

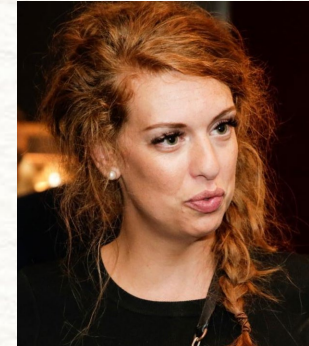
ESG: New (EU) sustainability legal requirements:
*what do they entail and how can my company
prepare for the reporting and its audit.*

30th of January 2024

Facilitators



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umicore

Agenda

- 01** Introduction: The EU Green Deal
- 02** The Corporate Sustainability Reporting Directive (CSRD)
- 03** The European Sustainability Reporting Standards (ESRS)
- 04** The EU Taxonomy
- 05** Assurance and Audit requirements
- 06** The Corporate Sustainability Due Diligence Directive (CSDDD)
- 07** Carbon Border Adjustment Mechanism (CBAM)
- 08** Q&A

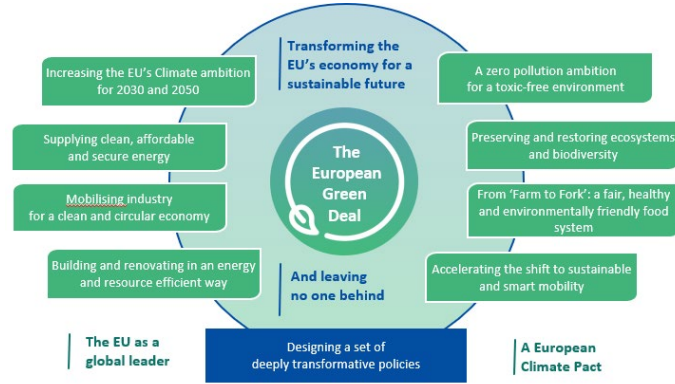
1. THE EU GREEN DEAL

THE EUROPEAN GREEN DEAL



+ - 150 Policies to reach these goals
Updates on the EU's Regulatory landscape





VS.



The 2030 Biodiversity Strategy



DIFFERENT TYPES OF POLICIES

■ Compliance

- *European Climate Law*
- *Corporate Sustainability Reporting Directive (CSRD)*
- *EU Taxonomy*

■ Corporate Governance

- *Corporate Sustainability Due Diligence Directive*

■ Carbon Pricing

- *Carbon Border Adjustment Mechanism*
- *Emissions Trading System*

■ Financial incentives

- *European Green Deal investment Plan*
- *Renovation wave strategy*

■ Others

2. THE CORPORATE SUSTAINABILITY REPORTING DIRECTIVE (CSRD)

CSRD/ESRS AND EU TAXONOMY ARE PART OF THE SUSTAINABLE FINANCE ACTION PLAN



SUSTAINABLE FINANCE ACTION PLAN



Reorient capital
 streams towards a
 more sustainable
 economy

Mainstream
 sustainability into
 risk management

Foster transparency
 and long-termism in
 economic activities



10 Actions

- 1 Establish EU Sustainable Taxonomy
- 2 Create Standards and Labels
- 3 Foster investment in sustainable projects
- 4 Incorporate sustainability in investment advice
- 5 Develop sustainability benchmarks
- 6 Integrate ESG in ratings and market research
- 7 Clarify institutional investor's duties as shareholders
- 8 Incorporate sustainability in prudential requirements
- 9 Strengthen sustainability disclosure and accounting
- 10 Foster sustainable corporate governance

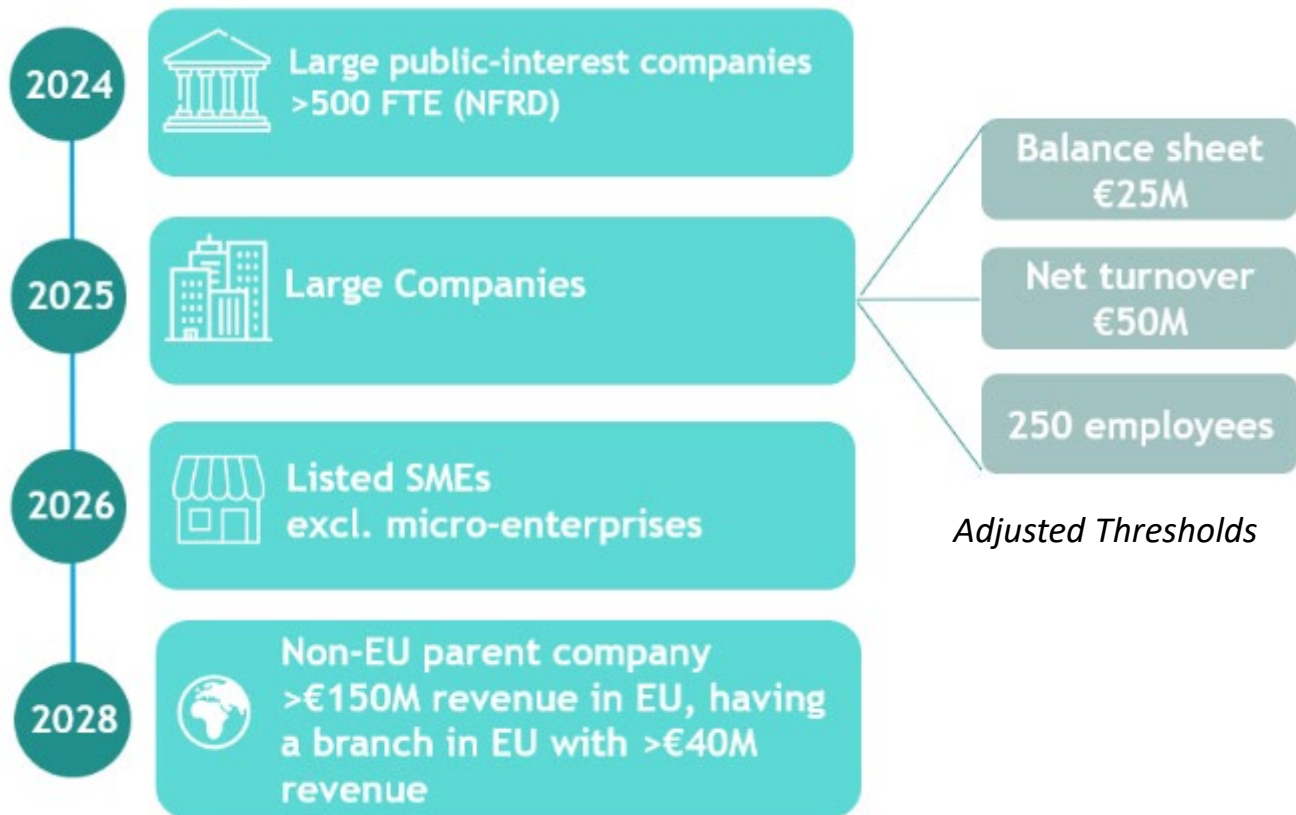


CSRD/ESRS



EU TAXONOMY

Companies in scope



Requirements



Transposition to Belgian law:
Preliminary draft

Best Practices/ Tips

Even if you 'only' need to report in accordance with CSRD in two years, it's better to start preparing today than tomorrow

Don't underestimate the work that needs to be done to prepare to be compliant with the CSRD.

Upskilling of the organization in ESG is key to make implementation of CSRD a success.

Focus on content over form. The key is to create transparency on ESG for affected and impacted stakeholders

Don't think it is purely administrative/compliance. CSRD is a lot of work, involving risks for laggards. It can create a competitive advantage as well.

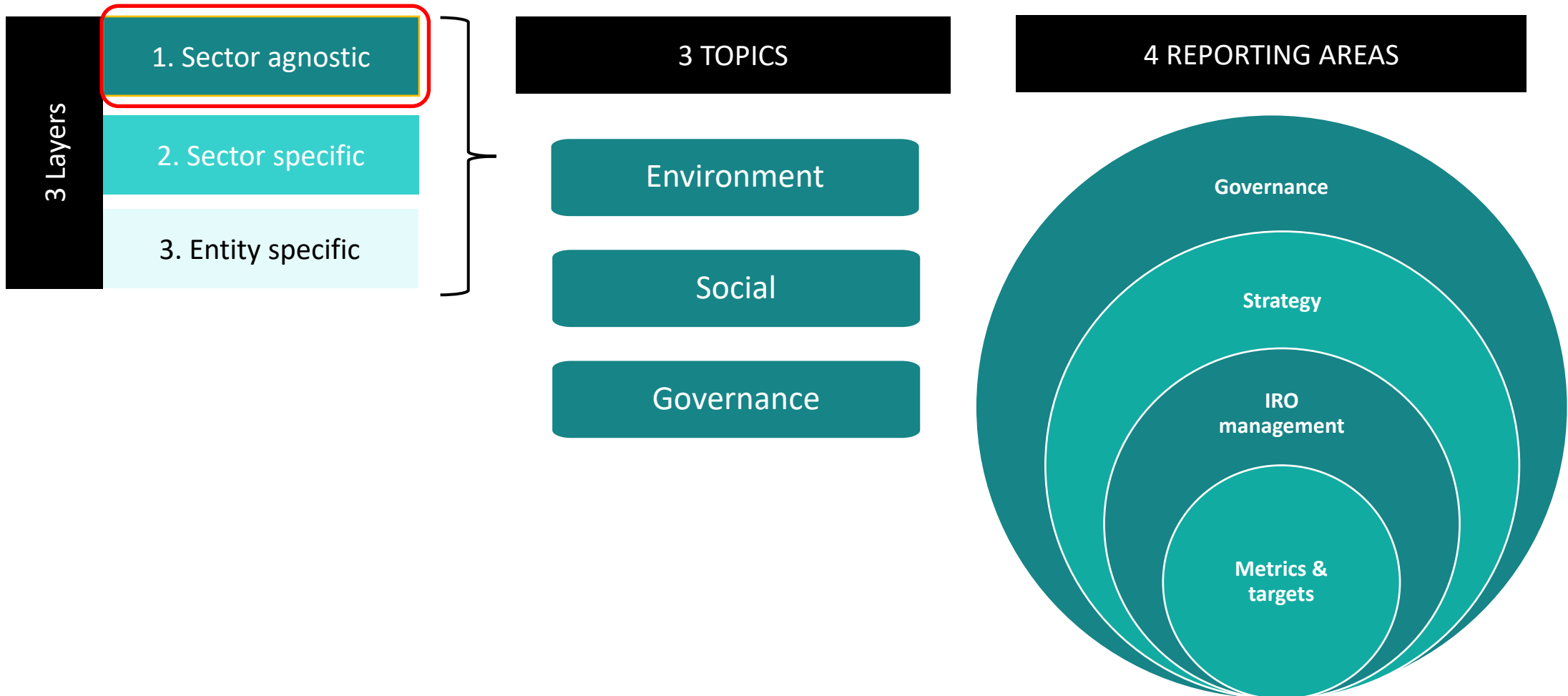
Try to engage and involve employees from different departments within your business, CSRD compliant reporting is a group effort and cannot be done by just 1-2 people

Questions to the panel:

- ❖ What is the impact you evaluate today and expect in the future of ESG reporting on your company?
- ❖ What would be your advice for a company that has to start from scratch on ESG reporting?
- ❖ How did you upskill your organization on ESG Reporting? Which roles in your organization were involved?
- ❖ What was the main driver for you to start with ESG reporting?

3. THE EUROPEAN SUSTAINABILITY REPORTING STANDARDS (ESRS)

The European Sustainability Reporting Standards (ESRS)



Cross-cutting standards

ESRS 1 – General requirements

ESRS 2 – General disclosures

Topical standards

Environment

ESRS E1: Climate change

ESRS E2: Pollution

ESRS E3: Water and marine resources

ESRS E4: Biodiversity and ecosystems

ESRS E5: Resource use and circular economy

Social

ESRS S1: Own workforce

ESRS S2: Workers in the value chain

ESRS S3: Affected communities

ESRS S4: Consumers and end-users

Governance

ESRS G1 – Business conduct

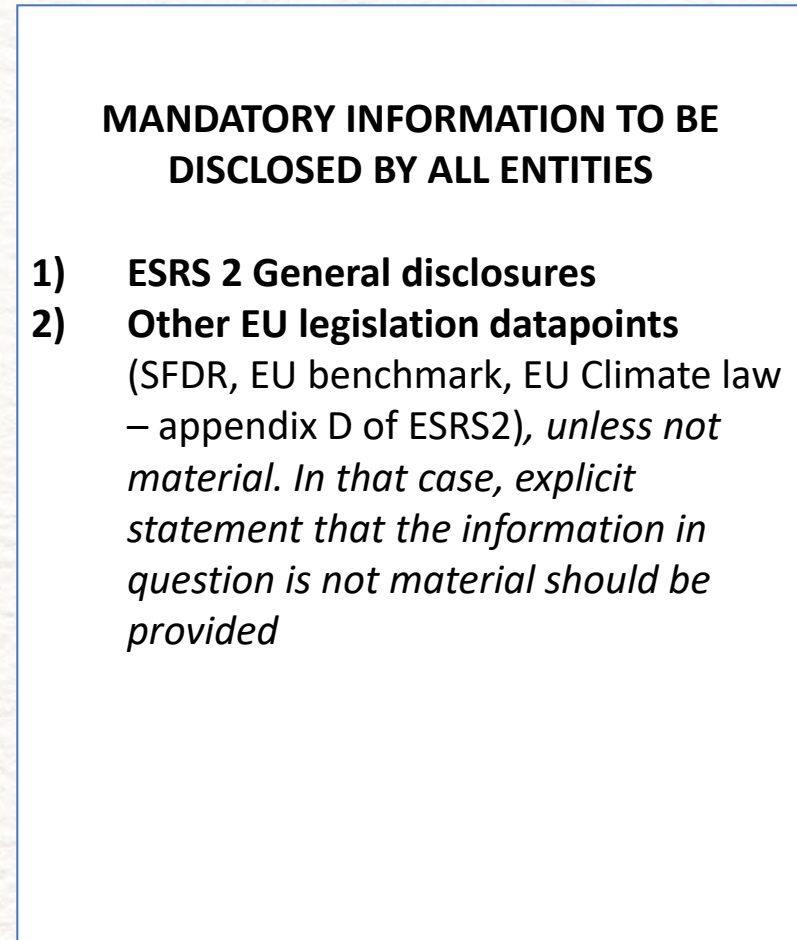
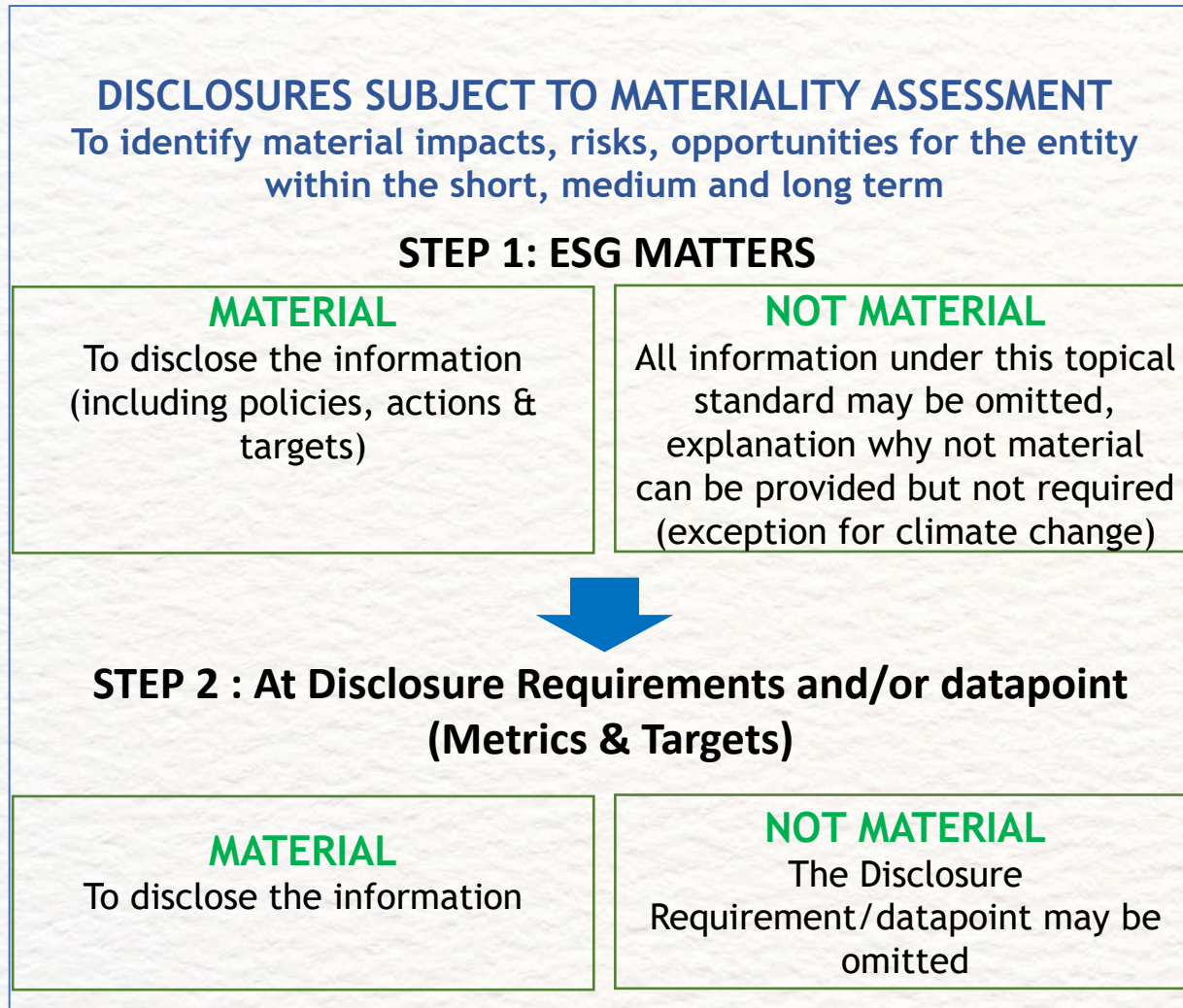
Guidelines ESRS

Required disclosures regardless of materiality

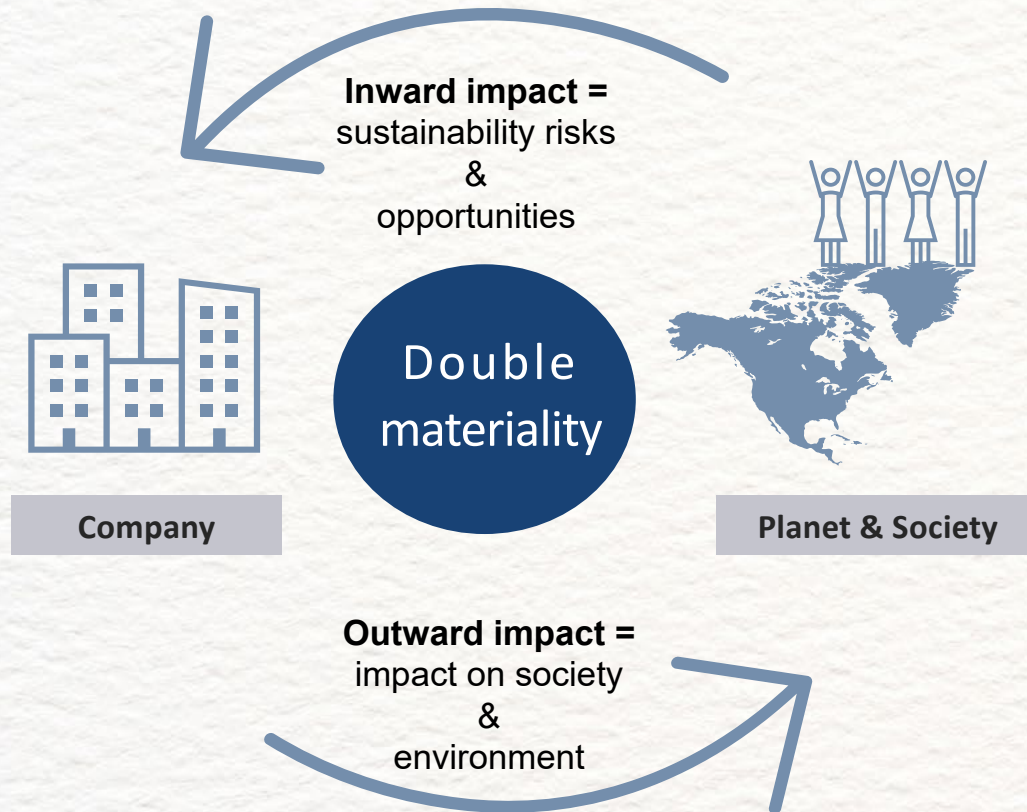
Required if material incl. mandatory requirements by EU Law or CSRD (Taxonomy) obligated to provide explanation why not material

Required if material incl. mandatory requirements by EU Law or CSRD (Taxonomy) – explanation why not material may be provided

What to Disclose?



The Concept of Double Materiality



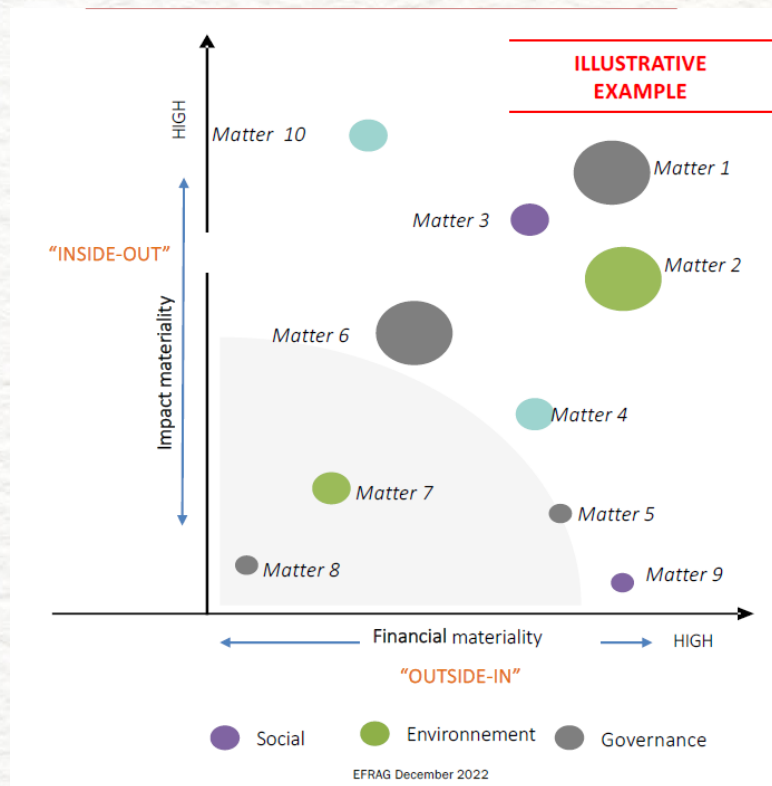
Impact materiality (outward impact) refers to an organisation's actual or potential impacts on people or the environment (either positive or negative).

Undertakings are expected to report on all their material impacts, irrespective of whether actions have been undertaken or are planned to address them.

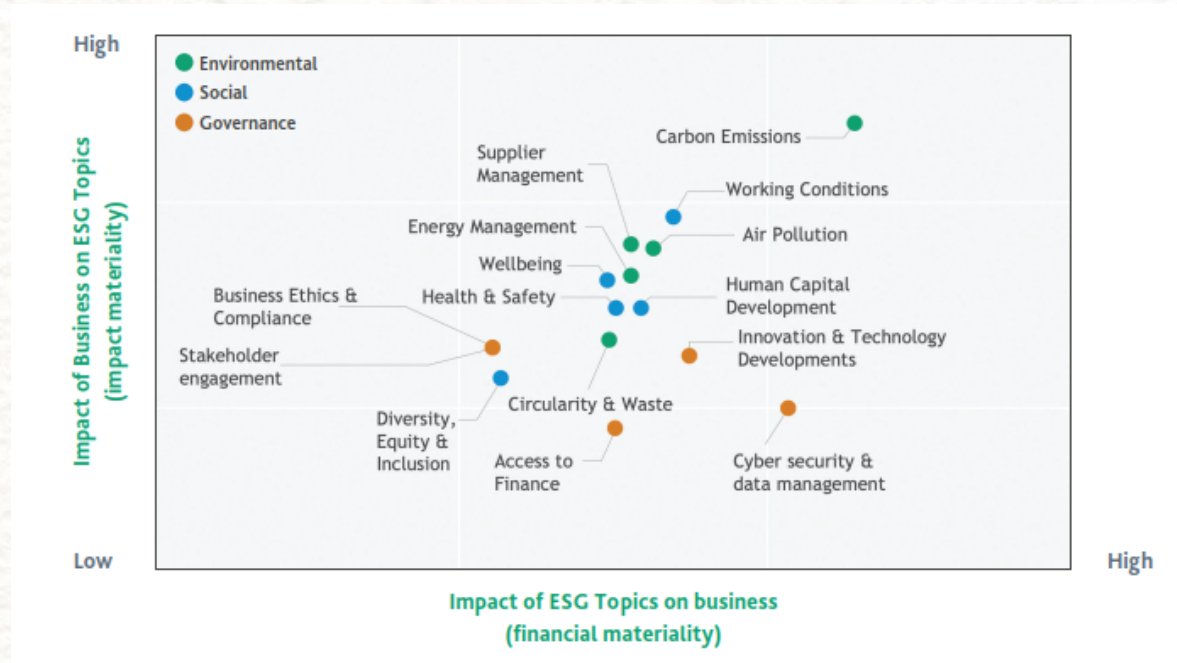
Financial materiality (inward impact) refers to material risks or opportunities that sustainability matters trigger or may trigger on an organisation.

Both will have to be assessed across short-, medium- and long-term horizons, and across your entire value chain.

Double Materiality: Examples



EFRAQ guidance on double materiality: [Download \(efrag.org\)](https://www.efrag.org)



Impact materiality scoring

Scale	Scope	Irremediability	Likelihood
0 none	0 none	0 Very easy to remedy	0 Impossible
1 Minimal	1 Limited	1 Relatively easy/cheap to remedy short-term	10% Very unlikely
2 Low	2 Concentrated	2 Remediable with effort	30% Unlikely
3 Medium	3 Medium	3 Difficult/expensive to remedy/mid-term	50% Possible
4 High	4 Widespread	4 Very difficult/expensive to remedy/long-term	70% Likely
5 Critical	5 Global	5 Non-remediable/irreversible	90% Very Likely

Formula:

$[(\text{Scale} + \text{Scope} + \text{Irremediability}) / \text{number of factors}] * \text{Likelihood}$


Financial materiality scoring

Magnitude	Likelihood
0 none	0 Impossible
1 Minimal	10% Very unlikely
2 Low	30% Unlikely
3 Medium	50% Possible
4 High	70% Likely
5 Critical	90% Very Likely

Formula:


$\text{Magnitude} * \text{likelihood}$

Reliefs available for the first years of application	Year 1	Year 2	Year 3	Year 4 and after
Entity-specific information (ESRS 1.130 ff)		<ul style="list-style-type: none"> Use of entity-specific disclosures reported in prior periods subject to meeting the qualitative characteristics of information Complement disclosures with an appropriate set of additional disclosures using available best practice, frameworks and/or reporting standards (GRI, SASB etc.) 		Entity-specific information to be derived in accordance with ESRS 1
Value chain information (ESRS 1.132 ff)		<ul style="list-style-type: none"> information on policies, actions and targets may be limited to information available inhouse and publicly available information Metrics are not required to include value chain information except for datapoints derived from other EU legislation 		Value chain information to be reported in accordance with ESRS
Comparative information (ESRS 1.136)	Comparative information not required	Comparative information required		
Anticipated financial effects related to environmental issues (SBM-3; E1-9; E2-6; E3-5; E4-6; E5-6)	Information may be omitted	Qualitative information only, if preparation of quantitative disclosures is impracticable		Quantitative information to be reported
Certain datapoints relating to own workforce <ul style="list-style-type: none"> Characteristics of non-employee workers in the undertaking's own workforce (S1-7) Collective bargaining coverage and social dialogue information for employees in non-EEA countries (S1-8) Social protection (S1-11) Percentage of employees with disabilities (S1-12) Training and skills development (S1-13) Specific information on health and safety (S1-14) Work-life balance (S1-15) 	Certain datapoints may be omitted	All datapoints have to be reported, if material		
Revenue by ESRS sectors and list of additional ESRS sectors (ESRS 2.40 (b) and (c))	Information are to be reported starting form the application date of sector-specific standards only			

 Phase-in relief for first year(s) of application


 Intermediary transitional provision

 Full scope reporting according to ESRS requirements

 Relief only available until application date for sector-specific ESRS

Overview on phase-in provisions for undertakings with up to 750 employees

Reliefs available for the first years of application	Year 1	Year 2	Year 3	Year 4 and after
Entity-specific information (ESRS 1.130 ff)	<ul style="list-style-type: none"> Use of entity-specific disclosures reported in prior periods subject to meeting the qualitative characteristics of information Complement disclosures with an appropriate set of additional disclosures using available best practice, frameworks and/or reporting standards (GRI, SASB etc.) 			Entity-specific information to be derived in accordance with ESRS 1
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Scope 3 and Total GHG emissions (E1-6)	Information may be omitted	Scope 3 and Total GHG emissions to be provided, if material		
Information on own workforce (S1)	Minimum based on ESRS 2.17	All datapoints in topical standards to be provided, if material		
Information on <ul style="list-style-type: none"> Biodiversity (E4) Workers in the Value Chain (S2) Affected Communities (S3) Consumers and End-users (S4) 	Minimum information based on ESRS 2.17		All datapoints in topical standards to be provided, if material	
Revenue by ESRS sectors and list of additional ESRS sectors (ESRS 2.40 (b) and (c))	Information are to be reported starting form the application date of sector-specific standards only			

 Phase-in relief for first year(s) of application

 Intermediary transitional provision

 Full scope reporting according to ESRS requirements

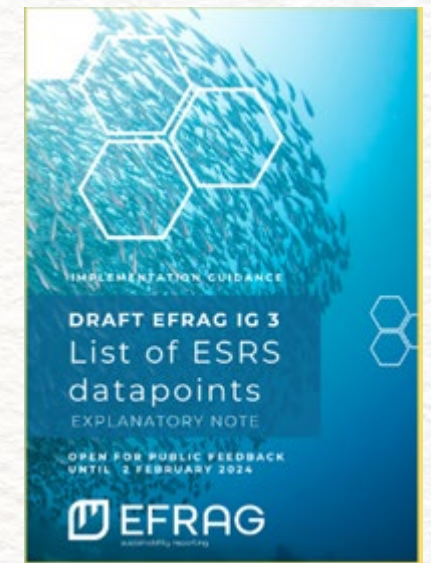
 Relief only available until application date for sector-specific ESRS

EFRAG: IMPLEMENTATION GUIDANCE

- Draft EFRAG IG 1: Materiality assessment implementation guide
- Draft EFRAG IG 2: Value chain implementation guide
- Draft EFRAG IG 3: List of ESRS datapoints
-

The supporting documents can be found here: [News – EFRAG](#)

Open for feedback until 02/02/2024



FUTURE DEVELOPMENTS

- **SME standards (2025 adopt & publish)**
 - Listed SME's: legal requirements CSRD
 - Voluntary use non-listed SME's (simplified)
 - Drafts published for public consultation on Jan 22nd 2024
- **Digital Taxonomy in XBRL for ESRS and EU Taxonomy art 8**
 - Tag info according to Digital Taxonomy -> EFRAG is preparing supporting material, draft expected in January 2024
 - Adoption expected in course of 2025 - so first companies will not be able to use those
- **Sector standards**
 - Adopt first sector standards by June 2024 -> Proposal of EU C to postpone by 2 years?
 - Logic: focus on current standards + EFRAG focus on implementation support & SME standards (prio)
- **Separate standards non-EU companies (+150 MEUR)**
 - Impact materiality only -> directive adopted by June 2024 -> Proposal of EU C to postpone by 2 years: June 2026
 - Implementation Financial year 2028 to be kept
- **ISSB**
 - Ensure interoperability mandatory ESRS + standards Global level
 - Goal: no significant burden when reporting under CSRD and GRI/ISSB
- **Development of EU Assurance Standards**
 - Required by CSRD - following draft standards by IAASB = Global - hope
 - Deadline October 2026 (limited assurance) and October 2028 (reasonable assurance) - Build on basis of IAASB

EFRAG ESRS Q&A Platform



Purpose:

- Help businesses on technical questions regarding the ESRS
- Continuously improve the ESRS

Link to the platform: <https://survey.alchemer.eu/s3/90634629/EFRAG-ESRS-Q-A-platform>

Questions to the panel:

- ❖ Which tips would you give companies that start with their DMA?
- ❖ Which supporting documents/sources/expertise would you recommend?
- ❖ How much and which additional work did it take to convert your existing sustainability report to be CSRD/ESRS compliant?
- ❖ How would you advise to approach the financial materiality?

4. THE EU TAXONOMY

EU TAXONOMY introduction

In a nutshell, EU Taxonomy is a **classification system** to determine how **environmentally sustainable** the economic activities of a company are, based on three KPI's: turnover, capital expenditure (CAPEX) and operating expenditure (OPEX)

WHO NEEDS TO DISCLOSE



WHAT TO DISCLOSE



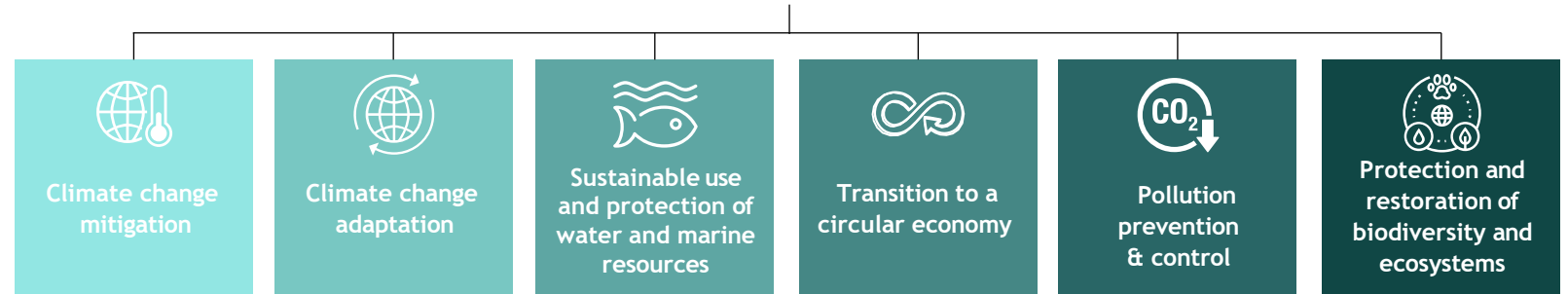
WHERE TO DISCLOSE



3 MAJOR CONDITIONS



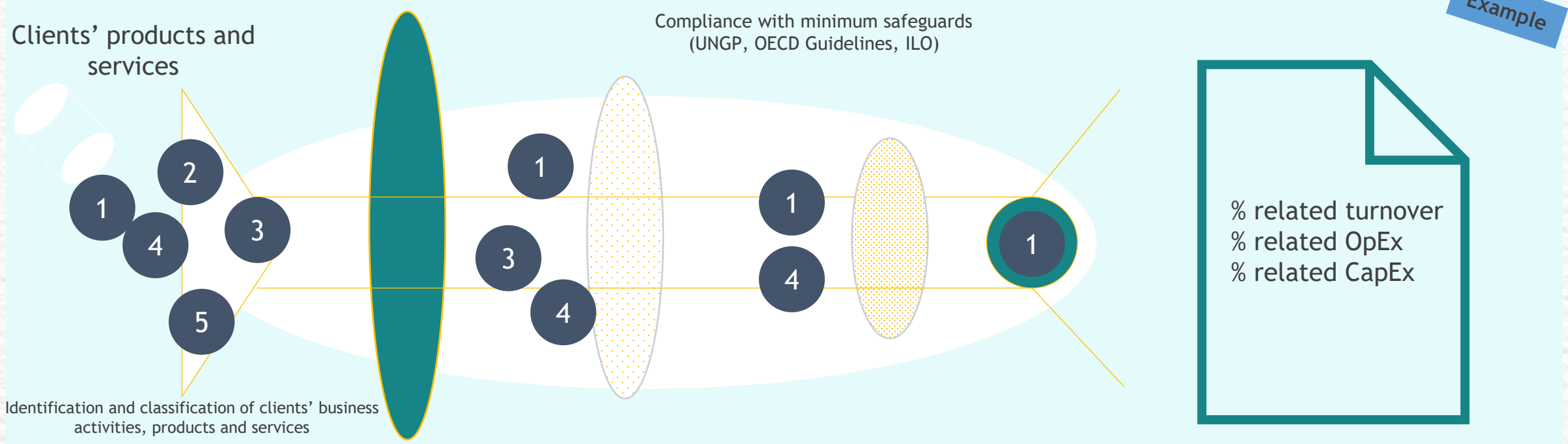
6 ENVIRONMENTAL OBJECTIVES



SOCIAL OBJECTIVES UNDER DEVELOPMENT

The functional logic of the EU Taxonomy

Example



TAXONOMY-ELIGIBILITY

Which activities could potentially contribute either directly to one of the six objectives or enable other business activities?

TAXONOMY-ALIGNMENT

Technical screening criteria

Substantial contribution

Which business activities contribute to one or more of the environmental objectives?

DNSH criteria

Which business activity does not significantly harm any of the other environmental objectives?

Minimum Safeguards

Do processes exist to ensure alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights?

Regulation and delegated acts

- **Taxonomy Regulation** : establishment of framework to facilitate sustainable investment
- **Disclosures Delegated Act** : specifying content and presentation of information to be disclosed by undertakings
- **Climate Delegated Act** : determining technical screening criteria : economic activity qualifies as environmentally sustainable related to the 2 climate objectives
- **Amendment**, establishing additional technical screening criteria activities related to climate objectives
- **Complementary Climate Delegated Act** economic activities in certain energy sectors (gas and nuclear activities) and specific public disclosures for those economic activities
- **Environmental Delegated Act** : determining technical screening criteria : economic activity qualifies as environmentally sustainable related to the 4 other objectives

TAXONOMY COMPASS

EU Taxonomy Compass

Information Search Transitional Enabling

Sector	Activity	Climate mitigation	Climate adaptation	Water	Circular economy	Pollution prevention	Biodiversity
Information and communication	Computer programming, consultancy and related activities		⊕				
Information and communication	Data processing, hosting and related activities	⊕ T	⊕				
Information and communication	Data-driven solutions for GHG emissions reductions	⊕ E					
Information and communication	Programming and broadcasting activities		⊕ E				

- **tool** : visual representation of economic activities contributing to the objectives
- **future updates** :
 1. technical screening criteria for additional economic activities;
 2. update technical screening criteria
- **Important** : if an activity is not included, it does not mean it is unsustainable. This means the activity could only marginally contributing, or simply was not assessed.

TAXONOMY CALCULATOR

EU Taxonomy Calculator

Selection [Your activities](#) [Objectives](#) [Substantial contribution](#) [DNSH](#) [Minimum safeguards](#) [Overview](#)

Notes Close

1. Please note that this tool only focuses on the KPIs for turnover, CapEx and OpEx.
2. Please note that the sectors and activities considered here specifically pertain to the Commission Delegated Regulation (EU) 2022/1213 and to Annex I to that Delegated Regulation.

Select the figures you want to look at
 Turnover Capex Opex

- step-by-step **guide** on reporting obligations
- **so far** : the calculator is only available to calculate the turnover, CapEx and OpEx KPIs of non-financial undertakings for the objective of Climate Change Mitigation.
- the calculator does **not replace** the reporting

Timeline from 2024

Non-financial entity : report taxonomy eligibility and alignment for activities related to climate objectives for previous calendar year + report taxonomy eligibility for activities related to the 4 other objectives

Financial entity : report taxonomy eligibility and alignment for activities related to climate objectives for previous calendar year

Non-financial entity : similar to 2025

Financial entity : report taxonomy eligibility and alignment for activities related to all objectives for previous calendar year + credit institutions include taxonomy alignment of their trading book and fees and commissions for non-banking activities

2024

2025

2026

Non-financial entity : report taxonomy eligibility and alignment for activities related to all objectives for previous calendar year

Financial entity : similar to 2024 + report taxonomy eligibility for activities related to the 4 other objectives + may include estimates on taxonomy alignment for DNSH assessments of third-country exposures subject to the 2024 review period

Best Practices/ Tips

As EU Taxonomy gives a good overview of what is required for an activity to be 'sustainable' – Very valuable to check those technical requirements for your core activities asap.

The first time you go through the activities list will probably be the most extensive and time consuming

The FAQs already give an answer to some of our questions, but some are still contradictory

There's lots of focus on CSRD/ESRS, but don't underestimate the workload and importance of starting with your EU Taxonomy Journey as well.

It's important to keep in mind that only the some activities linked to the Environmental pillar are in scope today. The score doesn't represent a complete 'ESG' picture of a company

Questions to the panel:

- ❖ Which practical steps were taken to start your EU Taxonomy journey and in which order?
- ❖ How much time did you spend on calculating eligibility for climate change mitigation and -adaptation?
- ❖ Where did you learn the most?
- ❖ Will you follow the same approach for the other objectives or will you adjust based on your first experience?

5. ASSURANCE AND AUDIT REQUIREMENTS

Assurance and audit requirements

Audit of information is required by the CSRD

- Limited external assurance report from first reporting year
- Reasonable assurance after European audit standards are published (at the latest in 2028).

Limited assurance	Reasonable assurance
<p>Objective: to conclude that nothing came to the auditors attention that could lead to the conclusion that the sustainability information is not free from material misstatement (negatively formulated conclusion)</p>	<p>Objective: to conclude that the sustainability information is free from material misstatement (positively formulated assurance conclusion)</p>
<p>Procedures: nature, timing and extent of procedures less than in a reasonable assurance engagement</p>	<p>Procedures: emphasis on design and effectiveness of internal controls (e.g. including IT general controls testing) and extent of testing data dependent on auditors' risk assessment</p>
<p>A reduced scope of intervention, less site visits and less substantive testing.</p>	<p>An enlarged scope of intervention, more site visits and more substantive testing.</p>

Assurance and audit requirements

Scope of the assurance

CSRD

Compliance with the CSRD reporting rules in Article 19a, including with the reporting standards adopted according to Article 29b or Article 29c of the accounting directive

PROCESS

Process carried out by the company to identify the information reported according to those reporting standards
For ex : materiality assessment

DIGITALIZATION

Compliance with the requirement to mark-up sustainability reporting in accordance with Article 29d accounting directive (digitalization)

TAXONOMY

Compliance with the reporting requirements of Article 8 EU Taxonomy Regulation
(Regulation (EU) 2020/852)

Questions to the panel:

- ❖ How would you say that the ESG/CSRD has changed your corporate culture?
- ❖ How are you involving/plan on involving your Auditor in this process?

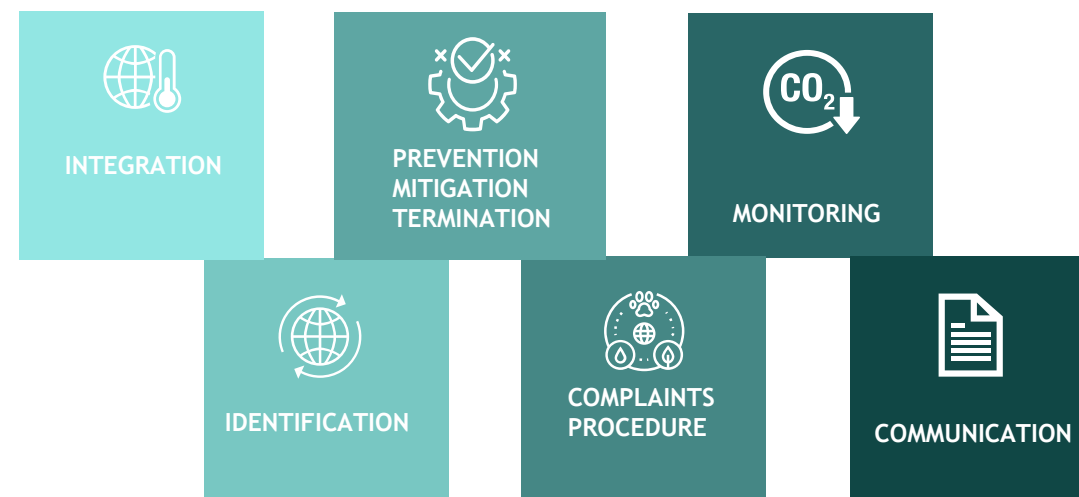
6. CORPORATE SUSTAINABILITY DUE DILIGENCE DIRECTIVE (CSDDD)

The CSDDD introduces an **environmental and human rights due diligence duty** for financial and non-financial companies within scope of the directive

WHO (tbc - final text not public yet)

	EU-BASED COMPANIES	HIGH-RISK SECTOR EU-BASED COMPANIES	NON-EU COMPANIES
 GLOBAL NET SALES	€150 million	€40 million Provided that €20 million are generated in high-risk sectors	€150 million generated in the EU
 EMPLOYEES	>500	>250	N/A

6 KEY ACTIONS TO TAKE

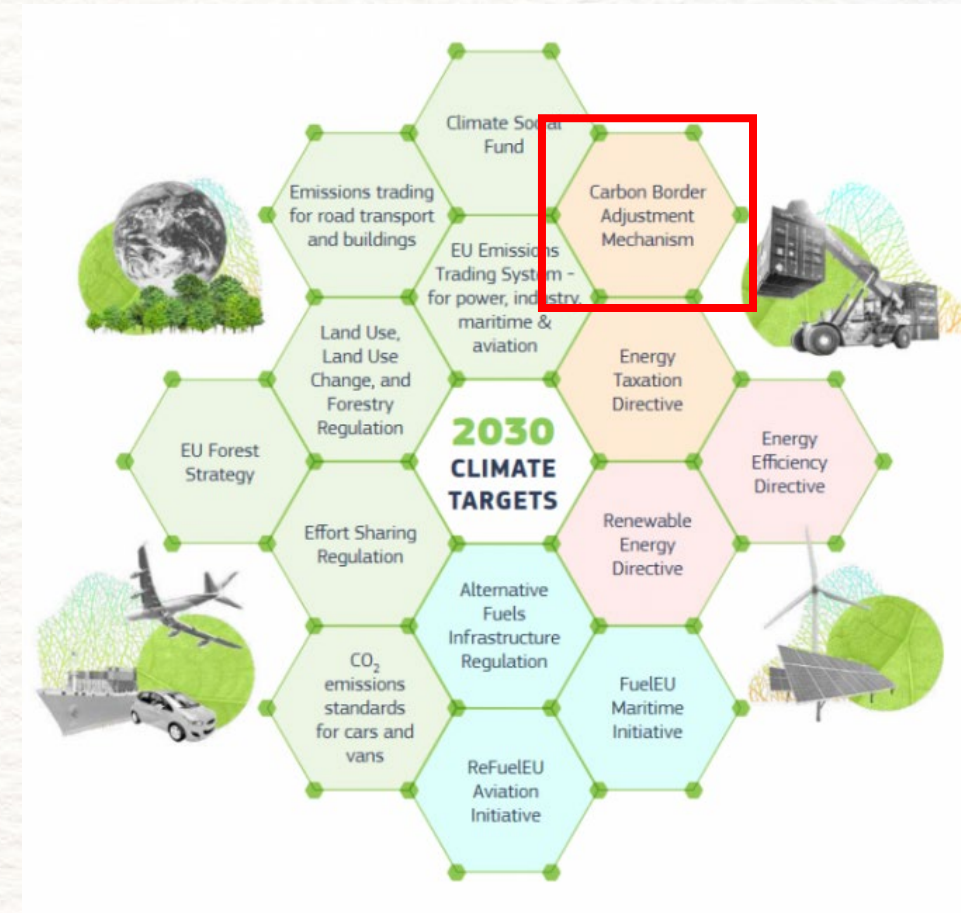


WHEN ?

The final text **has not yet been adopted** and publication has yet to take place. Following this publication, Member States must ensure that the rules are transposed into national law. Depending on the size of the company, this must be done within 3 or a maximum of 5 years.

7. CARBON BORDER ADJUSTMENT MECHANISM (CBAM)

- One of the objectives of EU Green Deal is to reduce GHG emissions by 55% by 2030. Fit for 55 package holds legislative proposals to reach this target, CBAM is one of those proposals
- Introduction of a carbon border tax on high carbon products such as steel, fertilizer and cement imported into the EU from countries outside of the EU where there are fewer carbon taxes levied
- Transitional period had started from 01/10/23 which means companies have to report on their imports on a quarterly basis
- The entry into force (payments) is expected from 2026
- Same price if you import goods from outside EU compared to producing inside EU => Objective is to level the playing field and reduce emissions worldwide by making companies aware of their footprint and give them an incentive to reduce it



Carbon emissions: Cost of GHG gasses

Governments will impose additional taxes



By 2025 the price per ton CO_{2e} will be over € 150 and by 2030 it will reach € 300/ton CO_{2e}

CBAM gets real
 (Carbon Border Adjustment Mechanism)

(Cement, iron, steel, aluminium, fertilisers, electricity, hydrogen and all downstream products)

8 – Q&A

Thank you for your attention

Evaluation form

