CSRD Handbook

for the chemical sector

Version 1 - 20 March 2025

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Note :

This handbook is a living document that evolves with the regulatory landscape, practical experiences, and companies' needs. It currently does not yet incorporate the implications of the EU Omnibus package on sustainability, released on 26 February, which proposes amendments to the Corporate Sustainability Reporting Directive (CSRD)'s scope, reporting timeline, and a simplification of the European Sustainability Reporting Standards (ESRS) set 1. We will actively update this guidance to align with these changes and ensure continued compliance with evolving requirements.

1. What to expect from this handbook?

Welcome to this handbook on the Corporate Sustainability Reporting Directive (CSRD) for the chemical sector. This handbook serves as a guide to understanding and implementing CSRD requirements, taking into consideration the specificities and complexity of the chemical sector.

The handbook was commissioned by the European Chemical Industry Council (Cefic) from PricewaterhouseCoopers (PwC), with a view to support its members in the preparation of CSRD-compliant reports, providing practical insights and methods to ease their CSRD-implementation efforts. Whilst this handbook is the copyright of Cefic, views expressed in this report are not the official opinion or position of Cefic or its members. The handbook is the outcome of PwC's analysis, based on surveys and discussions with Cefic members.

Our journey started with a comprehensive survey to assess the readiness of the chemical sector for CSRD implementation. Over 100 companies participated, providing valuable insights into the general CSRD context within the EU chemical sector. The survey results highlight the diverse challenges companies face, from governance and environmental reporting to staff expertise and technological maturity. They also emphasise the importance of cross-functional collaboration and stakeholder engagement in overcoming these challenges.

To assist companies in navigating the CSRD, this handbook offers practical recommendations, including a step-by-step guide to the Double Materiality Methodology. It provides actionable tips for audit readiness, operational control, and for specific disclosure requirements seen as complex by the sector.

Beyond compliance, the CSRD offers opportunities for companies to gain a competitive advantage, improve stakeholder engagement, and achieve better environmental performance. This handbook underscores the strategic benefits of CSRD implementation, focusing on potential risk mitigation, cost savings and enhanced corporate reputation. By embracing these opportunities, companies can build long-term value for shareholders and contribute to a more sustainable future.

Going through this handbook will provide you with a clear understanding of the CSRD, practical steps to achieve compliance, and insights into leveraging sustainability reporting to create value for your company and society. Please note that this handbook constitutes general information only and does not prevail on what is strictly stated in the ESRS. Other methods and interpretations than the ones presented in this document may exist and can be used as long as they remain aligned with the ESRS. CSRD is a rather new topic, and practices are in constant evolution. We trust this handbook will serve as a valuable resource in your CSRD journey.

2. Introduction to CSRD

What is CSRD?

The Corporate Sustainability Reporting Directive (CSRD) is a transformative regulatory framework designed to enhance transparency and accountability in corporate sustainability practices. It mandates extensive sustainability disclosures, focusing on the interaction between sustainability and business strategy, the financial effects of material risks and opportunities, and the policies and action plans to manage these impacts, risks and opportunities.

Investors, employees and consumers are calling for greater transparency - regulators are responding. Stakeholders expect sustainability to be central to the business - and understand how value is created, destroyed, or preserved for the company and the planet and society. CSRD has the potential to affect the way companies do business and how capital is allocated.

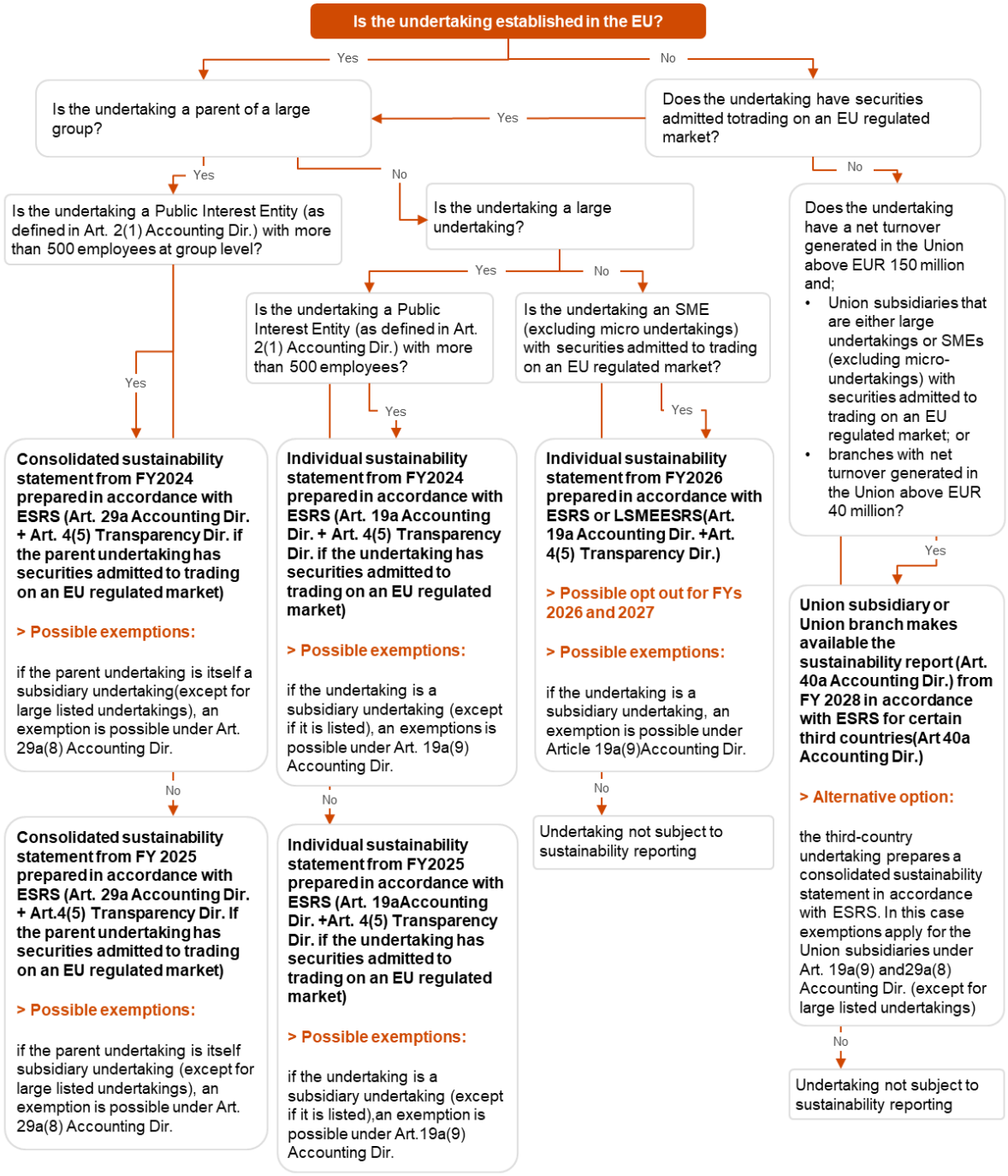
Who will be impacted by the CSRD?

The CSRD applies to all large companies and those listed on EU regulated markets. This significantly broadens the scope compared to the previous Non-Financial Reporting Directive (NFRD), impacting approximately 50,000 EU companies which will need to comply with the CSRD by 2026.

The latest FAQ from 13 November 2024, indicated clearly the companies in scope of CSRD on page 11.[1] The categories of undertakings and groups are defined in Article 3 of Directive 2013/34/EU (Accounting directive).

The Omnibus proposal could reduce the number of companies in scope (only companies with more than 1000 employees would remain in scope) while providing more time for the wave 2 and 3 to comply with CSRD (an additional 2 years would be provided). This will be further developed in an upcoming update of this document.

[1] EUR-Lex - 52024XC06792 - EN - EUR-Lex



- **Micro-undertakings (Art. 3(1) Accounting Directive)** = undertakings which on their balance sheet dates do not exceed the limits of at least two of the three following criteria:
  (a) balance sheet total: EUR 450 000; (b) net turnover: EUR 900 000; (c) average number of employees during the financial year: 10.
- **SMEs (Art. 3(1), (2) and (3) Accounting Directive) =** undertakings which on their balance sheet dates do not exceed the limits of at least two of the three following criteria:
  (a) balance sheet total: EUR 25 000 000; (b) net turnover: EUR 50 000 000; (c) average number of employees during the financial year: 250.
- **Large undertakings (Art. 3(4) Accounting Directive) =** undertakings which on their balance sheet dates exceed at least two of the three following criteria: (a) balance sheet total: EUR"25 000 000; (b) net turnover: EUR 50 000 000; (e) average number of employees during the financial year: 250.
- **Large groups (Art. 3(7) Accounting Directive)** + groups consisting of parent and subsidiary undertakings to be included in a consolidation and which, on a consolidated basis, exceed the limits of at least two of the three following criteria on the balance sheet date of the parent undertaking: (a) balance sheet total: EUR 25 000 000; (b) net turnover: EUR 50 000 000; (c) average number of employees during the financial year: 250.

Source : FAQ from the EU Commission of 13 November 2024.

What are the key requirements of the CSRD?

1. Double materiality

A cornerstone of the CSRD is the concept of double materiality. Companies must report on how their activities impact sustainability matters (inside-out perspective) and how sustainability matters affect the company's development, performance, and position (outside-in perspective). This dual perspective ensures that companies consider the broader implications of their operations on the environment and society, as well as the risks and opportunities sustainability presents to their business.

2. Detailed reporting standards

The directive introduces mandatory EU sustainability reporting standards (European Sustainability Reporting Standards or ESRS), developed by the European Financial Reporting Advisory Group (EFRAG). These standards ensure consistency and comparability across reports, covering environmental, social, and governance (ESG) factors. Companies must disclose their governance structures, strategies, and the management of material impacts, risks, and opportunities related to sustainability. This may include reporting on relevant policies, actions and metrics, as well as progress on measurable, time-bound targets.

European Sustainability Reporting Standards (ESRS)

SECTOR-AGNOSTIC STANDARDS			
Cross-cutting standards	**Environment**	**Social**	**Governance**
ESRS 1 General requirements	**ESRS E1** Climate change	**ESRS S1** Own workforce	**ESRS G1** Business conduct
ESRS 2 General disclosures	**ESRS E2** Pollution	**ESRS S2** Workers in the value chain	
	ESRS E3 Water & marine resources	**ESRS S3** Affected communities	
	ESRS E4 Biodiversity & ecosystems	**ESRS S4** Consumers and end-users	
	ESRS E5 Resource use & Circular economy		

3. Assurance requirements

To enhance the quality and reliability of the reported information, the CSRD requires assurance on the sustainability information provided. This means that an independent third party must verify the accuracy and reliability of the data, as is similarly performed for financial information of undertakings. This assurance process is crucial for building trust among stakeholders and ensuring the integrity of the reported information.

CSRD assurance is currently, and with the Omnibus proposal expected to remain, at a limited assurance level. In a limited assurance engagement, the assurance provider gathers sufficient appropriate evidence to conclude that the subject matter is plausible in the circumstances and gives a report in the form of a negative assurance.

In the absence of common standards, the Committee of European Auditing Oversight Bodies (CEAOB) adopted on 30 September 2024 guidelines on limited assurance on sustainability reporting.

4. Digital reporting

Companies must prepare their sustainability reports in a digital, machine-readable format, facilitating data use by stakeholders. This digital reporting requirement underscores the importance of transparency and accessibility in sustainability reporting, making it easier for stakeholders to access and analyse the data.

In view of this, EFRAG has been tasked with the development of digital XBRL taxonomies. Digital tagging will not be mandatory for undertakings until the XBRL taxonomies are adopted by the European Commission.

Timeline for implementation

The implementation timeline is well described in the FAQ from the EU Commission of 13 November 2024. This timeline is expected to change as proposed in the Omnibus as more time will be given for wave 1 and 2 companies to publish their first report.

	Financial year 2024 (reporting in 2025)	**Financial year 2025** (reporting in 2026)	**Financial year 2026** (reporting in 2027)	**Financial year 2027** (reporting in 2028)	**Financial year 2028** (reporting in 2029)
Large undertakings which are PIEs (including third-country issuers) > 500 employees on average during the financial year	**Individual sustainability statement (ESRS)**	**Individual sustainability statement (ESRS)**	**Individual sustainability statement (ESRS)**	**Individual sustainability statement (ESRS)**	**Individual sustainability statement (ESRS)**
PIEs (including third-country issuers) that are parent undertakings of a large group > 500 employees on average on a consolidated basis during the financial year	**Consolidated sustainability statement (ESRS)**	**Consolidated sustainability statement (ESRS**	**Consolidated sustainability statement (ESRS)**	**Consolidated sustainability statement (ESRS)**	**Consolidated sustainability statement (ESRS)**
Large undertakings (including third-country issuers) that are not 'PIEs > 500 employees on average during the financial year'	**N/A**	**Individual sustainability statement (ESRS)**	**Individual sustainability statement (ESRS**	**Individual sustainability statement (ESRS)**	**Individual sustainability statement (ESRS)**
Parent undertakings of a large group (including third-country issuers) that are not 'PIEs > 500 employees on average on a consolidated basis during the financial year'	**N/A**	**Consolidated sustainability statement (ESRS)**	**Consolidated sustainability statement (ESRS**	**Consolidated sustainability statement (ESRS)**	**Consolidated sustainability statement (ESRS)**
Listed SMEs, SNCIs, captive (re)insurance undertakings (including third-country issuers)	**N/A**	**N/A**	**Individual sustainability statement (ESRS or LSME ESRS) (*)**	**Individual sustainability statement (ESRS or LSME ESRS) (*)**	**Individual sustainability statement (ESRS or LSME ESRS)**
CSRD subsidiaries (or, in the absence, EU branches with net turnover in the Union > EUR 40 million) of third-country non-listed undertakings with net turnover in the Union > EUR 150 million	**N/A**	**N/A**	**N/A**	**N/A**	**Sustainability report (ESRS for certain third-country undertakings or ESRS)**
(*) May opt out.					

Source: FAQ from the EU Commission of 13 November 2024

Conclusion

The CSRD represents a significant step towards greater corporate accountability and transparency in sustainability practices. For the European chemical industry, this directive will necessitate substantial changes in reporting and strategy, but it also offers an opportunity to demonstrate leadership in sustainability. By complying with the CSRD, companies can build trust with stakeholders and contribute to a more sustainable future. The implementation of the CSRD will require significant effort and investment from companies, even those already

advanced in their sustainability reporting. However, by meeting these regulatory requirements, companies can demonstrate their commitment to sustainability, potentially gaining a competitive advantage and building long-term value for their shareholders and the broader community. This proactive approach to sustainability reporting can enhance corporate reputation, attract socially responsible investors and ensure compliance with evolving regulatory standards, ultimately fostering a more resilient and sustainable business model.

3. CSRD Survey results

a. Executive summary

The CSRD-survey results provide a comprehensive overview of the chemical sector's progress in preparing for CSRD reporting. **Over 100 responses** were collected from companies of various sizes and subsectors within the chemical industry This broad participation provides a representative view of the industry's progress and challenges regarding CSRD compliance.

The survey highlights **varying levels of confidence in reporting** across different subtopics. Companies show **high confidence in reporting on climate change** but face **challenges with pollution**, **biodiversity** and **resource use**. Social reporting presents difficulties, particularly for **workers in the value chain** and **affected communities**. Governance-related disclosures show high confidence levels.

Over 90% of respondents involve or plan to involve key internal and external stakeholders such as sustainability teams, finance departments, ESG committees, and executive boards. This broad engagement underscores the **importance of cross-functional collaboration in achieving CSRD compliance**.

The **technological maturity level remains low**, with most companies still relying on spreadsheets for their sustainability reporting. Despite this, companies are increasingly exploring advanced systems like Corporate Sustainability Data Systems (CSDS) to manage the vast amount of data required for reporting.

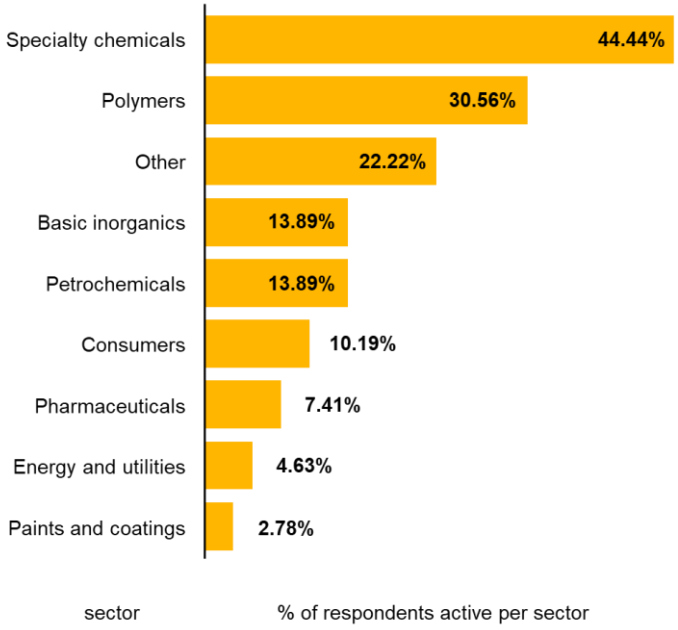
Smaller companies (yearly net turnover < €250M) **face a lower level of confidence**, particularly in governance and environmental topics, while larger companies (yearly net turnover > €250m) report greater confidence. The top obstacles identified by both smaller and large companies include value-chain complexity, staff capacity and tight deadlines. Interestingly, smaller companies are very affected by the lack of staff expertise, while larger companies are more concerned with deadlines. **Smaller companies** see the **competitive advantage as the top benefit of CSRD implementation**, while **larger companies see it more as risk mitigation**. Both groups agree on the value of improved engagement with stakeholders and better environmental performance.

In conclusion, the survey reveals the various struggles faced by the sector in their implementation of CSRD. It spotted a pronounced difference between smaller and larger companies in terms of confidence, priorities and perceived obstacles. Addressing these gaps, particularly in governance, environmental reporting and staff expertise, can help smaller companies achieve greater alignment with CSRD requirements and benefit from enhanced transparency and sustainability performance.

b. Introduction

This survey aims to further understand the stage of readiness of the chemical sector for CSRD reporting. It uncovers the challenges faced by the sector but also the experienced benefits when implementing CSRD.

Diverse sectorial participation



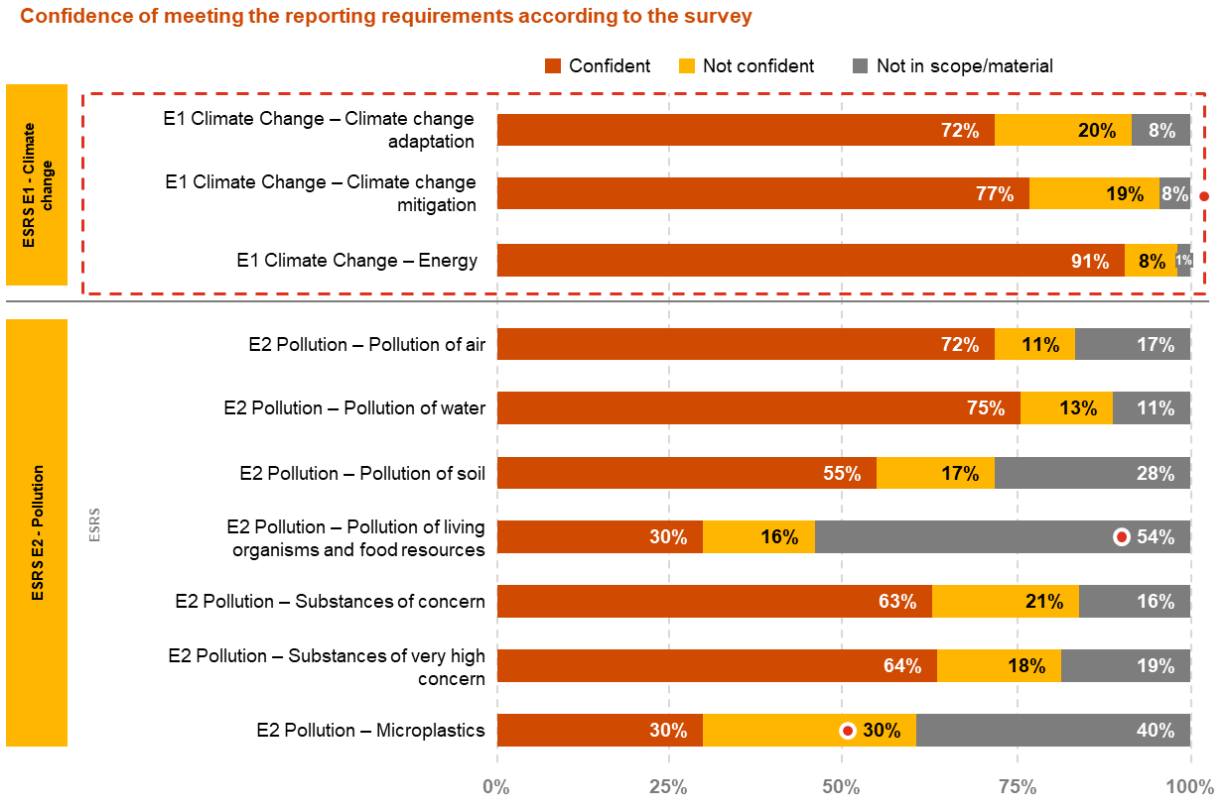
The CSRD survey collected **over 100 answers** from a wide range of companies from the chemical sector. A diverse range of subsectors such as specialty chemicals, polymers, basic inorganics, consumer products and pharmaceuticals are represented. Most survey participants are multinational companies active in different regions across the world: **70% are active in two or more regions**. This broad participation provides a representative view of the industry but most importantly, underlines the interest of the sector in the topic.

c. Reporting confidence per ESRS (subtopic level)

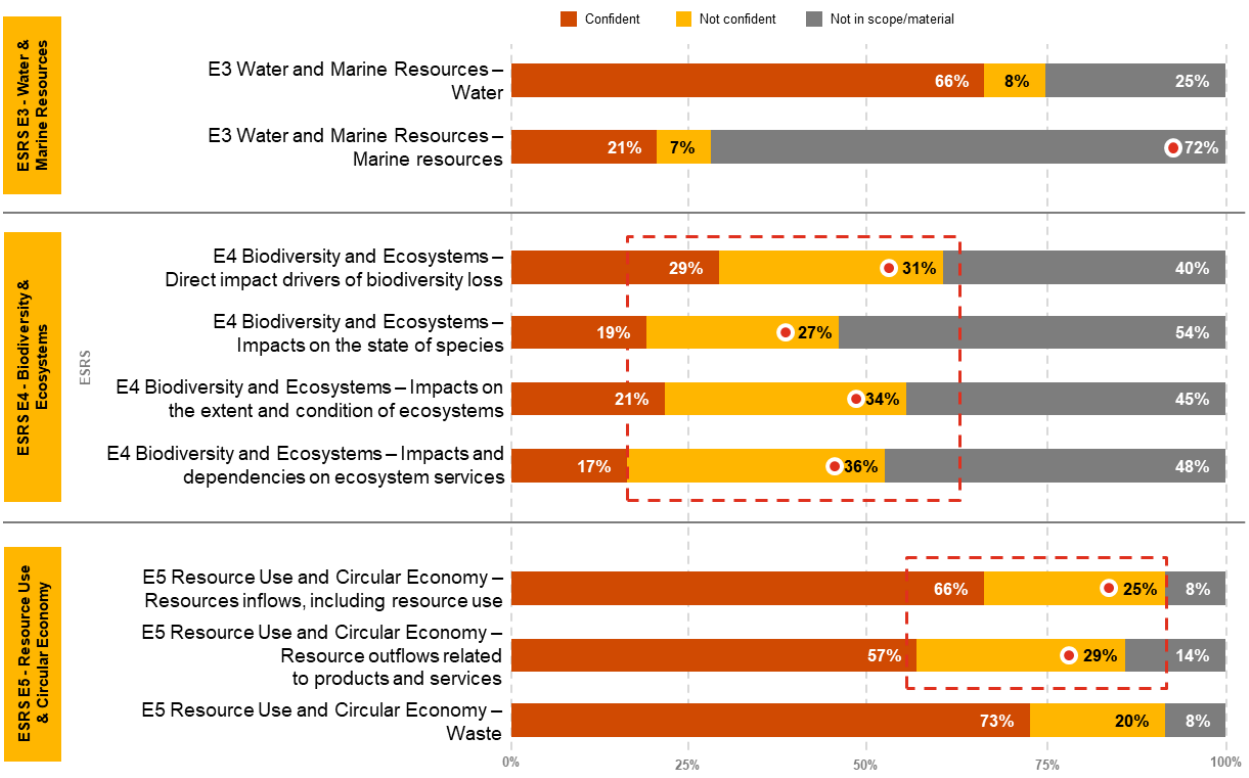
The CSRD legal guidelines cover various topics and subtopics. In our survey, we asked companies to assess their level of confidence regarding the reporting on each of the subtopics of the CSRD.

Environment: Companies show a high level of confidence on Climate Change while Pollution and particularly Microplastics, Biodiversity and Resource Use seem to pose issues.

How confident do you feel in your company's ability to meet the reporting requirements of the following subtopics? (Environment)



Confidence of meeting the reporting requirements according to the survey

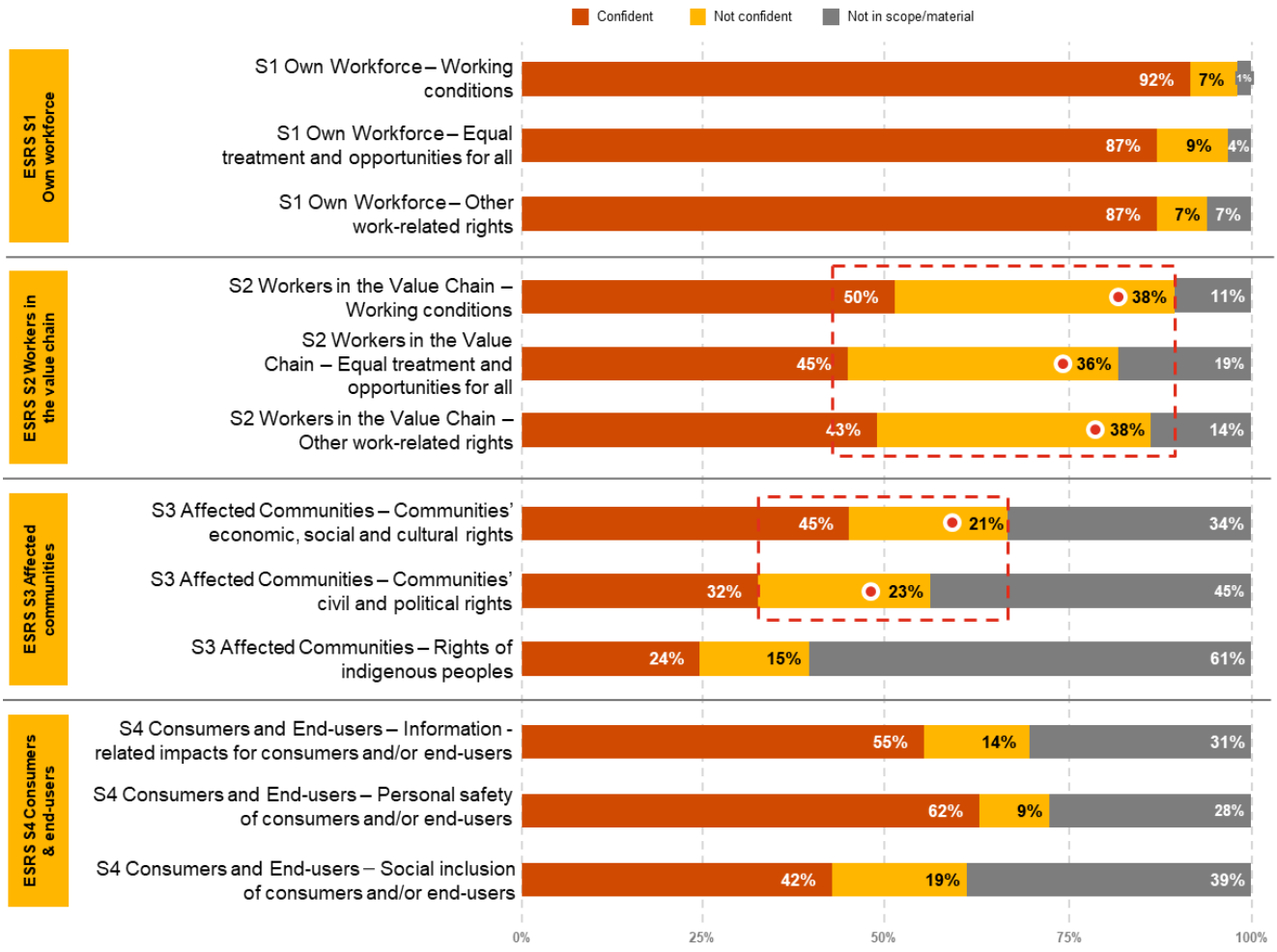


Confidence levels for meeting environmental reporting requirements vary widely. ESRS E1 (Climate Change) is seen as material for most, with high confidence levels. ESRS E2 (Pollution) shows mixed results. 'Pollution of living organisms' is deemed less material for most respondents. For 'Microplastics', half of the respondents for whom it is material are not confident. Finally, significant challenges persist in ESRS E4 (Biodiversity & Ecosystems). When E4 is material, over half of the respondents report low confidence in addressing material topics. ESRS E5 (Resource Use & Circular Economy) stands out as challenging, with many respondents struggling to report on resource inflows and outflows.

Social: workers in the value chain and affected communities are the most challenging topics for the Social-related disclosures.

How confident do you feel in your company's ability to meet the reporting requirements of the following subtopics? (Social)

Confidence of meeting the reporting requirements according to the survey

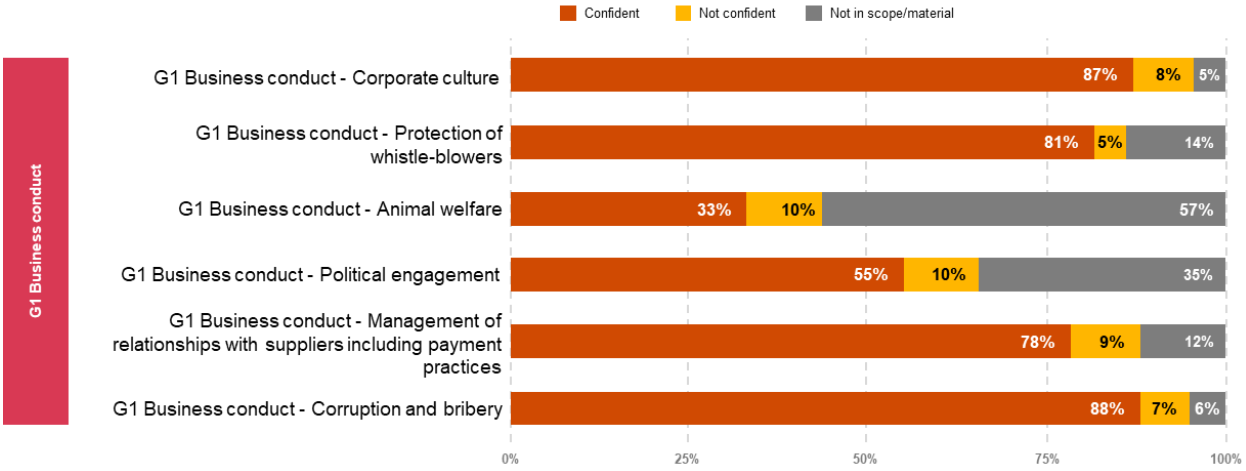


Social reporting presents some challenges, particularly for ESRS S2 (Workers in the Value Chain) and ESRS S3 (Affected Communities). While ESRS S3 is often considered less material, a notable proportion of respondents remain unconfident about reporting on these subtopics. These results point to a need for greater guidance and potentially resource allocation in value-chain-related disclosures.

Governance: Respondents show a high level of confidence

How confident do you feel in your company's ability to meet the reporting requirements of the following subtopics? (Governance)

Confidence of meeting the reporting requirements according to the survey

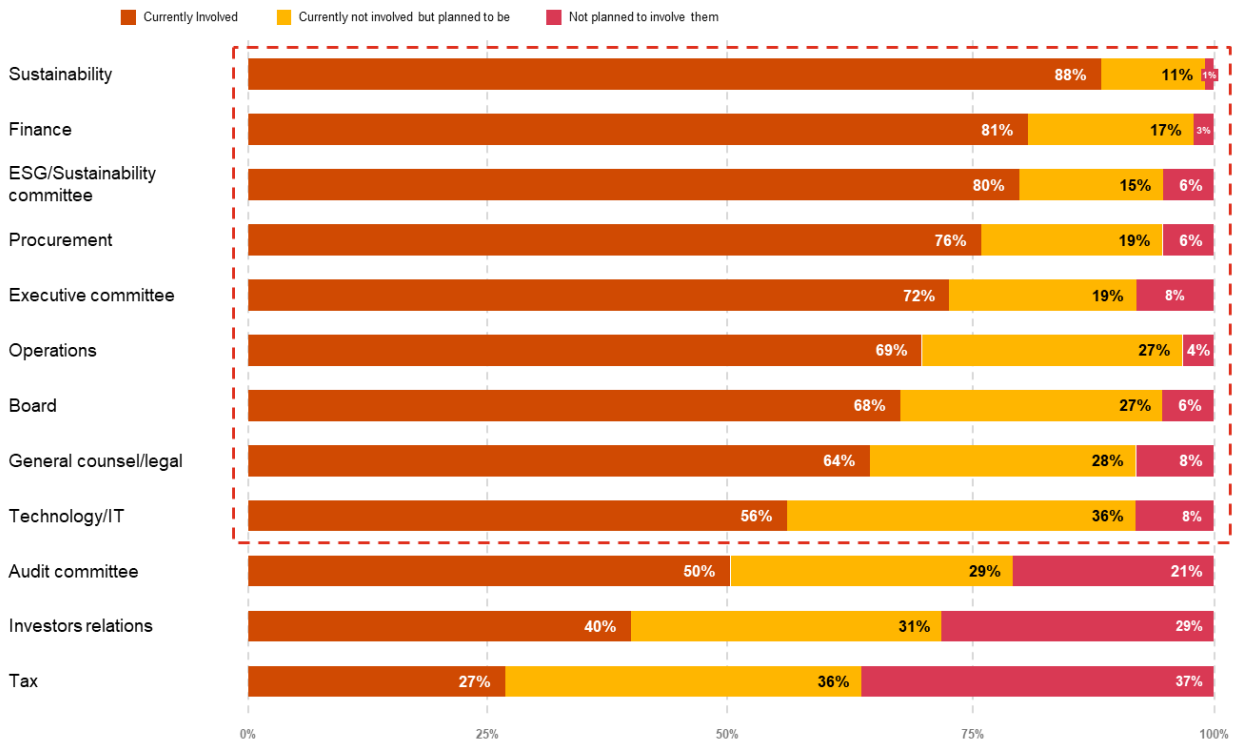


Governance-related disclosures show higher confidence levels than the other topics, particularly for material subtopics such as ‘Corporate Culture,’ ‘Protection of Whistle-blowers,’ and ‘Corruption and Bribery.’ Conversely, ‘Animal Welfare’ is deemed non-material for most companies.

d. CSRD-implementation journey

Most companies are involving a wide range of functions, showing the cross-functional nature of the CSRD implementation exercise.

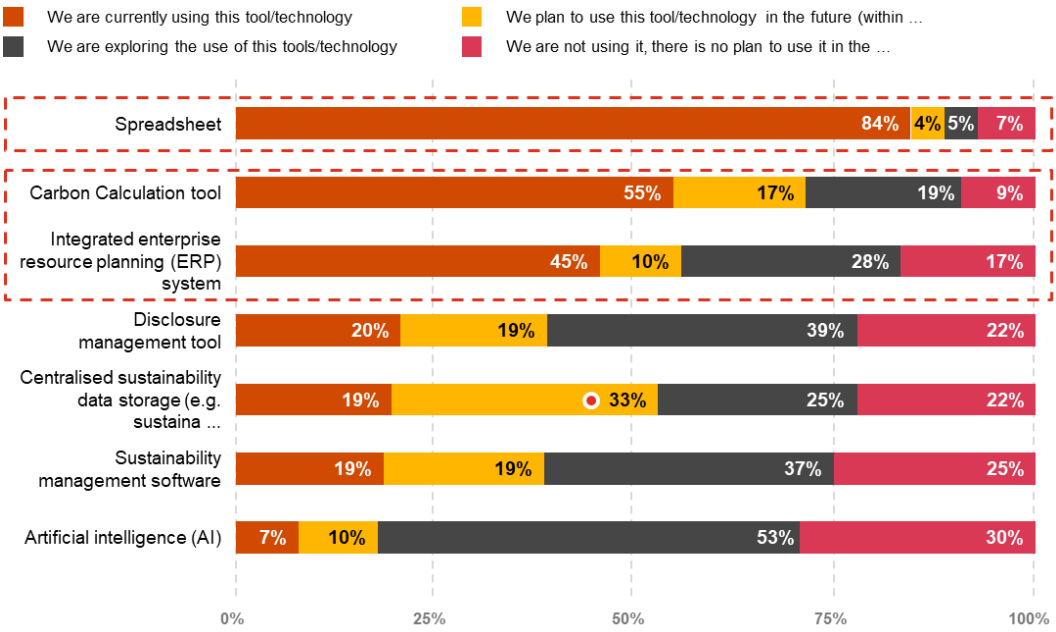
Indicate the level of involvement for the different stakeholders (internal and external)



Over 90% of respondents are involving or planning to involve key internal and external stakeholders such as sustainability teams, finance departments, ESG committees and executive boards. This broad engagement underscores the importance of cross-functional collaboration in achieving CSRD compliance.

The technological maturity level remains rather low, with most companies still relying on spreadsheets for their sustainability reporting.

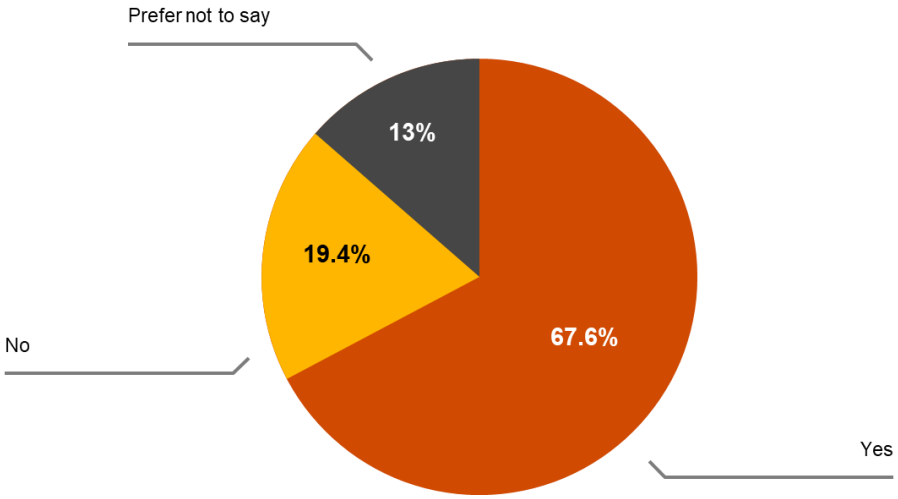
Please indicate the extent to which your company uses the following tools / technology for sustainability reporting.



Spreadsheets remain the most common tool for sustainability reporting, followed by carbon calculation tools (55%) and enterprise resource planning (ERP) systems (45%). Despite this, the maturity of data management linked to CSRD remains low, with companies increasingly exploring advanced systems such as Corporate Sustainability Data Systems (CSDS) to manage the vast amount of data required for reporting.

Most companies are still relying on external support to help them in the implementation of CSRD.

Are you working with an external consultant to support you in the implementation of CSRD?

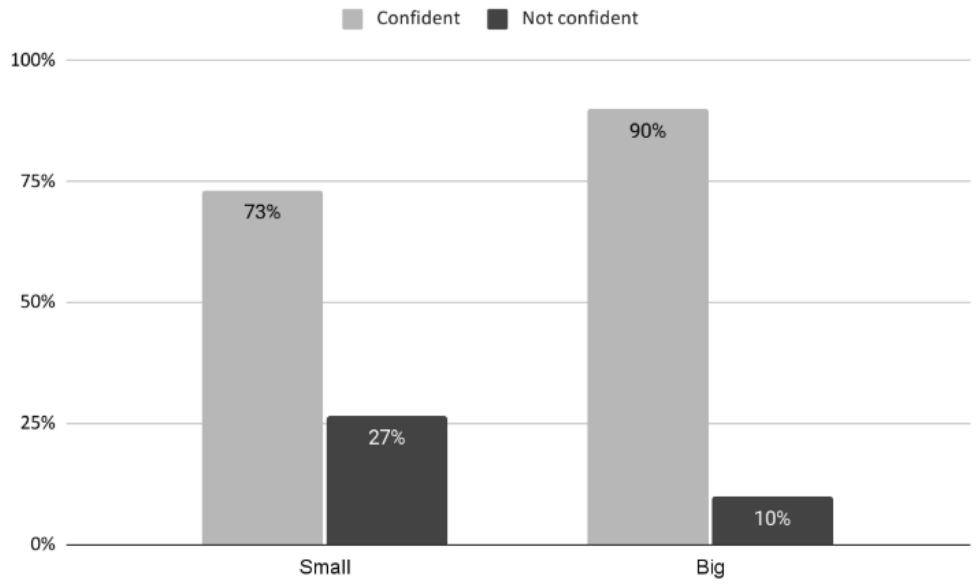


Almost 70% of respondents work with external consultants to support CSRD implementation, reflecting widespread reliance on external expertise. Around 20% are currently managing the implementation internally. This correlates to two of the main struggles faced by the sector in meeting CSRD requirements: shortage of resources and lack of expertise (more details on this in the next section).

e. Divergent paths: how smaller and larger companies navigate the CSRD journey differently

Smaller companies are less confident than bigger companies to report on CSRD.

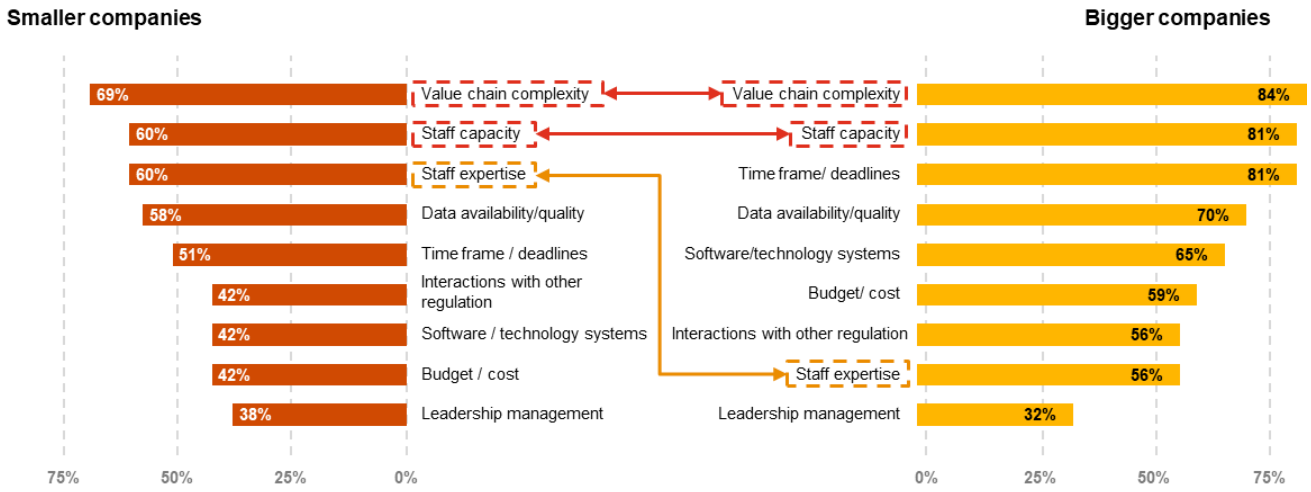
How confident are you to report on CSRD?



The survey reveals a clear gap in reporting readiness between smaller companies (annual turnover ≤ €250M) and larger companies (annual turnover > €250M). Smaller companies display significantly lower levels of confidence in their ability to meet CSRD-reporting requirements by the required date. The most significant difference in confidence lies in Environmental- and Governance-related reporting requirements where smaller companies seem to struggle much more than larger ones.

Larger and smaller companies agree on the top two obstacles to implementing CSRD: 'Value-chain complexity' and 'staff capacity'. The top three brings an interesting perspective.

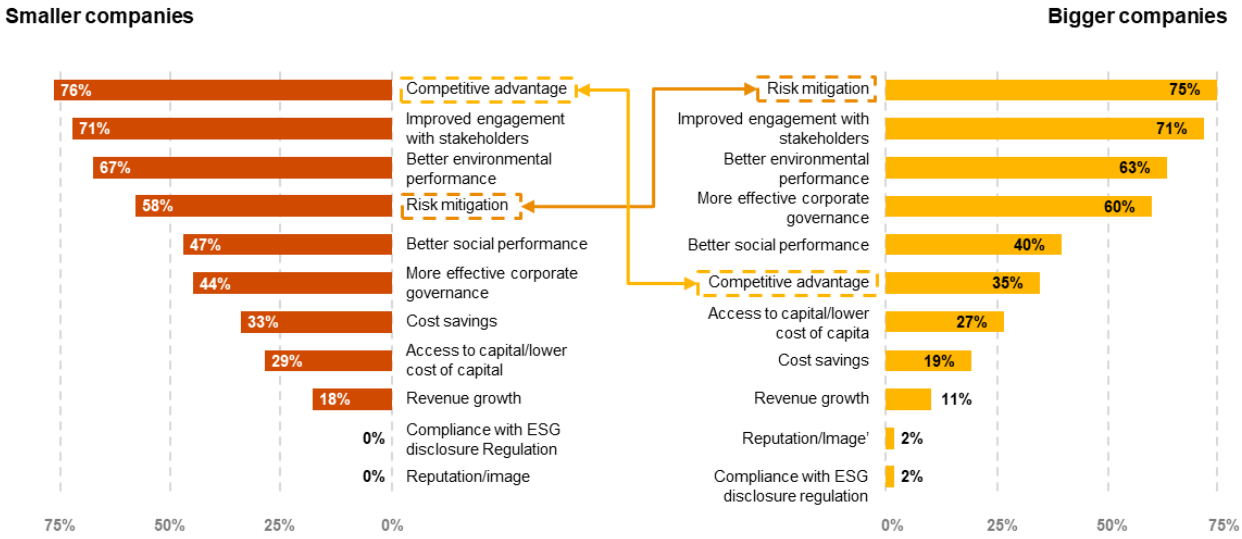
To what extent, if at all, are the following factors obstacles to your company's implementation of the CSRD?



Top two obstacles for smaller and bigger companies are the same but 'staff expertise' is seen as a key priority for smaller companies while much less for bigger companies. This distinction highlights the resource constraints smaller companies face, which may require external support and training programmes to support them in their CSRD journey. Bigger companies are more struggling with the 'time frame/deadline' as most are part of the first waves of CSRD reporting.

For smaller companies, the top one benefit of CSRD implementation is 'competitive' advantage' while for bigger companies, it is 'risk mitigation'

? *Which of the following are benefits of CSRD implementation for your company?*



Smaller and larger companies prioritise the benefits of CSRD compliance differently. Smaller companies rank ‘competitive advantage’ as their top benefit, while larger companies consider ‘risk mitigation’ most important. Both groups agree on the value of ‘improved engagement with stakeholders’ and ‘better environmental performance,’ ranking these benefits similarly. This contrast in priorities reflects the differences in strategic focus between smaller and larger companies.

f. Conclusion

In conclusion, the CSRD survey results reveal a diverse range of experiences and challenges within the chemical sector regarding CSRD reporting. The survey highlights significant differences in confidence levels between smaller and larger companies, particularly in governance and environmental topics. Smaller companies face more pronounced challenges due to lack of expertise, while larger companies are more concerned with meeting tight deadlines.

Addressing the gaps in governance, environmental reporting and staff expertise can help smaller companies achieve greater alignment with CSRD requirements. Both smaller and larger companies recognise the value of improved stakeholder engagement and better environmental performance, though their strategic priorities differ. Smaller companies see competitive advantage as the top benefit of CSRD implementation, while larger companies focus on risk mitigation.

The survey underscores the importance of cross-functional collaboration, with over 90% of respondents involving key internal and external stakeholders. Despite the low technological maturity, there is a growing interest in advanced systems like Corporate Sustainability Data Systems (CSDS) to manage the vast amount of data required for reporting.

Overall, the survey provides valuable insights into the sector's readiness for CSRD reporting and highlights areas where additional support and resources are needed to enhance transparency and sustainability performance.

4. Practical recommendations

a. Double materiality methodology

Step by step methodology

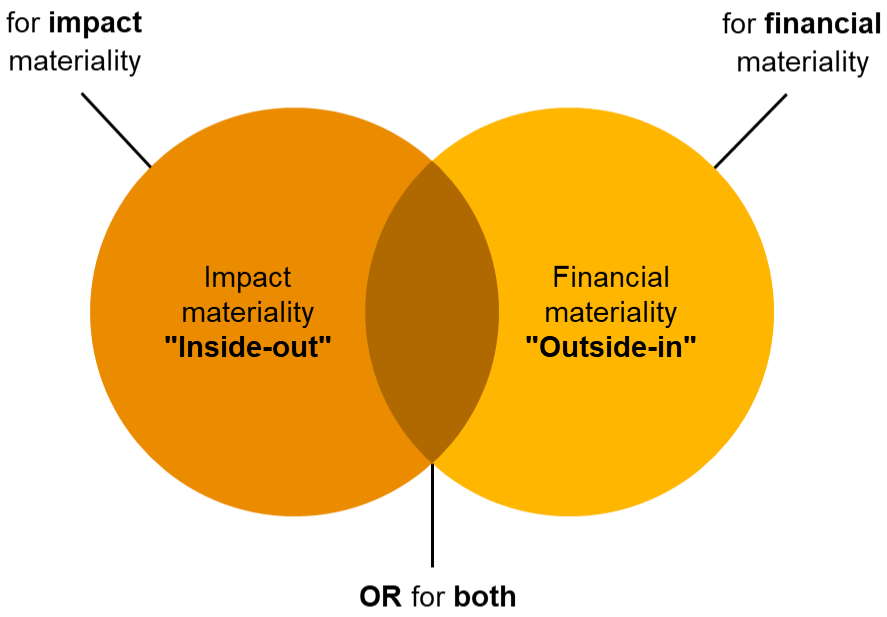
- **What is the double materiality analysis?**

Materiality analysis is not a new concept for those familiar with sustainability reporting. ‘Financial materiality’, a known concept applied by the ISSB, focuses on ESG issues that could present risks or opportunities for companies. The ‘impact materiality’, is another known concept which is part of the GRI’s reporting requirements and has been implemented by many companies. Impact materiality focuses on companies' impacts on people and the environment through their operations, products, services, and value chain.

The double materiality analysis will consider both how the outside world can affect the company (i.e. outside-in perspective or financial materiality) and how the company can impact the world (i.e. inside-out perspective or impact materiality). A sustainability matter will be material if it is considered material in one or both of these perspectives.

This dual perspective marks a fundamental evolution in the concept of materiality. Many companies who already conducted materiality analyses in the past will need to consider how to integrate this binary approach.

Sustainability matter is "material"
when it meets the criteria defined:



Example: Emission of GHG emissions through business travel contribute to climate change

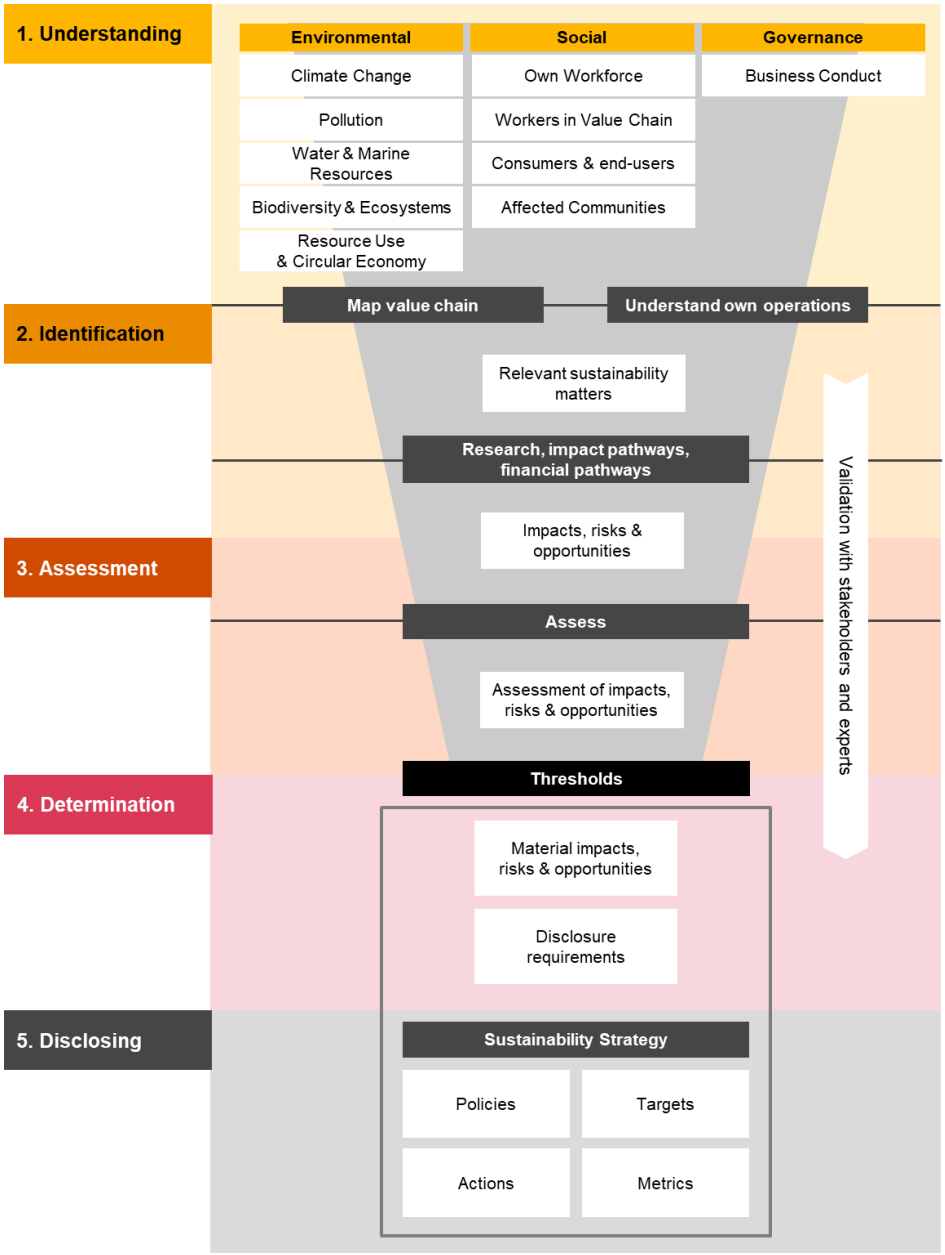
Example: Increasing carbon taxes will negatively affect future cash flows

Double materiality methodology

ESRS 2 (European Sustainability Reporting Standard 2) defines the concept of double materiality and related requirements regarding the process and what companies must disclose concerning their double materiality analysis. However, the ESRS does not contain detailed guidance on 'how' to perform the analysis.

We have broken down the methodology into four key steps. They will guide companies through the filtering process, from the complete list of ESG topics covered by the ESRS/CSRD (included in ESRS 1, AR16) down to those topics that can be considered as material for their own operations and end-to-end value chain. Figure 2 shows the various building blocks of this filtering process. We will provide a summary of each of the key phases in this section.

To go further, EFRAG has issued an implementation guidance document, last updated in May 2024[2], containing more details on the approach that can be taken and answering some frequently asked questions on the process. This guidance document can and should be your starting point.



[2] EFRAG Implementation Guidance 1 - Materiality Assessment - May 2024

1. Understanding

This first step aims to lay a solid foundation for the analysis by understanding the company's ESG context (e.g., operational, sectoral, geographic, regulatory and market context) and the exact scope for the CSRD-reporting and materiality analysis. This will enable your company to rule out several ESG topics and define and narrow down the universe of ESG topics.

To achieve this, an essential first step will be to determine the CSRD perimeter: what entities within your group structure need to be included in the scope of CSRD reporting? Another element of this phase will be to prepare the complete end-to-end mapping of your value chain. As indicated, the double materiality analysis requires looking beyond your own operations. Hence, you will need to understand the key players in your value chain, both upstream (i.e. your categories of principal suppliers and the industries in which they are active) and downstream (how your clients provide your products and services to the end customers and how these end users use your products), as well as their main ESG issues.

You will then need to identify the key stakeholders you have around your entire value chain (incl. own operations). You may consider your suppliers and their suppliers, your own workforce, local communities, NOGs, authorities, federations, etc. For each stakeholder/stakeholder group, you will need to define a clear engagement plan. Some guidance on stakeholder engagement is provided in the FAQ of this document.

Finally, based on the established understanding of your CSRD perimeter and value chain, you should be able to apply a first filter to the list of ESG topics included in ESRS (AR16). This allows you to rule out topics which can't potentially be linked to material impacts, risks and opportunities. Ruling out topics will require a strong rationale. A good practice to justify is to analyse other peers/competition reports, industrial standards such as SASB, MSCI materiality topics, or even the results of the survey from this report and prove that the topic in question is not material for your type of activity.

The involvement of people within your company with an excellent end-to-end view of your business will be critical in this phase. Typical departments involved (not exhaustive):

- Sustainability team (if existing)
- Risk management
- Finance
- Procurement (for procurement-/upstream-related risks)

The level and people involved from the external side (clients, suppliers, communities, NGOs, etc.) are company-specific and usually depend on factors such as organisational structure and responsibilities, CSRD maturity, reporting requirements, available time, etc.

Furthermore, you may leverage some essential supporting documentation as available. Some companies already have documented value chains, but an overview of your principal suppliers (and the related spend) and customers can also be a good source of information to build this overview. Also, consider in this value chain the Tier 2+ players in the value chain (e.g., the main suppliers of your direct supplier). CSRD does not provide any limit and require you to go beyond Tier 1 to trace back the primary sources, all the way upstream as well as all the way downstream to customers, end of life, etc.

2. Identification

This second phase aims to define a list of potential material impacts (positive and negative), risks and opportunities. Starting with your shortened list of ESG topics established in step 1, consider for each topic what impacts may stem from your own operations, products, services and value chain. The Impacts, Risks and Opportunities (IROs) identification can be sector-/entity-/location-specific as required by the ESRS 1.

Example of Impact identification starting from ESRS E1:

ESRS E1 - Climate change	Positive / negative	Actual / potential	Impact description	Impact location
Climate change mitigation	Negative	Actual	**Downstream/upstream context:** Explaining how the value chain is linked to the topic (e.g., climate change mitigation) and how prevalent the issue is, with quantitative data where available. **Own operations context:** Explaining the link to the topic, i.e. the direct consequences (outcomes) of the products and/or services on the topic (e.g., how do your company activities contribute to climate change mitigation). **Impact on society and the environment:** Description of the impacts from the elements identified in the context (e.g., 'GHG emissions from your operations and downstream value chain contribute to worsening climate change and its consequences, including a higher frequency and intensity of extreme weather events (e.g., floods, droughts, wildfires, etc.), biodiversity loss, etc. These physical consequences will negatively impact society through disrupting our food production systems and increasing health risks (e.g., heat-related, nutrition-related, etc.)')	

Regarding the 'impact materiality' perspective, it is important to consider not only actual impacts (i.e. impacts your organisation currently has on people and the environment) but also 'potential impacts' that could occur in the future. Actual and potential impacts can stem from:

- *Your operations (i.e. how you do what you do):* Your offices, production activities, policies and processes can all impact the environment, your employees, local communities, etc. For example, your factories might generate greenhouse gas emissions that impact people and the environment by contributing to climate change. Your factories might also produce waste, which could lead to pollution, and your production processes might affect your employees' health, safety and well-being.

- *Your products and services (i.e. what you do)*: Your products and services can impact their users, wider society and the environment through their nature or use. For example, fertilisers produced by chemical companies can be a source of GHG emissions when

applied by downstream users, chemicals used for cleaning and decontamination improve sanitary conditions, polymers may spread microplastics.

- *Your value chain:* Impacts correlated to or (indirectly) caused by your activities, products and services may occur in your value chain. For example, a chemicals company sourcing raw materials from the mining industry may impact biodiversity or human rights throughout its value chain. Certain chemical products are used in applications (e.g., insulation) that lead to GHG-emissions reductions. Therefore, mapping your entire value chain will be critical to identify potential impacts beyond your own operations.

When considering the 'financial materiality' perspective, companies will need to identify sustainability matters which (may) trigger risks or opportunities likely to materially affect their cash flows, development, performance, position, cost of capital or access to finance. An example can be increasing carbon taxes potentially affecting future cash flows. Or climate change, leading to scarcity and price increases of significant raw materials needed in the production process. This last example shows that the time horizon for such financial risks and opportunities can be much longer than in traditional risk management practices. A positive example could be energy efficiency programmes which could be an opportunity for companies to positively affect their image and financial situation.

A company's impact can often be a source of risks and opportunities. For example, a company that has identified negative impacts related to the significant water consumption of its factory, may face protests that could halt production and cause material costs due to lost productivity days, on top of reputational damage. Companies should thus consider whether each impact is (or could be) associated with risks and opportunities.

In addition, companies should consider for each ESG topic whether risks and opportunities may arise unrelated to their material impacts. For example, a company that has reached its net-zero climate targets (and thus is not having an impact on climate change) might have factories in a location exposed to climate-related physical risks such as flooding or extreme weather. Companies will typically be able to leverage their existing Enterprise Risk Management (ERM) practices and due diligence processes in place to some extent, such as EcoVadis.

3. Assessment

Once potentially relevant impacts, risks and opportunities (IROs) have been identified, the next step is to assess whether they are material or not. The ESRS has defined a set of characteristics on which IROs are to be evaluated:

Severity: The severity of an impact is made up of three components: • *Scale:* how grave or beneficial is the impact? • *Scope:* how widespread is the impact? In the case of environmental impacts, the scope may be understood as the extent of environmental damage or in a geographical perimeter. In the case of impacts on people, the scope may be understood as the number of people adversely affected. • *Irremediable character (negative impacts only):* Can the negative impact be remediated? If so, to what extent (i.e. full remediation vs partial) and which type and quantity of resources would be required?	*Magnitude:* To what degree will the risk or opportunity financially affect the company in the short, medium and/or long term?
Likelihood: In the case of a potential impact, what is the probability of the impact materialising?	*Likelihood:* How likely is the risk or opportunity?

The objective of this process is to inform your strategy. Basing the assessment on quantitative information to the extent possible is critical to maximising the value added by this exercise. Of course, where quantitative information (including global reports or industry information on a given topic) is not available or is not necessary to conclude that a matter is (not) material with sufficient certainty, a pragmatic qualitative analysis can be sufficient.

In any case, your company must define and document precise assessment mechanisms and related materiality thresholds.

On the financial materiality side, you can leverage existing risk assessment magnitude and likelihood scales (for example, a magnitude scored on the % of EBITDA affected and a qualitative likelihood scale ranging from highly unlikely to possible to highly likely), as well as the knowledge and experience of internal experts (e.g., finance, internal audit and risk functions). Consulting external experts or sources such as ESG-rating agencies' reports may also be considered.

Assessing impacts can be more challenging as it requires the consideration of more characteristics and knowledge of a wide array of ESG matters. Defining topic-specific scoring mechanisms (see example below) that are as specific as possible and sufficiently granular and include examples and quantitative data where possible, will be vital to making the impact assessment go beyond gut feeling and minimising the risk of biases.

For example, a scoring mechanism for impacts related to the Physical Health and Safety topics could be:

Topic	Scale			Scope			Irremediable character		
	1 – Low	3 - Medium	5 – High	1 - Low	3 - Medium	5 – High	1 – Low	3 - Medium	5 – High
Physical Health & Safety	Possibility of minor injury (e.g., twisted ankle, minor cut, etc.)	Possibility of major injury (e.g., broken limbs, second degree burn, etc.)	Possibility of fatal impacts	Impact confined to single worker	Impact confined to single team/site	Impact on all employees and/or extending to local communities	Full recovery expected	Mostly full recovery expected for all involved	Fatality or major injury with permanent damage

Another example of impact scoring for renewable energy generation could be:

Topic	Scale (HOW GRAVE?)*			Scope (WHO IS EXPOSED?)			Irremediable character (REVERSIBLE?)			Likelihood (HOW LIKELY?)		
	1	3	5	1	3	5	1	3	5	1	3	5
Renewable energy generation	Capacity of wind farm is 100MW or less	Capacity of wind farm is between 300 and 600 MW	Capacity of wind farm is superior to 1000 MW	Impact on local energy supply market	Impact on national energy supply market	Impact on global energy supply market	**N/A** - Positive impact: no need to score 'irremediable character'			**N/A** - Actual impact: no need to score 'likelihood'		

Example of financial risk – magnitude scoring:

	Financial Materiality		Financial & Impact Materiality
	Financial EBITDA	**Business continuity**	**Health & Safety (internal & external)**
Severe impact (5)	> XXX EUR	Long service interruption or even service ban	Multiple severe health crisis, injury or death per year
Major impact (4)	Between XX and XX MIO EUR	Breach leading to a fine and a major service interruption	Severe heath crisis (incapacity beyond 3 months)
Important impact (3)	Between XXX and XX MIO EUR	Breach leading to a fine but no service interruption	Increased level medical attention (2 weeks to 3 months incapacity)
Moderate impact (2)	Between XX and XX MIO EUR	Breach leading to no fine nor service interruption	Routine medical attention (up to 2 weeks incapacity)
Minor impact (1)	Less than XX MIO EUR	Minor breach from isolated employee	First aid or equivalent only

Your company will need to define how the Financial and Impact scores are calculated. A simple way can be to calculate the averages of Magnitude and Likelihood (for financial) and the average of Severity (scale, scope, irremediable character) and Likelihood (for impact):

$$Impact\ score\ = (Average\ (Scale, Scope, Irremediable\ character)\ +\ Likelihood)/2$$

$$Financial\ score\ =\ Average\ (Magnitude, Likelihood)$$

Example of scoring for 'Physical Health & Safety':

Scale: 2

Scope: 3

Irremediable character: 5

$$\text{Severity} = \frac{(2 + 3 + 5)}{3} = 3.333$$

Actual impact ⟶ 'Likelihood' not applicable

Impact score for Physical Health & Safety = 3.333/1

(we divide by 1 because Likelihood is not applicable, if Likelihood would have been applicable, we would have divided by 2)

Your analysis can be enriched and strengthened by leveraging information from publicly available reports, indexes, methodologies and information sources (e.g., the water stress index, the corruption perception index, the LEAP methodology for biodiversity impacts, industry benchmarks, etc.).

In addition, the involvement of internal experts (e.g., ESG responsible, HSEQ responsible, etc.) and external stakeholders (e.g., local communities, environment-focused NGOs, academic experts) can bring additional insights and a different perspective to the analysis. Indeed, where impacts are concerned, the ESRS requires companies to consult stakeholders affected by your company, either actively (i.e. through surveys, interviews, etc.) or passively (i.e. through desktop research or leveraging past engagements).

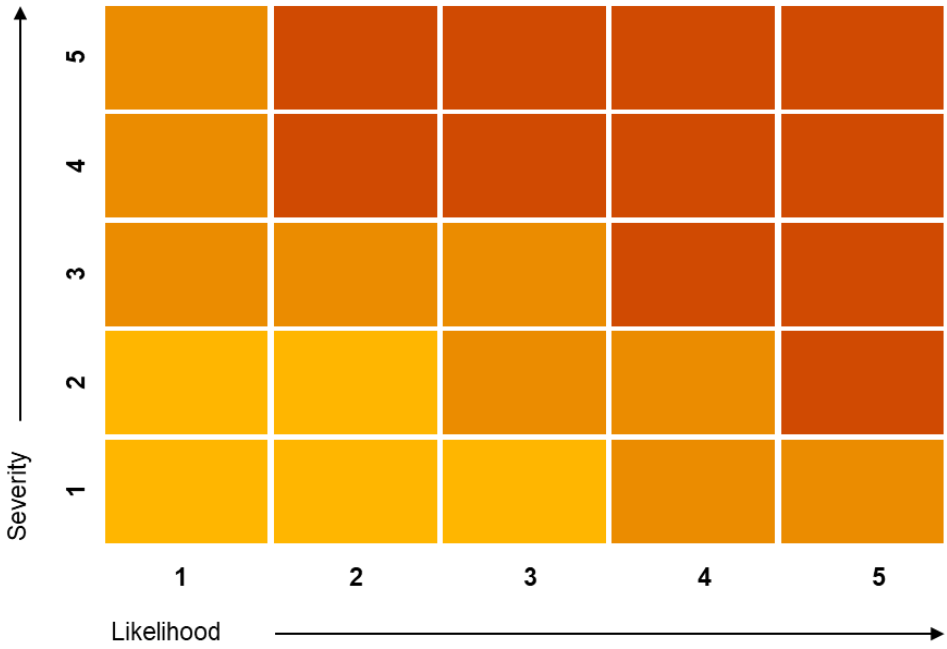
4. Determination and disclosing

Once all IROs are scored, the company should apply its defined threshold to identify the material IROs and therefore what must be reported. A good practice at this point is to perform a sense check on these results and look at the IROs scored near the threshold to assess whether these are genuinely (not) material. The threshold setting will typically be debated at the Executive Committee level. The CSO/Global Sustainability directors play an important role here in making the interpretation of the double materiality results.

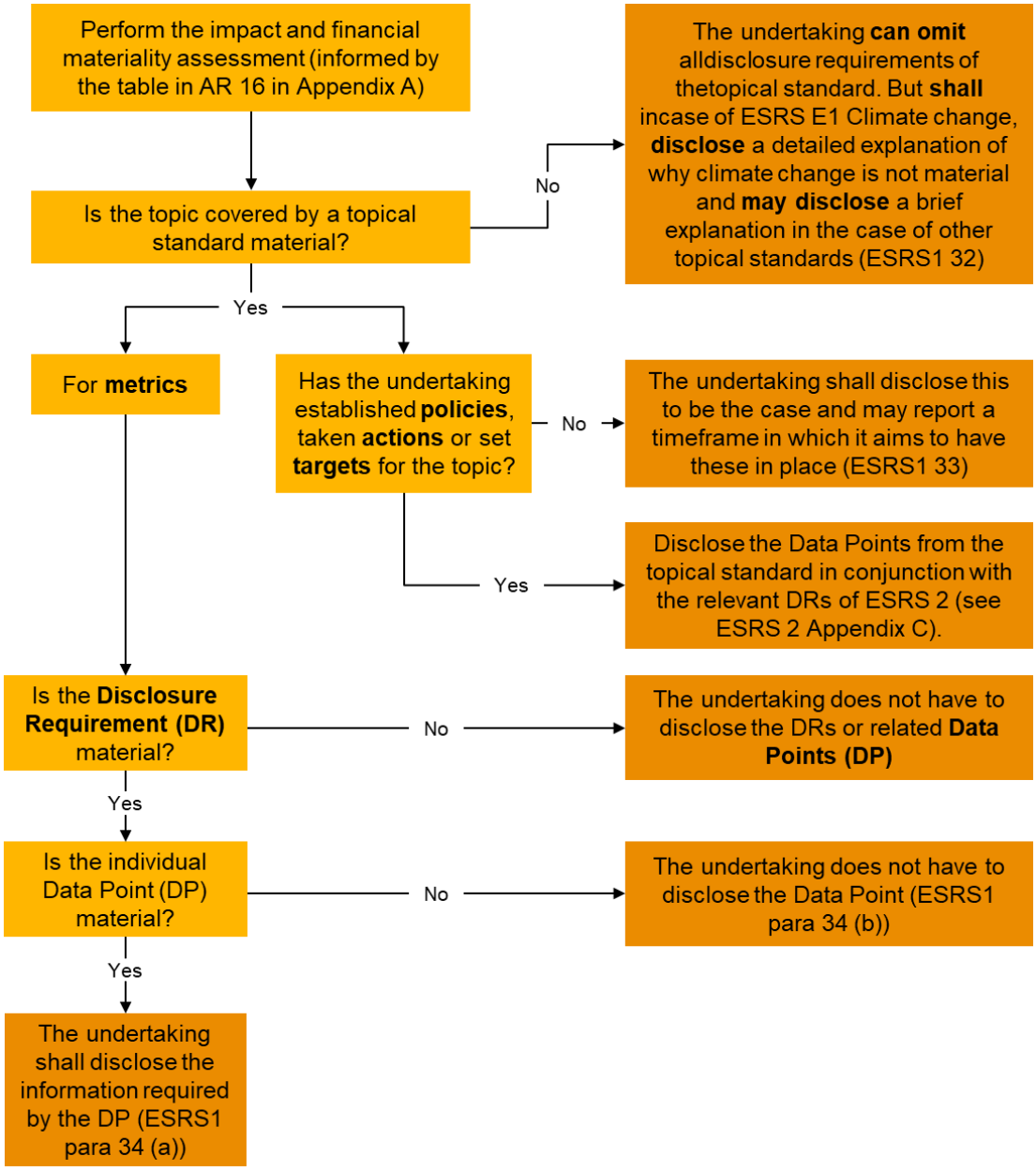
An example of a threshold is given in the EFRAG Implementation Guidance IG 1 Materiality Assessment:

Figure 5: Thresholds for materiality of potential impacts for illustrative purposes only (the colour coding of the matrix is to be determined by each undertaking following the criteria in ESRS 1 Chapter 3.4 Impact materiality)

Please note that that the graphical representation in this figure serves only as illustration of a possible approach to visualisation of the conclusions of assessment of impact materiality criteria. ESRS 2 IRO-1 also requires the undertaking to explain how it determined the materiality of the impact, including the qualitative and quantitative thresholds used.



Finally, the last step is to determine which sustainability matters are material for your company (i.e. which topics are related to at least one material IRO) and to identify which of the ESRS' disclosure requirements are now applicable to your reporting. To do so, the flow chart included in ESRS 1 (Appendix E) provides good guidance.



EFRAG ESRS1 Annex 1: Flowchart for determining disclosures under ESRS

All disclosure requirements (DRs) on policies, actions or targets related to a material topic are mandatory, as described in ESRS 2. Meanwhile, for metrics, companies can assess whether specific DRs and data points are material (considering the specific sub-subtopic that is material for them and the objective of the DR). To assess relevance/materiality of a data point, ESRS 1 paragraph 31 prescribes the decision criteria ‘significance of the information’ and ‘capacity of the information to meet the users’ decision-making needs’

5. A note on documentation

The double materiality analysis is central to the CSRD, so it will likely be a focus point for your auditors. Documentation is critical to ensure a clear audit trail of the process. Your documentation should contain the methodology you used for each process step, including the information sources, proxies and estimations and the experts and stakeholders you consulted. In addition, your rationale behind each decision and conclusion should be clearly documented as well. Writing this documentation throughout the process will ensure it accurately covers the required information in sufficient detail. Feel free to reach out to your auditor throughout the process to understand their expectations regarding the audit trail.

6. Revising your double materiality

As you will need to publish every year your CSRD report, it will be important to keep your double materiality analysis up to date. It is not required to fully 're-do' the exercise every year but rather go through the exercise done in the previous year and control that everything still applies to your business. Here is a short list of events that might require some updates in your double materiality exercise:

- Business change: merger, acquisition, shift in business strategy, etc.
- Regulatory changes: introduction of new taxes, etc.
- Stakeholder expectations changes: this could come from customers, investors, strategic partners, etc.

Other events: new scientific discoveries, environmental incidents, technology advancements can introduce new risks or opportunities for your business.

Conclusion

To conclude, the double materiality analysis requires companies to broaden their financial risk-focused perspective, include impacts and opportunities, and consider the value chain. This significant change will require considerable work for most companies. Therefore, it will be essential to strike a balance that allows your approach to bring strategic value to your company while remaining pragmatic.

The double materiality is a months-long process and is the first step towards CSRD-aligned reporting, with many others to follow (e.g., design and implementation of reporting processes and controls, data collection, integration of material IROs into the company's strategy, etc.). Therefore, it is crucial that companies start their materiality assessment well before their CSRD-reporting deadline and ensure they have dedicated the right resources to ensure its proper completion.

Stakeholder engagement tips

As described in the Double Materiality section, stakeholder engagement is key in your CSRD-implementation journey. The objective of the double materiality exercise is to search for what is material for the different stakeholders of your company and its entire value chain. Stakeholder engagement is the means to capture the perspective of the different relevant stakeholder groups for your company. Below are some of the key elements to consider when looking at stakeholder engagement:

- **When** to involve the different types of stakeholders:
    - 1. Start with internal experts.
    - 2. If the internal SPOC is not capable of providing enough evidence, look to involve external stakeholders.
- **How** to involve stakeholders:
    - Survey

PROS	CONS
ability to reach a broader audience	factual insights are more limited

    - Meeting

PROS	CONS
more opportunities for in-depth insights and understanding of the views of the stakeholders	time-consuming

    - Workshops

PROS	CONS
deliberation/discussions between exports with different background/views	time-consuming and risk of bias towards the most vocal stakeholder

b. CSRD audit

Tips for audit-readiness

To help you smoothen your audit process, we would highly recommend the following:

- Consider an early start.
- Consider using a reporting technology as from the start.
- Avoiding surprises at the end of the reporting cycle through early involvement of the auditor (e.g., by already pre-validating the double materiality analysis, validating the translation of the DMA to the actual data points and disclosures (completeness check), prevalidation of the KPI robustness and report structure, etc.).
- Leverage upon the existing expertise within the company with the finance department, risk management expert, person in charge of internal control, internal audit, etc.
- Embed as from the design a sufficient level of internal control (this can range from a minimum level of internal control to ensuring a robust internal control environment that is for instance aligned with internal controls over financial reporting).
- Ensure there is a proper governance (involvement of governance bodies within the organisation <AC, Board>, as well as organisational governance <process manager, data owner, reporting manager, etc.>) in place as well as change management (real change management might require thorough reflection on how you can get the organisation on board).
- No underestimation of the requirements in relation to the EU taxonomy eligibility as well as alignment criteria (technical screening, ‘do not significantly harm’ criteria, minimum safeguards criteria).

In addition, the table below summarises the typical elements that will most likely be requested by your auditor:

ATTENTION POINTS FOR ASSURANCE	
Definition of the KPIs	• How are the KPIs defined? In line with ESRS guidance? • What are the instructions? E.g., policies, procedures, SOPs, working instructions, certifications, etc.
Reporting scope	• Which legal entities are included? • What is the methodology/rationale defining the reporting scope?
Data gathering process(es) and supporting system(s)	• What is the data source to calculate the KPI? • What steps are performed on the source data to calculate the KPI? • Are any assumptions made during the calculation process? • When is data collected and reported (timing)? • Is an audit trail of underlying/supporting documents retained?
Reporting to and consolidation at group level	• How frequently is the data consolidated? • How is the data consolidated and in which system/format? • When is data consolidated and reported (timing)?
Internal controls	• What are the reporting risks? E.g., under- or over-reporting of the KPIs. • What type of controls have been implemented by the company to mitigate these risks? E.g., variation analysis, reconciliation or cross-checking with other data sources, etc. • Are the controls sufficient to mitigate the risk(s)? • Who oversees performing the control and is this person sufficiently independent?

c. The role of AI in CSRD reporting

AI has the potential to revolutionise sustainability data analysis and reporting by automating processes, improving data accuracy and providing actionable insights. Here are some ways AI can be leveraged:

1. **Data collection and integration**: AI-powered tools can automate the collection and integration of sustainability data from various sources, such as IoT devices, social media and financial systems. AI can map data from different sources to a common schema, making it easier to integrate disparate datasets. This involves matching data fields, resolving conflicts and ensuring that data from different systems can be combined seamlessly. For example, AI can help link financial and non-financial data, making it easier to measure and report on carbon footprints.

2. **Natural language processing (NLP)**: NLP, a subset of AI, can analyse unstructured data such as text documents and emails. This allows organisations to extract relevant information and integrate it with structured data, providing a more complete picture of their operations.

3. **Data quality and accuracy**: AI algorithms can clean and transform raw data into a standardised format. This includes identifying and correcting errors, filling in missing values and ensuring consistency across datasets. Machine learning models can detect anomalies and flag potential issues, allowing organisations to address them proactively. This is particularly important for regulatory compliance and investor confidence.

4. **Advanced analytics**: AI can perform advanced analytics on sustainability data, uncovering patterns and trends that may not be apparent through traditional analysis. For instance, AI can analyse historical data to predict future sustainability performance, helping organisations set realistic goals and track progress. AI-powered analytics can also provide insights into the impact of sustainability initiatives on financial performance, enabling data-driven decision-making.

5. **Automated reporting**: AI can streamline the sustainability reporting process by automatically generating reports based on predefined templates and standards. This not only saves time and resources but also ensures consistency and compliance with sustainability reporting requirements.

AI applications in sustainability tools
AI capabilities are increasingly being integrated into sustainability tools, revolutionising how organisations manage and report their sustainability efforts.

One notable example is the use of **AI-powered chatbots** that can clarify disclosure requirements and inspire users with industry best practices. These chatbots provide real-time assistance. This not only enhances efficiency but also empowers organisations to make data-driven decisions and demonstrate their commitment to sustainability. Another significant AI functionality is the ability to analyse uploaded policy documents and **automatically extract relevant information for reporting**. This capability saves time and reduces the risk of human error by ensuring that critical data is accurately captured and integrated into sustainability reports. Additionally, AI can **rephrase, shorten or elaborate** on manually provided answers, ensuring that the content is clear, concise and tailored to the audience. These advanced capabilities not only streamline the sustainability reporting process but also enhance the overall quality and accuracy of the information being presented.

d. ESRS standards

FAQ

In this section, different ways to approach certain disclosures are detailed. The disclosures and points that are covered have been based on key questions and concerns that were raised by members of Cefic throughout the handbook creation.

Following the recent Omnibus proposal, we anticipate changes to the ESRS. The answers in this FAQ are consistent with the current ESRS version approved by the EU Commission and Parliament. Any necessary updates to this FAQ, prompted by the Omnibus or insights from the Wave 1 reporting companies, will be included in the upcoming version 2 of this handbook.

- **General**

  a. Sustainability statement: mock-up example

Here is a high-level mock-up of a sustainability statement. Note that your statement should be tailored to your entity's specificities.

ANNUAL GROUP REPORT

About this report | To our stakeholders | […]

(Consolidated) management report

Fundamentals of the Group | Economic Report | […]

Sustainability statement

GENERAL INFORMATION

- Basis for Preparation (BP-1 -BP-2).
- Strategy (SBM-1 - SBM-3).
- Governance (GOV-1 - GOV-5)
- Metrics and targets (MDR-M, MDR-T).
- Impact, Risk and Opportunity Management (IRO-1 - IRO-2)

ENVIRONMENTAL INFORMATION

- The Disclosures pursuant to Article 8 of Regulation (EU) 2020/852 (Taxonomy Regulation).
- ESRS E1 Climate change.
- ESRS E2 Pollution
- ESRS E3 Water & marine resources.
- ESRS E4 Biodiversity & ecosystems·
- ESRS E5 Resource use & circular economy

SOCIAL INFORMATION

- ESRS S1 Own workforce.
- ESRS S2 Workers in the value chain
- ESRS S3 Affected communities.
- ESRS S4 Consumers & end users

GOVERNANCE INFORMATION

- ESRS G1 Business conduct

Sustainability notes

(Consolidated) Financial statements incl. notes

Other information (e.g. remuneration report, additional information, auditor's report)

Section description:

- **General information**: The mandatory disclosure and application requirements from ESRS 2 (General information).
- **ESRS specific information**: Selected disclosures from the topical standards. Each topical standard can then be structured following:
    - Governance
    - Strategy
    - Impact, risk and opportunity management
    - Metrics and targets
- **Sustainability note**: Intended to make the sustainability statement more reader-friendly. We have introduced the 'sustainability note' section here as a possibility, similar to a common structure in financial reporting, to allow the reader to focus on the most important information in the main section and to find detailed information (if needed) in the back. We have included this as a separate section in the sustainability statement within the management report and it contains more detailed information on e.g., reporting policies as well as the reported metrics. Please note that this is not something defined by the ESRS but is introduced here for inspirational purposes.

Since January 2025, the first reports have been published in respect of the wave-1 entities which could be providing a lot of best practices/inspiration for your CSRD report (Barco, RockWool, Carlsberg, etc.).

b. Assessing materiality of information

The official documentation of the ESRS (ESRS 1 31 and 34 (a) and (b)) suggests that:

> 31. The applicable information prescribed within a Disclosure Requirement, including its datapoints, or an entity-specific disclosure, shall be disclosed when the undertaking assesses, as part of its assessment of material information, that the information is relevant from one or more of the following perspectives:
>
> (a) the significance of the information in relation to the matter it purports to depict or explain; or
>
> (b) the capacity of such information to meet the users' decision-making needs, including the needs of primary users of general-purpose financial reporting described in paragraph 48 and/or the needs of users whose principal interest is in information about the undertaking's impacts.

34. When disclosing information on ***metrics*** for a material ***sustainability matter*** according to the Metrics and Targets section of the relevant topical ESRS, the undertaking:

(a) shall include the information prescribed by a Disclosure Requirement if it assesses such information to be material; and

(b) may omit the information prescribed by a datapoint of a Disclosure Requirement if it assesses such information to be not material and concludes that such information is not needed to meet the objective of the Disclosure Requirement.

Here are some possible considerations when assessing the materiality of information (source: PwC Sustainability Reporting Guide (SRG) section 4.3.4.2):

Figure SRG 4-17
ESRS Materiality of information - possible considerations

Characteristic of relevance (ESRS 1 paragraph 31)	Possible considerations for an entity when determining if a datapoint or disclosure requirement is material
Significance of the information in relation to the matter	Is it difficult or impossible to understand or assess the extent of a material IRO without the metric?
Decision-usefulness for primary users	Is the metric of strategic relevance (for example, used as part of ongoing management of the entity, or connected to executive remuneration)? Is the metric, or a similar metric, part of the entity's sustainability strategy? Is it part of investor presentations? Does the metric affect the entity's access to funding or finance?
Decision-usefulness for other users	Was the metric -- or a similar metric -- requested-in-the-context of supplier-selection decisions? Was the metric - or a similar metric - requested by trade unions? Would the metric affect customers' selection of goods or services that the entity sells?
	If information about a metric is assessed to be not material, the entity may omit either:

Conclusions:

- To determine the relevance or materiality of a data point, ESRS 1 paragraph 31 outlines the decision criteria as the 'significance of the information' and its 'capacity to meet the users' decision-making needs. Datapoints related to material (sub-sub-) topics can be excluded if they are considered not relevant or material, but the reason for their exclusion must be explained in the report.

- Complementary information can be found in the section ‘Reporting on resource inflows for office furniture or other non-production/service-related resources’.

c. The differences and overlaps between CSRD and CSDDD

Key differences

- The CSRD focuses on the transparency of sustainability practices through detailed reporting, whereas the CSDDD (Corporate Sustainability Due Diligence Directive) requires active management and mitigation of sustainability risks, particularly related to human rights and the environment, within a company’s value chain.

- CSDDD mandates specific due diligence processes and requires companies to identify, prevent and mitigate adverse impacts. CSRD requires companies to report on their sustainability strategies, risks, impacts and opportunities in compliance with standardised reporting frameworks. Thus, CSDDD also requires (simplified) reporting on due diligence and how companies prevent and mitigate adverse effects (as opposed to pure identification of IROs under CSRD).

Overlaps and synergies

- While the CSRD and CSDDD have distinct requirements and purposes, their overlapping themes and objectives allow for synergies that can simplify compliance and enhance the overall effectiveness of corporate sustainability efforts.

    - Data collection and management: Data collected for CSRD reporting can support CSDDD due diligence processes. For example, information on supply-chain sustainability gathered for CSRD reporting can help identify risks and impacts required under CSDDD.

    - Governance structures: Companies can leverage existing governance structures and committees to oversee both reporting and due diligence processes. This can facilitate a cohesive approach to managing sustainability risks and opportunities.

    - Risk assessment: The risk assessments conducted for CSDDD due diligence can inform the disclosures required under the CSRD, ensuring that companies provide comprehensive and accurate information in their sustainability reports.

Value chain

Value-chain considerations are a key element in the implementation of both the CSDDD and the CSRD as it defines the extent of the applicability of their obligations and/or reporting requirements. The table below aims to compare the definitions in both directives that establish the scope and extent of their respective value-chain approaches.

CSDDD	CSRD
Chain of activities	*Value chain*
Activities of a company's **upstream** business partners related to the production of goods or the provision of services by that company, including the design, extraction, sourcing, manufacture, transport, storage and supply of raw materials, products or parts of products and the development of the product or the service. Activities of a company's **downstream** business partners related to the distribution, transport and storage of a product of that company, where the business partners carry out those activities for the company or on behalf of the company.	The **full range of activities**, resources and relationships related to the undertaking's business model and the external environment in which it operates. A value chain encompasses the activities, resources and relationships the undertaking uses and relies on to create its products or services from conception to delivery, consumption and end-of-life. Relevant activities, resources and relationships include: i. Those in the undertaking's own operations, such as human resources. ii. Those along its supply, marketing and distribution channels, such as materials and service sourcing and product and service sale and delivery. iii. The financing, geographical, geopolitical and regulatory environments in which the undertaking operates. Value chain **includes actors upstream and downstream from the undertaking**. Actors upstream from the undertaking (e.g., suppliers) provide products or services that are used in the development of the undertaking's products or services. Entities downstream from the undertaking (e.g., distributors, customers) receive products or services from the undertaking. ESRS use the term 'value chain' in the singular, although it is recognised that undertakings have both up- and downstream actors.

Conclusion

- While there is some overlap in the sense that both directives aim to promote corporate sustainability, compliance with one does not automatically mean compliance with the other. Reporting accurately under the CSRD may help in fulfilling some of the disclosure requirements of the CSDDD (i.e. companies in scope of the CSRD are exempted from the reporting obligations of the CSDDD, and companies reporting a transition plan for climate mitigation aligned with the CSRD are exempted to adopt one under the CSDDD) but the due diligence processes and specific requirements of the CSDDD go beyond mere reporting. They require active risk management and mitigation strategies.

d. Link between CSRD and EU taxonomy

Both the CSRD and the EU Taxonomy are cornerstones of the implementation of the European Green Deal and key pieces of the EU sustainable finance framework, and despite their different nature and purpose, they share significant interconnections. The CSRD requires companies in scope to disclose their sustainability-related impacts, risks, and opportunities from a double materiality perspective and according to the European Sustainability Reporting Standards (ESRS), in order to foster corporate transparency and increase the comparability and availability of sustainability-related information. The EU Taxonomy is a classification system that defines environmentally sustainable economic activities through performance criteria (technical screening criteria) with the purpose to attract sustainable investment, while also including reporting obligations. The following sections examine the different links and connections between these two legislative pieces.

Scope

The scope of the EU Taxonomy is aligned with the Corporate Sustainability Reporting Directive (CSRD) and applies to companies required to publish a sustainability statement as per Articles 19a and 29a of the Accounting Directive, as amended by the CSRD. Aligning the EU Taxonomy reporting requirements with those outlined in the CSRD helps maintain consistency between both pieces of legislation. Referencing the undertakings in scope of the CSRD for EU Taxonomy reporting purposes ensures alignment and consistency between the requirements set out in both legislations.

Reporting obligations

Article 8 of the EU Taxonomy sets out the reporting framework of the EU Taxonomy by establishing certain reporting obligations for companies in scope. They are required to disclose how and to what extent the undertaking’s activities are associated with economic activities that qualify as environmentally sustainable through three different metrics (i.e. turnover, CapEx, and OpEx). It is also clarified that this information must be included in the sustainability statement or separated sustainability report of the undertaking. The content and design of EU Taxonomy disclosures is developed in the Commission Delegated Regulation (EU) 2021/2178 (Disclosures

Delegated Act), which sets out specific reporting templates for financial and non-financial undertakings.

It is therefore understood that EU Taxonomy disclosures must be included within the sustainability statement or separate sustainability report drafted in accordance with the CSRD and the ESRS. ESRS 1 paragraph 113 on the content and structure of the sustainability statement clarifies that the undertaking must include and clearly identify Article 8 EU Taxonomy disclosures within the environmental section of the sustainability statement.

EU Taxonomy disclosures are also referenced in some ESRS datapoints:

- *DR E1-1 – Transition plan for climate change mitigation.* When disclosing the climate change mitigation actions (i.e. explanation and quantification of the undertaking's investments and funding supporting the implementation of its transition plan), the undertaking must reference its EU Taxonomy-aligned CapEx. The undertaking must also disclose any objective or plans to align its economic activities to the EU Taxonomy technical screening criteria.

- *DR E1-9 – Anticipated financial effects from material physical and transition risks and potential climate-related opportunities.* When considering the potential market size or expected changes to net revenue from low-carbon products and services or adaptation solutions to which the undertaking has or may have access in the context of disclosing the potential to pursue climate-related opportunities, the undertaking can compare the information on the market size with its current EU Taxonomy-aligned revenue.

- *DR E4-3 – Actions and resources related to biodiversity and ecosystems.* The undertaking can relate significant monetary amounts of CapEx and OpEx required to implement the actions taken or planned to the key performance indicators required by Article 8 of the EU Taxonomy.

Since Article 8 EU Taxonomy disclosures are integrated within the sustainability statements or separated sustainability reports drafted in accordance with the CSRD and the ESRS, the same rules on digital reporting and assurance apply. Article 29d (1) and (2) of the CSRD require undertakings subject to Articles 19a and 29a of the Accounting Directive (as amended by the CSRD) to prepare their management report in the electronic reporting format established by the European Single Electronic Format (ESEF) and to mark up their sustainability reporting. This includes the disclosures provided for in Article 8 of the EU Taxonomy. Article 34 (1) (aa) of the Accounting Directive (as amended by the CSRD) includes Article 8 disclosures in the assurance requirements.

As described in the previous paragraphs, EU Taxonomy disclosures are meant to be integrated within the wider sustainability reporting framework set out by the CSRD.

e. Reporting on confidential information

The Annex I to the Commission Delegated Regulation ESRS 1 section 7.7 provides some guidelines on how to approach confidential information (see extract below).

> **7.7 *Classified and sensitive information, and information on intellectual property, know-how or results of innovation***
>
> 105. The undertaking is not required to disclose ***classified information*** or ***sensitive information*** , even if such information is considered material.
>
> 106. When disclosing information about its ***strategy, plans*** and ***actions*** , where a specific piece of information corresponding to intellectual property, know-how or the results of innovation is relevant to meet the objective of a Disclosure Requirement, the undertaking may nevertheless omit that specific piece of information if it:
>
> (a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;
>
> (b) has commercial value because it is secret; and
>
> (c) has been subject to reasonable steps by the undertaking to keep it secret.
>
> 107. If the undertaking omits ***classified information*** or ***sensitive information*** , or a specific piece of information corresponding to intellectual property, know-how or the results of innovation because it meets the criteria established in the previous paragraph, it shall comply with the disclosure requirement in question by disclosing all other required information.
>
> 108. The undertaking shall make every reasonable effort to ensure that beyond the omission of the ***classified information*** or ***sensitive information*** , or of the specific piece of information corresponding to intellectual property, know-how or the results of innovation, the overall relevance of the disclosure in question is not impaired.

The directive does not refer to datapoints but directly speaks about strategy, plans and actions. Pieces of information can be omitted from reporting if they are proven to be ‘secret’, ‘disclosing it would seriously prejudice their commercial position’ and there are reasonable steps to keep it secret. Additionally, the Annex suggests that the entity must disclose all other information in the requirement - i.e. omitting one datapoint within a material topic does not mean you can omit the material topic altogether.

PwC Belgium strongly advises that, in the event a datapoint is omitted, it should be explicitly stated and the rationale for this decision should be clearly explained.

f. Reporting on information from the supply chain

Suppliers of the chemical industry may often not provide all the essential information required for a thorough materiality assessment, such as details on the production location of products and information on mixtures. This lack of information can significantly impede the ability to evaluate related IROs within the supply chain. The absence of such critical data necessitates relying on industry averages, proxy data or historical data to fill the gaps, as prescribed by the ESRS.

Official documentation:

- Annex I chapter 5.2 paragraph 69

5.2 *Estimation using sector averages and proxies*

68. The undertaking's ability to obtain the necessary upstream and downstream ***value chain*** information may vary depending on various factors, such as the undertaking's contractual arrangements, the level of control that it exercises on the operations outside the consolidation scope and its buying power. When the undertaking does not have the ability to control the activities of its upstream and/or downstream value chain and its business relationships, obtaining value chain information may be more challenging.
69. There are circumstances where the undertaking cannot collect the information about its upstream and downstream ***value chain*** as required by paragraph 63 after making reasonable efforts to do so. In these circumstances, the undertaking shall estimate the information to be reported about its upstream and downstream value chain, by using all reasonable and supportable information, such as sector-average data and other proxies.
70. Obtaining ***value chain*** information could also be challenging in the case of SMEs and other upstream and/or downstream value chain entities that are not in the scope of the sustainability reporting required by Articles 19a and 29a of Directive 2013/34/EU (see ESRS 2 BP-2 *Disclosures in relation to specific circumstances*).
71. With reference to ***policies, actions*** and ***targets,*** the undertaking's reporting shall include upstream and/or downstream ***value chain*** information to the extent that those policies, actions and targets involve ***actors in the value chain*** . With reference to ***metrics*** , in many cases, in particular for environmental matters for which proxies are available, the undertaking may be able to comply with the reporting requirements without collecting data from the actors in its upstream and downstream value chain, especially from SMEs, for example, when calculating the undertaking's GHG Scope 3 emissions.
72. The incorporation of estimates made using sector-average data or other proxies shall not result in information that does not meet the qualitative characteristics of information (see chapter 2 and section 7.2 *Sources of estimation and outcome uncertainty* of this Standard).

- European Commission's FAQ from 13 November 2024: Frequently asked questions on the implementation of the EU corporate sustainability reporting rules (question 29).

Conclusions:

- The Annex I to the Commission Delegated Regulation (chapter 5) and the European Commission's FAQ on the CSRD provide guidance on this question. These state that entities are expected to make a 'reasonable effort' to obtain information from their upstream and downstream value chain.

- Annex I chapter 5.2 paragraph 69 allows entities to use estimations based on sector averages and proxies as alternatives. Taking a closer look at what 'reasonable effort' means, the Commission's FAQ question 29 addresses this. If a supplier refuses to provide information due to confidentiality concerns, you should document the efforts made to obtain the information and explain the reasons for the lack of data before using reasonable estimates to report.

- In the event that a supplier refuses to share data, PwC Belgium recommends utilising industry benchmarks, proxy data, or historical data (if available) to estimate the required information.

g. How to manage the difference between operational control and financial control: the example of GHG emissions disclosures

In the chemical industry, it is very common for financial and operational control to not have the same boundaries, as many companies have joint ventures, joint operations and other similar business agreements. For example, while two companies may be partners under a joint venture, it is possible that only one of them has control of operational policies (operational control) or partly holds an economic interest over an operation (financial control).

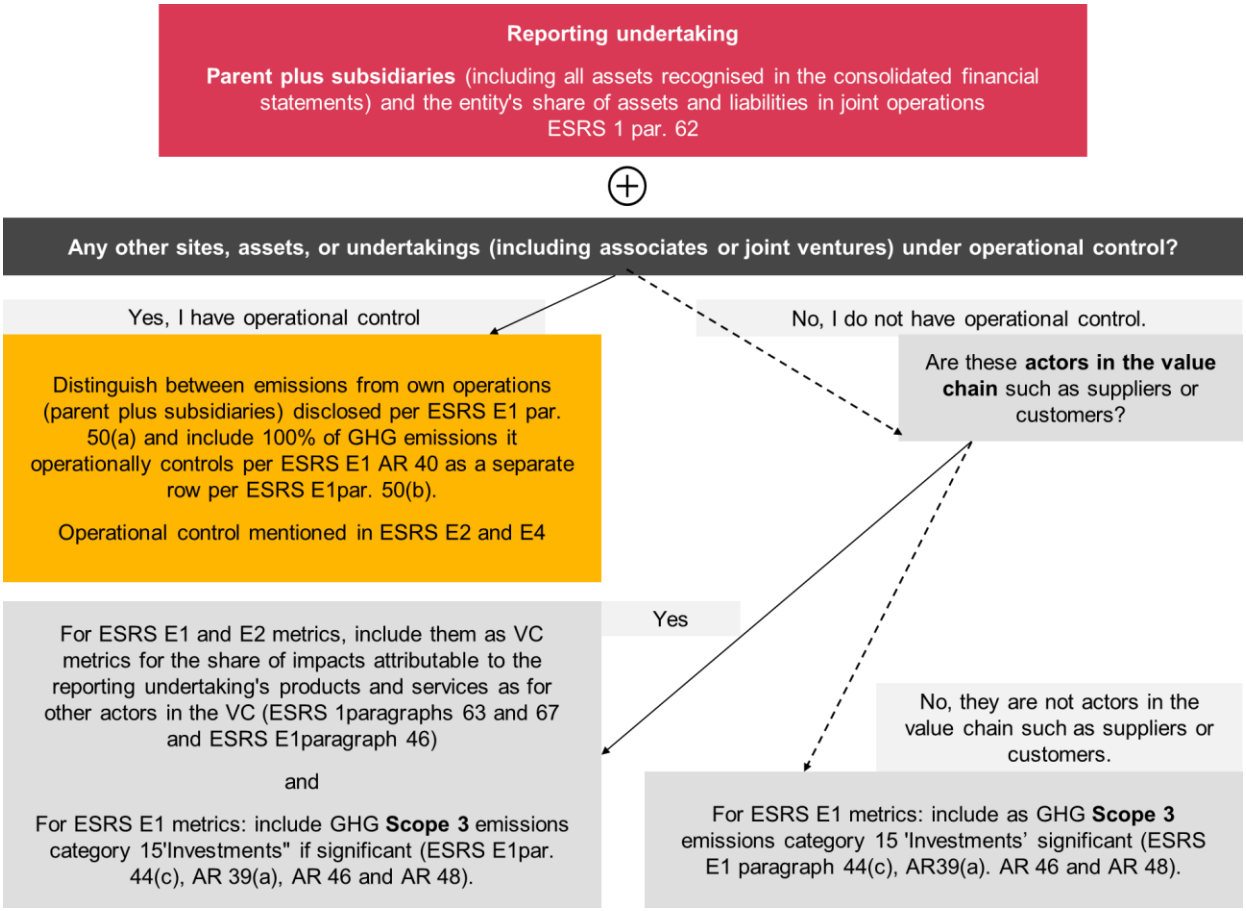
The official documentation of the ESRS (ESRS 2 BP-1 5(b) i and ii) suggests that:

> 5. The undertaking shall disclose the following information:
>
> (a) whether the ***sustainability statement*** has been prepared on a consolidated or individual basis;
>
> (b) for consolidated sustainability statements:
>
> i. a confirmation that the scope of consolidation is the same as for the financial statements, or, where applicable, a declaration that the reporting undertaking is not required to draw-up financial statements or that the reporting undertaking is preparing consolidated sustainability reporting pursuant to Article 48i of Directive 2013/34/EU; and
>
> ii. where applicable, an indication of which subsidiary undertakings included in the consolidation are exempted from individual or consolidated sustainability reporting pursuant to Articles 19a(9) or 29a(8) of Directive 2013/34/EU;

Due to the differences in legal and organisational structures, reporting on GHG emissions may be challenging. The official documentation of the ESRS (ESRS E1-6 50 (a) and (b) suggests that:

> 50. For ***Scope 1 and Scope 2 emissions*** disclosed as required by paragraphs 44 (a) and (b) the undertaking shall disaggregate the information, separately disclosing emissions from:
>
> (a) the consolidated accounting group (the parent and subsidiaries); and
>
> (b) investees such as associates, joint ventures, or unconsolidated subsidiaries that are not fully consolidated in the financial statements of the consolidated accounting group, as well as contractual arrangements that are joint arrangements not structured through an entity (i.e., jointly controlled operations and assets), for which it has operational control.

EFRAG has provided the following environmental reporting value-chain decision tree (IG 2 VC 59) with the following explanation (IG 2 VC 47-57):



'ESRS E1 50(b) requires disclosing Scope 1 and 2 emissions of undertakings under operational control separately from the ones related to the consolidated group. The latter correspond to the outcome of the financial control approach in the GHG Protocol. Please note that a literal reading of paragraph 50(b) may make it seem as if this is only applicable to investees (associates, joint arrangements and unconsolidated subsidiaries, etc.) under operational control but this is not the intention. GHG emissions of entities, assets and sites under operational control but without financial control (or without investment relationship) will also be included in the disclosure under paragraph 50(b). Furthermore, for IFRS preparers, any assets, including the undertaking's share of any assets held jointly in joint operations (defined in IFRS11) or its liabilities, including its share of any liabilities incurred jointly in joint operations (defined in IFRS 11) will be part of the balance sheet for financial reporting purposes, i.e., included in disclosures under paragraph 50(a). In addition, where the reporting undertaking has operational control over its joint operators' (defined in IFRS 11) assets, the GHG emissions arising from this will be included in Scope 1 and 2 under ESRS E1 paragraph 50(b). '

Targets and operational control

ESRS E1-4 requires transparency about the reporting undertaking's targets for its emissions. If the undertaking does not set targets for assets, sites or entities under its operational control (as it does not have control over the investment budget to reduce emissions), the disclosure will reflect the target(s) as defined, i.e. only for the consolidated group. However, the disclosure should be clear about the scope of the target(s).

The Corporate Accounting and Reporting Standards of the GHG protocol defines in chapter 3 how to set organisational boundaries when reporting on Scope 1 and 2 GHG emissions. An example of organisational boundaries for an oil and gas company is given on pages 22-23.

Operational control is also mentioned in ESRS E2 Pollution and ESRS E4 Biodiversity and Ecosystems. Companies must disclose the pollutants emitted and microplastics generated or used in consolidated amounts for facilities over which they have financial control and operational control. Undertakings are expected to report on material sites in own operations, including sites under operational control, which have an impact on biodiversity and the related policies.

Conclusions:

Based on the IG 2 VC paragraph 47-57 from the EFRAG, it is recommended that:

- Scope 1 and 2 GHG emissions shall include, in addition to the emissions of the parent and its subsidiaries, also 100% of the GHG emissions of sites, assets and entities under operational control, as a separate line item.
- An undertaking is able to reconcile ESRS reporting with that under a GHG Protocol operational control approach by deducting the GHG emissions from those assets, sites etc., that are under financial but not operational control from its total Scope 1 and 2 emissions under ESRS E1.
- Target-setting can exclude assets, sites or entities under operational control if the undertaking does not have control over investment budget to reduce emissions.
- However, the scope of the targets shall be clearly disclosed.

- **Climate change**

  h. Demonstrating alignment to 1.5 °C

To report on climate targets, the following official documentation is provided:

- ESRS E1 paragraph 16(a):

Strategy

Disclosure Requirement E1-1 – Transition plan for climate change mitigation

14. **The undertaking shall disclose its *transition plan* for *climate change mitigation*[35].**

15. The objective of this Disclosure Requirement is to enable an understanding of the undertaking's past, current, and future mitigation efforts to ensure that its strategy and ***business model*** are compatible with the transition to a sustainable economy, and with the limiting of global warming to 1.5 °C in line with the Paris Agreement and with the objective of achieving climate neutrality by 2050 and, where relevant, the undertaking's exposure to coal, oil and gas-related activities.

16. The information required by paragraph 14 shall include:

(a) by reference to ***GHG emission reduction targets*** (as required by Disclosure Requirement E1-4), an explanation of how the undertaking's targets are compatible with the limiting of global warming to 1.5°C in line with the Paris Agreement;

(b) by reference to GHG emission reduction targets (as required by Disclosure Requirement E1-4) and the ***climate change mitigation actions*** (as required by Disclosure Requirement E1-3), an explanation of the ***decarbonisation levers*** identified, and key actions planned, including changes in the undertaking's product and service portfolio and the adoption of new technologies in its own operations, or the upstream and/or downstream value chain;

- ESRS E1 Appendix A: AR 1- AR2
- ESRS E1 paragraph 16 (e)-(g)
- ESRS E1-4 paragraph 34(e):

(e) the undertaking shall state whether the GHG emission reduction targets are science-based and compatible with limiting global warming to 1.5°C. The undertaking shall state which framework and methodology has been used to determine these ***targets*** including whether they are derived using a sectoral decarbonisation pathway and what the underlying climate and ***policy scenarios*** are and whether the targets have been externally assured. As part of the critical assumptions for setting GHG emission reduction targets, the undertaking shall briefly explain how it has considered future developments (e.g., changes in sales volumes, shifts in customer preferences and demand, regulatory factors, and new technologies) and how these will potentially impact both its GHG emissions and emissions reductions; and

Science-based targets are based on the concept of a global carbon budget and, therefore, are compatible with limiting global warming to 1.5 °C. A carbon budget is an estimation of the level of further emissions that still be emitted into the atmosphere before breaking the limit of 1.5 °C by 2050. Under ESRS E1, companies are expected to provide information on the past, current and future efforts to ensure compatibility with the above-mentioned target. As a result,

companies shall report whether and how they have set GHG emissions reduction targets or other climate-related targets. This is also part of disclosing the transition plan for climate mitigation, as described in E-1-1.

Some frameworks provide methodologies on how to set science-based targets (e.g., One Earth Climate Model (OECM)) while others also offer external validation and progress monitoring of the targets (e.g., Science-Based Targets initiative (SBTi)). No specific framework is prescribed by the ESRS and companies are free to use either an external one or develop their own methodology, if they wish to set targets. Of course, widely recognised frameworks might be easier to justify/show credibility than an own-developed methodology.

Conclusions:

- In case a company has set GHG-emission reduction targets, the framework and methodology for target-setting must be reported, along with an explanation of how they are compatible with limiting global warming to 1.5 °C in line with the Paris Agreement.
- While no specific framework/methodology is prescribed, you must mention which framework and methodology has been used to determine the targets including:
    - If sectoral decarbonisation pathways have been used and what the underlying climate and policy scenarios are.
    - If the targets have been externally assured.

Pollution - Microplastics

a. Reporting on microplastics - definition

There are two different definitions of Microplastics: one in the ESRS and one provided by the ECHA.

CSRD definition: Small pieces of plastics, usually smaller than 5 mm.

Microplastics	Small pieces of plastics, usually smaller than 5mm. A growing volume of ***microplastics*** is found in the environment, including the sea, and in food and drinking water. Once in the environment, ***microplastics*** do not biodegrade and tend to accumulate, unless they are specifically designed to biodegrade in the open environment. Biodegradability is a complex phenomenon, especially in the marine environment. There are increasing concerns about the presence of ***microplastics*** in different environment compartments (such as water), their impact on the environment and potentially human health.

ECHA (European Chemicals Agency) definition:

Microplastics are defined as solid polymer-containing particles, to which additives or other substances may have been added, where ≥ 1% w/w of particles have:

- All dimensions ≤ 5 mm, or
- A length of ≤ 15 mm and a length to diameter ratio of > 3.

Recommendation: For the chemical sector, it is recommended to follow the definition provided by the ECHA as it offers more detail compared to the broader definition found in the CSRD glossary.

b. Reporting on microplastics – primary and secondary microplastics

A disclosure is only required when a topic is material. Ideally, primary and secondary microplastics are two separate IROs (or even split out into more than two, depending on the nature of the business activities). This allows to assess the materiality of both primary and secondary microplastics separately and potentially avoid the requirement to report on not-material secondary microplastics. On the other hand, assuming materiality, reporting of secondary microplastics is, of course, more difficult as exact measuring is almost impossible. However, assumptions and estimations can be used and will need to be fully disclosed together with the entire calculation methodology.

Sidenote: by definition, secondary microplastics will likely be a downstream value-chain IRO, which then allows for reporting exceptions e.g., through the transitional provisions related the value chain (ESRS 2 {10.2}).

c. Reporting on microplastics – materiality assessment

Microplastics reporting appears in different part of the ESRS:

ESRS 2 AR 4-6

AR 4. The sub-topics covered by the ***materiality*** assessment under ESRS E2 include:

(a) ***pollution*** of air, water and ***soil*** (excluding GHG ***emissions*** and ***waste***), microplastics, and ***substances of concern***;

(b) ***dependencies*** on ***ecosystem services*** that help to mitigate pollution-related impacts.

AR 5. In Phase 1, to locate where in its own operations and its upstream and downstream ***value chain*** the interface with nature takes place, the undertaking may consider:

(a) the ***site*** locations of direct assets and operations and related upstream and downstream activities across the value chain;

(b) the site locations where ***emissions*** of water, ***soil*** and air pollutants occur; and

(c) the sectors or business units related to those emissions or to the production, use, distribution, commercialisation and import/export of microplastics, ***substances of concern***, and ***substances of very high concern***, on their own, in mixtures or in articles.

AR 6. Phase 2 relates to the evaluation of the undertaking's impacts and ***dependencies*** for each material ***site*** or sector/business unit including by assessing the severity and likelihood of impacts on the environment and human health.

ESRS E2-4 AR 20-24

Disclosure Requirement E2-4 – Pollution of air, water and soil

AR 20. The information to be provided on microplastics under paragraph 28(b) shall include microplastics that have been generated or used during production processes or that are procured, and that leave the undertaking's facilities as emissions, as products, or as part of products or services. Microplastics may be unintentionally produced when larger pieces of plastics like car tires or synthetic textiles wear and tear or may be deliberately manufactured and added to products for specific purposes (e.g., exfoliating beads in facial or body scrubs).

AR 21. The volume of ***pollutants*** shall be presented in appropriate mass units, for example tonnes or kilogrammes.

AR 22. The information required under this Disclosure Requirement shall be provided at the level of the reporting undertaking. However, the undertaking may disclose additional breakdown including information at ***site*** level or a breakdown of its ***emissions*** by type of source, by sector or by geographical area.

AR 23. When providing contextual information on the emissions, the undertaking may consider:

(a) the local air quality indices (AQI) for the area where the undertaking's air ***pollution*** occurs;

(b) the degree of urbanisation (DEGURBA) ([66]) for the area where air pollution occurs; and

(c) the undertaking's percentage of the total ***emissions*** of ***pollutants*** to water and ***soil*** occurring in areas at water risk, including areas of high-water stress.

AR 24. The information provided under this Disclosure Requirement may refer to information the undertaking is already required to report under other existing legislation (i.e., IED, E- PRTR, etc.).

ESRS E2-4 AR 26-28

Methodologies

AR 26. When providing information on ***pollutants*** , the undertaking shall consider approaches for quantification in the following order of priority:

(a) direct measurement of emissions, effluents or other ***pollution*** through the use of recognised continuous monitoring systems (e.g., AMS Automated Measuring Systems);

(b) periodic measurements;

(c) calculation based on ***site*** -specific data;

(d) calculation based on published pollution factors; and

(e) estimation.

AR 27. Regarding the disclosure of methodologies required by paragraph 30, the undertaking shall consider:

(a) whether its monitoring is carried out in accordance with EU ***BREF*** Standards or another relevant reference benchmark; and

(b) whether and how the calibration tests of the AMS were undertaken and the verification of periodic measurement by independent labs were ensured.

Conclusions:

- Microplastics must be included as a subtopic in the Double Materiality Assessment (DMA) including information on where the pollution happens in the value chain and its dependencies for the business (ESRS 2 AR 4-6, etc.).
- It is also necessary to disclose the amounts of microplastic generated, used or procured by the undertaking (ESRS E2-4 paragraph 26-28) and leaving the sites as emissions, products, or as parts of products and services (ESRS E2-4 AP 20).

- Reporting must occur on reporting-entity level, but voluntary additional breakdowns e.g., per business units or production site are possible.
- The volume of pollutants shall be presented in appropriate mass units, for example tons or kilograms.

d. Reporting on microplastics – Operation Clean Sweep

Operation Clean Sweep 'is a voluntary free programme aimed at improving awareness, promoting best practices and providing guidance and tools to support companies from the plastics value chain in the implementation of the necessary pellet loss prevention measures'. (source : https://www.opcleansweep.eu/)

Given it is purely a voluntary programme, it would be included when reporting e.g., on policies, targets and initiatives, but all reporting still needs to be in line with the ESRS requirements.

Assuming that a company is certified and not just signatory of the initiative, several elements of the OCS can be useful for the reporting of microplastics under CSRD e.g.:

- The risk assessment for own operations demanded under point 1 of the certification will be highly useful for the DMA and the identification of IROs.
- The same goes for the policies, targets, etc. which are demanded under OCS.

However, OCS seems to focus mostly on own operations disregarding the value chain, except for point 6. 'Encourage partners to pursue the same objective', which is very broad. Thus, a company using OCS information for their CSRD reporting will need to complement this information with value-chain considerations (for DMA and other disclosures).

- **Pollution - SoCs**

a. Reporting on SoCs – thresholds

The basis for reporting is the materiality assessment. If a sustainability matter has been concluded to be material, the company must report information laid out in the sustainability matter's disclosure requirements (ESRS 1 paragraph 30-33). The company can determine the decision criteria (incl. appropriate thresholds) for materiality itself but must disclose how it established those criteria. In essence, companies can prioritise pollutants and the respective DRs through their materiality assessment. If a pollutant is not deemed material, it must not be reported.
In practice, there are two options to identify the pollutants that will need to be reported on:

1. DMA step: You could identify and assess IROs specific to each type of pollutants. Pollutants that have a low impact or financial materiality score, will fall below the

threshold defined and be deemed not material. The IRO identification and assessment will of course need to be justified. In the Double Materiality step, thresholds are set across sustainability topics.

2. Metrics materiality assessment: As stated in ESRS 1-34 (see extract below), for metrics, you may omit to disclose information if a specific information is assessed as not material. In this case, you will need to justify how the materiality of the information was assessed. You can use industry standards such as weight-on-weight ratios, for example.
You will need to justify that for each specific substance the ratio is a recognised threshold by peers/scientific professionals/regulators. W/w ratio isn't recommended in general as it does not apply to every substance. Some substances, even in tiny amounts, can have a big impact on people's health or biodiversity, for example. This underlines the importance of the justification when assessing the specific materiality of a sustainability matter.

34. When disclosing information on ***metrics*** for a material ***sustainability matter*** according to the Metrics and Targets section of the relevant topical ESRS, the undertaking:
    (a) shall include the information prescribed by a Disclosure Requirement if it assesses such information to be material; and
    (b) may omit the information prescribed by a datapoint of a Disclosure Requirement if it assesses such information to be not material and concludes that such information is not needed to meet the objective of the Disclosure Requirement.
35. If the undertaking omits the information prescribed by a datapoint that derives from other EU legislation listed in Appendix B of ESRS 2, it shall explicitly state that the information in question is "not material".
36. The undertaking shall establish how it applies criteria, including appropriate thresholds, to determine:
    (a) the information it discloses on ***metrics*** for a material sustainability matter according to the Metrics and Targets section of the relevant topical ESRS, in accordance with paragraph 34; and
    (b) the information to be disclosed as entity-specific disclosures.

b. Reporting on SoCs – disaggregation in hazard classes and double counting

When reporting SoCs, you have several options on the way to report the quantities:

- One way is to report per hazard class. This might create some double counting as certain substances will fall under different hazard classes. Here, you can add a contextual explanation in your report about the amount of double counting and where it happens.
- Another way is to report per substance and map which substances fall under which hazard category: this enables to avoid part of the double counting while keeping the details on the hazard classification. This also simplifies data collection as you keep it at substance level.
- Companies also report on SOCs and SVHC by distinguishing SOCs (excl. SVHCs) and SVHCs and split them into main hazard classes following the ECHA definition of Hazard Class ('Environmental', 'Health' and 'Physical'). Link to the ECHA classification.
- As the directive remains rather vague on the topic of SoCs, other interpretations than the three described earlier may exist and could be used as long as they are aligned with what the ESRS states.

In any case, with the current reporting requirements, it is expected that some double counting will be present in every report. This emphasises again the importance of contextualising the disclosed information.

c. Reporting on emissions – calculations

The ESRS does not prescribe whether emissions need to be calculated or measured. In general, ESRS 1 Appendix B Qualitative characteristics of information states the following (see excerpt), meaning that estimates and proxies can be used if no other information sources are available and they are marked as such. In this case, it is required to share the methodology and assumptions used. For emissions, a good starting point are the official emissions sheets of your manufacturing sites.

QC 9. Information can be accurate without being perfectly precise in all respects. Accurate information implies that the undertaking has implemented adequate processes and internal controls to avoid material errors or material misstatements. As such, estimates shall be presented with a clear emphasis on their possible limitations and associated uncertainty (see section 7.2 of this Standard). The amount of precision needed and attainable, and the factors that make information accurate, depend on the nature of the information and the nature of the matters it addresses. For example, accuracy requires that:

(a) factual information is free from material error;

(b) descriptions are precise;

(c) estimates, approximations and forecasts are clearly identified as such;

(d) no material errors have been made in selecting and applying an appropriate process for developing an estimate, approximation or forecast, and the inputs to that process are reasonable and supportable;

(e) assertions are reasonable and based on information of sufficient quality and quantity; and

(f) information about judgements about the future faithfully reflects both those judgements and the information on which they are based.

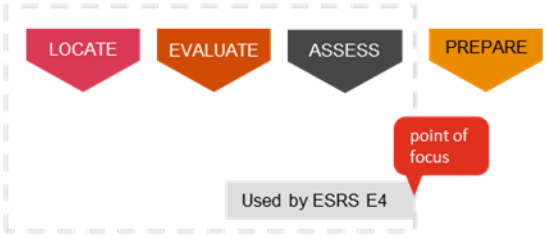
- **Biodiversity**

a. Reporting on biodiversity – insights

Biodiversity is a challenging subject for chemical companies. The impacts on species, ecosystems and ecosystem services are difficult to approach for own operations as well as downstream and upstream. We are giving here first insights on how to approach the disclosure linked with Biodiversity.

The ESRS specifically mentions the LEAP approach (e.g., ESRS 2 AR 1.) as part of the Double Materiality Assessment process. For IRO definition, the first three steps of the LEAP approach are described in the scheme below:

What are the three first phases of the LEAP approach by TNFD?



= not mandatory

The undertaking **may consider** conducting its **materiality assessment** in line with the **first three phases of the LEAP approach by TNFD**

On Biodiversity (BD) -sensitive areas

LOCATE relevant sites	**EVALUATE** actual and potential, impacts & dependencies	**ASSESS** Material risks & opportunities
Where are the direct assets and operation, and related value chain activities? • **List of locations**	**What** are business processes and activities? • Identify business processes and activities	**Physical risks**
Which biomes and ecosystems do the activities interface with? • **List of biomes**	**What** are actual and potential impacts and dependencies? • **Identify impacts and dependencies**	**Transition risks**
What is the current integrity and importance of biodiversity at each location? • **e.g. land degradation, desertification, threatened species** • **List of locations in or near** BD-sensitive areas	**What** is the size, scale, frequency of occurrence and timeframe of the impacts? • **Indicate size, scale, frequency, timeframe** • E.g. % of suppliers located in risk prone areas	**Contribution to systemic risks**
What are sectors, business units, value chains or asset classes are interfacing with nature in these material sites? • **Identify sectors**	**What** is the size and scale of the dependencies on biodiversity and ecosystems, including on raw materials, natural resources and ecosystem services? • **Indicate size and scale of the dependencies**	**Opportunities**

point of focus

TNFD emphasizes that a **location-based approach** is critical for a robust identification of material nature-related risks and opportunities

ENCORE can be used at several steps of the LEAP approach

However, we must distinguish between frameworks and tools for the actual assessment. Some tools e.g., the ENCORE, IBAT or Biodiversity Risk Filter can be used to do the analysis on a sector level.

The issuing Taskforce on Nature-related Financial Disclosure (TNFD) has published several guiding resources on the framework and topics such as 'biomes' that can serve as a good starting point or Additional sector guidance Chemicals as a draft on sector guidance for the chemical sector.

When it comes to metrics and targets, TNFD also provides some examples linked with the impact on species:

Illustrative examples

Sub-topic	Example of targets
Impact drivers 	• Reduce to zero by 31 December 2025 the **quantity of primary commodities** sourced from land deforested since 2020. • Reduce by X% **pesticide use** per area of cropland in areas interacted with by 2030 relative to 2020 levels.
Impact on state of species 	• 100% of land areas interacted with in the direct operations and value chain assessed for the presence of **threatened species** by 2025 are under effective management by 2030 to **reduce threats, improve species health and increase species population**.

Source: The TNFD Nature-related Risk and Opportunity Management and Disclosure Framework Beta v0.4 Annex 4.8 Guidance on Target Setting - March 2023

b. Reporting on biodiversity – transition plan

Disclosure Requirement E4.1 describes the DR related to the transition plan and consideration of biodiversity and ecosystems in strategy and business models. It states that the undertaking may refer to the information it has disclosed under ESRS 2 SBM-3.

Disclosure Requirement E4-1 – Transition plan and consideration of biodiversity and ecosystems in strategy and business model

11. **The undertaking shall disclose how its biodiversity and ecosystem impacts, dependencies, risks and opportunities originate from and trigger adaptation of its strategy and business model.**

12. The objective of this Disclosure Requirement is to enable an understanding of the resilience of the undertaking's strategy and ***business model*** in relation to ***biodiversity*** and ***ecosystems***, and of the compatibility of the undertaking's strategy and business model with regard to relevant local, national and global public policy ***targets*** related to biodiversity and ecosystems.

13. The undertaking shall describe the resilience of its strategy and ***business model*** in relation to ***biodiversity*** and ***ecosystems***. The description shall include:

    (a) an assessment of the resilience of the current business model and strategy to biodiversity and ecosystems-related physical, transition and systemic risks;

    (b) the scope of the resilience analysis in relation to the undertaking's own operations and its upstream and downstream value chain and in relation to the risks considered in that analysis;

    (c) the key assumptions made;

    (d) the time horizons used;

    (e) the results of the resilience analysis; and

    (f) the involvement of stakeholders, including, where appropriate, holders of indigenous and local knowledge.

14. If information specified in this disclosure requirement is disclosed by the undertaking as part of the information required under ESRS 2 SBM-3, the undertaking may refer to the information it has disclosed under ESRS 2 SBM-3.

15. The undertaking may disclose its ***transition plan*** to improve and, ultimately, achieve alignment of its ***business model*** and strategy with the vision of the Kunming-Montreal Global Biodiversity Framework and its relevant goals and targets, the EU Biodiversity Strategy for 2030, and with respecting ***planetary boundaries*** related to biosphere integrity and ***land-system change***.

Conclusions:

- If information specified in this disclosure requirement is disclosed by the undertaking as part of the information required under ESRS 2 SBM-3, the undertaking may refer to the information it has disclosed under ESRS 2 SBM-3.

- A duplication of disclosure is not required.

- **Resource use**

  a. Reporting on resource inflows for office furniture or other non-production/service-related resources

When looking at resource inflows, Chemical companies are differentiating the resources that are 'directly' linked with their products and services (e.g., raw materials) with the ones that are indirectly linked (e.g., office furniture). In this section, we are going to explain how to properly disclose those two categories of resource inflows.

Disclosure Requirement E5-4 – Resource inflows, states that information to be disclosed relates to material impacts, risks and opportunities.

Disclosure Requirement E5-4 – Resource inflows

28. The undertaking shall disclose information on its resource inflows related to its material impacts, risks and opportunities.

29. The objective of this Disclosure Requirement is to enable an understanding of the resource usein the undertaking's own operations and its upstream value chain.

ESRS 5 - Appendix A: AR 21 states the categories of resource inflows which may be covered.

Disclosure Requirement E5-4 - Resource inflows

AR 21. ***Resource inflows*** may cover the following categories: IT equipment, textiles, furniture, buildings, heavy machinery, mid-weight machinery, light machinery, heavy transport, mid-weight transport, light transport and warehousing equipment. With regard to materials, resource inflow indicators include raw materials, ***associated process materials***, and semi-manufactured goods or parts.

AR 22. When the undertaking is subject to paragraph 31, it may also provide transparency on the materials that are sourced from ***by-products/waste*** stream (e.g., offcuts of a material that has not previously been in a product).

AR 23. The denominator of the percentage indicator required under paragraphs 31(b) and 31(c) is theoverall total weight of materials used during the reporting period.

AR 24. The reported usage data are to reflect the material in its original state, and not to be presentedwith further data manipulation, such as reporting it as "dry weight".

AR 25. In cases where there is an overlap between categories of reused, recycled, the undertaking shall specify how double counting was avoided and the choices that were made.

ESRS 1 paragraph 34 specifies for metrics that the undertaking may omit information if assessed as not material.

34. When disclosing information on ***metrics*** for a material ***sustainability matter*** according to the Metrics and Targets section of the relevant topical ESRS, the undertaking:

(a) shall include the information prescribed by a Disclosure Requirement if it assesses such information to be material; and

(b) may omit the information prescribed by a datapoint of a Disclosure Requirement if it assesses such information to be not material and concludes that such information is not needed to meet the objective of the Disclosure Requirement.

ESRS 1 paragraph 31 precises the characteristics of relevance of information.

31. The applicable information prescribed within a Disclosure Requirement, including its datapoints, or an entity-specific disclosure, shall be disclosed when the undertaking assesses, as part of its assessment of material information, that the information is relevant from one or more of the following perspectives:

(a) the significance of the information in relation to the matter it purports to depict or explain; or

(b) the capacity of such information to meet the users' decision-making needs, including the needs of primary users of general-purpose financial reporting described in paragraph 48 and/or the needs of users whose principal interest is in information about the undertaking's impacts.

Conclusions:

- The datapoints of material topics may be omitted if they are deemed not relevant/material, but the exclusion must be explained in the report:
    - Disclosure Requirement E5-4 paragraph 31 states that only inflows used to manufacture the undertaking's products and services in the reporting period are relevant.
        - For example, furniture e.g., desks or chairs are usually not directly linked to products and services (in the chemical sector).
        - Furniture is likely used over several reporting periods, thus it would be difficult to allocate it to one single reporting period.
    - Information relevance i.e., if the significance of information and the information's capacity to meet the users' decision-making process are not met.
- Against omitting furniture: ESRS E5-4 AR 21 also mentions that furniture may be an inflow category, which can be interpreted as a potential inflow category if material.

b. Reporting on hybrid and mixed materials

As of now, the EFRAG does not give specific guidance on the treatment of hybrid/mixed materials. The only guiding DR is the disclosure Requirement E5-4 – Resource inflows paragraph 32.

Following the ECHA definition and the EU chemical legislation, mixture are not considered substances. It is a mix or solution of two or more substances. When chemical compounds A and B are put together and do not react, this is not a substance but a mixture. Mixtures are for example, shampoos, detergents, paints, etc.

Disclosure Requirement E5-4 – Resource inflows

28. The undertaking shall disclose information on its resource inflows related to its material impacts, risks and opportunities.

29. The objective of this Disclosure Requirement is to enable an understanding of the resource usein the undertaking's own operations and its upstream value chain.

30. The disclosure required by paragraph 28 shall include a description of its ***resource inflows*** where material: products (including ***packaging***) and materials (specifying critical raw materials and rare earths), water and property, plant and equipment used in the undertaking's own operations and along its upstream value chain.

31. When an undertaking assesses that resource inflows is a material sustainability matter, it shall disclose the following information about the materials used to manufacture the undertaking's products and services during the reporting period, in tonnes or kilogrammes:

(a) the overall total weight of products and technical and biological materials used during the reporting period;

(b) the percentage of biological materials (and biofuels used for non-energy purposes) used to manufacture the undertaking's products and services (including ***packaging***) that is sustainably sourced, with the information on the certification scheme used and on the application of the cascading principle; and

(c) the weight in both absolute value and percentage, of secondary reused or recycled components, secondary intermediary products and secondary materials used to manufacture the undertaking's products and services (including packaging).

32. The undertaking shall provide information on the methodologies used to calculate the data. It shall specify whether the data is sourced from direct measurement or estimations, and disclose the key assumptions used.

Conclusions:

- Without EFRAG-specific guidance, we recommend reporting hybrid/mixed materials by disaggregating them using ingredients lists and appropriate assumptions, which are to be fully disclosed as stated in ESRS E5 paragraph 32.
- The different materials could then be added to the respective raw material amounts, ideally with the note that it combines pure and mixed amounts.

- Wherever an amount originates from pure and mixed sources, we recommend adding an additional line item stating the proportion or amounts originating from hybrid/mixed materials, given that this information is readily available and allows for more transparency.

- **Social**

  a. Reporting on affected communities

This relates to the best way to present the narrative on the impacts on affected communities and the type of engagement required with them.

In line with the general approach for identifying impacts, risks and opportunities, both impacts identified by the undertaking and by the communities themselves should be considered (ESRS 2 IRO-1 Description of the processes to identify and assess material impacts, risks and opportunities). Whether a risk is deemed material should then be assessed in the double materiality assessment.

ESRS S3 paragraph 8 (and the entire ESRS S3) states that actual and potential impacts need to be included.

Disclosure Requirement IRO-1 - Description of the process to identify and assess material impacts, risks and opportunities

51. **The undertaking shall disclose its process to identify its impacts, risks and opportunities and to assess which ones are material.**

52. The objective of this Disclosure Requirement is to provide an understanding of the process through which the undertaking identifies ***impacts, risks*** and ***opportunities*** and assesses their ***materiality,*** as the basis for determining the disclosures in its ***sustainability statement*** (see ESRS 1 chapter 3 and its related Application Requirements, which set out requirements and principles regarding the process to identify and assess material impacts, risks and opportunities based on the principle of double materiality).

53. The undertaking shall disclose the following information:

    (a) a description of the methodologies and assumptions applied in the described process;

    (b) an overview of the process to identify, assess, prioritise and monitor the undertaking's potential and actual ***impacts*** on people and the environment, informed by the undertaking's due diligence process, including an explanation of whether and how the process:

        i. focusses on specific activities, business relationships, geographies or other factors that give rise to heightened risk of adverse impacts;

        ii. considers the impacts with which the undertaking is involved through its own operations or as a result of its business relationships;

        iii. includes consultation with affected ***stakeholders*** to understand how they may be impacted and with external experts;

        iv. prioritises negative impacts based on their relative severity and likelihood, (see ESRS 1 section 3.4 *Impact materiality*) and, if applicable, positive impacts on their relative scale, scope and likelihood, and determines which sustainability matters are material for reporting purposes, including the qualitative or quantitative thresholds and other criteria used as prescribed by ESRS 1 section 3.4 *Impact materiality*;

ESRS S3 paragraph 21 states that undertakings shall disclose whether and how the perspectives of affected communities inform its decisions or activities for managing risks.

Disclosure Requirement S3-2 – Processes for engaging with affected communities about impacts

19. **The undertaking shall disclose its general processes for engaging with affected communities and their representatives about actual and potential impacts on them.**

20. The objective of this Disclosure Requirement is to enable an understanding of whether and how the undertaking engages, as part of its ongoing due diligence process, with affected communities, their legitimate representatives, or with ***credible proxies***, about material actual and potential positive and/or negative impacts that do or are likely to affect them, and whether and how perspectives of ***affected communities*** are taken into account in the decision-making processes of theundertaking.

21. The undertaking shall disclose whether and how the perspectives of ***affected communities*** inform its decisions or activities aimed at managing actual and potential impacts on communities. This shall include, where relevant, an explanation of:

    (a) whether engagement occurs with affected communities or their ***legitimate representatives*** directly, or with ***credible proxies*** that have insight into their situation;

    (b) the stage(s) at which engagement occurs, the type of engagement, and the frequency of theengagement;

    (c) the function and the most senior role within the undertaking that has operational responsibility for ensuring this engagement happens, and that the results inform the undertaking's approach;

    (d) where applicable, how the undertaking assesses the effectiveness of its engagement withaffected communities, including, where relevant, any agreements or outcomes that result.

22. Where applicable, the undertaking shall disclose the steps it takes to gain insight into the perspectives of ***affected communities*** that may be particularly vulnerable to impacts and/or marginalised, and into the perspective of specific groups within the affected communities, such as women and girls.

Conclusions:

- The actual and potential impacts identified from both the undertaking as well as from the communities must be included in all considerations around and disclosures within ESRS S3.
- In terms of narrative, the more conservative approach is to use a first-person narrative (i.e., we, the company), as it conveys a stronger sense of accountability.
- This segment should also be in line with the narrative of other disclosure requirements such as ESRS S3-1 Policies related to affected communities where disclosure needs to be done from the perspective of the company.
- However, undertakings can and must disclose the impact identification process, which provides insights on whether an impact was identified internally or from external stakeholders i.e., by a community (ESRS 2 IRO-1 paragraph 53).

e. Interoperability

CSRD came into force with the aim of harmonising sustainability reporting for companies operating in the EU. However, there are recognised global frameworks that provide disclosure

requirements for private institutions and have been used by companies long before the introduction of CRSD. The ESRS were developed based on those.

In view of this, EFRAG, in cooperation with GRI, the International Sustainability Standards Board (ISSB) and the Taskforce on Nature related Financial Disclosures (TNFD) has published three interoperability maps to help companies navigate ESRS and the connections with those disclosure requirements.

EFRAG and CDP have announced extensive interoperability between the ESRS and the CDP questionnaire. Mapping efforts showed substantial commonality between CDP and ESRS E1 Climate change. The map is expected to be published in Q1 2025.

EFRAG has published a mapping of the voluntary Eco-Management and Audit Scheme (EMAS) against the European Sustainability Reporting Standards.

WWF has published a guide on how the WWF Risk Filter Suite can support disclosure of ESRS E3 Water and Marine resources and E4 Biodiversity and Ecosystems.

f. Useful links and resources

Below, we have listed a series of resources (non-exhaustive) that will help you in your CSRD journey:

Group	Resource	Description
DMA	SASB	SASB (Sustainability Accounting Standards Board) is an independent organisation that develops industry-specific standards to help public corporations disclose material sustainability-related information to investors.
DMA	MSCI	MSCI Material topics
DMA	EFRAG IG I	Implementation Guidance on double materiality assessment from EFRAG.
ESRS - E3	WWF Water Risk Filter	The WWF Water Risk Filter is a free online tool developed by the World Wide Fund for Nature (WWF) to help companies and investors assess and respond to water-related risks across their operations, value chain, and investments.

ESRS - E3	Water stress index	From the World Resources Institute (WRI) is a measure that assesses the ratio of total water withdrawals to available renewable supply, indicating the level of competition and potential scarcity of water resources in a given area.
ESRS - E3-E4	LEAP methodology for biodiversity impact	Developed by the Taskforce on Nature-related Financial Disclosures (TNFD), is a framework that helps organisations identify, evaluate, assess, and prepare strategies and disclosures regarding their nature-related risks and dependencies.
ESRS – E2	OCS	Operations Clean Sweep is a certification aimed at preventing plastic pellet losses to the environment, thereby addressing the issue of microplastics. It involves implementing best practices to ensure that materials like copolyester pellets and acetate flakes remain within the production process and do not contaminate the environment.
ESRS – E2	REACH	The Registration, Evaluation, Authorisation, and Restriction of Chemicals (REACH) is a European Union regulation aimed at ensuring a high level of protection for human health and the environment from the risks posed by chemicals.
ESRS-G	Corruption perception index	From Transparency International is an annual ranking that measures the perceived levels of public sector corruption in countries around the world.
Overall	GRI	The Global Reporting Initiative (GRI) is an international independent standards organisation that helps businesses, governments, and other organisations understand and communicate their impacts on issues such as climate change, human rights, and corruption.
Overall	CDP	The Carbon Disclosure Project (CDP) is a global non-profit organisation that runs a disclosure system for companies, cities, states and regions to manage their environmental impacts.

Overall	Commission FAQ Nov 2024	In November 2024, the commission published a new FAQ answering some key questions related to CSRD reporting. It complements the IG posted by the EFRAG so far.

5. Going beyond CSRD and collecting the fruits of the effort

Going Beyond CSRD to Create Value for Your Company

In today's rapidly evolving business landscape, sustainability is no longer a mere compliance requirement but a strategic imperative that can drive significant value creation for companies. The Corporate Sustainability Reporting Directive (CSRD) sets a robust framework for sustainability reporting, but to truly unlock value, companies must go beyond mere compliance and integrate sustainability into their core business strategies.

A key component of the CSRD is the Double Materiality Assessment (DMA), which requires companies to assess both the financial materiality (how sustainability matters affect the company's financial performance) and impact materiality (the company's impact on environmental and social matters). This dual perspective helps companies identify and quantify material ESG impacts, risks and opportunities, providing a comprehensive understanding of their sustainability landscape.

While compliance with the CSRD is essential, companies that aim to create long-term value must embrace Environmental, Social, and Governance (ESG) factors as strategic drivers. Integrating ESG into daily activities and decision-making processes goes beyond maintaining the license to operate; it ensures the future success of the company. Companies that prioritise ethical behaviour, transparency, and sustainability are better positioned to avoid crises, maintain stakeholder trust and achieve competitive advantage.

Value creation through ESG Integration

Integrating ESG into the core business strategy can drive value creation in several ways:

- **Risk management and value preservation**: Companies that proactively manage environmental and social risks can avoid significant long-term consequences, including financial losses, regulatory penalties and reputational damage. For example, the Volkswagen emissions scandal and the Rana Plaza factory collapse highlight the severe repercussions of neglecting sustainability issues.

- **Cost rand productivity improvement**: Embracing ESG practices can lead to lower costs and improved productivity. Companies that focus on net-zero initiatives, resource efficiency and sustainable practices often experience better financial performance and operational efficiency.
- **Talent attraction and retention**: A strong ESG strategy can enhance a company's ability to attract and retain top talent. Employees increasingly seek to work for companies that align with their values and demonstrate a commitment to sustainability.
- **Access to capital**: Companies with a strong ESG performance can achieve lower costs of capital, gaining access to cheaper debt and equity financing as financial institutions view them as lower risk.
- **Customer loyalty and market differentiation**: Consumers are increasingly making purchasing decisions based on a company's sustainability performance. Companies that demonstrate a genuine commitment to ESG can build greater trust and loyalty among customers, differentiating themselves in the market.

Strategic steps to go beyond CSRD

To go beyond CSRD and create value, companies should consider the following strategic steps:

- **Holistic ESG integration**: Approach ESG holistically, embedding it into the core business strategy and daily operations. This involves aligning ESG goals with the company's purpose, vision and mission.
- **Stakeholder engagement**: Engage with stakeholders, including investors, employees, customers and communities, to understand their expectations and build trust. Transparent and honest communication about sustainability efforts is crucial.
- **Innovation and collaboration**: Foster innovation and collaboration within the ecosystem. Partner with other organisations, industry groups and academic institutions to leverage complementary capabilities and drive sustainable value creation.

Continuous improvement: Regularly assess and adapt the ESG strategy based on evolving regulatory requirements, market trends and stakeholder expectations. Continuous improvement ensures that the company remains resilient and competitive.**Conclusion**

Going beyond CSRD to create value for your company requires a strategic approach that integrates ESG into the core business strategy. By proactively managing sustainability risks, embracing innovation, and engaging with stakeholders, companies can unlock significant value, enhance their competitive advantage and contribute to a sustainable future.

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