EU Sustainability Reporting

What does your company need to do?

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Executive summary

Sustainability reporting, as the name suggests, is the reporting on sustainability matters. Hereby the term sustainability is interpreted in the **broadest way possible**. It includes environmental factors as well as social and governance factors. Due to the increased critical attitude of all kinds of stakeholders, including investors, regulators, employees and customers, more and more companies pay attention to **sustainability reporting**. In addition, the regulatory framework with regard to sustainability reporting is getting **stricter and stricter**. This Whitepaper explains what regulation is enforced by the European Union (EU), which companies have to comply and how to get started.

In order to transition to a more sustainable economy, it firstly should be known when an economic activity qualifies as environmentally sustainable (1), sustainable activities should report better on how sustainable they are (2), and large companies should be more transparent on how sustainable they are (3). In order to make this happen, the EU has adopted or proposed respectively the **EU Taxonomy** [1] **(1)**, the **Sustainable Finance Disclosure Regulation (SFDR)** [2] **(2)**, and the **Corporate Sustainability Reporting Directive (CSRD)** [3] **(3)**. These three regulations focus on the reporting on sustainability matters.

EU taxonomy

The EU Taxonomy is the starting point of the EU sustainability reporting regulations, as it qualifies which economic activities are **environmentally sustainable** and which are not. In sustainability reporting, these qualifications must be used to determine whether or not an activity qualifies as sustainable. At this moment, managers of investment funds and financial advisors already have to report on the fraction of their portfolio that is environmentally sustainable. From the fiscal year 2023 onwards, all large companies in the EU will also have to report on **how many of their activities** are environmentally sustainable. Even companies that are not obligated to report could decide to voluntarily do so, for example to attract 'green financing'.

Sustainable Finance Disclosure Regulation (SFDR)

As the next step of the transition to a more sustainable economy, the Sustainable Finance Disclosure Regulation (SFDR) was adopted in 2017. The SFDR obligates financial market participants (e.g., banks or pension funds) and financial advisers (e.g. portfolio managers) to report on sustainability matters. These obligations are important as they enable investors to choose the financial market participant that lies closes to their wishes. The SFDR **does not obligate** financial market participants to only invest in sustainable companies. It does, however, obligate these companies to be clear on **how they make investment decisions** and whether or not **these decisions are sustainable**. With this information investors are better able to determine for example, which company they want to invest in.

[1] Regulation (EU) 2020/852, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020R0852.

[2] Regulation (EU) 2019/2088, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02019R2088-20200712.

[3] COM/2021/189 final, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0189.

Corporate Sustainability Reporting Directive (CSRD)

Supplementing the EU Taxonomy and the SFDR, the EU has proposed the Corporate Sustainability Reporting Directive (CSRD). The CSRD will apply to no less than **50,000 European companies** as it concerns companies which meet 2 of the 3 criteria (>250 employees, >40 M€ revenue, >20 M€ balance worth. These companies will be obligated to report on a **broad range of sustainability matters**. The CSRD was planned to enter into force on 1 January 2023, meaning that the reporting obligations have to be met over the fiscal year of 2023. However, an amendment[4] has been proposed to change this date. According to this amendment the date will be changed to January 1st 2024 for companies which already have to comply with the NFRD and to January 1st 2025 for other large companies. This would give companies an additional one or two year(s) to get their reporting in order. A final decision on the implementation date of the CSRD still has to be made by the EU.

The CSRD was proposed so that all companies do their sustainability reporting in the same manner. This makes it easier for stakeholders to **compare different companies**. It also prevents greenwashing. In addition, it enables companies to more easily compare their own business to other businesses in the sector. This could help determine possible improvements. Very important with regard to the sustainability reporting of these large companies is the principle of **double materiality**. This principle means that companies should report both "inside-out" and "outside-in". With "outside-in" the influence of sustainability impacts, risks and opportunities on the strategy and business model(s) is meant. "Inside-out" points towards the influence of the company on sustainability matters.

Impact in the value chain

The obligations that come forward from the EU Taxonomy, the SFDR and the CSRD **cascade up or down** to other companies. If a company has its sustainability reporting in order, less work has to be performed by the financial market participant or advisor in the assessment of the company. Good sustainability reporting thus makes a company more attractive for investors. The same principle applies for companies wanting to sell to or buy from CSRD-companies. CSRD companies have a lot of sustainability reporting requirements. They for example need to report on their scope 1,2 and 3 GHG-emissions and the number of activities that qualify as environmentally sustainable under the EU Taxonomy. This means that CSRD companies need to gather a lot of information from their suppliers and customers. If a supplier of customer already has this information, this supplier or customer is more interesting for the CSRD company.

[4] Council of the European Union, https://data.consilium.europa.eu/doc/document/ST-6292-2022-INIT/en/pdf.

Voluntary standards

The introduction of these obligatory reporting standards within the EU does not mean, however, that all voluntary standards will seize to exist. Standards like the Science Based Targets initiative (SBTi), the Partnership for Carbon Accounting Financials (PCAF), the Greenhouse Gas Protocol (GHG Protocol), the Global Reporting Initiative (GRI), the International Sustainability Standards Board (ISSB), the Carbon Disclosure Project (CDP), and the Sustainable Development Goals of the United Nations (UN SDG's) are all methods that could be used supplementary to the obligatory standards. These voluntary standards help set an **ambitious sustainability target** and are used **worldwide** and **easy to communicate** and **understand**.

What does your company have to do to comply?

In order to eventually comply to the sustainability reporting regulations, different steps have to be followed. For companies obligated to report under the CSRD **these steps are as follows**:

1. Asses the preliminary data requirements
2. Perform a materiality analysis
3. Map economic activities on the EU Taxonomy
4. Collect data on all material targets
5. Set targets (for climate in line with the Paris Agreement)
6. Perform a Strategy & Risk assessment
7. Discuss the progress with an accountant
8. Be compliant: collect all data and report
9. Improve and update continuously

These steps are elaborated on in chapter 8 and there the steps for SFDR companies are discusses as well,

Next steps from Rebel and Salacia

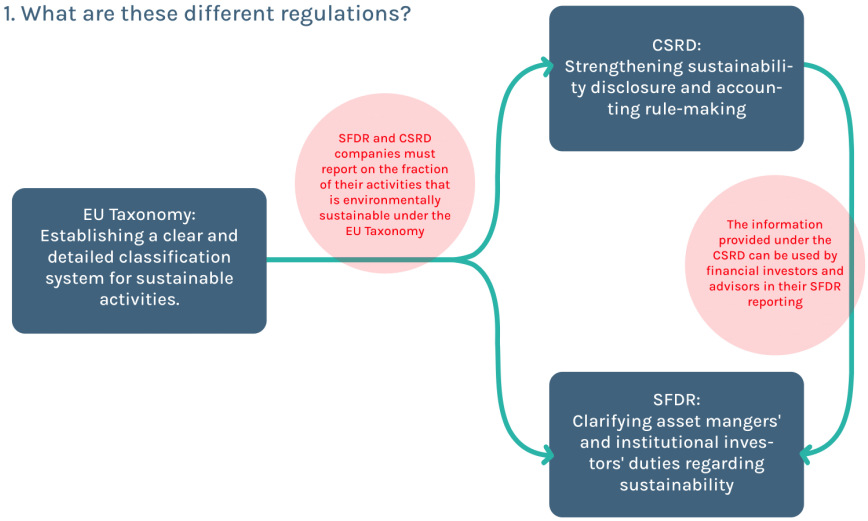
This whitepaper is not the endpoint with regard to publishing information about the upcoming EU sustainability reporting regulation for Rebel and Salacia. Rebel will soon publish a roadmap on how to get your reporting in order and how to use the information well to become more sustainable. This way, sustainability reporting will not only be an obligated expense, but it will actually be a gain for your company.

Salacia is a Software-as-a-Service provider that simplifies environmental impact tracking and ESG reporting for businesses and investors. They can help you to comply to the lates regulations with regard to measuring your progress on key ESG metrics.

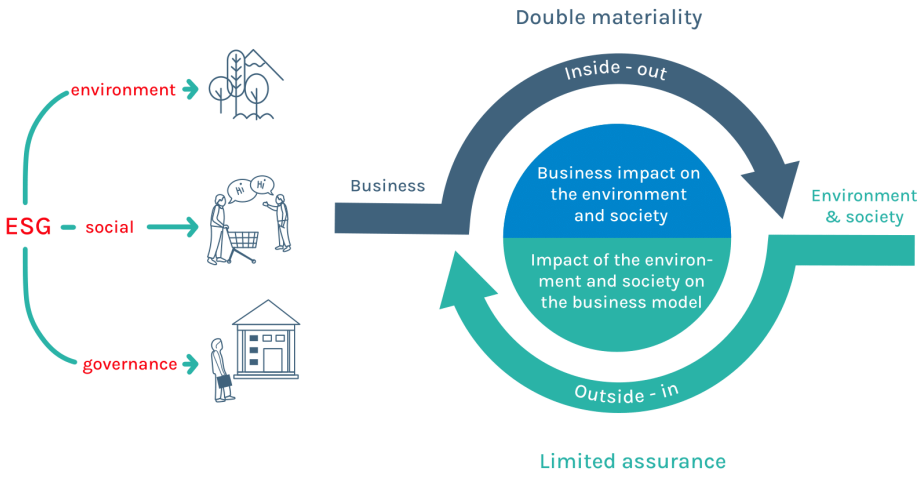
EU Sustainability Reporting landscape

The EU has recently implemented or proposed the CSRD, SFDR, and the EU Taxonomy. These regulations are all explained in depth in the whitepaper 'Sustainability Reporting: What does your company need to do?'

1. What are these different regulations?

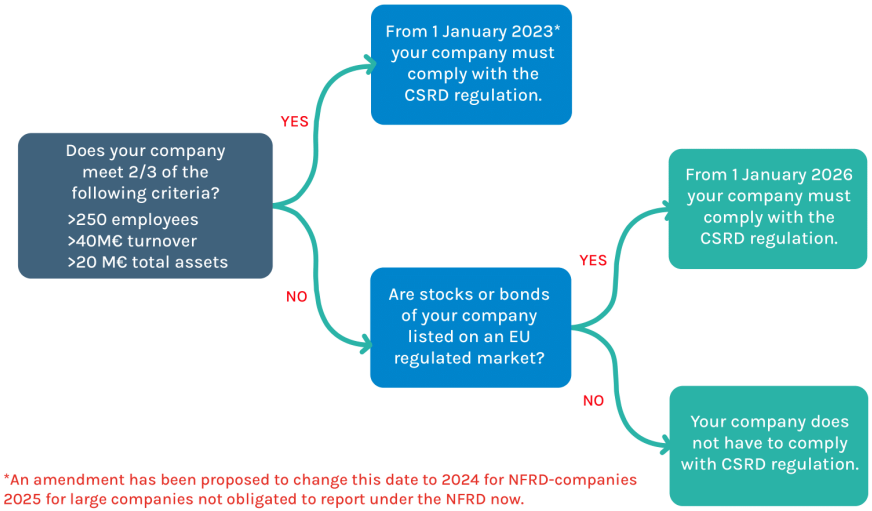


2. What are the important elements?



3. Who do these regulations apply to?

The SFDR applies to financial market participants and financial advisors.
The following flowchart makes clear which companies need to comply to the CSRD.



*An amendment has been proposed to change this date to 2024 for NFRD-companies 2025 for large companies not obligated to report under the NFRD now.

4. What are the important steps your company has to take now in order to comply?

1. Asses data requirements
2. Materiality analysis
3. Map economic activities
4. Collect data
5. Set targets
6. Strategy & risk assessment
7. Discuss with accountant
8. Disclose
9. Improve and update

See the whitepaper for a more detailed description and the steps to comply with the SFDR.

Figure 1: Overview content whitepaper

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Reader's guide

This article will provide a **framework** for companies on sustainability accounting to comply to the latest and upcoming EU laws and regulations. For this framework the (upcoming) Corporate Sustainability Reporting Directive (CSRD)[5], the Sustainable Finance Disclosure Regulation (SFDR)[6], and the EU Taxonomy[7] are discussed. The EU Taxonomy applies to all companies which need to comply to either the SFDR or the CSRD. Which companies need to comply with the SFDR and the CSRD is depicted in figure 3.

The different chapters of this whitepaper are **separately readable**. Chapter 1 explains the different regulations, what sustainability reporting is and why it is important. In paragraph 1.3, a flowchart is presented in which you can check which regulations your company needs to comply to.

The goals of the EU and the reasoning of the EU in implementing the EU Taxonomy, SFDR, and CSRD are explained in chapter 2. In chapter 3, the EU Taxonomy is analysed in detail. Paragraph 3.1 goes into the basics of the EU taxonomy. After which it is explained how companies can comply in paragraph 3.2 with an example of the requirements an economic activity needs to meet in paragraph 3.3.

In chapter 4, the requirements for financial market participants and financial advisors from the SFDR are discussed. This chapter starts with an explanation of what the SFDR is in paragraph 4.1. This is followed by an explanation of the advantages of the SFDR in paragraph 4.2. In paragraph 4.3, it is discussed what the terms *financial market participant* and *financial advisor* mean in the context of the SFDR. Here, it is thus discussed in more detail which companies need to comply to the SFDR. Chapter 4 ends with an explanation of which requirements a company needs to meet in order to comply with the SFDR.

After the requirements for financial market participants, the requirements for large and listed companies from the CSRD are discussed in chapter 5. In paragraph 5.1, it is explained what the CSRD is. Paragraph 5.2 explains the advantages of the requirements and paragraph 5.3 goes into the requirements following from the CSRD.

Chapter 6 is relevant for companies that do not have to comply with either the SFDR or CSRD as it discusses the effects of both regulations for companies in the value chain of companies that have to comply with either the SFDR or the CSRD.

In chapter 7, different voluntary standards are discussed which could be used in addition to the SFDR and CSRD. This whitepaper ends with concrete recommendations for companies that have to comply with either the SFDR or the CSRD in Chapter 8.

[5] COM/2021/189 final, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0189.

[6] Regulation (EU) 2019/2088, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02019R2088-20200712.

[7] Regulation (EU) 2020/852, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020R0852.

1. Introduction

1.1 What is sustainability reporting?

Sustainability reporting, as the name suggests, is the reporting on sustainability matters. Hereby the term sustainability is interpreted in the **broadest way possible**, as sustainability means meeting our own needs without compromising the ability of future generations to meet their own needs. With regard to reporting this has been translated into reporting on the Environment, Social, and Governance factors (ESG).

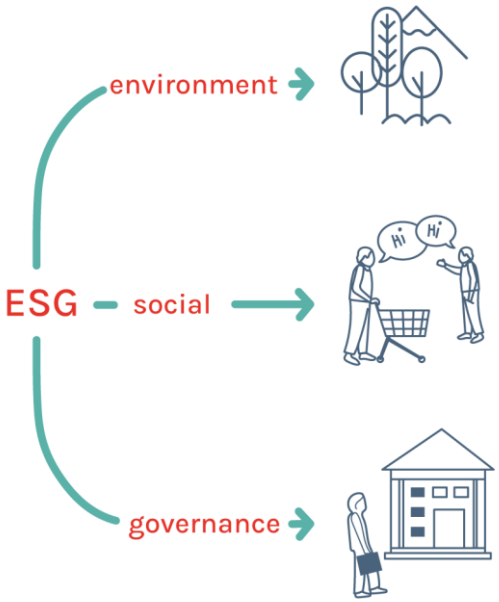


Figure 2: ESG reporting[8]

[8] Source: Shutterstock, https://www.shutterstock.com/nl/image-vector/esg-banner-web-icon-business-organization-1846187305.

Due to the increased **critical attitude** of all kinds of stakeholders, including investors, regulators, employees and customers, companies are paying more and more interest into sustainability reporting. This has led to a sprawl of different standards to which companies could but did not have to comply with regard to their sustainability reporting.

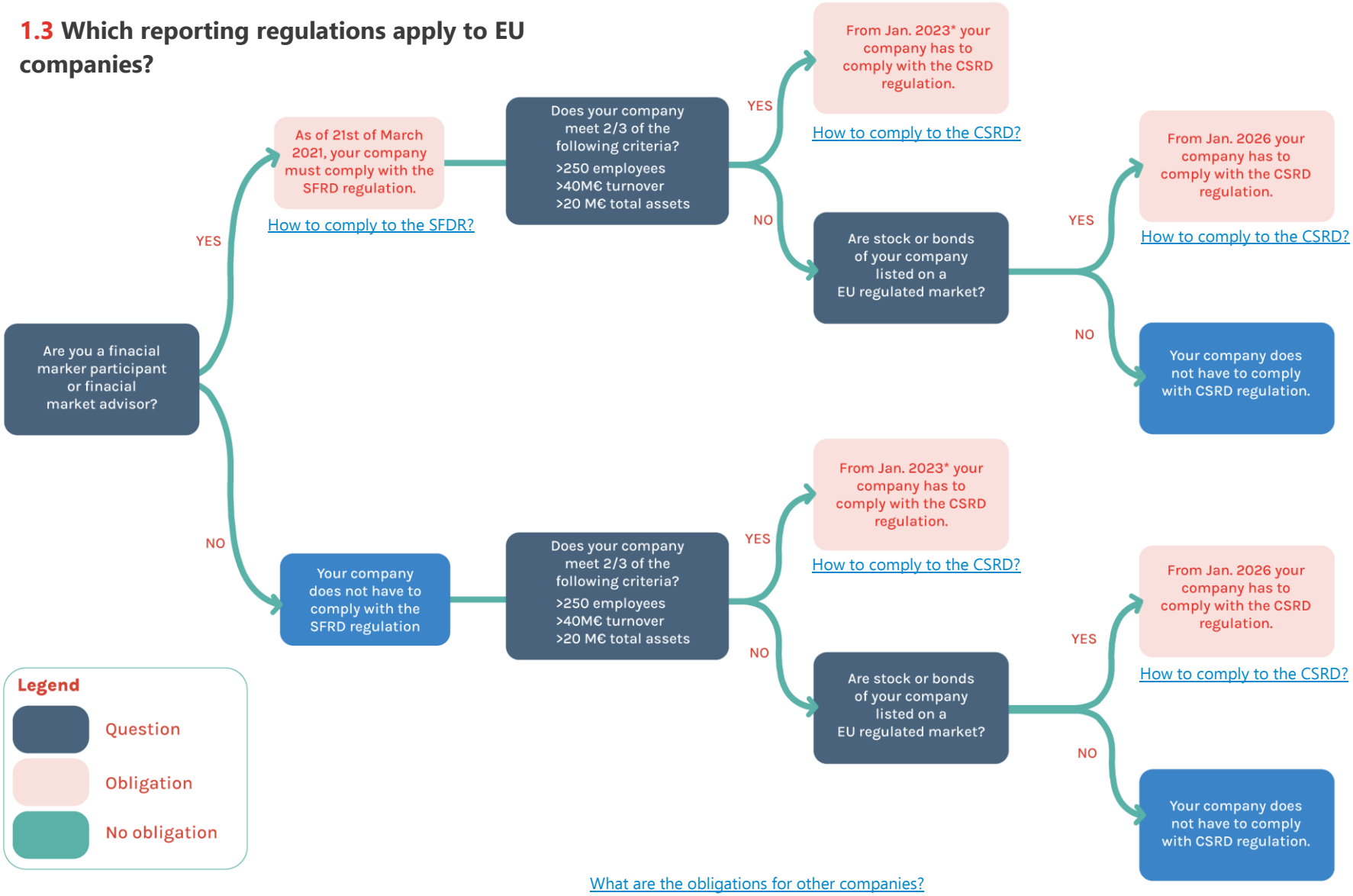
The European Union now wants to make an end to this proliferation by issuing standards to rule them all. But, as the EU is implementing these measures in record times, the regulations to which companies must comply become **harder to navigate through**, especially for companies who do not report on sustainability matters at the time.

1.2 Why legislation on sustainability reporting?

There are numerous reasons why the EU is issuing these sustainability reporting obligations. Firstly, it is meant to make an end to the proliferation of different voluntary standards, which is hard for companies as they do not know which standards they need to comply to and also hard for the other stakeholders, as different sustainability statements are **hard to compare** to each other, which also makes it easier for companies to do "greenwashing". Secondly, and perhaps most important, it is assumed proper sustainability reporting leads to **a higher flow of capital** (both in sales as in investments) to sustainable companies. When companies are obliged to report how sustainable they are, they can no longer claim they are sustainable with vague statements that cannot be verified by people outside of the organisation.

As a company you can chose whether you want to do sustainability reporting from an intrinsic motivation, because of risk management or simply because you want to comply with the regulations. For all these companies, this whitepaper is relevant as it offers **an insight in the obliged sustainability reporting standards** which are the end or the beginning of your sustainability reporting, depending on what type of company you are.

1.3 Which reporting regulations apply to EU companies?



What are the obligations for other companies?

Do keep in mind that even when you are not obliged to comply with either the SFDR or the CSRD, the effects of the SFDR and CSRD could cascade down on you. If you are looking for investments or your stocks or bonds are already in the hands of a financial market participant, the financial market participant needs information from your company in order to comply. The same mechanism applies to companies selling to or buying from companies obliged to report under the CSRD.

*An amendment has been proposed to change this date to 2024 for NFRD-companies 2025 for large companies not obligated to report under the NFRD now.

Figure 3: Scope SFDR and CSRD

2. Context: Goals of the EU

In 2015, the European Commission (EC) presented their plans for a capital markets union.[9] The aim of the capital markets union is to create a single market for capital, and thereby better enabling money to flow through the entire EU. This provides **more choice for businesses for funding** and thereby lowers the costs of acquiring funding and decreases the dependence on banks. Because of the aim of the EC to achieve this capital markets union, more and more regulation from the EU is coming so that there is a **level-playing field** for all businesses in the European Union. This also includes the regulations with regard to sustainability reporting.

This has firstly led to the introduction of the Action plan for the financing of sustainable growth in 2018.[10] This Action plan was one of the first plans from the EC following up on the **Paris agreement**. In this plan, many regulations are proposed which the EU perceives as preconditions for the energy transition in the financial markets and to strive forward with the aim of a capital markets union. In this action plan the EC identified three main subjects which needed to be tackled, namely:

1. Reorienting capital flows towards a more sustainable economy
2. Mainstreaming sustainability into risk management
3. Fostering transparency and long-termism

The Action plan was imbedded in the broader durability goals of the EU in the Green Deal, which was presented in 2019.[11] The Green Deal sets out which regulations need to be changed and which need to be created in order to turn the EU in **a modern, resource efficient, and competing economy**. The main goals of the Green Deal are no net emissions of greenhouse gases by 2050, economic growth decoupled from resource use, and this needs to be done while leaving no person and no place behind.

In order to achieve the goals, set out in the EU Green Deal and the 2018 Action Plan on financing sustainable growth, the EU has adopted the EU Taxonomy and the SFDR, and the CSRD is on its way to being adopted. In order to make the transition to a more sustainable economy, it firstly should be known what economic activities are sustainable (EU Taxonomy), more money should go the sustainable activities (SFDR), and companies should be more sustainable themselves (CSRD).

To do this the EU Taxonomy establishes a clear definition of what activities are environmentally sustainable and which are not, so that the risk of greenwashing is reduced. The SFDR obliges financial market participants and advisors to make investors more aware of the environmental impact of their investments and thereby nudging them towards more sustainable investment options. Lastly, the CSRD obliges companies to disclose more sustainability-related information. An overview of the coherence between the goals and regulations of the EU can be found in figure 4.

[9] Action plan on building a capital markets union, COM/2015/0468 final, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52015DC0468.

[10] COM/2018/097 final, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52018DC0097.

[11] COM/2019/640 final, https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1576150542719&uri=COM%3A2019%3A640%3AFIN.

To conclude, as part of the journey to become a climate-neutral continent in 2050, the European Union is moving forward in record time to make the transition to a more sustainable financial market that is accessible for all European companies and investors. The regulations are thus formed in order to support environmentally friendly businesses and to create uniform standards across the whole EU.

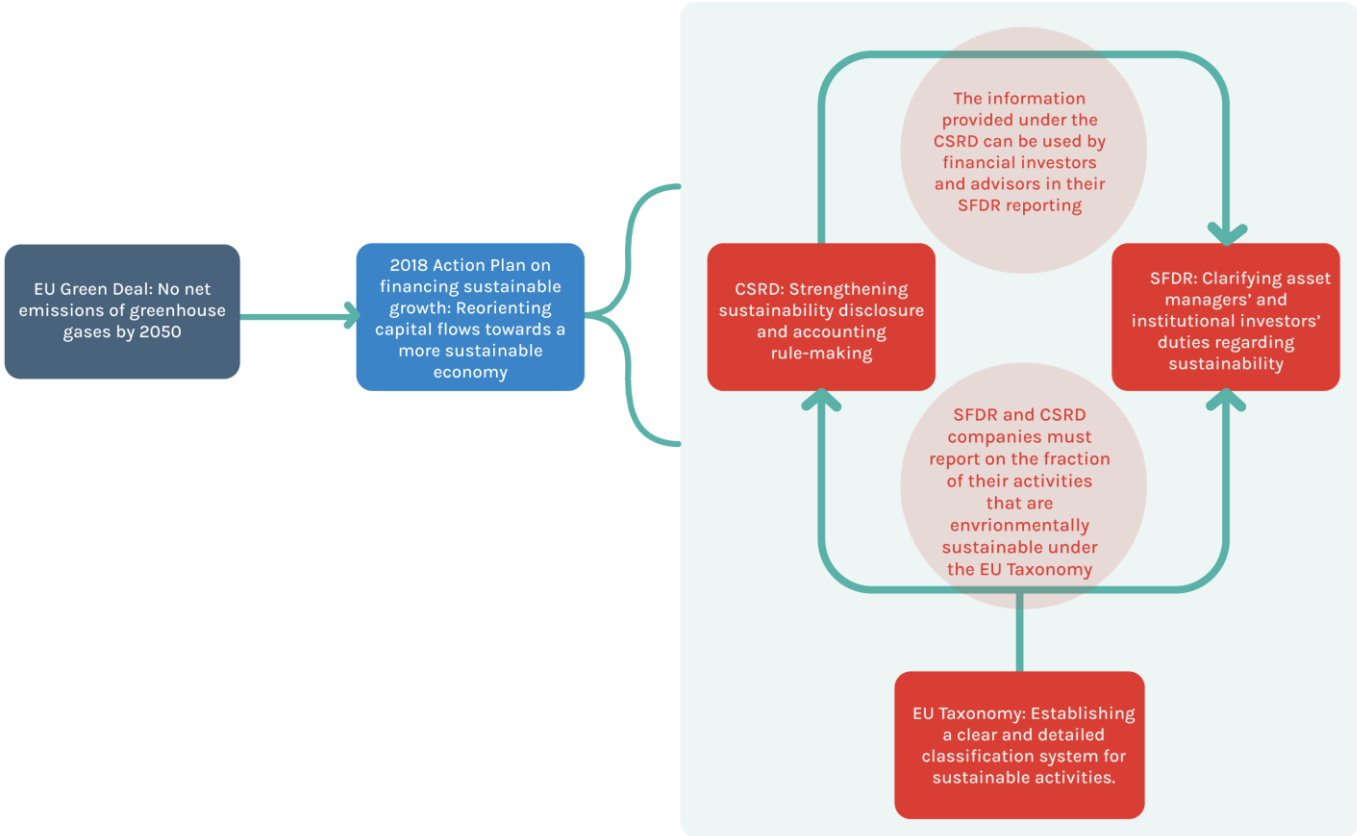


Figure 4: Overview goals and regulations EU with regard to sustainability reporting

3. Basics: When does an economic activity qualify as environmentally sustainable?

As mentioned in the introduction, managers of investment funds and financial advisors have to report on the fraction of their portfolio that is environmentally sustainable. Large companies will also have to report from the fiscal year 2023 onwards on how much of their activities are environmentally sustainable. But even companies that are not obliged to report could decide to voluntarily do so, for example to attract 'green financing'. To do this, you of course need to **know when an economic activity can be called environmentally sustainable**. This chapter discusses when an activity qualifies as environmentally sustainable under the EU Taxonomy.

In this chapter, it will be consecutively discussed what the basics are of the EU taxonomy and what companies and investors have to do with the EU taxonomy in order to comply.

3.1 Basics of the EU taxonomy

The basis Taxonomy Regulation entered into force on 12 July 2020.[12] Article 3 of this regulation describes the criteria for environmentally sustainable economic activities and thereby whether or not an activity is eligible or not for the EU Taxonomy. An economic activity shall qualify as environmentally sustainable when 1) the activity **contributes substantiality** to one or more of the environmental objectives of article 9 of the regulation, 2) the activity does **not significantly harm** any of the other environmental objectives, 3) the activity is carried out in compliance with the **minimum social safeguards** from article 18, and 4) the activity complies with technical screening criteria that have been established by the EC.

The environmental objectives from article 9 of the regulation are:

- climate change mitigation;
- climate change adaptation;
- the sustainable use and protection of water and marine resources;
- the transition to a circular economy;
- pollution prevention and control; and
- the protection and restoration of biodiversity and ecosystems.

These objectives have been elaborated on in the articles of the regulation. The minimum safeguards have been identified in article 18 as "procedures implemented to ensure the alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights."

These basics of the EU taxonomy only provide a framework. In technical screening criteria, the EC has identified different requirement for different economic activities to be able to determine whether or not an activity qualifies as environmentally sustainable. The basics of the EU Taxonomy are summarized in figure 5.

[12] Regulation (EU) 2020/852, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020R0852.

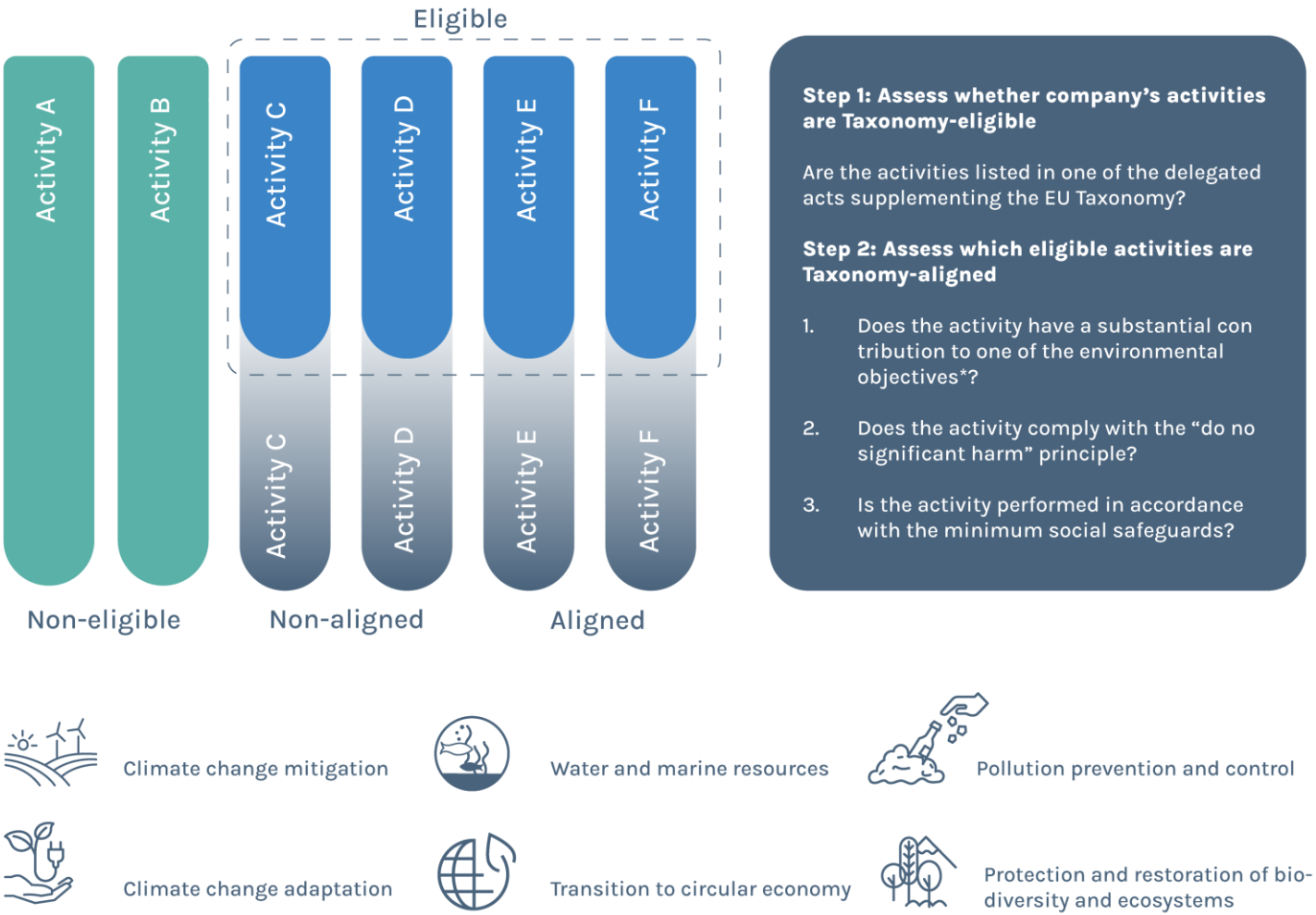


Figure 5: Basics of the qualification of economic activities under the EU Taxonomy[13]

[13] Adopted from Salacia Solutions, https://www.salaciasolutions.com/en-posts/the-eu-taxonomy-for-sustainable-activities-explained.

3.2 How can companies comply to the EU taxonomy?

Whether or not an economic activity qualifies as environmentally sustainable can be determined using the technical screening criteria in one of the delegated acts supplementing the EU Taxonomy. Currently, one delegated act with technical screening criteria was formally adopted. This is the act on sustainable activities for climate change adaptation and mitigation objectives.[14] This delegated act shows for a number of economic activities which requirements have to be met in order for them to qualify as environmentally sustainable.

Which activities are included in the delegated act, can be found in the table of contents of the delegated act. The requirements that have to be met in order for the activity to qualify as environmentally sustainable can be found in Annex 1 of the delegated act. In this Annex, there also are some additional informational requirements for when a company wants to qualify an activity as environmentally sustainable. These screening criteria differ per sector, but they can be divided in two separate parts, one part to determine whether or not the economic activity contributes to one of the sustainability goals and another part to determine whether or not the activity does significant harm to one (or more) of the other. An example of the requirements for an economic activity to qualify as environmentally sustainable is discussed later in this chapter.

Not all economic activities are yet incorporated in the delegated act. The EC explained in a FAQ with regard to the EU Taxonomy that it was not possible to develop criteria for all sectors yet.[15] The EU Taxonomy is still under development which means that more economic activities will be added. Economic activities in the agriculture sector will at least be added to the list and there is still an ongoing discussion if and when some economic activities should be able to qualify as sustainable, like the discussions with regard to gas and nuclear energy power plants should be able to qualify as environmentally sustainable.

If an economic activity is not (yet) a Taxonomy-aligned activity it is not allowed to communicate that the activity is environmentally sustainable in accordance with the EU Taxonomy. As there are main differences between the screening criteria of the different economic activities, one economic activity is analysed as an example of which requirements could be in place for the qualification of an economic activity as environmentally sustainable. In this article, the manufacturing of hydrogen is analysed.

[14] C/2021/2800 final, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=PI_COM:C(2021)2800.

[15] European Commission, FAQ: What is the EU Taxonomy and how will it work in practice?, https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/sustainable-finance-taxonomy-faq_en.pdf.

3.3 Example requirements under EU Taxonomy: manufacturing of hydrogen

In order to identify whether or not an activity is eligible and then whether or not qualifies as environmentally sustainable different steps have to be taken, which are depicted in figure 5. This paragraph includes an example of this process with an assessment of the requirements for the assessment of the manufacturing of hydrogen.

1. **Assess whether or not the activity is Taxonomy-eligible?**

   Yes. The activity is listed in Annex 1 of the delegated act on sustainable activities for climate change adaptation and mitigation objectives.

2. **Assess which eligible activities are Taxonomy-aligned**

   A. Significant contribution to one of the sustainability goals

The first step in the decision tree of figure 5 is to assess whether or not the activity has a significant contribution to one of the sustainability goals. According to Annex 1 of the act on sustainable activities for climate change adaptation and mitigation objectives the manufacturing of hydrogen has a substantial contribution to climate change adaptation if:

- Adaptation solutions have been implemented that substantially reduce the most important physical climate risks;
- A robust climate risk and vulnerability assessment has been performed; and
- The climate projections and assessment of impacts are based on best practice and available guidance in accordance with the lates insights by the IPCC.

   B. Compliance with the "do no significant harm-principle"

The second step in the decision tree is to assess whether or not the economic activity complies with the "do no significant harm-principle". The criteria for this assessment can be found in Annex 1 of the act on sustainable activities for climate change adaptation and mitigation objectives. For the manufacturing of hydrogen, the company must make sure:

- The activity does not lead to increased adverse impact of the current climate and the expected future climate, on the activity itself or on people, nature or assets;
- An analysis is performed what risks there are for the available water quality and quantity in the production area and measures need to be implemented to prevent water stress;
- The manufacturing does not lead to the production, placing on the market or the use of toxic and harmful chemicals; and
- Life-cycle greenhouse gas emissions are determined must be equal to or lower than the emissions of the best available techniques) and lower than fossil fuel comparisons.
- An Environmental Impact Assessment (EIA) needs to be performed in accordance with the directive on the assessment of the effects of certain public and private projects on the environment[16], including an assessment of the impact on water

[16] Directive 2011/92/EU, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02011L0092-20140515.

quality and quantity. Necessary prevention and mitigation measures that arise from the EIA need to be performed.

C. Compliance with minimum social safeguards

The last step in the decision tree is to determine whether or not the company acts in accordance with the minimum social safeguards, which are discussed in article 18 of the EU Taxonomy. The company must have implemented procedures to ensure the alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights. This means that none of the activities of companies that violate the minimum social safeguards can qualify as environmentally sustainable.

4. SFDR: impact on financial market participants

4.1 What is the SFDR?

The Sustainable Finance Disclosure Regulation (SFDR) has entered into force on 29 December 2019 and it obliges financial market participants (e.g., banks or pension funds) and financial advisers (e.g. portfolio managers) to report on sustainability matters. The SFDR obliges these companies to be transparent about whether or not sustainability risks are determined, how these risks are determined for investments, and how these risks are taken into account in the decision-making process. These companies also have to provide information with regard to how sustainable their financial products are. In this chapter, it is discussed what the use is of these obligations, which companies are obliged to comply with the SFDR and how these companies can comply to the SFDR.

4.2 Why these reporting obligations?

Under the SFDR, there are many obligations for financial market participants to report on sustainability matters. This could be rather costly for a financial market participant, especially as the company in which the investments are being made does not have its reporting in order. Why are these obligations nevertheless important? These obligations are important as they allow investors to choose the financial market participant that lies closes to their wishes. The SFDR **does not oblige** financial market participants to only invest in sustainable companies but it does oblige these companies to **be clear on how they make investment decisions and whether or not these decisions are sustainable.** With this information investors (people/companies who/which give their money to a financial market participant to invest) are better able to determine for example, which company they want to invest in.

Herewith the EU intends to create a **redirection of capital flows** to more sustainable investments and thereby contributing to a climate neutral continent in 2050. It also better allows financial market participants to compete with each other, for example two pension funds which explicitly want to have sustainable investments can better compare the sustainability impacts of their investments.

4.3 Which companies need to comply to the SFDR?

From article 1 of the SFDR it becomes clear that the SFDR applies to **financial market participants and financial advisers**. All financial market participants that manufacture and sell financial products and perform portfolio management services and financial advisors that provide investment advice or insurance advice regarding insurance-based investment products need to comply with the SFDR.

This means that insurance undertakings which provide insurance-based investment products, investment firms which provide portfolio management, institutions for occupational retirement provision, manufacturers of pension products, alternative investment fund managers, managers of venture capital funds, managers of social entrepreneurship funds, managers of an Undertaking for Collective Investment in Transferable Securities (UCITS), credit institutions which provide portfolio management, advisors with regard to insurance-based investment products, and firms which provide investment advice all have to comply with the SFDR.

The SFDR applies both to companies that provide environmentally sustainable products and those who do not. Financial market participants that make available financial products also have to comply with the Taxonomy Regulation, as discussed in chapter 6. In chapter 3, it is discussed that companies that sell financial products (e.g., stocks) and promote this financial product as environmentally sustainable, this product should be environmentally sustainable in accordance with the EU Taxonomy and the necessary information should be provided to prove this is actually the case.

4.4 What information do companies need to publish to comply to the SFDR?

The SFDR has several obligations for financial market participants and financial advisors. First the obligations are discussed that are applicable to all the financial market participants and the financial advisors, then the more specific obligations are discussed.

According to article 3 of the SFDR, companies need to publish information on their website on how sustainability risks are used in their decision-making process or in their advice. They also need to publish a statement with regard to how they take negative effects of investments into account in their decision-making or advice, according to article 4. Financial market participants need to at least report on their policies for identifying and prioritising the most important negative sustainability effects, what the negative impacts of their investments on the environment are any (planned) actions with regard to this impact. They also have to disclose, if and how the organisation acts in alignment with the objectives of the Paris agreement. If directive 2007/36/EC is applicable to the financial market participant, the organisation also has to provide a summary on how the company determines which customers are eligible for which actions. Financial advisors need to publish information whether they take major negative environmental effects into account in their advice or why they do not take this into account and whether when they plan to do so. Financial market participants and financial advisers also have to integrate sustainability risks in their remuneration policies and in their pre-contractual disclosures.

Example sustainability reporting for a financial market participant: how does ABN AMRO do the obliged reporting under the SFDR?

In a transparency benchmark for Dutch companies by the Dutch Ministry of Economic affairs and Climate ABN AMRO was the highest scoring financial market participant with a second place overall, therefore ABN AMRO has been chosen as an example for the obligations for financial market participants under the SFDR.[17]

In accordance with the SFDR ABN AMRO has published an Adverse Sustainability Impacts Statement on their website.[18] As ABN AMRO also is a financial market advisor, they must also publish a document with regard to the Sustainability Risk in Investment Advice, which they also did.[19]

[17] Transparantiebenchmark 2021: De Kristal 2021, https://www.transparantiebenchmark.nl/sites/transparantiebenchmark.nl/files/afbeeldingen/juryrapport_transparantiebenchmark_2021.pdf.

[18] ABN AMRO, https://www.abnamro.nl/en/media/adverse-sustainability-impacts-statement_v2_tcm18-145792.pdf.

[19] ABN AMRO, https://www.abnamro.nl/nl/media/296666%20AAMP_2_infokaarten_SFR_Advies_EN_tcm16-120430.pdf.

In their Adverse sustainability Impacts Statement, ABN AMRO discloses how they determine principal adverse impacts of investment decisions and advice and how they take this information into account in their investment decisions and advice. To do this, ABN AMRO follows a specific procedure, which is depicted in figure 6.

Figure 6: Process ABN AMRO ESG reporting.

First, potential investments are screened against exclusion lists, like the controversial weapon list. If the investment is not excluded, ABN AMRO assigns a Sustainability Indicator to the company based on the sustainability assessment by external data providers. For this, ABN AMRO uses data from Sustainalytics and Institutional Shareholder Services (ISS). This external assessment includes the company's exposure to sustainability risk and how well a company is managing the sustainability risks it is exposed to. It is also assessed if a company is involved in sustainability-related controversies or even a breach of the 10 principles of the UN Global Compact. The sustainability performance of a company is monitored and in case of a breach of the UN Global Compact an engagement trajectory is started. The sustainability performance of a company is reviewed, because it can change over time. ABN AMRO applies this process to all its portfolio management and advisory on investment products and solutions within Retail and Private Banking.

With regard to financial products financial market participants have to give a clear and motivated explanation whether and how the most important negative effects on the environment have been considered by 30 December 2022. The way that the financial market participant needs to publish this information differs between the different organisations. This is disclosed in article 6(3) of the SFDR. The SFDR also makes sure that if financial products are advertised as green, they have to meet certain requirements. The SFDR distinguishes the promotion of environmental or social characteristics (article 8) and the promotion of sustainable investments (article 9). If a financial product is promoted with environmental or social characteristics or if it has sustainable investment as its objective, the financial market participant has to provide information with regard to how these characteristics are met and if an index has been designated as a reference benchmark, information on whether and how this index is consistent with those characteristics. An overview of the SFDR regulations for financial market participants is given in figure 7.

According to the SFDR, financial market participants and financial advisors need to:

On the product-level (for financial market participants)

For each financial product:

Explain whether, and if so how, a financial product considers principal adverse impacts on the environment (by 30 December 2022).

For 'light green' financial products (financial products which are promoted as having environmental or social characteristics):

- Explain how these characteristics are met and if an index has been designated as a reference benchmark, information on whether and how this index is consistent with those characteristics.
- Publish a description of the environmental or social characteristic and the methodologies used to assess, measure, and monitor the characteristic(s).

For 'dark green' products
(products which have sustainable investment as its objective):

- Explain which benchmark is used to determine that the investment is sustainable.
- Explain how the used benchmark is aligned with the objective.
- Explain how the used benchmark differs from a broad market index.
- Explain that the product does not do significant harm.
- Publish a description of the sustainable investment objective and the methodologies used to assess, measure, and monitor the impact of the sustainable investments.

On the entity-level

Publish on their website:

- How sustainability-risks are used in decision-making.
- How negative effects of investments are taken into account (if not: explain why).
  - Policies on the identification and prioritization of sustainability effects.
  - Negative impacts of investments on the environment.
  - Is the organisation aligned with the Paris-agreement?

In remuneration policies:

- Information on how the policy is consistent with the integration of sustainability risks.

In pre-contractual disclosures:

- Descriptions of the manner in which sustainability risks are integrated in the investment decisions.
- The results of assessments of the likely impacts of sustainability risks on the returns of the financial products.

Figure 7: Overview SFDR obligations

The relationship between the EU Taxonomy and the SFDR can be found in articles 2a, 8, 9, and 11 of the SFDR. These articles, in connection with articles 5 and 6 of the EU Taxonomy, determine that for the financial products that are advertised as sustainable investment or as having environmental or social characteristics, the financial market participants need to make clear how these products are aligned with the criteria set out in the EU Taxonomy.

To make the obligations more concrete the European Supervisory Authorities have published Regulatory Technical Standards (RTS). The RTS enters into force on 1 July 2022.[20] From the Technical Standards it becomes clearer how financial market participants and financial advisors should publish the principle adverse impact of the financial products they sell or advise. Principal adverse impacts are negative, material, or potentially material effects on the environment or social factors. In the Technical standards mandatory and optional indicators are published, which the organisations either need to or can apply in their reporting of the principal adverse impact.

From the mandatory indicators, it becomes clear that companies reporting under the SFDR have to disclose their scope 1 and 2 greenhouse gas emissions and from 1 January 2023 also their scope 3 emissions. These companies also have to report on their carbon footprint, the emissions to water, and their hazardous waste ratio. The full list of indicators with regard to sustainability is displayed in appendix 2.

Example Articles 8 and 9 financial products

Financial products which have environmental or social characteristics are so-called article 8 financial-product or "light-green" products. Financial products that promote sustainable investments are so-called article 9 financial products or "dark-green" products. For these "light-green" and "dark-green" products, financial market participants must disclose: what the sustainability indicators are, what the investment strategy is, how the impact is monitored, whether or not principal adverse impacts are taken into account, where the data is coming from, and which index is used for the fund.

For example Robeco is complying with this regulation by publishing a report for each investment fund in which the different requirements of the SFDR are checked off.[21] These reports usually are up to 5 pages, so they do not need to be very long. Hereby Robeco makes it easier for themselves by publishing general documents on what Robeco's exclusion policy[22] is, what their good governance policy[23] is, and their approach to Principal Adverse Impacts[24].

[20] Joint Committee of the European Supervisory Authorities, https://www.esma.europa.eu/sites/default/files/library/jc_2021_50_-_final_report_on_taxonomy-related_product_disclosure_rts.pdf.

[21] E.g., Robeco, https://www.robeco.com/docm/sfdr-smart-energy-equities.pdf.

[22] Robeco, https://www.robeco.com/docm/docu-exclusion-policy.pdf.

[23] Robeco, https://www.robeco.com/docm/docu-robeco-good-governance-policy.pdf.

[24] Robeco, https://www.robeco.com/docm/docu-robeco-principal-adverse-impact-statement.pdf.

5. CSRD: impact on large companies

5.1 What is the CSRD?

Currently the reporting obligations for large companies are relatively small as only public interest entities with more than 500 employees in Europe are obligated to incorporate non-financial information in the board report, under the NFRD.[25] This should include information about the business model, the policies and risks with regard to environmental, social, and governance issues, the compliance with human rights, the resistance of corruption and bribes, and they should also present non-financial performance indicators.

However, with the introduction of the replacement of the NFRD, the CSRD, the number of organisations that have to report on non-financial matters increases significantly. The CSRD will apply to no less than 50,000 European based companies as the CSRD applies to companies which meet 2 of the 3 criteria (>250 employees, >40 M€ revenue, >20 M€ balance worth). These companies will face increased reporting obligations in comparison to the NFRD.

The CSRD was planned to enter into force on 1 January 2023, meaning that the reporting obligations have to be met in the reporting over the fiscal year 2023. However, an amendment [26] has been proposed to change this date. According to this amendment the date will be changed to January 1st 2024 for companies which already have to comply with the NFRD and to January 1st 2025 for other large companies.

In this chapter, the reporting obligations are discussed. Hereby, it is important to note that a lot is still unknown with regard to the CSRD as the European Financial Reporting Advisory Group (EFRAG)is supposed to publish the final version of the technical standards supplementing the CSRD by October 2022. Draft technical standards have been published at this time and these are discussed in this whitepaper.

5.2 Why these reporting obligations?

The CSRD obliges companies to report on different sustainability matters. This is being done so that all companies do their sustainability reporting in the same manner. This makes it easier for stakeholders to compare different companies and it also prevents greenwashing. It enables companies to more easily compare their own business to other businesses in the sector and what improvements they could make to make their company more sustainable. The CSRD also has a benefit for financial market participants. As discussed in chapter 4, financial market participants have different sustainability reporting requirements. For the large companies, these requirements are an addition to the requirements under the CSRD. Under the SFDR, financial market participants need to report on the sustainability of companies they invest in, or they advise to invest in. This reporting of financial market participants is being made much easier if the investee company already has all the necessary information at hand. That is why the standards of the CSRD are developed with the SFDR in mind, so that companies under the CSRD do not have to worry about additional information requirements from investors or financial advisors.

[25] Directive 2014/95/EU, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095.

[26] Council of the European Union, https://data.consilium.europa.eu/doc/document/ST-6292-2022-INIT/en/pdf.

5.3 What information do companies have to publish to comply with the CSRD?

Very important with regard to the sustainability reporting of these large companies is the principle of **double materiality**. Companies **only have to report** on **material topics**. However, what is material under the CSRD is quite different from other standards as the CSRD uses the principle of double materiality.

This means, something can be material from an inside-out and from an outside-in perspective. Inside-out means the impact from the business on the environmental and society, e.g. greenhouse gas emissions. Outside-in, means the influence from the environment and the society on the business, e.g. how climate change affects the companies' strategy. This is depicted in figure 8. Companies under the CSRD thus must report on the influence of sustainability aspects on the development, the performance and position of the organisation and vice versa: what the effect of the organisation on the environment is.

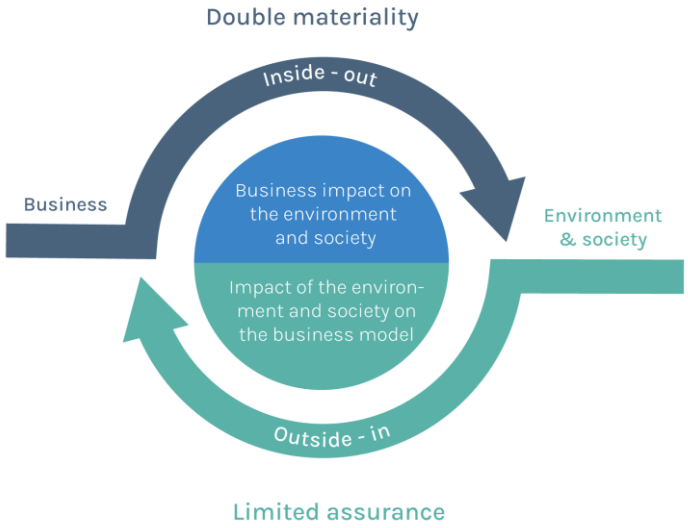


Figure 8: Double materiality

The sustainability information has to be provided within the Management Report and should at least include information about:

- The Strategy, business model, and organisation with regard to sustainability impacts, risks and opportunities;
- The impact of the organisation on the environment;
- The social performance of the organisation; and
- The governance of the organisation.

To provide this information, companies will have to make sustainability statements in the Board Report. In this Board Report, the company has to report on elements that are applicable to all kinds of companies, elements specific for the sector the company operates in and elements specific to the company itself. This reporting has to be done on 3 reporting areas and all 3 ESG factors. This is depicted in figure 9.

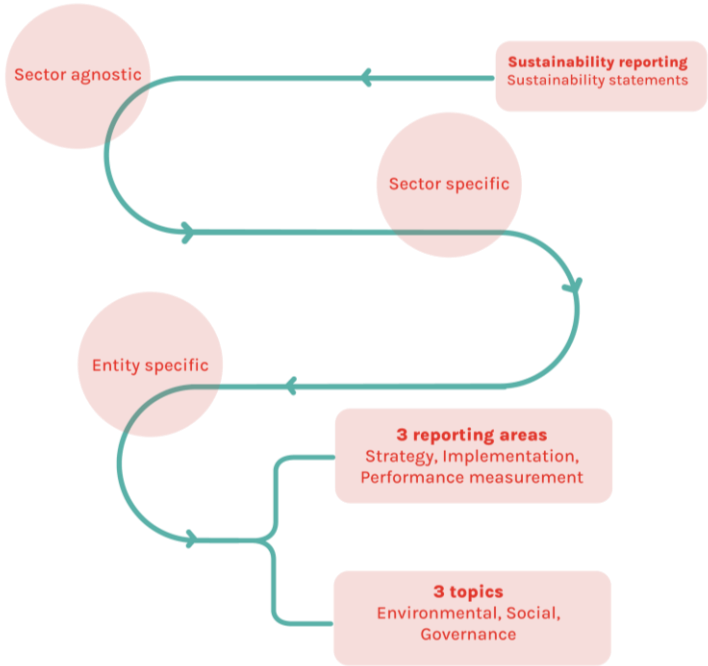


Figure 9: Overview sustainability reporting structure

What information precisely needs to be included in the sustainability report will be presented in various European Sustainability Reporting Standards (ESRS's). EFRAG came up with a plan to publish 28 ESRS, 24 of which have been presented as a draft at this time. The proposed ESRS's are depicted in appendix 3. By October 2022 EFRAG plans to have presented all the final versions of the ESRS's.

To illustrate the obligations that follow from the CSRD an overview of the sustainability reporting requirements with regard to the environmental topic is depicted in figure 10.

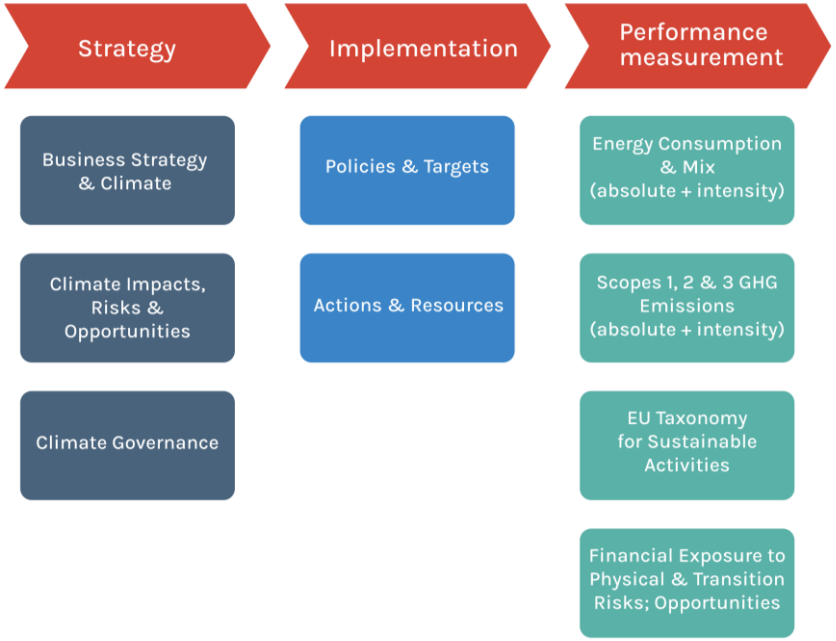


Figure 10: Overview Environmental sustainability reporting requirements under the CSRD

As becomes clear from figures 9 and 10, companies will have to report on 3 reporting areas, namely strategy, implementation and performance measurement. For these reporting areas companies will have to report, among other things, how their business strategy is affected by climate change, which targets the company has set to be in line with the Paris Agreement, and what the scope 1,2 & 3 greenhouse gas emissions of the company are. To be able to get an impression of the extent of the requirements, an overview of the requirements which have been presented in the draft ESRS's are listed in appendix 4, grouped in 4 different categories.

6. Impact on companies not (yet) obligated under SFDR or CSRD

With the coming into force of the SFDR, financial market participants and financial advisors have extensive reporting obligations. The obligations of these companies cascade down to companies which are looking for investments, as companies which have their sustainability reporting in order are more attractive for these financial market participants and investors. If a company has its sustainability reporting in order, less work has to be performed by the financial market participant or advisor in the assessment of the company and thus there are lower costs for the financial market participant or investor.

The same principle applies for companies looking to sell to or buy from companies which have to report under the CSRD. Under the CSRD companies must report on their scope 1,2 and 3 GHG-emissions and how many of their economic activities qualify as environmentally sustainable under the EU Taxonomy. To be able to determine whether or not an activity is aligned with the EU Taxonomy, the company must for many economic activities determine the life-cycle greenhouse gas emissions of an economic activity. If you want to sell to or buy from such a company, it makes you more attractive if you exactly know the greenhouse-gas emissions of your process as this helps the company you deliver to or receive from determine the scope 3 GHG emissions and the life-cycle greenhouse gas emissions of their own economic activities.

6.1 How can your company act in alignment with these obligations?

There are thus different scenarios imaginable. These scenarios are discussed in the following paragraphs. In paragraph 6.1.1., the situation is discussed for a CSRD company that is looking for investors. In paragraph 6.1.2., the situation of a company with no sustainability reporting obligations that is looking for investors is discussed. Lastly, it is discussed in paragraph 6.1.3., what companies, which do not have any sustainability reporting requirements by law but are in the value chain of a company which has to comply with the CSRD, have to do.

6.1.1 A CSRD company looking for investors

If your company is obliged to report under the CSRD, your reporting will be sufficient for the financial market participants and advisors and for other companies obliged to report under the CSRD (see chapter 5). However, the challenge lies in the difference in timing. Whereas the SFDR is already into play and is becoming stricter in the coming years, the CSRD will come into play in 2023 or 2024. Therefore, it is important to determine the objective of your company. From January 1st 2026 also listed SME's have to comply with the CSRD. This means that if you want to be interesting to investors and financial advisors and you currently do not have to report under the CSRD, it is very likely you will have to in the near future. Having the sustainability reporting in order is good for investors and financial advisors and it is a steppingstone towards the full CSRD-reporting obligation from January 1st 2026.

6.1.2 A non-reporting company looking for investors

If you are looking to be (more) attractive for investors and financial advisors, it is very important to know financial market participants have to report on many things: their carbon footprint, their scope 1 and 2 greenhouse gas emissions (and from 1 January 2023 also report on their scope 3 emissions), the emissions to water, the hazardous waste ratio, the share of investments in companies active in the fossil fuel sector, the share of non-renewable energy consumption, the share of

investments in companies that negatively affect biodiversity, and whether or not their investment products are aligned with the goals set out in the Paris agreement. In addition, it would help to determine how much of your activities qualify as environmentally sustainable under the EU Taxonomy, as this could provide the financial market participant with the option to qualify the financial product as 'light green' of 'dark green' (see chapter 3). Therefore, it would make your company much more attractive if you could provide this information to potential financial market participants willing to place your companies' stocks or bonds in an investment fund.

6.1.3 A non-reporting company in the value chain of a CSRD company

If your company wants to sell to or buy from a CSRD-company, the requirements are a bit less harsh as the CSRD-company most likely wants to determine a lot of the sustainability-related information themselves, as they are responsible for the quality of the information in the end. However, as companies under the CSRD have to determine what their scope 1,2 and 3 GHG-emissions are and how much of the activities qualify as environmentally sustainable under the EU Taxonomy and for a lot if activities this means the life-cycle greenhouse gas emissions, as well as information with regard to water pollution and harmful chemicals of this activity needs to be determined it would be very helpful for the CSRD-company if your company could provide detailed information on the greenhouse gases, water use and pollution, and the use of toxic and harmful chemicals in your production processes.

7. Supplementary standards to EU regulations

In this whitepaper, different EU regulations with regard to sustainability reporting have been discussed. The regulations that recently have entered into force (EU Taxonomy and SFDR) or will enter in force in the near future (CSRD) will replace or build upon a lot of the voluntary standards that have arisen over the previous years. Not all voluntary standards will disappear, however, and there will still be standards for companies to prove they are more sustainable than others, even if the average level of sustainability will rise following the EU regulation. In this chapter, for different voluntary standards it is discussed, what the voluntary standard is and why using this standard could be beneficial for your company.

7.1 Science Based Targets initiative (SBTi)

The SBTi is a partnership between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF).[27] These science-based targets show companies how much and how quickly they need to reduce their greenhouse gas (GHG) emissions to prevent the worst effects of climate change.

The Science Based Targets initiative (SBTi):

- Defines and promotes best practice in emissions reductions and net-zero targets in line with climate science.
- Provides technical assistance and expert resources to companies who set science-based targets in line with the latest climate science.
- Brings together a team of experts to provide companies with independent assessment and validation of targets.

The SBTi is the lead partner of the Business Ambition for 1.5°C campaign - an urgent call to action from a global coalition of UN agencies, business and industry leaders, mobilizing companies to set net-zero science-based targets in line with a 1.5°C future. The change has already begun and action is gaining pace. Over one thousand companies worldwide are leading the transition to a net-zero economy by setting emissions reduction targets grounded in climate science through the SBTi.

7.2 Partnership for Carbon Accounting Financials (PCAF)

PCAF is a global partnership of financial institutions that work together to develop and implement a harmonized approach to assess and disclose GHG-emissions of loans and investments.[28] This is the starting point to manage risk and identify opportunities associated with greenhouse gas emissions. Measuring and disclosing the GHG emissions associated with the lending and investment activities of financial institutions is the foundation to create transparency and accountability, and to enable financial institutions to align their portfolio with the Paris Climate Agreement.

[27] https://sciencebasedtargets.org/.

[28] https://carbonaccountingfinancials.com/.

PCAF is open to any financial institution and therefore it has developed GHG accounting methodologies that apply to any financial institution. The following asset classes are currently covered by the methodology: listed equity & corporate bonds, business loans and unlisted equity, project finance, mortgages, commercial real estate and motor vehicle loans. As banks represent most of the available capital globally and play a crucial role in facilitating the transition, PCAF is set to collaborate with banks worldwide. In addition to banks, the globalization of PCAF also focuses on investors (e.g., pension funds, asset owners and managers).

7.3 Greenhouse Gas Protocol (GHG Protocol)

The GHG Protocol establishes comprehensive global standardized frameworks to measure and manage greenhouse gas (GHG) emissions from private and public sector operations, value chains and mitigation actions.[29] Building on a 20-year partnership between World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD), GHG Protocol works with governments, industry associations, NGOs, businesses and other organizations. GHG Protocol supplies the world's most widely used greenhouse gas accounting standards. The Corporate Accounting and Reporting Standard provides the accounting platform for virtually every corporate GHG reporting program in the world.

7.4 Global Reporting Initiative (GRI)

GRI was already created in 1997 making it the first of the universal standards in this list.[30] The GRI Standards are very widely used by corporates worldwide. They are designed for organisations to report on their impact in a credible and consistent way. They are modular, which means companies select the topics that are most important to them.

Examples of the 8 environmental topics to choose from are materials, energy, biodiversity and supplier environmental assessment. Within these topics, GRI explains in clear and concise language what to disclose and how to qualify or quantify each indicator. For example, GRI 301 is about materials. One of the indicators to disclose is percentage of recycled input materials used, which determined by dividing the total recycled input materials used by total input materials used.

7.5 International Sustainability Standards Board (ISSB)

One of the biggest trends in corporate impact tracking and reporting is the increasing consolidation of standards and initiatives. Most notably, during COP26 in Glasgow, it was announced that the Value Reporting Foundation (VRF) and the Climate Disclosure Standards Board (CDSB) will merge into the International Sustainability Standards Board (ISSB)[31] by summer 2022, which will then work under the authority of the International Financial Reporting Standards (IFRS) Foundation – the international authority that develops the accounting standards for annual reports of companies worldwide through its flagship International Accounting Standards Board (IASB).

The ISSB will be responsible for the creation of high-quality, streamlined and formalized requirements for the disclosure of sustainability issues. This will serve as a globally applicable baseline for sustainability reporting. The requirements under the CSRD will also be

[29] https://ghgprotocol.org/.

[30] https://www.globalreporting.org/.

[31] https://www.ifrs.org/groups/international-sustainability-standards-board/.

determined in cooperation with the ISSB, but for the requirements under the CSRD EFRAG has the ultimate say.

7.6 Carbon Disclosure Project (CDP)

CDP is a non-profit offering a global disclosure system for investors, companies, cities provinces and states to manage their environmental impacts.[32] Participating organisations are asked to fill out a yearly questionnaire, with questions on – among others – greenhouse gas emissions in scope 1, 2 and 3; fuel used per fuel type; climate related engagement strategies with customers; and activities regulated by a carbon pricing system such as ETS. Subsequently, CDP scores these organisations based on their disclosure performance and environmental performance. The so-called A list – containing over 300 leading companies – is published every year. In 2020 this list included Danone, HP and L'Oréal. The goal of this A-list is to nudge them to move towards more environmentally friendly business models.

By gathering this wealth of data every year, the CDP owns one of the richest and most comprehensive datasets on environmental strategies, action and performance. The fact that CDP offers a yearly questionnaire has both pros and cons. Pro: since this system is highly standardised, benchmarking and tracking progress on a very large scale is possible. Con: it offers little flexibility to be tailored to your specific organisation and the frequency is low.

7.7 United Nations, Sustainable Development Goals (UN SDG's)

The UN describes the 2030 Agenda for Sustainable Development, adopted by all UN member states in 2015, as a shared blueprint for peace and prosperity for people and planet, now and into the future. The core of this agenda are the 17 Sustainable Development Goals.[33] They are very high-level goals in five categories: people, planet, prosperity, peace and partnership. They include gender equality, clean water and sanitation, climate action, affordable and clean energy, and zero hunger.

They are not a reporting standard as such but can be seen as guidelines for corporate social responsibility programmes. Companies using the SDGs in their reporting, often indicate to which SDG each facet of their CSR-strategy contributes.

Figure 11: UN SDG's[34]

[32] https://www.cdp.net/en.

[33] https://sdgs.un.org/goals.

[34] Source: Wikimedia Commons, https://commons.wikimedia.org/wiki/File:Sustainable_Development_Goals.png.

8. Next steps to comply for SFDR and CSRD companies

From chapters 4 and 5 it becomes clear financial market participants and large companies will face increasing sustainability reporting requirements in the coming years. In this chapter, concrete steps are given for both financial market participants (SFDR), and large and listed companies (CSRD) to take now and in the near future in order to be prepared for the upcoming regulations.

8.1 What steps can SFDR companies take?

As becomes clear from chapter 4, financial market participants already face significant sustainability reporting requirements, but these requirements will only increase in the following period. From July 1st 2022, financial market participants are also obligated to comply to the Technical Regulatory Standards (RTS) in which the obligations from the SFDR are specified in more detail. This also means that supervising authorities will monitor financial market participants more closely from that date. In order to be prepared for the increasing obligations, financial market participant could follow the following steps:

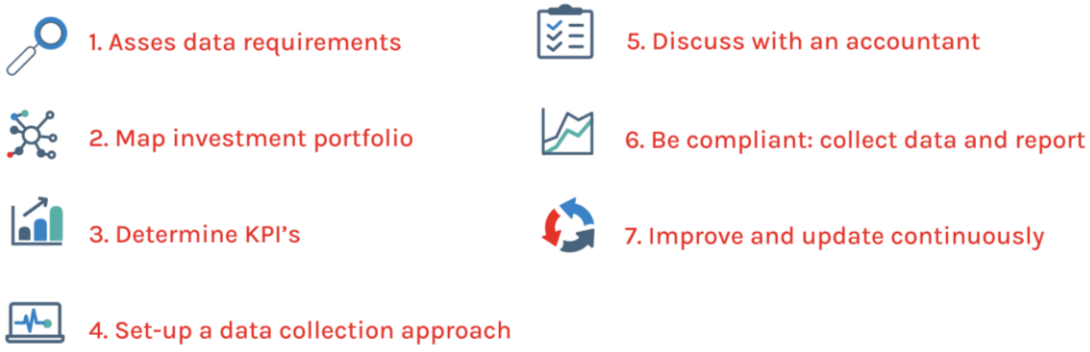


Figure 12: next steps to comply for SFDR companies

1. Assess data requirements

Get to know the regulations and what is expected of your company. For Dutch financial market participants, the website of the AFM would be a good start.[35]

2. Map investment portfolio

Make a quick scan of which investments fall in which category. In the SFDR the distinction is made between, grey, light-green, and dark-green products. If a financial product is advertised as light-green or dark green, there are additional reporting requirements.

3. Determine KPI's

Determine how to identify principal adverse impacts. Under the SFDR, financial market participants need to disclose how they identify principal adverse impacts, as principal adverse impacts of financial products need to be reported on.

[35] AFM, https://www.afm.nl/nl-nl/professionals/onderwerpen/duurzaamheid-sfdr.

4. Set-up a data collection approach

A lot of information will need to be gathered from companies related to the financial products. It is thus important to set-up a data collection approach.

5. Discuss progress with an accountant

Ask whether or not your portfolio mapping, KPI's, and data collection approach are sufficient for the SFDR and how you could improve.

6. Be compliant: collect data and report

Collect the data and report in line with the obligations of the SFDR.

7. Improve and update continuously

It is important to continuously evaluate and improve. Both to improve the sustainability reporting as well as to improve the strategy of your business with the data collected in the process of reporting.

8.2 What steps can CSRD companies take?

Large public interest companies (listed companies, banks, and insurance companies) already have to comply to the NFRD regulations. The CSRD regulations, however, are much more extensive than the obligations following from the NFRD. The CSRD also applies to a lot more companies, meaning that a low of companies will start to have the obligation to report on sustainability matters with the introduction of the CSRD. Both companies that currently have to report under the NFRD and companies that do not have to report any sustainability matters, can follow the following steps to be prepared for the introduction of the CSRD.

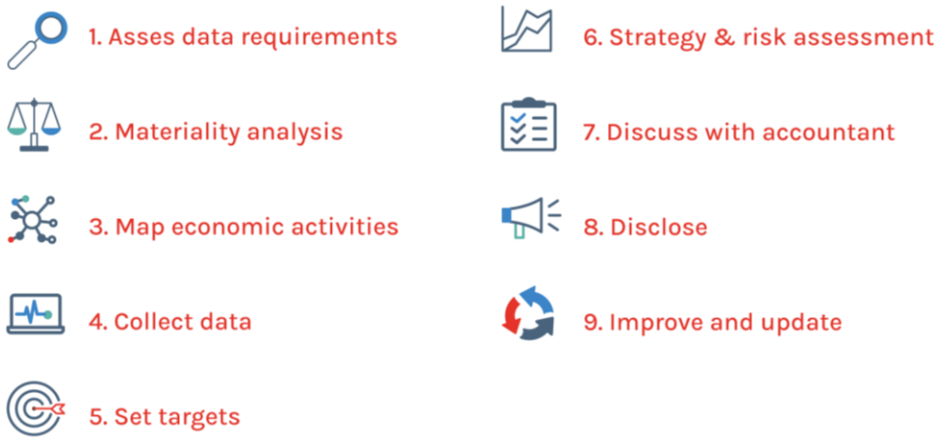


Figure 13: next steps to comply for CSRD companies

1. Asses the preliminary data requirements

Get to know the regulations and what is expected of your company.

2. Perform a materiality analysis

Under the CSRD only on material topics reporting needs to take place. Therefore, a materiality analysis has to be performed to know on what topics data needs to be collected in detail. To perform the materiality assessment, the company should screen the ESRS for sustainability matters and structure them. For each sustainability matter, the undertaking should identify the relevant stakeholders and users and their information needs. This is the basis for the process of determination of the materiality of the matter. More information on this

process can be found in the working paper ESRS 4: Sustainability material impacts, risks and opportunities. [36]

3. Map economic activities on the EU Taxonomy

Under the CSRD in conjunction with the EU Taxonomy companies need to report the fraction of their activities that is environmentally sustainable under the EU Taxonomy. This is explained in detail in chapter 3.

4. Collect data on all material targets

Collect the necessary as determined in materiality assessment in a sufficient way to meet the reporting requirements.

5. Set targets (for climate in line with the Paris Agreement)

Under the CSRD, companies must set a strategy in line with the Paris Agreement or indicate why they do not have such a strategy. If a company wants to have a strategy in place, the company should firstly define targets in line with the Paris Agreement and then determine a strategy to achieve these targets. The targets from the SBTi can help with this step (see paragraph 7.1).

6. Perform a Strategy & Risk assessment

Under the CSRD companies have to report how sustainability impacts, risks and opportunities influence the strategy and business model as well has how sustainability risks are incorporated in the decision-making process.

7. Discuss the progress with an accountant

Ask whether or not your materiality analysis, mapping of economic activities, data collection, and targets are sufficient for the CSRD and how you could improve.

8. Disclose

Report in line with the obligations of the CSRD.

9. Improve and update continuously

It is important to continuously evaluate and improve. Both to improve the sustainability reporting as well as to improve the strategy of your business with the data collected in the process of reporting.

[36] EFRAG, ESRS 4: Sustainability material impacts, risks and opportunities, https://www.efrag.org/Assets/Download?assetUrl=/sites/webpublishing/SiteAssets/Appendix%202.3%20-%20WP%20on%20draft%20ESRS%204.pdf.

Appendix 1 Abbreviations

AFM	Autoriteit Financiële Markten, Dutch supervising authority for financial market participants
CDP	Carbon Disclosure Project
CSRD	Proposal for the Corporate Sustainability Reporting Directive, COM/2021/189 final
EC	European Commission
EFRAG	European Financial Reporting Advisory Group, responsible for making the ESRS's
EIA	Environmental Impact Assessment
ESRS	European Sustainability Reporting Standards, supplementing the CSRD
EU	European Union
EU Taxonomy	Regulation on the establishment of a framework to facilitate sustainable investment, Regulation (EU) 2020/852.
ESG	Environmental, Social and Governmental
ESRS	European Sustainability Reporting Standards
GHG	Greenhouse Gas
GHG Protocol	Greenhouse Gas Protocol
GRI	Global Reporting Initiative
IFRS Foundation	International Financial Reporting Standards Foundation, organisation behind the ISSB
ISSB	International Sustainability Standards Board
NFRD	Non-Financial Reporting Directive, Directive 2014/95/EU
PCAF	Partnership for Carbon Accounting Financials
RTS	Regulatory Technical Standard, supplementing the SFDR
SBTi	Science Based Targets initiative
SFDR	Sustainable Finance Disclosure Regulation, Regulation (EU) 2019/2088
UCITS	Undertakings for Collective Investment in Transferable Securities
UN SDG's	United Nations Sustainable Development Goals

Appendix 2 Mandatory and voluntary indicators to report on under the SFDR[37]

	Indicators
Mandatory	• Greenhouse gas (GHG) emissions (scope 1 and 2, from 1 January 2023 also scope 3) • Carbon footprint • GHG intensity of investee companies • Share of investments in companies active in the fossil fuel sector • Share of non-renewable energy consumption and production compared to renewable energy sources • Energy consumption intensity per high impact climate sector • Share of investments in investee companies that negatively affect biodiversity • Emissions to water • Hazardous waste ratio
Optional	• Emissions of inorganic pollutants • Emissions of air pollutants • Emissions of ozone depletion substances • Investments in companies without carbon emission reduction initiatives • Breakdown of energy consumption by type of non-renewable sources of energy • Water usage and recycling • Investments in companies without water management policies • Exposure to areas of high-water stress • Investments in companies producing chemicals • Land degradation, desertification, soil sealing • Investments in companies without sustainable land/agriculture practices • Investments in companies without sustainable oceans/seas practices • Non-recycled waste ratio • Natural species and protected areas • Deforestation • Share of securities not certified as green under the EU Green Bond Standard

[37] Joint Committee of the European Supervisory Authorities, https://www.esma.europa.eu/sites/default/files/library/jc_2021_50_-_final_report_on_taxonomy-related_product_disclosure_rts.pdf.

Appendix 3 Proposed ESRS under the CSRD

Strategy, governance, impacts, risks, opportunities	Environment	Social	Governance	Sector-specific Standards: Classification	Sector-specific Standards: ESG sector-specific disclosures	Presentation
ESRS 1 General provisions	ESRS E1 Climate change	ESRS S1 Own workforce - general	ESRS G1 Governance, risk management and internal control	ESRS SEC1 Sector classification		ESRS P1 Sustainability statements
ESRS 2 Strategy and business model	ESRS E2 Pollution	ESRS S2 Own workforce – working conditions	ESRS G2 Products and services, management and quality of relationships with business partners			
ESRS 3 Sustainability governance and organisation	ESRS E3 Water & marine resources	ESRS S3 Own workforce – equal opportunities	ESRS G3 Responsible business practices			
ESRS 4 Sustainability material impacts, risks and opportunities	ESRS E4 Biodiversity & ecosystems	ESRS S4 Own workforce – other work-related rights				
ESRS 5 Definitions for policies, targets, action plans and resources	ESRS E5 Circular economy	ESRS S5 Workers in the value chain				
		ESRS S6 Affected communities				
		ESRS S7 Consumers/ end-users				

Conceptual Guidelines					
ESRG 1 Double materiality	ESRG 2 Characteristics of information quality	ESRG 3 Time horizons	ESRG 4 Boundaries and levels of reporting	ESRG 5 EU and international alignment	ESRG 6 Connectivity

*Last update: 28 April 2022

Appendix 4 Reporting obligations under the CSRD

Strategy, business model and organisation with regard to sustainability impacts, risks and opportunities

In the draft "ESRS 2: Strategy and business model", EFRAG has laid out 8 requirements which have to be met in the sustainability reporting with regard to the strategy and business model of a company.[38] 4 requirements stem from the draft of the "ESRS 3: Sustainability governance and organisation"[39] and 2 requirements from the draft of the "ESRS 4: Sustainability material impacts, risks and opportunities".[40] In addition, different requirements follow from the other working papers discussed under the following topics.

- An overview of the strategy and business model(s);
- The sectors in which the company is active;
- The products and services the company has in these different markets;
- The key features of the companies' value chain;
- The key drivers of value creation by the company;
- The interest of the stakeholders in the entire value chain;
- The impacts related to sustainability matters;
- The risks and opportunities related to the sustainability matters;
- The companies' plans to ensure that its business model and strategy are compatible with the Paris agreement;
- The roles and responsibilities of the different governance bodies with regard to sustainability matters, including which person(s) of the highest governance body are responsible for sustainability related matters;
- A description of how the governance bodies are informed about sustainability matters;
- A description of the sustainability matters that were addresses by the governance bodies during the reporting period;
- A description on how sustainability strategies and performances are integrated in compensation schemes;
- A description of the process to identify material sustainability impacts, risks, and opportunities;
- The company must provide a description of its processes to identify its material sustainability impacts, risks and opportunities;
- The company must describe its material sustainability impacts, risks and opportunities. In order to do this EFRAG published different impacts, risks and opportunities both sector-specific and

[38] EFRAG, ESRS 2: Strategy and business model, https://www.efrag.org/Assets/Download?assetUrl=/sites/webpublishing/SiteAssets/Appendix%202.1%20-%20WP%20on%20draft%20ESRS%202.pdf.

[39] EFRAG, ESRS 3: Sustainability governance and organisation, https://www.efrag.org/Assets/Download?assetUrl=/sites/webpublishing/SiteAssets/Appendix%202.2%20-%20WP%20on%20draft%20ESRS%203.pdf.

[40] EFRAG, ESRS 4: Sustainability material impacts, risks and opportunities, https://www.efrag.org/Assets/Download?assetUrl=/sites/webpublishing/SiteAssets/Appendix%202.3%20-%20WP%20on%20draft%20ESRS%204.pdf.

activity-specific, which are mandatory for that specific sector or activity. These lists are not limitative, as companies could also come up with sustainability impacts, risks and opportunities that are specific for that company;

- Information on the resilience of the strategy and business model(s) of the undertaking to principal climate-related transition and physical risks;
- Whether and how an internal carbon pricing scheme is applied to support the companies' decision making;
- A transition plan in line with the target of no nett loss by 2030 and net gain by 2050;
- A description of the resilience of the strategy and business model to principal biodiversity and ecosystems-related physical and transition risks;
- A description on whether and how internal biodiversity and ecosystems-related pricing schemes are applied; and
- A description of how it engages in activities that could either directly or indirectly influence public policy on biodiversity and ecosystems.

The impact of the organisation on the environment

In the drafts of the "ESRS E1: Climate change"[41], the "ESRS E2: Pollution"[42], the "ESRS E3: Water and Marine Resources"[43], the "ESRS E4: Biodiversity and Ecosystems Standards"[44], and the "ESRS E5: Resource Use and Circular Economy"[45], the requirements are lied out with regard to the climate performance of companies. These requirements are:

- The company should also disclose what the quality of the data is that the company uses in its process of identifying material impacts, risks and opportunities;
- Its policies for climate change mitigation and adaptation;
- Climate change mitigation and adaptation action plans, including measurable targets for climate change mitigation and adaptation and the resources that are allocated to these action plans;

[41] EFRAG, ESRS E1: Climate Change, https://www.efrag.org/Assets/Download?assetUrl=/sites/webpublishing/SiteAssets/Appendix%202.5%20-%20WP%20on%20draft%20ESRS%20E1.pdf.

[42] EFRAG, ESRS E2: Pollution, https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FWorking%2520paper%2520on%2520draft%2520ESRS%2520E2%2520Pollution%2520vf.pdf.

[43] EFRAG ESRS E3: Water and Marine Resources, https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FWorking%2520paper%2520on%2520draft%2520ESRS%2520E3%2520Water%2520and%2520marine%2520resources%2520vf.pdf.

[44] EFRAG, ESRS E4: Biodiversity and Ecosystems Standards, https://www.efrag.org/Assets/Download?assetUrl=%2fsites%2fwebpublishing%2fSiteAssets%2fESRS%2520E4%2520on%2520biodiversity%2520and%2520ecosystems.pdf.

[45] EFRAG, ESRS E5, https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FWorking%2520paper%2520on%2520draft%2520ESRS%2520E5%2520Resource%2520use%2520and%2520Circular%2520Economy%2520vf.pdf.

- The energy mix the company uses;
- The energy consumption associated;
- Energy consumption associated with activities in high climate impact sectors per net turnover;
- The gross Scope 1 GHG emissions;
- The indirect energy Scope 2 GHG emissions;
- The gross indirect Scope 3 GHG emissions;
- The total GHG emissions;
- The total GHG emissions per net turnover;
- Pressure metrics, like land-use and natural resource use;
- Policies related to pollution prevention and control;
- Measurable targets for pollution;
- Pollution of air, water and soil;
- Measurable targets for water and marine resources;
- Water performance for operations;
- Water intensity;
- Marine resources;
- Policies implemented to manage resource use and circular economy;
- Measurable targets for resource use and circular economy;
- Resources inflows and outflows;
- Waste and emissions;
- Circular enablers;
- Impacts matrices for material geographical locations of sites and/or material raw materials, including the impact of their value chain on species, ecosystems and ecosystem services; and
- The Financial exposure and opportunities related to physical and transition risk.

The social performance of the organisation

The requirements for companies to report on the social performance of the company are listed in ESRS S1: Own workforce – general[46], ESRS S2: Own workforce – working conditions[47], ESRS S3: Own workforce – equal opportunities[48], ESRS S4: Own workforce – other work-related rights[49],

[46] EFRAG, ESRS S1: Own workforce - general, https://www.efrag.org/Assets/Download?assetUrl=%2fsites%2fwebpublishing%2fSiteAssets%2fESRS%2520S1%2520on%2520Own%2520workforce%2520%e2%80%93%2520General.pdf.

[47] EFRAG, ESRS S2: Working conditions, https://www.efrag.org/Assets/Download?assetUrl=%2fsites%2fwebpublishing%2fSiteAssets%2fFINAL%2520ESRS%2520_S2%2520_Own%2520workforce_Working%2520conditions.pdf.

[48] EFRAG, ESRS S3: Equal opportunities, https://www.efrag.org/Assets/Download?assetUrl=%2fsites%2fwebpublishing%2fSiteAssets%2fFINAL%2520WP%2520ESRS%2520S3%2520_%2520Own%2520Workforce_Equal%2520Opportunities%2520.pdf.

[49] ESRS S4: Other work-related rights, https://www.efrag.org/Assets/Download?assetUrl=%2fsites%2fwebpublishing%2fSiteAssets%2fESRS%2520S4%2520on%2520Own%2520workforce%2520%e2%80%93%2520Other%2520work-related%2520rights.pdf.

ESRS S5: Workers in the value chain[50], ESRS S6: Affected communities[51], and ESRS S7: End-users/consumers[52]. These requirements are:

- A description of different key characteristics of employees in the companies' own workforce and of non-employee workers engaged in the core business;
- The extent to which training and development is provided to the companies' own workforce;
- The extent to which the own workforce is covered by the health and safety management system;
- The number of incidents associated with work-related injuries, ill health and fatalities;
- The percentage of its own workers that exceed 48 hours per week;
- To which extent the employees are entitled to and make use of family-related leave and flexible working arrangements;
- Information on the remuneration of the lowest-paid workers;
- The percentage of the workers eligible for social security;
- The ratio of basic salary and remuneration of women to men;
- The ratio between the remuneration of its highest paid individual and the median compensation for its employees;
- The number of work-related discrimination incidents and any corrective actions taken;
- The percentage of persons with disabilities amongst its own workforce;
- Information on benefits which are standard for full-time employees but are not provided to employees with temporary, part-time and zero-hour contracts;
- Violations of its own workers' equal opportunities rights where it is financially material to the undertaking;
- The number of grievances and complaints received and resolved relating to workers' other work-related rights;
- Information on the extent to which the working conditions and terms of employment of its own workforce are determined or influenced by collective bargaining agreements;
- The extent of major work stoppages (including both strikes and lockouts) because of disputes between the undertaking and its own workforce;
- The extent and functioning of social dialogue with trade union and worker representatives;

[50] ESRS S5: Workers in the value Chain, https://www.efrag.org/Assets/Download?assetUrl=%2fsites%2fwebpublishing%2fSiteAssets%2fESRS%2520S5%2520on%2520Workers%2520in%2520the%2520value%2520chain.pdf.

[51] ESRS S6: Affected communities, https://www.efrag.org/Assets/Download?assetUrl=%2fsites%2fwebpublishing%2fSiteAssets%2fESRS%2520S6%2520on%2520Affected%2520communities.pdf.

[52] ESRS S7: Consumers & End-users, https://www.efrag.org/Assets/Download?assetUrl=%2fsites%2fwebpublishing%2fSiteAssets%2fESRS%2520S7%2520on%2520End-users%2520-%2520consumers.pdf.

- The number of incidents forced labour and/or, the trafficking of persons for the purposes of forced or compulsory labour i.e. human trafficking identified;
- The number of incidents of child labour identified;
- The right to privacy at work;
- The violation of workers' other work-related rights in cases where it is financially material to the undertaking;
- Policies and processes for engaging with value chain workers, affected communities, consumers and end-users; and
- Channels for value chain workers, affected communities, consumers and end-users to raise concerns.

The governance of the organisation

The reporting requirements with regard to the governance of the organisation are lied out in the drafts of ESRS G1: Governance, risk management and internal control,[53] ESRS G2: Products and services, management and quality of relationships with business partners,[54] and ESRS G3: Business conduct[55], these requirements are:

- The governance structure and composition of the organisation, including the committees of its governance body;
- The corporate governance code or policy that
- determines the function of the companies' administrative, management or supervisory body;
- Information about the nomination and selection processes for the companies' highest governance body, including its committees;
- Information on the diversity policy for the governance body;
- Information about the number of meetings and the attendance rate for the governance bodies and committees;
- The process followed for evaluating the performance of the governance body in overseeing the management of the company;
- The policy used for the remuneration of the governance body and senior executives;
- Information on the risk management processes;
- Information about the approach followed to cultivate and promote risk awareness within the organisation;
- Information on the internal control processes, including in relation to the sustainability reporting process;
- Information about the nature, number, type and outcome of audits performed;
- The roles of its governance body or bodies, senior executives and operational levels in the development, approval and

[53] ESRS G1: Governance, risk management and internal control, https://www.efrag.org/Assets/Download?assetUrl=%2fsites%2fwebpublishing%2fSiteAssets%2fFinal%2520Draft%2520ESRS%2520G1_22-03-14.pdf,

[54] ESRS G2: 2 Products and services, management and quality of relationships with business partners, https://www.efrag.org/Assets/Download?assetUrl=%2fsites%2fwebpublishing%2fSiteAssets%2f25032022_Draft%2520ESRS%2520G2%2520final.pdf

[55] ESRS G3: Business conduct, https://www.efrag.org/Assets/Download?assetUrl=%2fsites%2fwebpublishing%2fSiteAssets%2fFinal%2520Draft%2520ESRS%2520G3_22-03-14.pdf.

updating of the undertaking's purpose, value or mission statements, and of the strategies, policies and goals related to business conduct;

- Information about its risk assessment process and policies related to business conduct;
- Information about the investment policy and processes with respect to what the company regards as responsible investments and/or what it has defined as ethical exclusions in its investment strategy;
- Information about a system to track, investigate and respond to allegations or incidents relating to corruption and anti-competitive behaviour;
- Information about any anti-corruption training programmes offered;
- Information on any confirmed corruption incidents and any incidents of anti-competitive behaviour;
- Information about beneficial owners and control structure of the company;
- Information on charitable donations, sponsorships, political engagement and lobbying activities;
- Information on the link between the companies' products and services and the sustainability impacts, risks and opportunities and to the strategy and business model;
- Information on the management of its business relationships and related strategy;
- Information on product recalls issued and services discontinued or amended on account of non-compliance with laws and regulations or due to stakeholder concerns; and
- Information on the quality of its relationships with its value chain and other relevant business partners.

About Rebel

No change without a Rebel

Rebels work on the issues that affect all our futures, from sustainability, transportation and urban development to healthcare and the social sector. We make an impact, not only as consultants but also as investors. After all, anyone who believes in their own advice should be prepared to invest in it. We are committed to bringing change, initiating and realizing our own projects. We provide quality strategic advice & development, business policy & evaluation, partnership consulting & contracts, financial advice & modelling, and investments & fund management.

Thinking beyond existing structures

The Rebel adventure began in 2002 with ten chairs around a large round table. Sitting around that table, we decided to continue our careers in consultancy by starting our own company – we were the first Rebels. It was to be a company without a hierarchy, without bosses, without limits. A place where everyone could realize their full potential. We bring everything we have inside to the table. Intrinsic motivation, the urge to bring change, expertise and one constant focus: to make a real impact with our projects around the world. We now work with more than 180 Rebels from our offices in Rotterdam, Amsterdam, Antwerp, Düsseldorf, London, Washington D.C., Nairobi, Johannesburg, Mumbai and Jakarta.

The drive and determination of that first step in 2002 informs how we work with and on behalf of our partners to this day. Trust is everything. In everything we do – and we do a lot! – our objective is to have a positive impact on the world. At the interface between the public and the private, because combining social values with a keen business sense is close to the heart of all Rebels. That might seem like an ambitious goal, perhaps, but we have always relished a challenge. We invite everyone to join in, to become part of the change. Let's think beyond existing structures. As governments, as companies and as individuals.

About Salacia Solutions

Salacia Solutions is a Software-as-a-Service provider that simplifies environmental impact tracking and ESG reporting for businesses and investors. Across the entire organization and supply chain. We help you report in a transparent, traceable and consistent manner. Fully in line with legislation such as the SFDR, CSRD and the EU Taxonomy as well as underlying methodologies such as the GHG Protocol.

We at Salacia Solutions help you stand up to this challenge. Based on your existing operational and financial data, our SaaS solution measures your progress on key ESG metrics – whether greenhouse gas emissions, energy, water or others – and provides you with the insights you need to manage and report with confidence. Taking you from green ambitions to green results.

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