NB!
The September update will follow as soon as possible.

CSRD and ESRS

Questions and answers

Version 18 April 2023

Disclaimer

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Purpose of this document

The purpose of this document is to clarify 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 DASB and the SER 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 chain, as well as the advancement of mandatory sustainability reporting. Different SER advisory reports on sustainability and corporate social responsibility emphasize the importance of transparency and public reporting. The SER therefore considers it important to inform and involve as many different parties about this 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' and 'DASB-Statements'. 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: *https://eur-lex.europa.eu/legal-content/EN/TXT/?toc=OJ%3AL%3A2022%3A322%3ATOC&uri=uriserv%3AOJ.L_.2022.322.01.0015.01.ENG*
2. ESRS - the first set of sector agnostic standards: *https://www.efrag.org/lab6*
3. ESRS - the second set of sector-specific standards: *https://www.efrag.org/lab5*
   NB! This second set of standards is expected to become available in spring 2023.

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.

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1. Introduction

1.1 What is sustainability reporting?

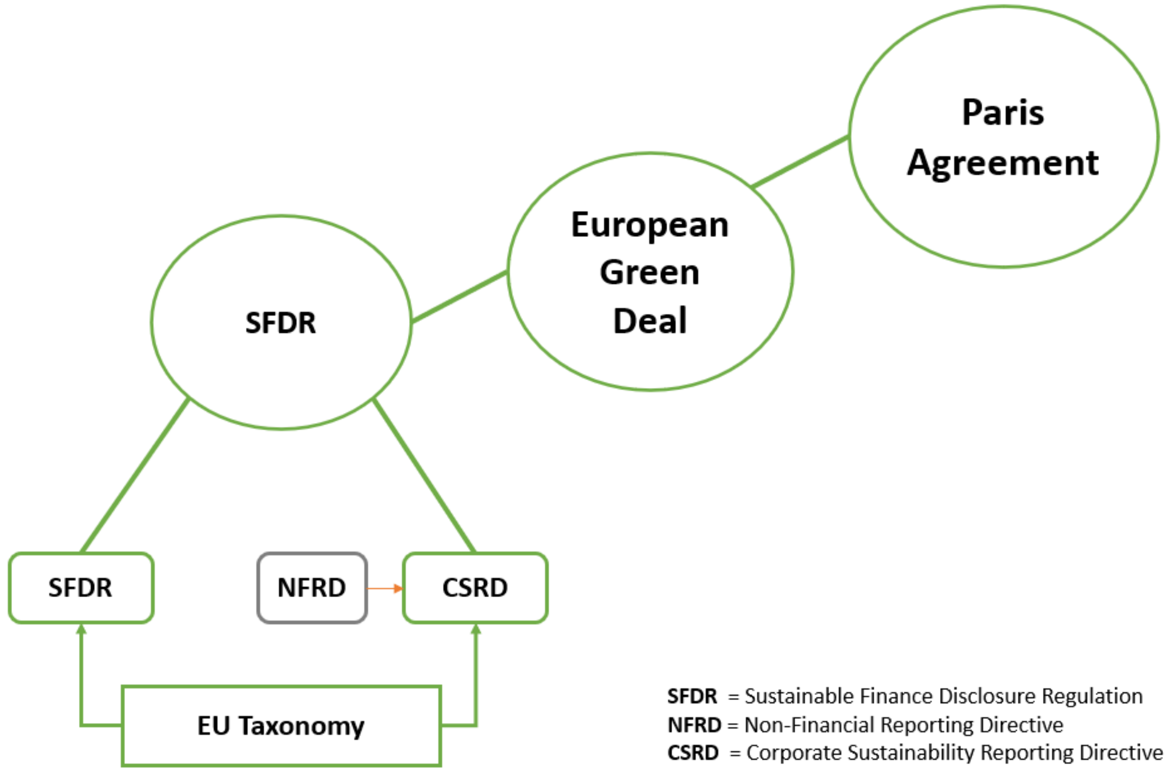
In a sustainability report, the undertaking provides insight into its strategy and policy on sustainability, how it implements these and how it scores on the relevant performance measures. Sustainability is a broad concept that is often connected to ESG, which stands for Environment (E), Social (S) and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

1.2 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 must be channelled to sustainable economic activities flow. This means that insight is needed into how sustainable undertakings are, for investors or banks to make choices in which they or to whom they grant loans and under what conditions. The CSRD contains the obligation to prepare and publish a sustainability report. That report contributes to the insight in how sustainable the undertaking is and provides the foundation for the conversation with its stakeholders.

The European legislative framework that includes sustainability reporting standards:



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

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.

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

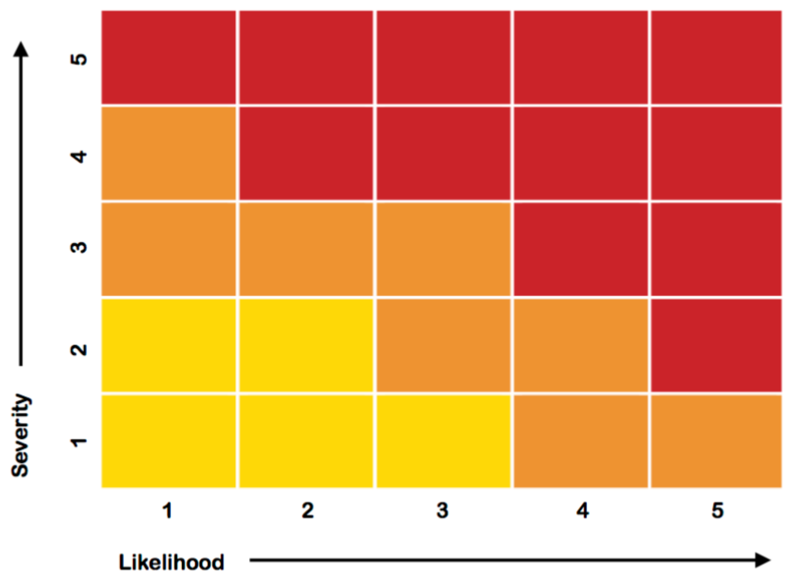
All material topics have to be included in the sustainability report. Financial materiality and impact materiality are not measured against one another. Therefore, the sustainability report could include topics that are (1) only material from a financial perspective, (2) only material from an impact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

1.5 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.



1.6 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 – introduced 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*. It considers 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 become visible once the flood has actually happened. It is usually not allowed to take precaution for that within the annual financial statements.

As a matter of fact, an important project regarding connectivity between sustainability reporting and financial reporting has started at both EFRAG and IASB/ISSB, who are developing the sustainability reporting standards. This project is still in its infancy which means that it is not a main priority for these parties right now, but that does not mean that there is no attention towards this topic at all. 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.

1.7 Who is the sustainability report for?

The information contained in the sustainability report is intended for financial stakeholders, such as shareholders, banks, creditors, and other financiers. Information from the sustainability report contributes to the understanding of the risks and opportunities of sustainability for the undertaking. In addition, there is also a large group of (affected) users/ stakeholders who will focus on the impact that the undertaking has on people and its environment. Examples are employees, customers, local residents and interest groups that focus on the environment and human rights.

Para. 26B ESRS 1: 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; and (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), as well as other users, including the undertaking's business partners, trade unions and social partners, civil society and non-governmental organisations, governments, analysts and academics.

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 including medium-sized and small stockbroking firms. See Article 1(14) of the CSRD for non-EU undertakings.

Undertakings that fall outside the scope of the CSRD can, however, still expect to encounter the effects of 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 Do housing associations fall within the scope of the reporting requirements from the CSRD?

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.

2.3 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
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

2.4 What is a public-interest entity?

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

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

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

If the following conditions are met, undertakings from outside the EU require a sustainability report to be drafted when the non-EU undertaking:

- achieved more than 150-million-euro net turnover for two consecutive fiscal years within the EU;
- has a subsidiary that qualifies as large or a medium or small stockbroking firm, 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.

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

Undertakings that are not obliged to report themselves could still be expected to encounter the consequences of the CSRD in one way or another. This is due to the fact that undertakings required to report under the CSRD also have to include different sustainability indicators across their value chain. This means that undertakings who are producing for an undertaking that has to report may be asked to share information about different (not all) sustainability indicators with the undertaking that is obliged to report.

2.7 When will the sustainability report become mandatory?

The obligation to draft and publish a sustainability report enters into force throughout various stages. Public-interest entities with more than 500 employees are the first group to report. They start by drafting a sustainability report on fiscal years beginning on or from 1 January 2024. This means that the first sustainability reports will be made public in early 2025. The large undertakings follow a year after that with a report on the fiscal year that starts on or from 1 January 2025. Undertakings that are part of a group can make use of a block 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 stockbroking firms starts for fiscal years starting on or from 1 January 2026. Followed by the non-EU undertaking with a reporting obligation on fiscal years on or from 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 organisations (banks, insurance companies, listed firms) with more than 500 employees.
1 January 2025	Large undertakings with EU legal forms (unless block 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.

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

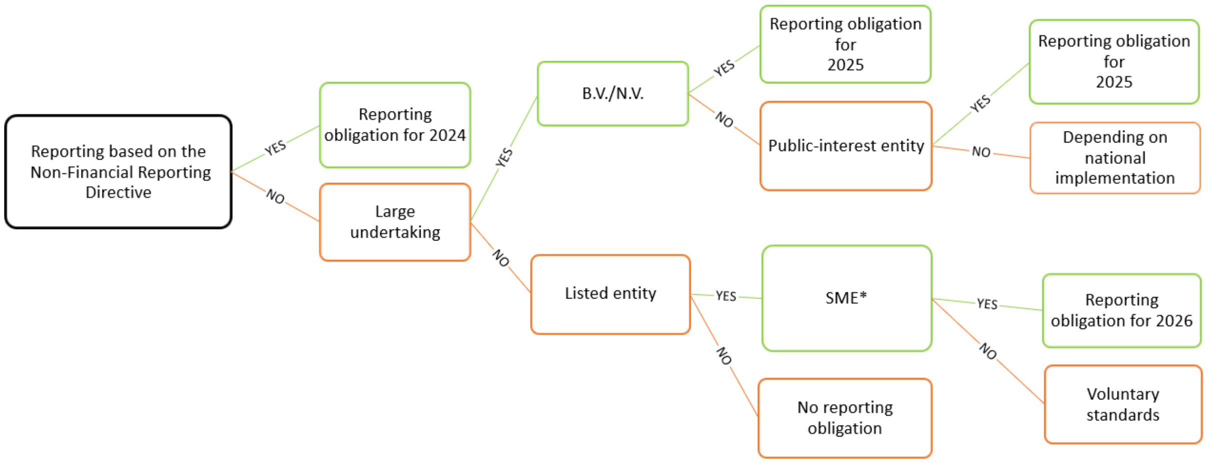
Large undertakings will be required to draw up a sustainability report and make it public for fiscal years starting on or from 1 January 2025. This means that an undertaking with a broken fiscal year ending on 31 August 2025, starts with the preparation of a sustainability report for the fiscal year 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.

2.9 Does the obligation to draw up a sustainability report also apply to large legal undertakings that are not PLC (such as the commercial foundation or the 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 can 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.

2.10 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 the commercial foundation or the cooperative)?



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

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

The main reasoning for annual reporting is that there is insight into the performance of every 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 applicable to group undertakings. The sustainability information must then be included in the consolidated report of the leader of the group. In addition, exempted group undertakings need to include a reference in their annual report to the consolidated sustainability report of the group head who also contains the sustainability information of the group undertaking (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 group lead.

2.12 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*. Followed by the approval from the European Council, the CSRD has been 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 has started. This means that national legislators have 18 months to transpose the CSRD into national law.

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

The CSRD is further elaborated upon in 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 sends it as an proposal to the European Commission. The European Commission uses EFRAG's advice to establish the ESRS as delegated acts. It is therefore expected that the European Commission adopts the first set of ESRS by 30 June 2023. The delegated acts are effective directly and do not need to be transposed into national law.

2.14 What is the impact of the CSRD on SMEs?

The CSRD distinguishes between SMEs with and without public listing.

Listed SMEs are obliged to report their sustainability performance over the fiscal year starting on or after 1 January 2026. For SMEs adapted European sustainability reporting standards will be developed. Also, an enlightened regime will be introduced that suits the smaller size of the undertaking.

Non-listed SMEs 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.

The large undertakings reporting under the CSRD must also report on different indicators in their value chain. SMEs 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.

2.15 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 are currently operating 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?

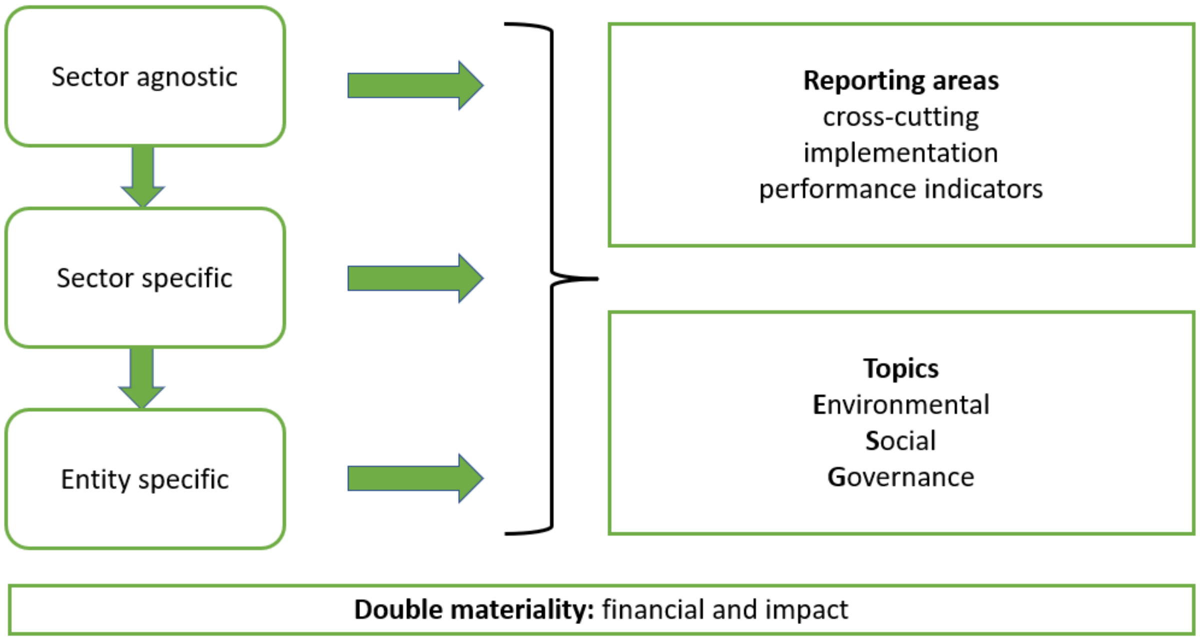
The following list contains some significant changes to the management report by the CSRD and ESRS:

- 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 chain, people, environment, and animals.
- An external assurance provider/accountant assesses the sustainability report.
- The sustainability report should be made available in a digital format.

3.2 Does every ESRS apply to every undertaking?

The ESRS are the sustainability reporting standards that form the further elaboration of the CSRD. Part of the ESRS is aimed at all undertakings (independent of the sector in which they operate) and are called "sector agnostic" ESRS.

In addition, sector specific ESRS developed. The sector specific ESRS contain disclosure requirements appropriate for the different sectors. The agnostic and sector specific ESRS sector contain disclosure requirements of which a part is mandatory for every undertaking. With a materiality analysis, the undertaking can determine which other disclosure requirements the undertaking needs to report on additionally.

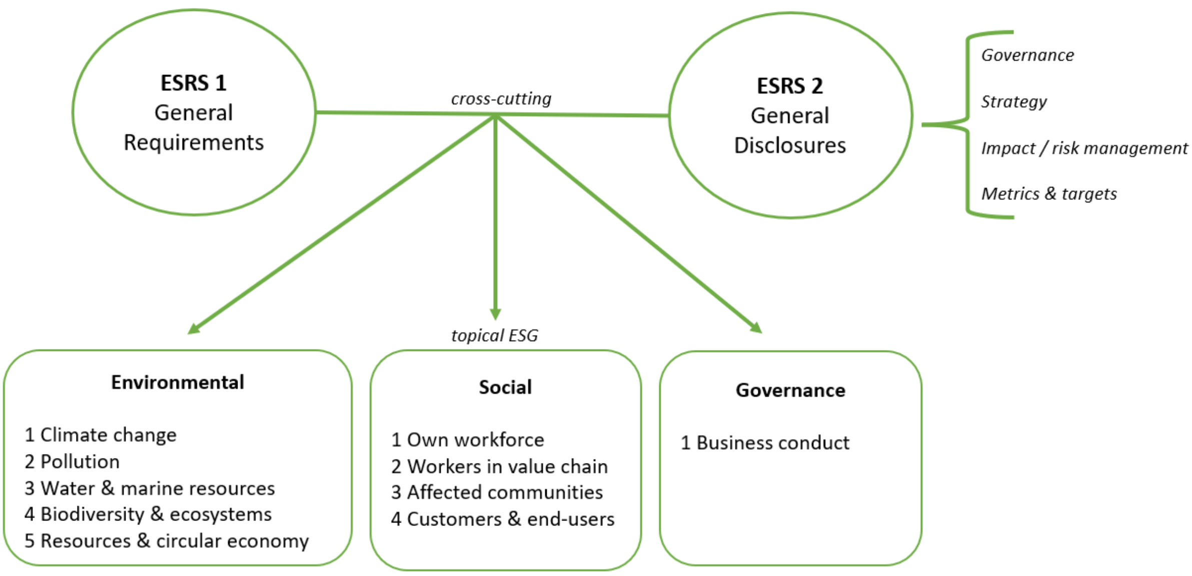


3.3 What does the first set of ESRS look like?

The first set of ESRS's that have now been drafted by EFRAG (advice) is a set of twelve standards that apply to all undertakings that fall under the CSRD. These standards are called sector agnostic standards.

These 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 topics environment, social, and governance (ESG). 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**-ESRS's contain references to these cross-cutting standards.

Environmental

3.5 Which Environmental ESRS are there?

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

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

Each of these environmental standards contains disclosure requirements for, among other things, (1) the strategy, (2) implementation and (3) performance measures.

Social

3.6 Which Social ESRS are there?

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

Each of these social standards contains disclosure requirements for, among other things, (1) IRO [Impacts, Risks, and Opportunities] management, (2) metrics and (3) targets.

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 is developing contains sector-specific standards. The sector-specific standards are 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 on?

The sustainability report is part of the management report. The sustainability report should be recognisable as a separate section in the management report. 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). Tagging means labelling data so that this information is automatically readable by machines (algorithms) and can be processed. 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.

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

An assessment of the sustainability report ('limited assurance') is less thorough than an audit of the financial statements ('reasonable assurance'). However, the assessment of the sustainability report does go considerably beyond the effort currently conducted by an external auditor to assess the management report.

For the assessment of the sustainability report, the auditor shall perform an audit of all required information presented in the sustainability report, and whether it is correct (i.e., in is in accordance with reality) and complete. The auditor will provide a limited content-related assessment on *what* is reported.

4.3 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 people 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.

4.4 What are the effects of the CSRD on annual reporting?

By making a sustainability report mandatory, the management report will expand significantly. Undertakings subject to reporting shall have to submit 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 the materiality is determined both from a financial materiality (what is the impact of, for example, climate change on the undertaking) and impact materiality (what is the impact of the undertaking on the environment). This additional sustainability information has no direct impact on the financial statements; however, it is self-evident 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 has also no direct impact on taxation, but the broader sustainability developments can have an impact (think of additional subsidies or levies).

4.5 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 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 information is needed, also 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.

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

Obtaining sustainability information from the value chain is probably more difficult than obtaining information from one's own undertaking. The CSRD takes this into account. 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)).

4.7 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.

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 is new, 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, it might be an open door but: 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 achieve this, it is necessary that there is insight into where, what, and how the undertaking purchases 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 in your organization responsible for it?
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 there within the undertaking and do they satisfy the need? 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 chain information (upstream and downstream), will be helpful.

The lack of knowledge about the value chain can be a challenge as well. Undertakings need knowledge of 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 do 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 achieve sustainability and a good sustainability report within the entire organization, sufficient attention, and time as well as support from top management is needed.

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.

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

1. *Webinar series on the CSRD & ESRS* by the SER and DASB (in Dutch)
2. *Corporate Sustainability Reporting Directive*
3. *European Sustainability Reporting Standards*
4. Video COP27*: EU ESG disclosures and the European Sustainability Reporting Standards* (ESRS) 9-11-2022

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 limiting global warming to 1.5 degrees. The ESRS (Climate standard (E1)) also uses this 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 NGOs, 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 their own organisation 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. When the CSDDD will be final, it will form a further interpretation of the CSRD.

- EU taxonomy: The EU Taxonomy contains an overview of sustainable economic activities and also forms a basis for the CSRD. Some reporting requirements in the CSRD are the same as those in the EU taxonomy and are therefore included in the relevant ESRS.

- 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 aligned as much as possible 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.

- 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

4. This regulation will prohibit companies from buying or selling products as contributing to deforestation and degradation. To do this, the companies must gain insight into their purchasing practices, which must be reported on under the CSRD. And what must be acted upon under this regulation.

- The UN Sustainable development goals (SDGs): 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 SDGs 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?

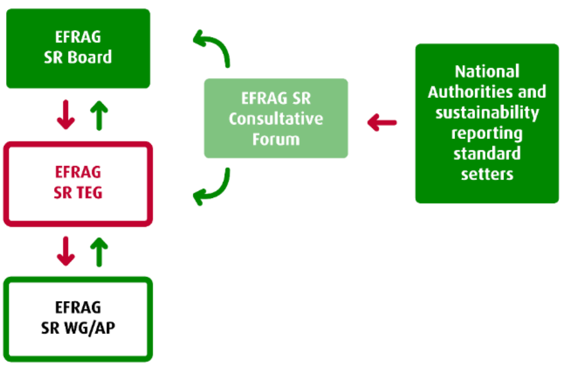
The European Commission is responsible for the creation of the ESRS. However, the European Commission must make use of EFRAG's technical advice. This means that EFRAG will draw up a set of ESRS and offered them to the European Commission in November 2022 (as an advice). This is followed by a European legislative process. For example, the European Commission is then 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). It is planned that by 30 June 2023 the European Commission will converts EFRAG's advice into so-called 'delegated acts'. The items published therein ESRS 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 advises the European Commission on financial reporting, such as IFRS. But EFRAG is currently developing reporting standards for sustainability reporting. The stakeholders at EFRAG include national standard setters, and European bodies such as Business Europe, Accountancy Europe, 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 NGOs, trade unions, consumer organisations and Academics.

7.4 How does decision-making work within EFRAG?

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



7.5 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 has been published in the *Official Journal*.

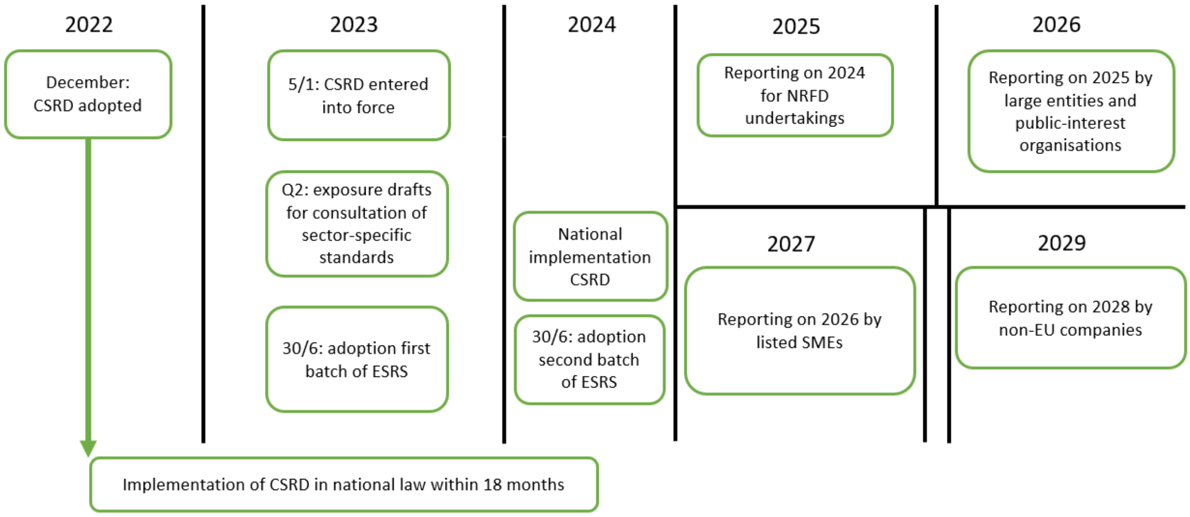
8. Future

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

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

On 30 June 2023, the first set of ESRS shall be adopted as delegated acts. On 30 June 2024, the second set of ESRS will follow as delegated acts. This set contains the sector specific ESRS.

The reporting obligation starts for undertakings that are currently reporting under the NFRD, from fiscal years starting from 1 January 2024. The first sustainability reports will be published in early 2025. A year later, big enterprises follow, followed by listed medium-sized and small firms. The non-EU undertaking's reports on the fiscal years start on or from 1 January 2028.



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 contains sector-specific standards and a SME standard. EFRAG is currently working on this. These will be further elaborated and published in 2023.

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.