

European
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The EU Corporate Sustainability Reporting Directive (CSRD)

6 March 2024

Brussels



THE VOICE OF EUROPEAN WORKERS

The European Corporate Sustainability Reporting Directive

- EU Corporate Sustainability Reporting Directive → CSRD
- What is corporate sustainability reporting?

Some background

- EU Non-Financial Reporting Directive ('NFRD'; since 2018)
- Large undertakings with more than 500 employees

“Large undertakings which are public-interest entities exceeding on their balance sheet dates the criterion of the average of 500 employees during the financial year shall include in the management report a non-financial statement containing information on the extent **necessary for an understanding of the undertaking’s development, performance, position and impact of its activity**, relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters” (Source: EU Non-Financial Reporting Directive)

Some background

- 2021 → **Proposal for EU Corporate Sustainability Reporting Directive**, to reform the NFRD
- 2022 → June, adoption of the EU CSRD, including a mandate for the development of **EU Sustainability Reporting Standards (ESRS)**

EU Corporate Sustainability Reporting Directive

- All large companies (>250 employees; listed and non-listed)
- Listed SMEs
- Third country companies with significant operations in the EU

An estimated 55 million workers work for the over 50,000 large companies covered in Europe

The European Corporate Sustainability Reporting Directive

Transparency on **material*** sustainability matters:

- Environmental
- Social
- Governance



***Double-materiality principle**, in short:

- **Impact materiality:** Company impacts on people and the planet
- **Financial materiality:** Risks and opportunities to the company stemming from sustainability matters

EU Sustainability Reporting Standards (ESRS)

EFRAG* mandated to develop EU Sustainability Reporting Standards, specifying disclosures:

- **Sector-agnostic standards** (adopted on 31 July 2023 by the EC, together with Q&A on the ESRS. Publication in the Official EU Journal in December 2023)
- **Sector-specific standards** (to follow the development of sector agnostic standards. Moreover, development of standards for SMEs (mandatory listed SME standard; voluntary standard for other SMEs)

Sector Agnostic ESRS

- **Cross-cutting ESRS**

- **General principles** for alignment with the CSRD provisions
- **Disclosure requirements** (DRs) on strategy and business model; governance and organisation; materiality assessment

- **Topical ESRS**

- **Topical specifications** in relation to cross-cutting DRs
- **DRs** on policies, targets, actions and action plans, and allocation of resources
- Performance measurement **metrics**

Sector Agnostic ESRS

- **General Disclosures**

- Strategy, governance, impacts, risks and opportunities (ESRS 1 and ESRS 2)

- **Environmental Standards**

- ESRS E1 – Climate; ESRS E2 – Pollution; ESRS E3 – Biodiversity; ESRS E4 – Water Use and Marine Resources; ESRS E5 - Circular Economy and Resource Use

- **Social Standards**

- **ESRS S1 – Own Workforce**; ESRS S2 – Workers in the Value Chain; ESRS S3 – Affected Communities; ESRS S4 – Consumers and End-Users

- **Governance Standard**

- ESRS G1 – Business Conduct

ESRS S1 Disclosure Requirements

Impacts, risks and opportunities management

- Disclosure Requirement S1-1 – Policies related to own workforce
- Disclosure Requirement S1-2 – Processes for engaging with own workers and workers' representatives about impacts
- Disclosure Requirement S1-3 – Processes to remediate negative impacts and channels for own workers to raise concerns
- Disclosure Requirement S1-4 – Taking action on material impacts on own workforce, and approaches to mitigating material risks and pursuing material opportunities related to own workforce, and effectiveness of those actions

ESRS S1 Disclosure Requirements

Metrics and targets

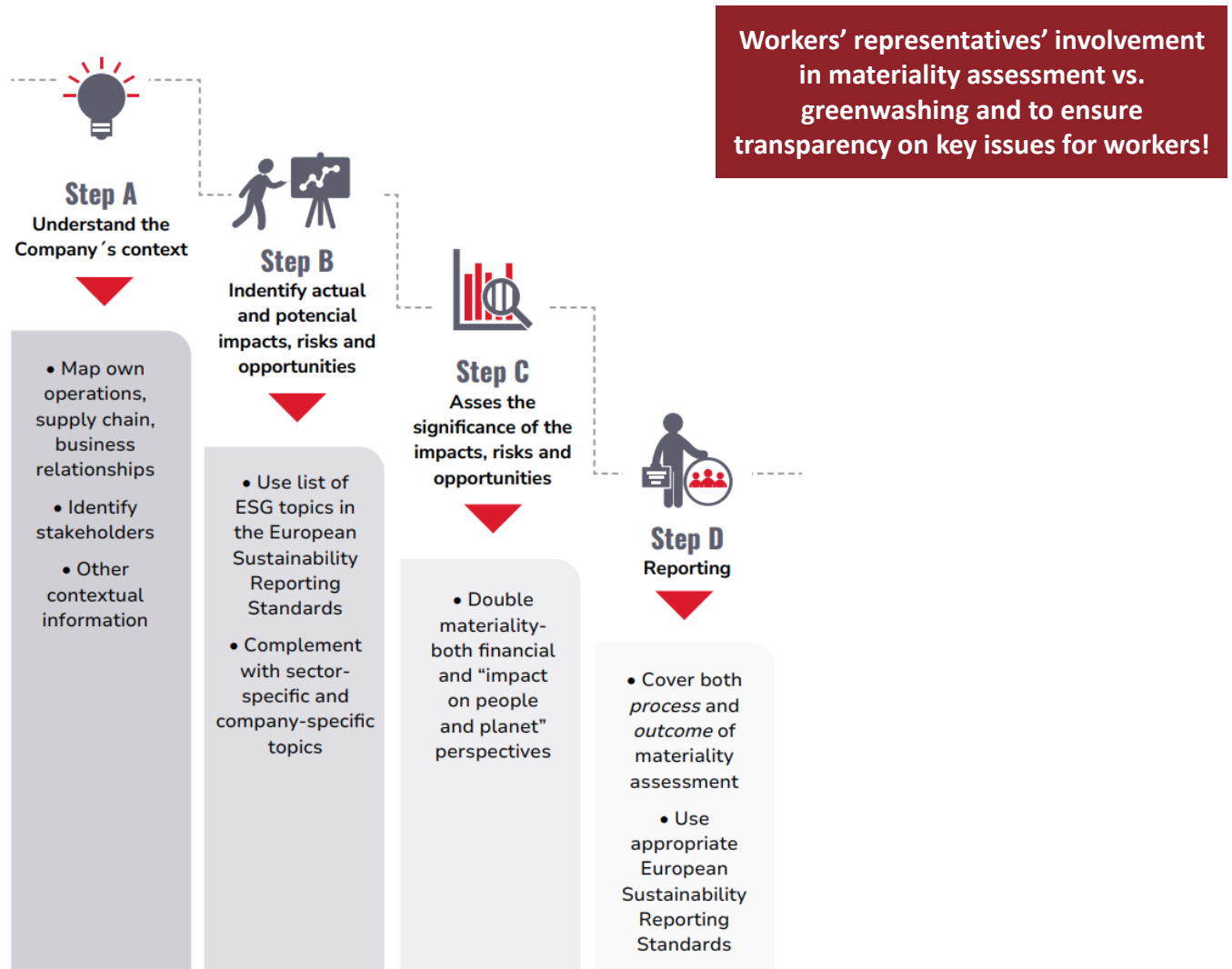
- Disclosure Requirement S1-5 – Targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities
- Disclosure Requirement S1-6 – Characteristics of the undertaking's employees
- Disclosure Requirement S1-7 – Characteristics of non-employee workers in the undertaking's own workforce
- Disclosure Requirement S1-8 – Collective bargaining coverage and social dialogue
- Disclosure Requirement S1-9 – Diversity metrics
- Disclosure Requirement S1-10 – Adequate wages
- Disclosure Requirement S1-11 – Social protection
- Disclosure Requirement S1-12 – Persons with disabilities
- Disclosure Requirement S1-13 – Training and skills development metrics
- Disclosure Requirement S1-14 – Health and safety metrics
- Disclosure Requirement S1-15 – Work-life balance metrics
- Disclosure Requirement S1-16 – Compensation metrics (pay gap and total compensation)
- Disclosure Requirement S1-17 – Incidents, complaints and severe human rights impacts

Companies must assess materiality of many issues

- **Social topics**

- Respect for the human rights, fundamental freedoms, democratic principles and standards established in key human rights instruments;
- Employment numbers;
- Precarious employment;
- Adequate wages;
- Social protection;
- Health and safety;
- Training;
- Collective bargaining coverage;
- Social dialogue.

..but reporting only on material (i.e. important) topics



EU Corporate Sustainability Reporting Directive

The CSRD defines information and consultation rights for workers' representatives

“The management of the undertaking shall inform the workers’ representatives at the appropriate level and discuss with them the relevant information and the means of obtaining and verifying sustainability information. The workers’ representatives’ opinion shall be communicated, where applicable, to the relevant administrative, management or supervisory bodies.” (Article 19a 5)

Recommendations for the transposition of the CSRD

3 When does it take effect?



The CSRD is to be transposed into national legislation by EU Member States by 6 July 2024. This deadline underscores the urgency for timely and effective implementation to ensure adherence to the Directive's reporting requirements. The first group of companies (listed companies with 500 or more employees and some financial companies) must already use the CSRD for reporting on their 2024 fiscal year.

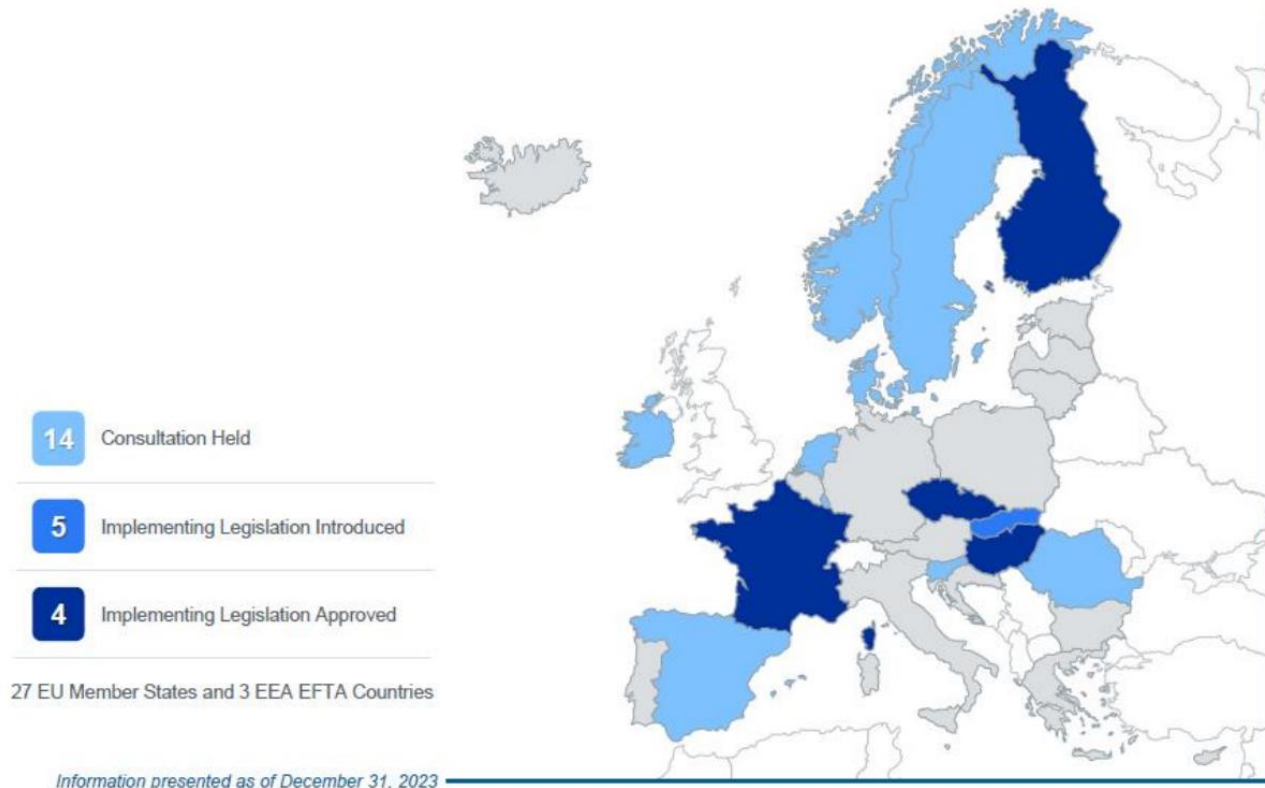
RECOMMENDATIONS FOR TRANSPOSITION OF THE CORPORATE SUSTAINABILITY REPORTING DIRECTIVE (CSRD)



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EU Corporate Sustainability Reporting Directive

- Until 6 July 2024 for national transposition of the Directive



Sector Specific ESRS

See EFRAG Community Groups...

Sector	Current phase
Oil and Gas	Early Draft - Approval
Coal, Quarries and Mining	Early Draft - Approval
Road Transport	Early Draft - Validating
Agriculture, Farming and Fisheries	Early Draft - Drafting
Motor Vehicles	Early Draft - Research
Energy Production and Utilities	Early Draft - Research
Food and Beverages	Early Draft - Research
Textiles, Accessories, Footwear and Jewellery	Early Draft - Research

Source: EFRAG Website