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Global Business Consulting

Why your company needs to be ready for a new era in sustainability reporting

As Europe is accelerating its efforts around the Green Deal, more companies will face new regulations, aimed at creating transparency about their environmental, social and governance (ESG) impacts. Are you ready to open up?

The European Commission is aiming to replace the NFRD (Non-Financial Reporting Directive) with the CSRD (Corporate Sustainability Reporting Directive). The draft directive, which is planned to take effect in 2023, was published in April 2021. According to Jaap Gerkes and Daniel van Drooge, who lead Protiviti Netherlands' ESG Reporting Group, the CSRD represents a new era in sustainability reporting. "Compared to the current 'nice to have' situation, a much larger group of organisations will be required to report on ESG metrics under the new directive, following defined reporting standards and requiring an assurance report by an external auditor."

Why is the European Commission coming up with a new directive?

"The NFRD is no longer in line with the ambitions of the European Union. Although most large companies already report on sustainability, it is not required and only marginally prescriptive. This makes it difficult to compare companies on their ESG initiatives. The CSRD helps to create insight and accountability, but also pushes sustainable development. When you are doing well on ESG and showing it, your company will be more attractive for investors, because sustainability is becoming a key consideration for them."

What are the subjects companies will be expected to report on?

"The CSRD covers all relevant Environmental, Social and Governance (ESG) elements. So it's definitely not all about the planet, but also about social accountability, such as diversity and gender equality. Good governance is also an important aspect."

What are the consequences of the CSRD?

"The CSRD will apply to approximately 50.000 EU companies, based primarily on all companies meeting the 'large' threshold (>250 employees). That's almost five times as much as the 11.000

currently in scope of the NFRD. For most of these organisations, it will cause a fundamental shift in the importance of solid ESG related metrics. This obviously means there's a lot of work to be done. Companies that are already familiar with NFRD can't hide from these new expectations either, because the requirements are increasing."

How urgent is this?

"We advise companies not to underestimate the impact of these new requirements. The requirements will force you to critically assess data that you have been giving little to no attention to, or not even possess yet, and to process it into meaningful reports. To make it even more complicated: in contrast to financial reports, ESG is typically not the responsibility of one department or person. It means that you need to create a governance structure and bring the right people and data together. We can assure you, it takes time."

Where to start?

"As we speak, the reporting standards that the CSRD refers to are being developed and expected to be published in 2022. The European Commission stated that they aim to align with existing standards, so you can have a look at the GRI or SASB to receive an idea on what is coming next. Furthermore, it is helpful to consider some key questions: what are the most important topics? What stands out for you and your stakeholders? To address this development, we recommend the following actions. First, this topic needs to be prioritised on the Board's agenda. The next step is plotting your journey towards CSRD compliance by creating an implementation plan and roadmap.

Thanks to Protiviti's experience in governance and internal control, we can help you with this as well as with defining the right project and governance structures, building data models and making sure your data is auditable. There is a lot to be done in a short time. So, don't find yourself into a squeeze next year and get started now."

Would you like to know more about this subject? Contact details below:

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