



How to prepare for the new era of ESG reporting according to CSRD

6 June 2023



Marte H. Stabbetorp

Manager

Climate Change and Sustainability Services
Oslo, Norway
Marte.h.stabbetorp@no.ey.com

Agenda

- 01** Introduction to CSRD
- 02** Timeline and scope
- 03** Structure and architecture
- 04** How to prepare

EU's Green Deal sets out ambitions, strategies and action plans to lead the transition to a healthy planet, within the planetary boundaries

The **aim** of the European Green Deal is to transform the EU into a **modern, resource-efficient** and **competitive** economy, ensuring:



No net emissions of GHG by 2050



Economic growth decoupled from resource use



No person and no place left behind

The Sustainable Finance Action Plan focuses on three categories that include key means of actions



Mobilise capital

Reorienting **capital flows** towards a more sustainable economy



Manage financial risk

Mainstreaming sustainability into **risk management**



Promote transparency

Fostering **transparency** and long-termism



Ursula von der Leyen
President of the European Commission

Regulations is a key area to help achieve the EU's goals and ambitions, creating an ecosystem for reporting

Financial market participants (2021)



SFDR

Sustainable Finance Disclosures Regulation



European Single Electronic Format

Companies (2024/26)



CSRD

Corporate Sustainable Reporting Directive



EU taxonomy
for sustainable activities

Through the directive, there will be a requirement to follow the European Sustainability Reporting Standards (ESRS)

Ultimate beneficiaries of the CSRD and ESRS is a larger group

“

*The ultimate beneficiaries of better sustainability reporting by undertakings are **public authorities, individual citizens, including workers and savers, trade unions and workers' representatives** to be adequately informed, and thereby to better engage in social dialogue. Savers who want to invest ethically and sustainably will have the opportunity to do so, while **all citizens should benefit from a stable, sustainable and inclusive economic system.***

To realise these benefits, the sustainability information disclosed in undertaking's annual reports first has to reach three primary groups:

- 1. Policymakers and public authorities*
- 2. Investors, including asset managers*
- 3. Civil society actors*

Other stakeholders may also make use of sustainability information disclosed in annual reports

Recital 8

CSRD: Setting sustainability at the same level as financial reporting

1 CSRD
12 draft ESRS (and more to come)
82 new disclosure requirements (and more to come)
1,144 Datapoints
2,100 companies in scope in Norway
50,000 companies in scope in Europe

<p>It's about reporting ...</p>	<ul style="list-style-type: none"> ▶ Disclosures within the Management Report ▶ Electronic format submission in accordance with ESEF regulation ▶ Linkages with other EU reporting requirements such as EU Taxonomy, SFDR and Sustainable Corporate Governance (incl supply Chain Due Diligence)
<p>... against mandatory standards (ESRS) driving new content</p>	<ul style="list-style-type: none"> ▶ EFRAG as European Standard Setter: producing European Sustainability Reporting Standards (ESRS) ▶ Guided by double materiality concept: <ul style="list-style-type: none"> • impacts on society and environment (impact materiality - inside-out) • risks & opportunities for the company (financial materiality - outside-in) ▶ Predefined mandatory reporting on environment and (partly) social standards, with the double materiality assessment scoping the remaining reporting requirements ▶ More forward-looking information (targets) and mandatory social, human and intellectual capital disclosures to shrink explainable book-market-value gap ▶ Strong connectivity between financial and sustainability statements (reconciliations)
<p>... with mandatory assurance</p>	<ul style="list-style-type: none"> ▶ Mandatory limited assurance conclusion and then reasonable by the statutory auditor

Agenda

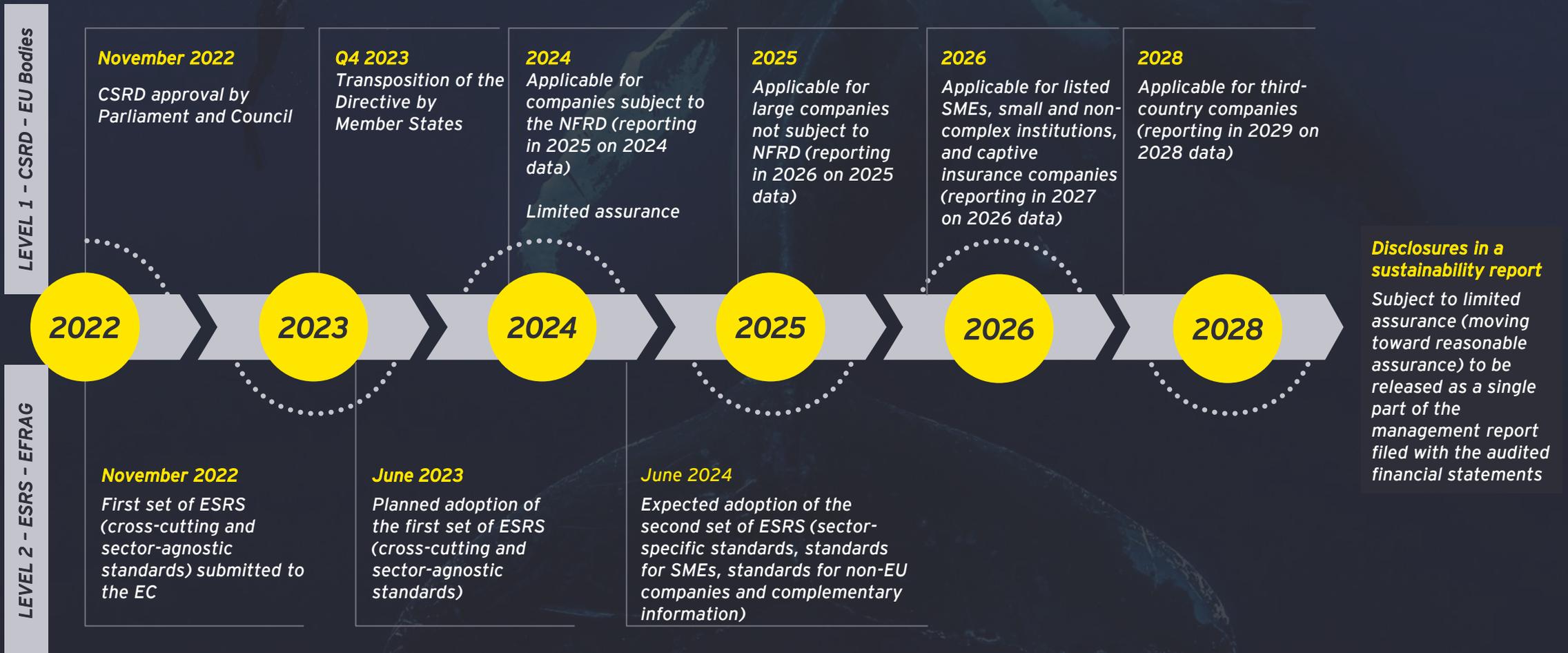
01 Introduction to CSRD

02 Timeline and scope

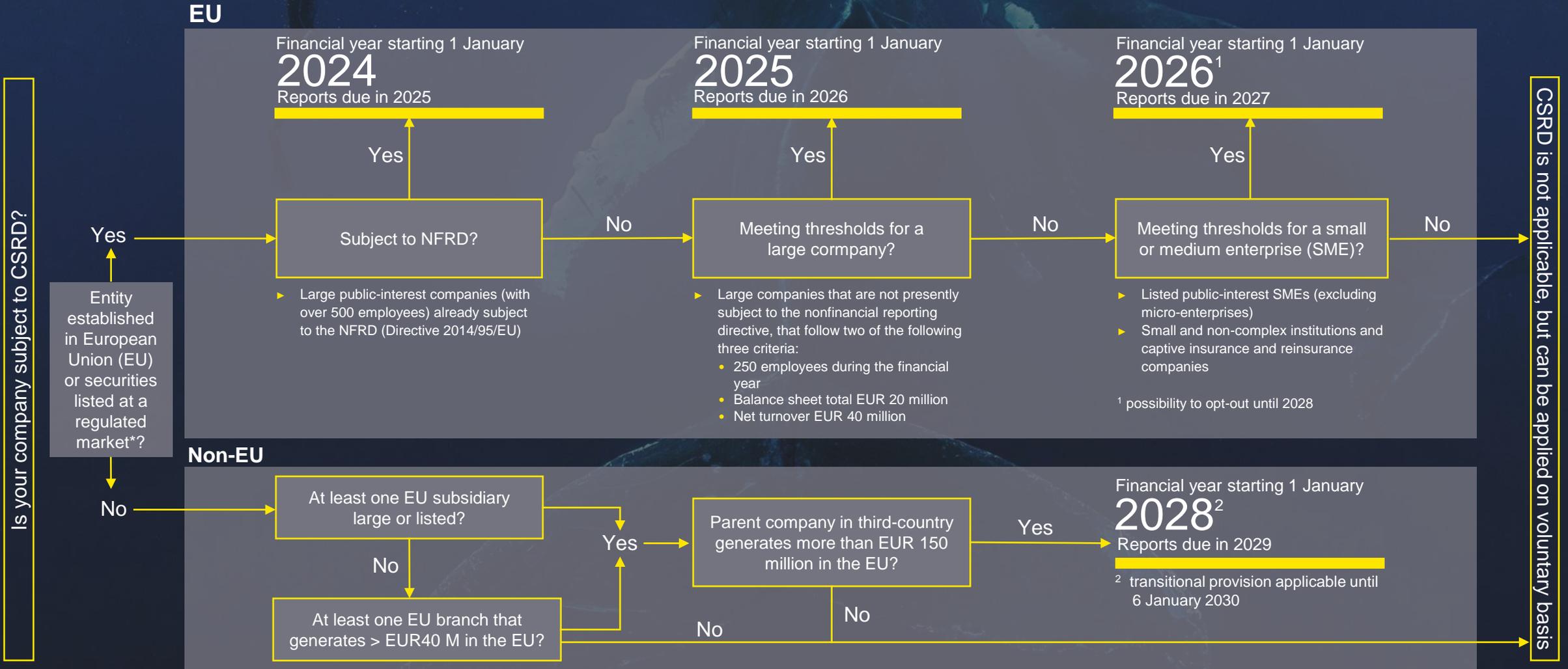
03 Structure and architecture

04 How to prepare

Timeline CSRD and ESRS



Decision tree for when and which undertakings will be subject to CSRD



* If the non-EU company has issued securities at a regulated market in the EU it is in scope of the transparency directive and therefore required to prepare a sustainability report under Art. 19b or 29b of the accounting directive. The reporting periods are in line with the above, if the company fulfills two of three criteria in two consecutive years.

NOU 2023: 15: Gjennomføring av direktivet om bærekraftsrapportering (CSRD)

Tidslinje

- ▶ Verdipapirlovutvalgets utredning ble lagt frem 22. mai 2023
- ▶ Tidslinje
 - ▶ Høring med frist 4. September 2023
 - ▶ Lovproposisjon til Stortinget sent 2023 eller tidlig 2024
 - ▶ Lovregler vedtatt første halvår 2024
- ▶ Trinnvis rapporteringskrav fra regnskapsåret 2024
 - ▶ 2024: Store foretak av allmenn interesse med mer enn 500 årsverk
 - ▶ 2025: Andre stor foretak (se unntak nederfor)
 - ▶ 2026: Noterte SMB (kan utsette til 2028)
Store foretak som er mindre og ikke-komplekse finansforetak eller captives

Hvem får rapporteringsplikt

- ▶ Unntak for datterselskap i ESRS-rapporterende konsern
 - ▶ Store noterte foretak kan ikke bruke datter-unntaket
- ▶ Foretak som er: AS, ASA, bank, kredittforetak, forsikringsforetak
 - ▶ Mindretallsforslag: Alle regnskapspliktige - unntakshjemmel
- ▶ Tredjelandsutstedere - egne regler må gis i forskrifter
- ▶ Konsernrapportering - konsolidert bærekraftsrapportering
 - ▶ Gjelder for morselskap i store konsern, ikke pliktig for noterte SMB

Revisjonsutvalget

- ▶ «CSRD gjør endringer i revisjonsdirektivet artikkel 39. Revisjonsutvalgets oppgaver utvides fra den finansielle rapporteringen og revisjonen, til også å omfatte bærekraftsrapporteringen og attestasjonen.» NOU 2023:15 Bærekraftsrapportering, kap. 5.8

Attestasjon av bærekraftsrapporteringen

- ▶ Bærekraftsrapporteringen skal være attestert av
 - ▶ Foretakets valgte revisor
 - ▶ En annen revisor som velges for å attestere bærekraftsrapporteringen
 - ▶ En valgt alternativ tilbyder av attestasjonstjenester (IASP)
- ▶ Egne kompetansekrav
 - ▶ Godkjenning som bærekraftsrevisor
 - ▶ Godkjenning som bærekraftsattestant
- ▶ Attestasjon tilsvarer revisjon av årsregnskapet
 - ▶ God revisjonsskikk, profesjonell skepsis, aksept- og fortsettelse
 - ▶ Uavhengighet
 - ▶ Kvalitetsstyring
- ▶ Erklæringen skal avgis med moderat sikkerhet frem til 1. oktober 2026, og deretter med betryggende sikkerhet fra 1. oktober 2028
- ▶ IAASB arbeider med internasjonale standarder
- ▶ «Nytten av bærekraftsrapporteringen styrkes hvis brukerne kan ha tillit til at informasjonen faktisk er rapportert i samsvar med standardene. Uavhengig attestasjon skal sikre tillit til bærekrafts-informasjonen. Attestasjonen skal i henhold til CSRD fortalen avsnitt 13, bidra til pålitelige opplysninger og til å hindre grønnvasking og dobbelttelling i bærekraftsrapporteringen.» kap.5.1.1

Bærekraftsrapportering

Gjennomføring av direktivet om bærekraftsrapportering (CSRD)



Agenda

01 Introduction to CSRD

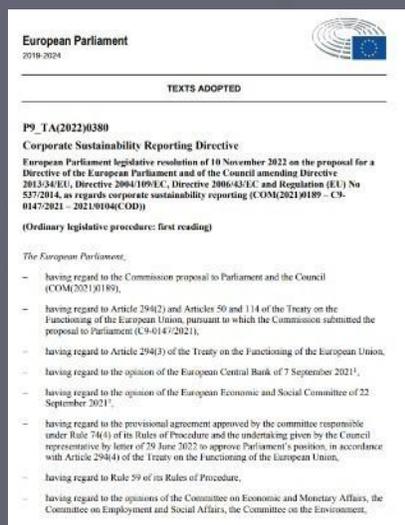
02 Timeline and scope

03 Structure and architecture

04 How to prepare

The CSRD requires that sustainability reporting should be done in accordance with the European Sustainability Reporting Standards (ESRS)

Level 1 – Corporate Sustainability Reporting Directive (CSRD)



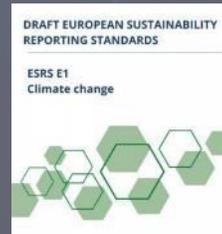
- ▶ On 10 November with 525 votes in favor, 60 against and 28 abstentions, the European Parliament approved the CSRD.
- ▶ On 28 November, the European Commission (EC) gave final approval to the CSRD.
- ▶ On 16 December, the final text of the CSRD was published in the EU official journal.

Level 2 – European Sustainability Reporting Standards (ESRS)

Cross-cutting



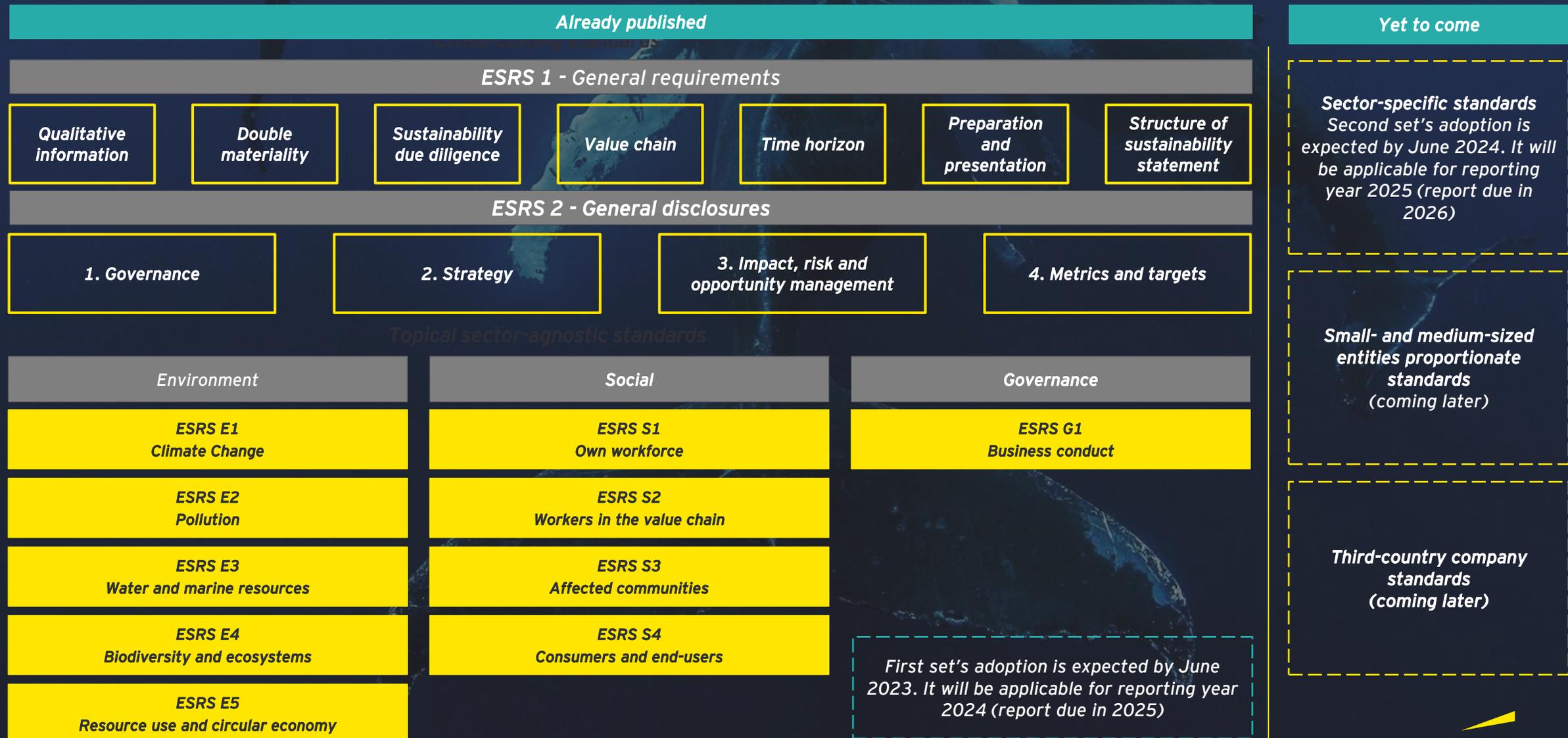
Topical sector-agnostic



Source: EFRAG

- ▶ On 22 November, the European Financial Reporting Advisory Group (EFRAG) submitted the first set of draft ESRS to the EC in its role as technical adviser to the EC.
- ▶ The 12 ESRS are: two cross-cutting standards and ten topical sector-agnostic on environmental (5x), social (4x) and governance (1x) (ESG).
- ▶ The ESRS consist of 339 pages, 82 disclosure requirements and 1,144 datapoints.
- ▶ The EC needs to adopt the first set of draft ESRS as delegated acts by 30 August 2023.

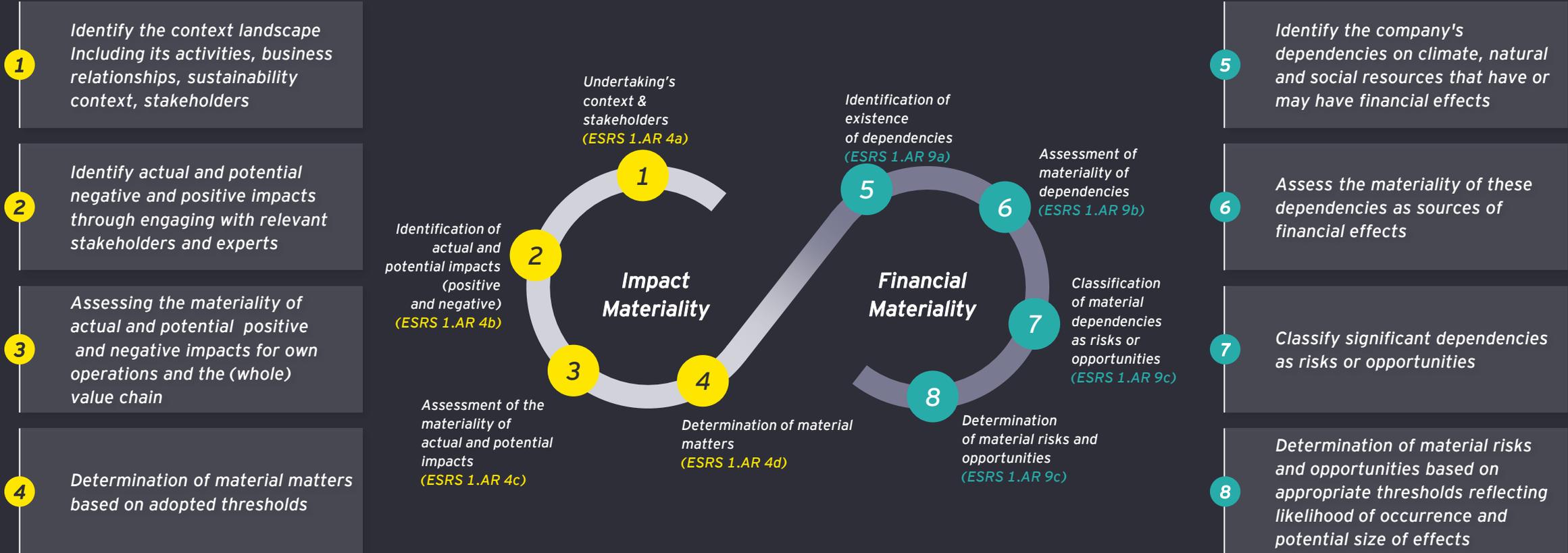
Structure of the draft ESRS and topics covered



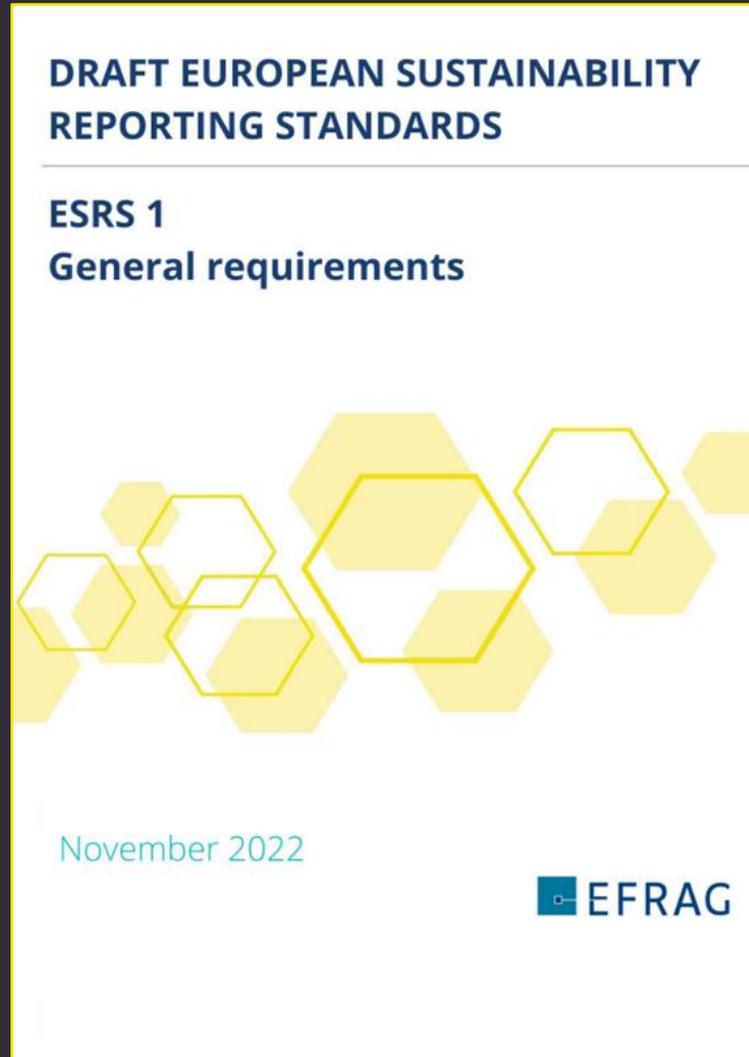
ESRS 1 give a detailed framework for double materiality – that EY have divided into eight steps to ensure compliance

Impact Materiality - Impact on people or the environment

Financial Materiality - Risk and opportunities with financial impact on assets and liabilities or enterprise value



ESRS 1 is structured in ten chapters where seven are guiding concepts



Ten chapters structures around general requirements:

1. Categories of standards and disclosures under ESRS
2. Qualitative characteristics of information
3. Double materiality as the basis for sustainability disclosures
4. Sustainability due diligence
5. Value chain
6. Time horizons
7. Preparation and presentation of sustainability information
8. Structure of sustainability statements
9. Linkages with other parts of corporate reporting and connected information
10. Transitional provisions

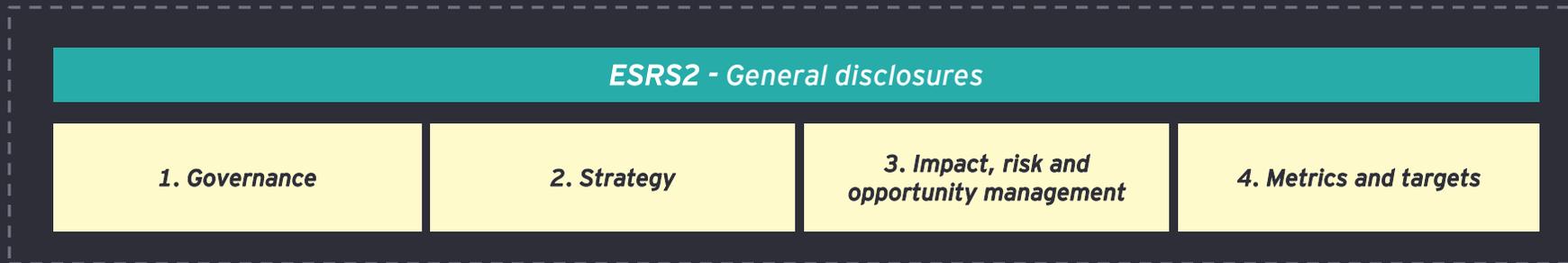


ESRS E1-1: The ESRS draft expects companies to demonstrate that their strategy is in line with the Paris Agreement

Table of contents	
Objective	3
Interactions with other ESRS	4
Disclosure Requirements	4
Section 1: General requirements, governance, strategy, and materiality assessment	4
Disclosure requirement related to GOV-3 On integration of climate change strategies and performance in incentive schemes	4
Disclosure Requirement E1-1 – Transition plan for climate change mitigation	4
Disclosure Requirement related to SBM 3 On resilience of strategy and business model	5
Disclosure requirement related to IRO-1 On description of processes to identify and assess material climate-related impacts, risks and opportunities	5
Section 2: Implementation-Management of impacts, risks and opportunities	6
Disclosure Requirement E1-2 – Policies related to climate change mitigation and adaptation	6
Disclosure Requirement E1-3 – Action plans and resources in relation to climate change policies and targets	7
Section 3: Metrics and targets	7
Disclosure Requirement E1-4 –Targets related to climate change mitigation and adaptation	7
Disclosure Requirement E1-5 – Energy consumption and mix	8
Disclosure Requirement E1-6 – Gross Scopes 1, 2, 3 and Total GHG emissions	9
Disclosure Requirement E1-7 – GHG removals and GHG mitigation projects financed through carbon credits	12
Disclosure Requirement E1-8 – Internal carbon pricing	13
Disclosure Requirement E1-9 – Potential financial effects from material physical risks, material transition risks and climate-related opportunities	13
Appendix A: Defined terms	16
Appendix B: Application Requirements	21
Section 1: General requirements, governance, strategy, and materiality assessment	21
Section 2: Implementation- Management of impacts, risks and opportunities	26
Section 3: Metrics and targets	27
Appendix C: Mandatory items as a result of EU Regulation requirements	49

- ▶ Companies must provide information on adopted policies/guidelines to deal with significant impacts, risks and opportunities related to climate change.
- ▶ The information must contain information about implemented policies/guidelines and indicate whether they address the following topic:
 - reduction and adaptation of climate change,
 - energy efficiency, and
 - distribution of renewable energy, etc.
- ▶ Information must be provided on measures related to positive contributions to the reduction of climate change and adaptation in connection with climate change, as well as allocated resources to implement the measures. Here, it will also be central to link policies/guidelines to overall emission targets and decarbonization strategy.
- ▶ If significant parts of capital costs or operational costs are required to implement the measures, this must be linked to the financial accounts and indicators specified under Article 8 of the EU taxonomy.

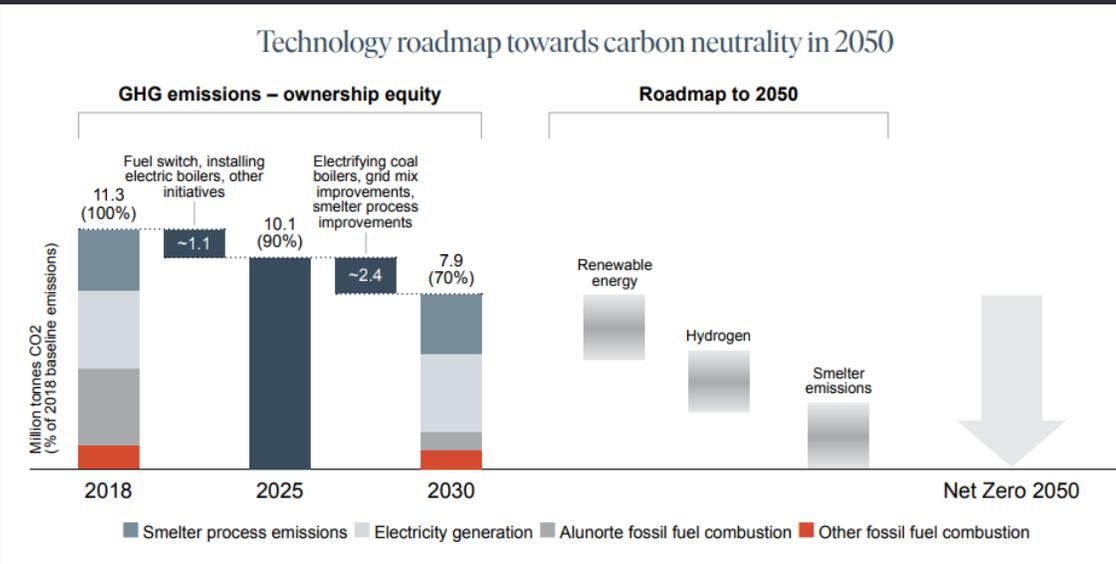
Climate change (E1) is mandatory for all companies to report on regardless of the materiality analysis



GOVERNANCE	STRATEGY	IMPACT, RISK & OPPORTUNITY MANAGEMENT	METRICS AND TARGETS
<ul style="list-style-type: none"> DR GOV-3: Integration of sustainability related performance in incentive schemes 	<ul style="list-style-type: none"> DR IRO-1: Description of the processes to identify and assess material impacts, risks and opportunities (tilsvarende GRI 3-3) DR SMB-3: Material impacts, risks and opportunities and their interaction with strategy and business model(s) 	<ul style="list-style-type: none"> DR E1-1: Transition plan for climate change mitigation DR E1-2: Policies related to climate change mitigation and adaptation DR E1-3: Actions and resources in relation to climate change policies 	<ul style="list-style-type: none"> DR E1-4: Targets related to climate change mitigation and adaptation DR E1-5: Energy consumption and mix DR E1-6: Gross Scopes 1, 2, 3 and Total GHG emissions DR E1-7: GHG removals and GHG mitigation projects financed through carbon credits DR E1-8: Internal carbon pricing DR E1-9: Potential financial effects from material physical and transition risks and potential climate-related opportunities

ESRS E1-1: Require that companies connect their transition plan together with financial planning

Ensure that its strategy and business model(s) are compatible with the transition to a sustainable economy, and with the limiting of global warming to 1.5 °C in line with the Paris Agreement and with the objective of achieving climate neutrality by 2050



NORSK HYDRO 2021 report

Utslippsplanen må referere til mål for utslippskutt (E1-4) og tiltak for å redusere klimaendringene (E1-3)

Climate change and the transition to a lower carbon economy

– developments in policy, law, regulation, technology and markets, including societal and investor sentiment, related to the issue of climate change could increase costs, reduce revenues, constrain our operations and affect our business plans and financial performance.

Laws, regulations, policies, obligations, government actions, social attitudes and customer preferences relating to climate change and the transition to a lower carbon economy, including the pace of change to any of these factors, and also the pace of the transition itself could have adverse impacts on our business including on our access to and realization of competitive opportunities in any of our strategic focus areas, a decline in demand for, or constraints on our ability to sell certain products, constraints on production and supply, adverse litigation and regulatory or litigation outcomes, increased costs from compliance and increased provisions for environmental and legal liabilities.

Policy, legal regulatory, technological and market developments related to climate change could also affect future price assumptions used in the assessment of recoverability of asset carrying values including goodwill, the judgement as to whether there is continued intent to develop exploration and appraisal intangible assets, the timing of decommissioning of assets and the useful economic lives of assets used for the calculation of depreciation and amortization.

See Climate-related financial disclosures, page 55 and Financial statements – Note 1



Oil & gas sector standard – what it might look like

GRI 11 applies to organizations undertaking any of the following:

- *Exploration and production of onshore and offshore oil and gas.*
- *Supply of equipment and services to oil fields and offshore platforms, such as drilling, exploration, seismic information services, and platform construction.*
- *Transportation and storage of oil and gas, such as oil and gas pipeline operators.*
- *Refining of oil into petroleum products for use as fuels and as feedstocks for chemicals.*

Using this Standard:

An organization in the oil and gas sector reporting in accordance with the GRI Standards is required to use this Standard when determining its material topics and then when determining what information to report for the material topics.

2. Likely material topics

- Topic 11.1 GHG emissions
- Topic 11.2 Climate adaptation, resilience, and transition
- Topic 11.3 Air emissions
- Topic 11.4 Biodiversity
- Topic 11.5 Waste
- Topic 11.6 Water and effluents
- Topic 11.7 Closure and rehabilitation
- Topic 11.8 Asset integrity and critical incident management
- Topic 11.9 Occupational health and safety
- Topic 11.10 Employment practices
- Topic 11.11 Non-discrimination and equal opportunity
- Topic 11.12 Forced labor and modern slavery
- Topic 11.13 Freedom of association and collective bargaining
- Topic 11.14 Economic impacts
- Topic 11.15 Local communities
- Topic 11.16 Land and resource rights
- Topic 11.17 Rights of indigenous peoples
- Topic 11.18 Conflict and security
- Topic 11.19 Anti-competitive behavior
- Topic 11.20 Anti-corruption
- Topic 11.21 Payments to governments
- Topic 11.22 Public policy



GRI's sector standard for oil & gas define which indicators the company shall report on as well as additional recommendations

Topic Standard disclosures		
GRI 304: Biodiversity 2016	Disclosure 304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	11.4.2
	Disclosure 304-2 Significant impacts of activities, products and services on biodiversity <i>Additional sector recommendations</i> <ul style="list-style-type: none"> • Report significant impacts on biodiversity with reference to affected habitats and ecosystems. 	11.4.3
	Disclosure 304-3 Habitats protected or restored <i>Additional sector recommendations</i> <ul style="list-style-type: none"> • Describe how the application of the mitigation hierarchy, if applicable, has resulted in: <ul style="list-style-type: none"> - <u>areas protected</u> through avoidance measures or offset measures; - <u>areas restored</u> through on-site restoration measures or offset measures. 	11.4.4
	Disclosure 304-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations	11.4.5

Agenda

- 01 Introduction to CSRD
- 02 Timeline and scope
- 03 Structure and architecture
- 04 How to prepare

CSRD and main implications for companies

Companies will need to make significant changes in how they prepare and disclose sustainability information

Management

Board of directors and audit committees

Provide additional disclosures

- Forward-looking and retrospective view
- Qualitative and quantitative
- Short-, medium- and long-term horizons
- Company's whole value chain

Report in accordance with the new ESRS

- Giving users an integrated view of the company's impact on sustainability matters and how they affect the company's development, performance and position related to ESG

Use digital tagging

- Inclusion of sustainability reports as a section of the management report
- Single XHTML format: European Single Electronic Format (ESEF)
- Marking up sustainability information

Monitor:

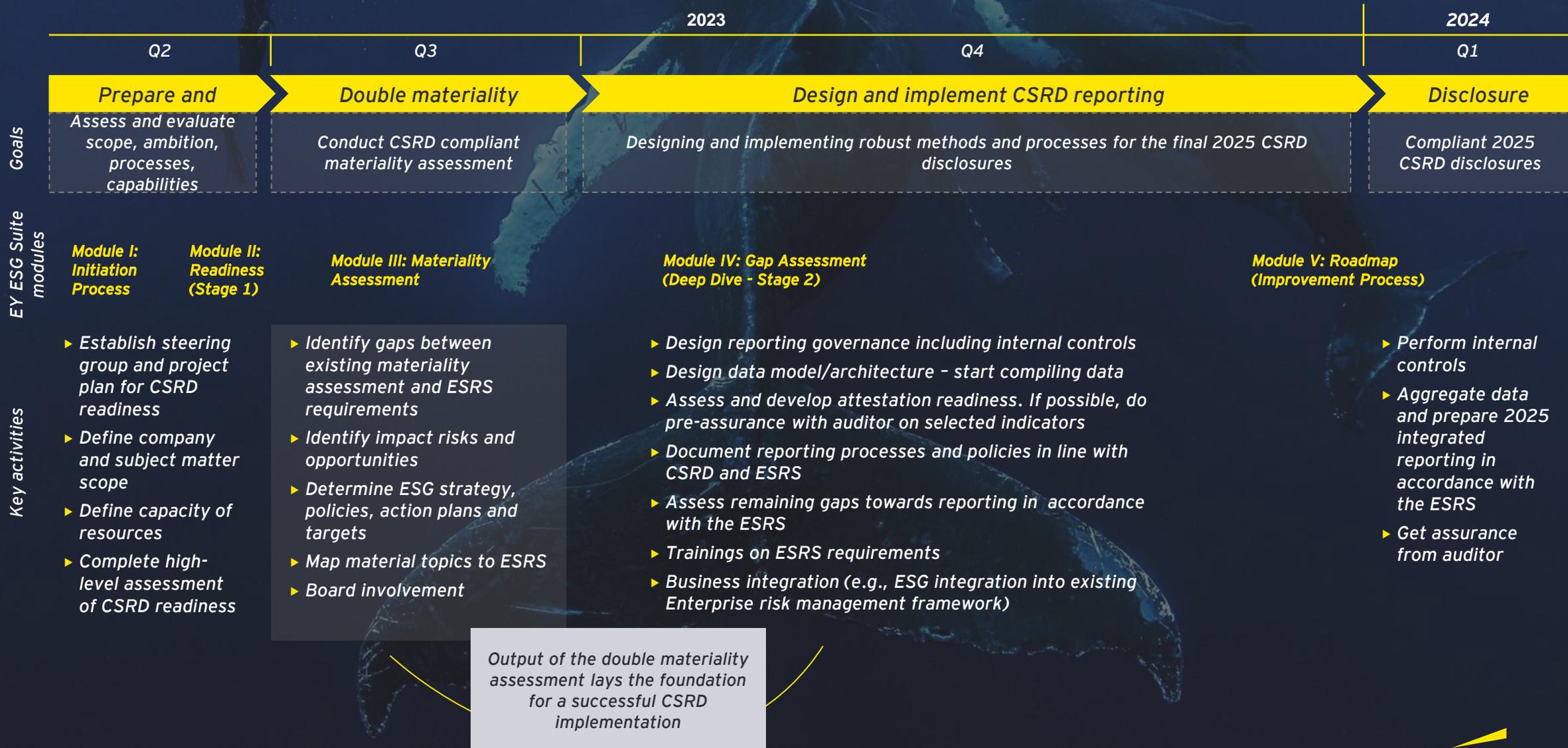
- Internal quality control and risk management systems
- Internal audit function
- Assurance of sustainability reporting
- Inform of the outcome of the assurance of sustainability reporting
- Review and monitor the independence of auditors

Companies will be required to identify and gather sustainability-related information, set targets and KPIs (revising existing), draw up policies and manage ESG risks.

In order to ensure the reliability of the reporting and to allow a robust assurance process, companies should develop internal control systems for nonfinancial information.

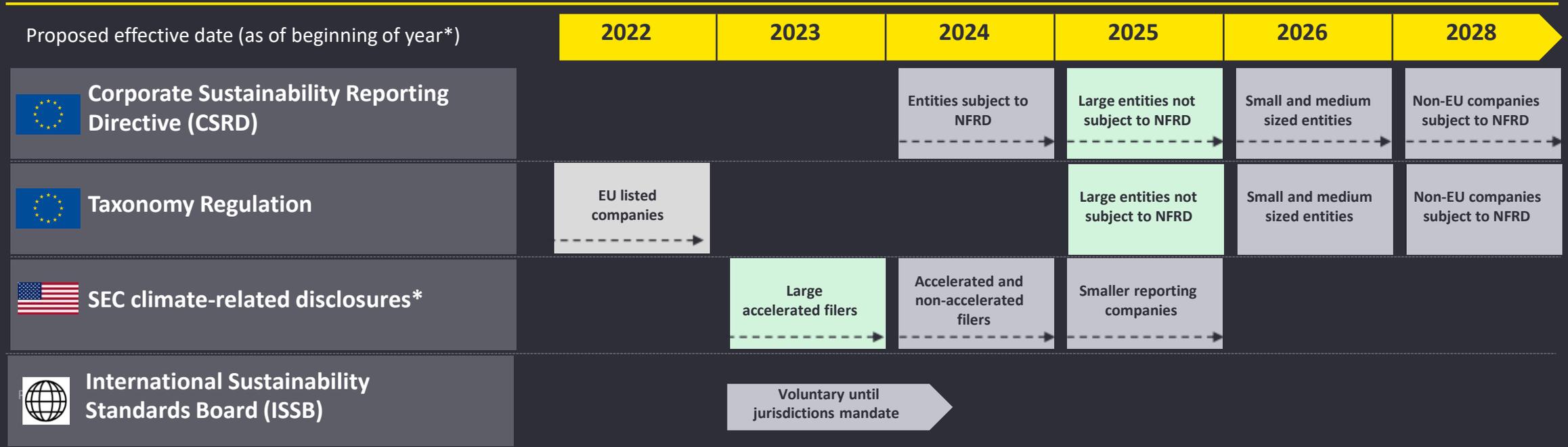
Source: DIRECTIVE (EU) 2022/2464 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting

CSRD Roadmap: Compliant and efficient implementation of CSRD requirements from 01.01.2024



Appendix

Timeline for global ESG reporting requirements and proposals



ESRS S3 Affected communities: Structure

INTERACTION WITH OTHER ESRS

This Standard shall be read in conjunction with ESRS 1 *General Principles* and ESRS 2 *General Requirements*, as well as the ESRS S1 *Own workforce*, ESRS S2 *Workers in the value chain* and ESRS S4 *Consumers and end-users*.

DISCLOSURE REQUIREMENTS

ESRS 2 General disclosures	Impact, risk and opportunity management	Metrics and targets
<p><i>DR ESRS 2 SBM-2: Interests and views of stakeholders</i></p> <p><i>DR ESRS 2 SBM-3: Material impacts, risks and opportunities and their interaction with strategy and business model(s)</i></p>	<p><i>DR S3-1: Policies related to affected communities</i></p> <p><i>DR S3-2: Processes for engaging with affected communities about impacts</i></p> <p><i>DR S3-3: Processes to remediate negative impacts and channels for affected communities to raise concerns</i></p> <p><i>DR S3-4: Taking action on material impacts on affected communities, and approaches to mitigating material risks and pursuing material opportunities related to affected communities, and effectiveness of those actions</i></p>	<p><i>DR S3-5: Targets related to managing material negative impacts, advancing positive impacts, and managing material risks and opportunities</i></p>

All the paragraphs, including those in the Appendices, have equal authority

APPENDIX A: Defined terms

APPENDIX B: Application requirements

ESRS G1 Business conduct

INTERACTION WITH OTHER ESRS

The content of this standard on general disclosures, as well as impact, risk and opportunity management, and metrics and targets shall be read in conjunction respectively with ESRS 1 General requirements

DISCLOSURE REQUIREMENTS

ESRS 2 General disclosures	Impact, risk and opportunity management	Metrics and targets
<p><i>DR related to ESRS 2 GOV-1 The role of the administrative, supervisory and management bodies</i></p> <p><i>DR related to ESRS 2 IRO-1 Description of the processes to identify and assess material impacts, risks and opportunities</i></p>	<p><i>Corporate culture and business conduct policies</i></p> <p><i>Management of relationships with suppliers</i></p> <p><i>Prevention and detection of corruption or bribery</i></p>	<p><i>Confirmed incidents of corruption or bribery</i></p> <p><i>Political influence and lobbying activities</i></p> <p><i>Payment practices</i></p>

All the paragraphs, including those in the Appendices, have equal authority

APPENDIX A: Defined terms

APPENDIX B: Application requirements

Example on text of the indicators

Disclosure Requirement G1-5 – Political influence and lobbying activities

25. The undertaking shall provide information on the activities and commitments related to its political influence, including its lobbying activities related to its material impacts.
26. The objective of this disclosure requirement is to provide transparency on the activities and commitments related to its political influence, including lobbying activities including the types, purpose and cost of these during the reporting period.
27. The disclosure required by paragraph 25 shall include:
 - (a) if applicable, the representative(s) responsible in the administrative, management and supervisory bodies for the oversight of these activities;
 - (b) on financial or in-kind political contributions:
 - i. the total monetary value of financial and in-kind political contributions made directly and indirectly by the undertaking aggregated by country or geographical area where relevant, as well as type of recipient/beneficiary; and
 - ii. where appropriate, how the monetary value of in-kind contributions was estimated.
 - (d) the main topics covered by its lobbying activities and the undertaking's main positions on these in brief. This shall include explanations on how this interacts with its material impacts, risks and opportunities identified in its materiality assessment per ESRS 2; and
 - (e) if the undertaking is registered in the EU Transparency Register or in an equivalent transparency register in a Member State, the name of such register and its identification number in the register.
28. The disclosure shall also include information about the appointment of any members of the administrative, management and supervisory bodies or senior executives who previously held a comparable position in public administration (including regulators) in the two years preceding such appointment in the current reporting period.

EY | Assurance | Tax | Transactions | Advisory

About EY

EY exists to build a better working world, helping create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.



Appendix

- ▶ **CSRD**: Corporate Sustainability Reporting Directive
- ▶ **ESRS**: European Sustainability Reporting Standards
- ▶ **ESEF**: European Single Electronic Format
- ▶ **ED**: Exposure Drafts
- ▶ **EC**: European Commission
- ▶ **EFRAG**: European Financial Reporting Advisory Group.
 - Private association established in 2001
 - Develops European sustainability standards
- ▶ **SEC**: Security and Exchange Commission
 - Prepares American standards
- ▶ **ISSB**: International Sustainability Standards Board.
 - Prepares international standards
 - Established by IFRS foundation in 2021
- ▶ **DC**: Disclosure content
 - DC-P: Policies, DC-A: Actions, DC-M: Metrics, DC-T: Targets