *CSRD* and ESRS?

1. Ensure that top management has knowledge about and recognizes the importance of the *CSRD*.
2. Read the *CSRD* and the ESRS.
3. Identify which departments and individuals are already collecting information on the requested data points.
4. Map out where there is insufficient knowledge within the organization and make sure that the knowledge is increased or obtained.
5. Connect your value chain partners as soon as possible, so that they can prepare themselves too.

5.4 What are useful links with more information about the *CSRD*/ESRS?

1. European Sustainability Reporting Standards (ESRS) NL and EN
2. EFRAG (draft) data points overview ESRS set 1
3. EFRAG ESRS Q&A Platform
4. SER and RJ Webinars about the *CSRD*-ESRS
5. SER and DASB *CSRD* and ESRS FAQ in NL and EN
6. SER website theme page International Responsible Business Conduct (IRBC)
7. Transparency benchmark for inspiration on how other companies are reporting
8. Website Dutch Accounting Standards Board (Raad voor de Jaarverslaggeving)
9. NBA white paper Corporate Sustainability Directive – an explanation of the *CSRD* requirements and support in complying with these rules

5.5 What role can my industry association play?

Industry associations can play an important role in supporting undertakings in the preparation of reporting for the *CSRD* and ESRS. This includes sector specific insights, especially relating to impacts, risks and opportunities.
Examples of the role of an industry association could play are:
- Facilitate a sector-specific process on impacts, risks and opportunities
- Improve insight in the industry on *ESG* themes, or provide information campaigns targeting functions within the undertakings such as senior management, supply chain, purchasing, compliance, finance and HR
- Bring diverse stakeholders together, creating learning communities within the industry
- Collect questions from industry stakeholders, plus working with stakeholders to ensure the 'right' questions are being asked
- Perform sector-specific risk analysis
- Provide aggregated data sets, based on the data of the undertakings in the industry
- Provide consultation feedback to, for example, *EFRAG*, on the sector-specific standards that will be developed
- Define sector-relevant answers to frequently asked questions
- Bring together key stakeholders to highlight relevant sector risks
- Share best practices within the industry
- Connect the industry to key lawmakers

Ultimately, undertakings are responsible for their own reporting. Working with an industry association provides the opportunity to gain better insight into how industry undertakings work on reporting and understand how an undertaking's reporting process aligns, or differs, from others in the industry. While undertakings within an industry have similarities, at company level, there will be other choices made, different financial possibilities and so on.

6. Relationship with existing EU legislation and other standards

6.1 How does the *CSRD* relate to existing and future 'sustainability' legislation?

The *CSRD* is one of the initiatives that fits within the "Green Deal" and other national and international initiatives in the field of International Responsible Business Conduct (IRBC) and sustainability. Below is a selection of sustainability laws or other initiatives and a brief description of the relationship to the *CSRD*:

- Science Based Targets: Science Based Targets are CO2 reduction targets that have been assessed as in line with keeping global warming to 1.5 degrees. The ESRS (Climate standard (E1)) also uses 1.5 degrees as a reference point. For example, the undertaking must report whether the CO2 reduction plans are in line with the 1.5-degree scenario. The institution that can assess undertaking's plans on this 1.5-degree objective is the Science Based Target initiative (SBTi) - a collaboration between three non-governmental organizations (*NGO*s), the Carbon Disclosure Project (CDP), World Wildlife Fund (WWF) and the World Resource Institute (WRI). Undertakings are not obliged by the *CSRD* to set targets that are in line with Science Based Targets - but must report whether they have science-based targets.

- Corporate Sustainability Due Diligence Directive (*CSDDD*): The reporting requirements from the *CSRD* and the ESRS focus on the undertaking and the material impact in the value chain (e.g., when reporting on CO2 emissions, or working conditions in the value chain). The proposed Corporate Sustainability Due Diligence Directive focuses on the value chain and contains rules on how the undertaking should deal with it and have to report on it. Upon completion, the *CSDDD* will be a complement of the *CSRD*.

- EU Taxonomy: The EU Taxonomy is a classification system that clarifies which economic activities can be regarded as environmentally sustainable. Companies that fall within the scope of the CSRD must also report, pursuant to Article 8 of the Taxonomy, on how and to what extent their business activities are aligned with the Taxonomy. Although both the Taxonomy and the CSRD address the same environmental topics, they each take a different approach resulting in different reporting requirements

- Standards of the International Sustainability Standards Board (*ISSB*), *GRI*, SEC: An important starting point of the *CSRD* and the *ESRS* is the comparability between undertakings in the European Union and to limit the double reporting burden. That is why the European Commission and *EFRAG* have aimed for interoperability with standards developed or to be developed by *GRI* (Global Reporting Initiative), *ISSB* (International Sustainability Standards Board) or SEC (US capital market regulator). *EFRAG* will draw up a comparison table for the ESRS the standards of *GRI* and *ISSB*.

- *OECD* Guidelines for Multinational Enterprises (*OECD* MNE Guidelines): This is a standard for responsible business conduct. The *OECD* Guidelines provide tools for companies to deal with issues such as value chain responsibility, human rights, child labor, the environment and corruption. The *CSRD* and the *ESRS* explicitly refer to these *OECD* guidelines in various places. For example, it states that the materiality analysis of a negative impact must be guided by the due diligence process as laid down in these *OECD* guidelines.

- Paris Climate Agreement: The Climate Agreement is an international treaty signed by nearly 200 countries to curb global warming. The European Union has also committed to this and the CSRD is a concrete form of the EU to implement this.

- Regulation banning products made with forced labour: This bill prohibits the offering of products made with forced labour within the European internal market. The proposal gives the national authorities the responsibility to enforce the law, based on research by means of a 'risk-based approach'. The *CSRD* requires companies to report on labour relations, including forced labour, see Social Standard 2.

- Regulation on deforestation-free products: This bill prohibits the offering of products that contribute to deforestation and forest degradation within the European internal market. This proposal, like the *CSRD*, falls within the European Green Deal. In addition, the *CSRD* requires companies to report on ecosystems and biodiversity, see Environmental Standard E4. This regulation will prohibit companies from buying or selling products that contribute to deforestation and degradation. To do this, the companies must perform due diligence on their purchasing practices, which must be reported on under the *CSRD*, and what must be acted upon under this regulation.

- Sustainable Finance Disclosure Regulation (*SFDR*): Financial market participants who have to report under the *SFDR* (and RTS) need data from the companies in which investments are made. The *CSRD* and in particular the *ESRS* meet this need, as the data required under the *SFDR* is directly or easily recognizable and findable in the ESRS.

- UN Guiding Principles on Business and Human Rights (*UNGP*s): This is a standard for responsible business conduct. The *CSRD* and the *ESRS* explicitly refer to these *OECD* guidelines in various places.

- UN Sustainable Development Goals (*SDG*s): The United Nations Sustainable Development Goals for 2030 are seventeen goals to make the world a better place. The *CSRD* can be seen as a practical elaboration of the *SDG*s to achieve sustainable development of the world through transparency, of which the *CSRD* is a European approach.

7. Decision-making process

7.1 How do the Corporate Sustainability Reporting Directive (*CSRD*) and the European Sustainability Reporting Standards (ESRS) come together? And are there still additional requirements that undertakings must meet?

The *CSRD* is an EU Directive that obliges undertakings and other entities to submit a sustainability report. The *CSRD* states to whom and from what moment this obligation applies. The *CSRD* outlines the content of the sustainability report. It states that it should include **E**nvironmental, **S**ocial and **G**overnance (*ESG*) information.

The *CSRD* is further elaborated in the European Sustainability Reporting Standards (ESRS). The ESRS provide insight into the design and disclosure requirements of the sustainability report.

7.2 Are the ESRS drawn up by the European Commission?

The European Commission is responsible for the creation of the ESRS. However, the European Commission makes use of *EFRAG*'s technical advice. This meant that *EFRAG* drafted Set 1 of ESRS for the European Commission in November 2022 (as an advice). This was followed by the European legislative process. For example, the European Commission is obliged to request advice from European authorities, such as *ESMA*, *EBA* and *EIOPA*, on *EFRAG*'s proposal. The European Commission may review the opinion of *EFRAG* (and content of the ESRS). In July 2023, the European Commission converted *EFRAG*'s advice into so-called 'delegated acts'. The items published (ESRS Set 1) then have direct effect in the EU Member States.

7.3 What is *EFRAG* and which parties participate in it?

EFRAG stands for the European Financial Reporting Advisory Group and is a collaboration between various national and European stakeholders on reporting. Originally *EFRAG* only advised the European Commission on financial reporting, such as the implementation of *IFRS*. But *EFRAG* is now also developing reporting standards for sustainability reporting. The stakeholders of *EFRAG* include national standard setters, and European bodies such as Business Europe, Accountancy Europe, and EFFASS. In addition, European authorities such as *ESMA*, ECB etc. are involved. For sustainability reporting, there are also specific numbers of other parties affiliated with *EFRAG* such as *NGO*s, trade unions, consumer organisations and Academics.

7.4 How is the DASB involved in *EFRAG* regarding sustainability?

The DASB (as the Dutch reporting standards setter) is a member of both the financial reporting pillar as well as the sustainability reporting pillar of *EFRAG*. The DASB has a dedicated sustainability working group that supports it on matters relating to sustainability, including reviewing and providing comments on the *EFRAG* (and *ISSB*) standards process, which enables the DASB to respond appropriately within *EFRAG* (and *ISSB*).

Additionally some DASB representatives are appointed members of different EFRAG governance bodies like the EFRAG General Assembly, EFRAG Administrative Board and EFRAG Financial Reporting Board (FRB). Also some members of the DASB sustainability working group are appointed as member of the EFRAG Sustainability Reporting Board (*SRB*) and EFRAG sustainability working groups (Technical Expert Group, *SME* expert working group, Social expert working group and the Connectivity Advisory Panel).

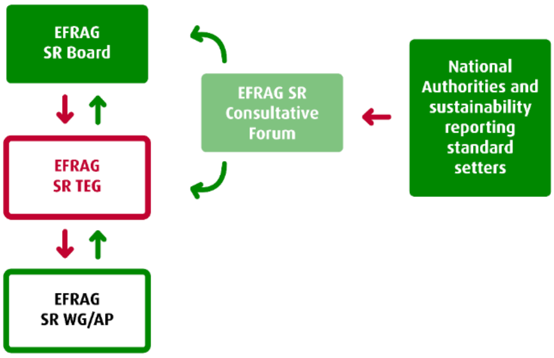
The EFRAG *SRB* is responsible for providing the final advice of EFRAG to the European Commission regarding the ESRS.

7.5 How is the SER involved in *EFRAG* regarding sustainability?

The SER is not directly involved in *EFRAG*. However some SER employees are involved in a personal capacity with *EFRAG* in the 'Sustainability Reporting Technical Expert Group' (EFRAG *SR TEG*), the 'social expert working group', the '*SME* expert group' and the 'implementation guidance value chain working group'. The *SR TEG* supports the *SRB*.

7.6 How does decision-making work within *EFRAG*?

The figure below gives a schematic representation of the sustainability-related decision-making within *EFRAG*:



7.7 How did the European Parliament vote on the *CSRD*?

The Corporate Sustainability Reporting Directive (*CSRD*), was adopted by *the European Parliament* adopted by 525 votes in favour, 60 votes against and 28 Abstentions. The *CSRD* entered into force on the 5th of JanuaryE 2023 and can be found in the *Official Journal*.

8. Future

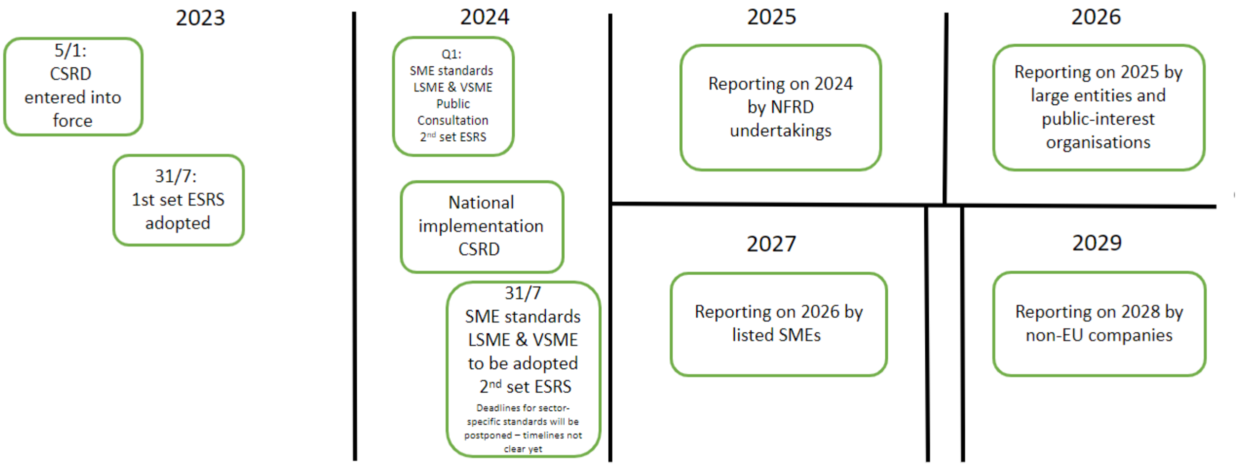
8.1 What is the timeline of the *CSRD* and the ESRS?

On the 5th of January 2023, the *CSRD* entered into force and the transposition period of 18 months started for national legislators.

On the 31th of July 2023, the first set of *ESRS* was adopted as delegated acts. A public consultation of a listed *SME* standard (*LSME*) and a voluntary *SME* standard (*VSME*) is expected in Q1 2024. On the 31th of June 2024, the second set of *ESRS* is expected to follow as delegated acts. This set is expected to contain the listed *SME* standard and, possibly, the first of the sector-specific ESRS. It may also contain a voluntary *SME* standard for undertakings that wish to report in line with the *CSRD*, but with a less extensive, and proportional approach. This approach is the basic, entry level for reporting, the listed-*SME* standard is a step higher, and the most comprehensive is the set 1 ESRS.

The reporting obligation starts for undertakings that are currently reporting under the EU Non-Financial Reporting Directive (*NFRD*), from fiscal years starting on or after the 1st of January 2024. The first sustainability reports will be published in early 2025. A year later, other large undertakings follow, followed by listed medium-sized and small undertakings. Non-EU undertaking's reporting for the fiscal years start on or after the 1st of January 2028.

Timelines



8.2 Which ESRS does the second set contain?

The first set of ESRS contains twelve (12) sector agnostic standards, standards that apply to all undertakings subject to reporting obligations. The second set is expected to contain the listed-*SME* standard and potentially, certain sector-specific standards. *EFRAG* is currently working on this. These will be further elaborated and published in due course. It is possible that the sector-specific standards may be delayed until a third set of ESRS.

9. Questions?

Do you have questions about the *CSRD*, *ESRS*, *CSDDD* or other questions in the field of RBC? Are you missing a question in this document? Send us an *email* and we will contact you as soon as possible.