



## **ACC Europe: The Corporate Sustainability Reporting Directive**

**Environmental**



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The Corporate Sustainability Reporting Directive (CSRD) has become a significant topic of discussion among multinational businesses, particularly those headquartered in the UK and the US. The complexities of CSRD implementation and the steps required for compliance have raised numerous questions and concerns. In this article, we delve into the insights shared by industry experts during a recent discussion, exploring the challenges and strategies for navigating CSRD.

### Thought Leaders:

- **Philip Spyropoulos:** Partner at Eversheds Sutherland
- **Philipp Otto:** Head of Group Finance Legal at Nestlé
- **Gilles Tisseran:** Group Vice President Sustainability Excellence Tetra Pak
- **Pilar Pelaez:** VP of Legal EU at Wellhub

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## **Understanding the steps and challenges in CSRD implementation: Insights from Philip Spyropoulos**

Philip Spyropoulos, Partner at Eversheds Sutherland, highlighted the importance of understanding the steps and challenges involved in the implementation of the Corporate Sustainability Reporting Directive (CSRD). He emphasized the legislative meaning of the term “Omnibus,” which refers to laws that amend other laws rather than consolidating them. The omnibus package on sustainability primarily concerns amendments to CSRD, the due diligence directive (CS3D), and the EU taxonomy. Additionally, there are amendments to the carbon border adjustment mechanism (CBAM) and InvestEU and EFSI regulations, which are programs for EU public and private investments.

The European Commission’s competitiveness compass suggested that the reporting burden on companies subject to CSRD would be reduced by at least 25 percent and at least 35 percent for small and medium companies. These laws are very young and were hard-fought, but the simple answer to why these changes are happening now is politics. The pressure within the EU from nation states and businesses has translated into political pressure. Additionally, a commerce secretary in the US expressed concerns about the extensive scope and burdensome regulations of CS3D for American industry and the American economy.

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Until these changes are politically agreed and made law, the law remains as it is. Some members of the European Parliament disagree with the proposals, setting up potential tension in political debates. The proposals include a focus on companies or groups headed by EU companies with a larger number of employees, moving from a two out of three test based on balance sheet turnover and employees to a one out of two test plus 1,000 employees. This change alone is expected to reduce the scope of businesses under CSRD by 80 percent.

A new concept of a value chain cap for companies not in scope of full CSRD reporting themselves was highlighted. The commission is adopting a new voluntary reporting standard based on the ESRS standard for small and medium-sized enterprises, which acts as a shield limiting the information that in-scope businesses can request from smaller businesses. CSRD remains double materiality, and delays are proposed for businesses not already captured in reporting this year, with reporting requirements pushed to 2028. The General ESRS will be reviewed and streamlined, while sector-specific ESRS will no longer be pursued.

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Guidance on the scope of assurance was discussed, noting that authorities are no longer pursuing a reasonable assurance standard. Firms in scope of CSRD will only have to do taxonomy reporting if they additionally have a revenue of 450 million. The taxonomy reporting templates will be simplified, and new de minimis levels will be introduced. There is also a proposed delay of a year for the legal transposition and the first phase of reporting for the largest businesses under CS3D.

Changes in the scope of due diligence were outlined, limiting it to a business's own operations, subsidiaries, and direct business partners. If a business has a reasonable belief of harm further in the value chain, they must investigate it. The ongoing assessment of due diligence will now be required at least every five years. There is a limited trickle-down effect for firms reporting in line with the voluntary standard, with a limit to the information that can be sought from them under CS3D due diligence. Maximum harmonization requirements were also mentioned, leveling the playing field by preventing member states from going further than the regulations require.

Lastly, the removal of the civil liability regime under CS3D and the requirement for a minimum turnover-based penalty in implementation by member states were discussed. Changes around transition plans were highlighted, aligning them with CS3D and removing the phrase "put into effect." The question was posed of whether these changes are simplification or deregulation, as they reduce the scope of businesses that must do anything at all.

## Navigating CSRD implementation: Insights from Philip Otto

Philip Otto, Head of Group Finance Legal at Nestle, illustrated the scale of Nestle's operations by providing some key figures. Nestle sells products in 185 countries, with the biggest region being the US, followed by the EU and then Asia. Nestle is a very large company, and it will be one of the 20 percent of companies that are captured or will be captured by CSRD in the future. European regulation is very important for Nestle, and Philip explained the strategic thoughts and strategy that the company decided to follow.

The governance framework and setup at Nestle's headquarters started four years ago, involving a variety of stakeholders, both external and internal. The process of defining and aligning KPIs was briefly touched upon, explaining the role of the legal function in supporting the teams and how the teams work together. The creation of a KPI from raw data to reported KPI was illustrated using an example from the social (S) aspect of ESG.

Governance in non-financial reporting was emphasized as a key aspect. Nestle created six work streams divided by topics: metrics and controlling, communication, financial and strategy (including DMA), legal and regulatory governance (including advocacy), stakeholder engagement, and systems

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and data management. These work streams collaborated to define the different steps necessary to get from defining the strategy to the approval of non-financial reporting metrics and ultimately the non-financial report.

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The importance of global and local regulation was highlighted. As a Swiss company, Nestle is primarily subject to Swiss law, but as a globally set up group, it needs to manage non-financial reporting obligations efficiently. The decision to manage everything centrally and produce a consolidated group non-financial report was explained. This approach requires a global double materiality assessment and compliance with local requirements, such as in Hungary, where a local double materiality assessment is necessary to discharge the subsidiary fully.

The difference between voluntary ESG disclosures and mandatory ESG reporting was discussed. The need for training, education, and pushing from a legal perspective to ensure that data and qualitative disclosures are aligned with the frameworks that apply, such as ESRS, was emphasized. The process of global consolidation, validation, and control of data was explained, with three lines of defense: independent controls internally, internal audit, and external assurance.

The process of defining and aligning KPIs was further elaborated using the example of the percentage of management positions held by women. The steps involved, from data collection and sourcing to selection, processing and engineering, calculation and formulation, and ultimately reporting and disclosure, were detailed. The importance of legal input to ensure that KPIs are defined, aligned, and fully disclosed to avoid greenwashing was stressed.

Key insights and actionable takeaways for businesses navigating CSRD implementation were provided. The importance of early preparation, data quality and consistency, cross-functional collaboration, and regulatory alignment was emphasized. The need for a gap analysis to identify gaps between current ESG reporting and CSRD, solid data collection systems, enhanced governance, and the opportunities for leveraging non-financial reporting for business resilience and performance were highlighted.

## **Conclusion**

In conclusion, the presentation provided valuable insights into the complexities of CSRD implementation and the steps businesses can take to navigate these challenges. By staying informed and agile, organizations can thrive in an uncertain environment and leverage sustainability reporting for strategic advantage.

## **Navigating CSRD implementation: Insights from TetraPak's approach**

Gilles Tisseran, Group Vice President Sustainability Excellence at TetraPak, provided a comprehensive overview of the company's approach to CSRD implementation, focusing on three main areas: internal work, external engagement, and IT. TetraPak, widely recognized for its packaging solutions, is much more than a packaging company. It also manufactures processing equipment that transforms food and is installed in more than 200 countries worldwide. With 25,000 employees and ten figures in net sales, TetraPak operates from its headquarters in Switzerland and

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has numerous units and legal entities across Europe. Unlike Nestle, TetraPak is part of Phase two on CSRD reporting and is preparing to report next year.

Reporting is not new to TetraPak. The company has been reporting its climate performance for years, including scope three for more than 15 years. TetraPak has also been publishing corporate security reporting and participating in voluntary reporting initiatives such as CDP, Ecodes, and the SBTN pilot. When CSRD came out, TetraPak was not caught by surprise and had a reasonable level of readiness. However, the text of CSRD pushed the company to work differently.

Addressing the question of how TetraPak should act after the publication of the CSRD text, Gilles emphasized the importance of continuing the implementation despite uncertainties. The company sees the legal implications of not proceeding as higher than stopping everything. TetraPak continues to look at voluntary reporting based on stakeholders' expectations, and the work started on CSRD is helping with voluntary reporting as well.

Gilles highlighted the positive impact of the EU's set of regulations on sustainability, especially on climate and nature. These regulations provide a stronger understanding of what happens beyond the walls of a company's operations. For TetraPak, 99 percent of its scope three climate impact occurs beyond its factories, making standardization crucial.

## **Internal work**

TetraPak's internal work on CSRD implementation began as a legal and sustainability exercise and rapidly transformed into a cross-unit exercise. Engaging across units ensures correct measures and editable processes. The cross-unit approach and top management engagement were key success factors. By knowing better their impacts, risks, and opportunities, TetraPak boosts business resilience and performance. Access to better data from suppliers and solid due diligence across the value chain further enhances business resilience and responsible business practices.

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Three years ago, TetraPak moved the ownership of project management from sustainability to finance, aligning with financial reporting practices for auditability and process control. This move accelerated the implementation internally. The ownership of standards and metrics remains with sustainability, HR, and corporate governance teams, ensuring total alignment and engagement with the management team.

## **External engagement**

External engagement in the CSRD journey has been valuable for TetraPak. The company received excellent support for its first double materiality assessment, ensuring compliance and boosting the process. Embedding in associations like WBCSD provided valuable insights and experience sharing with peers. This engagement helped TetraPak see CSRD as a basis for performance, considering its global operations.

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## IT and data integration

IT plays a crucial role in CSRD reporting. TetraPak moved from a model without a sustainability data integration hub to a sustainability data platform in the making. This platform enables auditable data, single source of truth, data tractability, simplification, consistency, and accuracy. The integration hub provides auditability, consistency, and accuracy, making compliance easier and boosting business performance.

## Conclusion

The publication of the CSRD text does not change TetraPak's approach. The company continues to work on CSRD implementation despite uncertainties. TetraPak sees value in standardized reporting for better financial performance, aligning with the EU's goals. Gilles expressed gratitude for the regulations pushing the company to put the integration hub in place, accelerating the process and providing the right focus.

Sustainability remains a strategic priority for companies, and navigating the complexities of CSRD implementation requires staying informed, agile, and proactive. By leveraging sustainability reporting, organizations can gain a strategic advantage and contribute to a more resilient and responsible business environment. The journey towards sustainability is ongoing, and while challenges persist, the collective effort and shared knowledge will pave the way for a brighter future.

Together, we can continue to strive towards sustainability, taking action, and not being paralyzed by overwhelming regulations and uncertainties. By navigating the complexities of sustainability, we can create a more resilient and responsible business environment.

Pilar Pelaez, VP of Legal EU at Wellhub

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